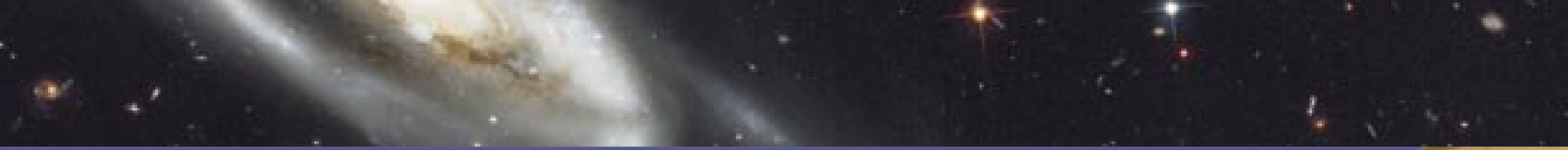
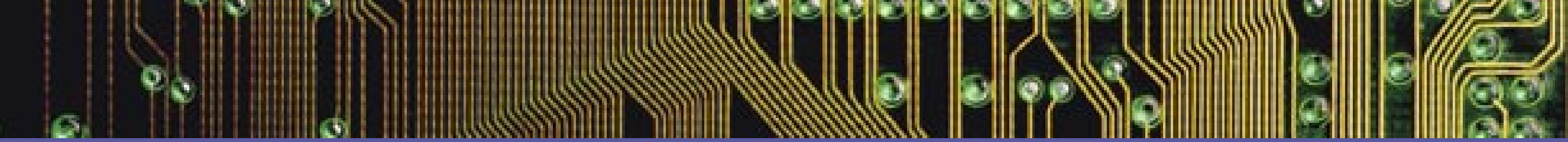


financial report of the university 2003

JOHNS Hopkins



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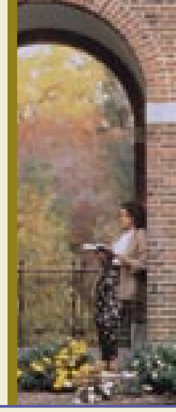


Greetings:

It is my pleasure to convey this annual financial report of The Johns Hopkins University covering fiscal year 2003.

World surpassed the halfway mark. But it was also a year of uncertainty, as we witnessed revenue shortfalls that forced the state of Maryland to reduce significantly its support for higher education. At the beginning of the new fiscal year there were some hopeful signs that the ec

again count upon the forward momentum of a full growth economy to buoy our efforts.

Nonetheless, the triple mission of Johns Hopkins to teach, discover, and serve remains a powerful incentive for our continued growth and advancement. The work of Johns Hopkins has never been more important to our nation and to our world than at this time—whe

beyond; blazing new paths of discovery in the physical and social sciences; or teaching the next generation of leaders in fields ranging from music to business, international finance to nursing and elementary education.

The following pages give a sense of the tremendous breadth, depth, and vitality of the work under way at Johns Hopkins. For more than a

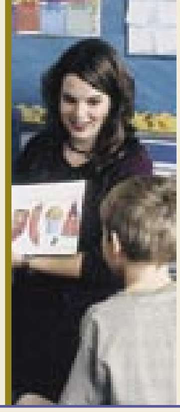
service of all humanity. This tradition continues, and we remain committed to bringing knowledge to the world, regardless of what economic impediments may arise.

Hopkins in their efforts to build a better world.

Sincerely,

William R. Brody

William R. Brody
President,
The Johns Hopkins University



The Impact of Johns Hopkins

The Johns Hopkins University is among the world's great resources for education, research, medical advances, and public service. Created by a bequest from Baltimore merchant Johns Hopkins, the University revolutionized higher education and medical practice in 19th-century America.

The Johns Hopkins University is a relatively small but remarkably diverse private institution. At its opening in 1876, it was America's first research university, founded for the express purpose of expanding knowledge and putting that knowledge to work for the good of humanity.

Johns Hopkins is a truly global enterprise with eight academic divisions and the Applied Physics Laboratory on campuses in the Baltimore-Washington area and in Italy and China; partnerships and faculty collaborations on every inhabited continent; and students who come from every corner of the globe. In fiscal year 2003, the University enrolled 19,400 students and employed over 21,000 people. A recent study showed that the University and its partner institution, the Johns Hopkins Health System, together inject $7 billion a year into the Maryland economy.

The impact of Johns Hopkins on the world is far-reaching. Our faculty and students are dedicated to discovery, working together on the most pressing and demanding issues in their disciplines.

Johns Hopkins is a leader in safeguarding and enhancing health; addressing threats of terrorism and other global challenges; pioneering in the field of medical genetics and the important new science of biomedical engineering; and focusing attention on such issues as political and economic stability, environmental and climatic change, human rights, and the responsibilities of nations.

Johns Hopkins improves the quality of life by educating musicians and writers who open minds and enrich lives. The University's economists, sociologists, ethicists, and political scientists formulate reasoned approaches to improving schools, businesses, and public institutions and policy. Johns Hopkins engineers, nurses, and physicians address issues as diverse as information security, pollution, patient safety, domestic violence, urban health, and emergency disaster preparedness.

Johns Hopkins advances the frontiers of knowledge. While our scientists and social scientists are seeking new understanding of the human brain, our astronomers and physicists, historians and Earth scientists are looking back millions, or even billions, of years to shed light on the origins of the Earth and the foundations of civilization.

In these and many other realms, Johns Hopkins continues a century-and-a-quarter tradition of building knowledge for the world.

Financial Summary

The mission of The Johns Hopkins University is to educate students, to advance knowledge and make discoveries, and to use those discoveries in ways that benefit humankind.

The University's mission is not, of course, to make a profit. Like any nonprofit organization, however, Johns Hopkins can best meet its mission when its financial position is strong and its operations robust.

The finances of The Johns Hopkins University remain vital and strong. With a record of breakthroughs on scientific questions on every scale from the subatomic to the cosmic, the University's faculty and staff continue to attract increased research funding from the federal government and other sponsors. Students are applying for admission in record numbers to several of the University's undergraduate programs. Patients from throughout Maryland and from throughout the world seek the care of the University's physician/ faculty members. And the University contributes to the strengthening of the nation's security.

The University's financial results in fiscal year 2003 reflect this success; however, particular circumstances are also reflected in the results. They are noted in this review of the overall financial picture.

The University's net assets increased $37 million in fiscal year 2003, a turnaround from a $16 million decline the year before. The difference is attributable primarily to the recovery in financial markets: the University's investments returned $40 million in fiscal 2003 after a loss of $103 million in the previous year.

Total assets of the University at June 30, 2003, were $4.353 billion; total operating revenues during the fiscal year were $2.538 billion, and the net operating surplus for the year was $52 million.

A smaller net operating surplus in fiscal year 2003 was due in part to a lower level of expendable gifts received in 2003 than in 2002. These gifts will be spent over several years but are recorded as revenues when received. There were also increased expenditures on medical malpractice insurance, mirroring the increases in these costs nationally, and on compliance requirements related to research and patient care.

Revenue from sponsored research continues to be the largest source of income for the University, amounting in 2003 to $1.507 billion, or 59% of total revenue. This sum represents an increase of nearly 8.1% above the 2002 level.

On a gross basis, student tuition and fees totaled $381 million for the fiscal year, representing an increase of 6% from 2002. However, tuition discounts and scholarships increased from $106 million to $122 million, reflecting the University's continuing commitment to increase institutional support for student aid and the use of gifts specified for this purpose. Therefore, on a net basis, student tuition and fees increased by $6 million to a level of $260 million.

Fall 2002 enrollment numbered 19,443, consisting of 4,433 full-time undergraduates, 4,339 full-time graduate students, 9,153 part-time students, and 1,518 postdoctoral students. Johns Hopkins University awarded 5,565 diplomas and certificates during the school year.

Revenues from clinical services amounted to $253 million, nearly 10% of total revenue and an increase of $25 million over fiscal year 2002. This increase reflects the fact that fiscal year 2003 is the first full year in which the merger of Bayview Physicians is included in the University's financial statements and accounts for $17 million of the increase.

Overall, University operating expenses increased by $254 million to a level of $2.485 billion. Of this amount, $169 million reflects an increase in compensation and benefits, of which approximately $30 million is attributable to the transfer of the Bayview Physicians to the University. The remainder is attributable in part to the increased staffing required to support the higher level of sponsored projects and in part to cost-of-living and performance-based salary increases for faculty and staff. On a year-end-to-year-end basis, total University employment increased by 953 to 21,644.

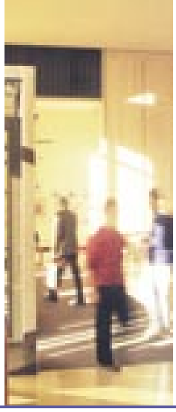
Of the remaining expense items, contractual services experienced the largest increase, an increase of $34 million, from $488 million to $522 million, reflecting, again, additional support for the higher level of sponsored research.

To accommodate its growth, modernize its facilities, and support new initiatives, Johns Hopkins continues to invest in its physical plant. Notably the University purchased a 68-acre campus in northwest Baltimore, adding about 640,000 gross square feet of office space to its inventory. Part of the space will continue to be leased to non-University tenants, and part will begin to be occupied by Johns Hopkins units during fiscal year 2004. Another significant property acquisition was nearly a full block on North Charles Street with office and residence hall space, just south of the Homewood campus.

During fiscal year 2003, Hodson Hall, a new state-of-the-art classroom building on the Homewood campus, was completed.

Work continued on:

- The Broadway Research Building for the School of Medicine
- Wolfe Street additions for the Bloomberg School of Public Health
- The Chemistry Building for the Krieger School of Arts and Sciences on the Homewood campus
- Renovation and additions to the Peabody Institute block in central Baltimore
- A third building on the Montgomery County campus, to be owned and constructed by a third-party developer
- A new building at the Homewood campus for the Carnegie Institution of Washington, a project that



includes office space for the University and a garage that will hold 500-plus cars

- Renovation of part of the Mason F. Lord Building on the Bayview campus

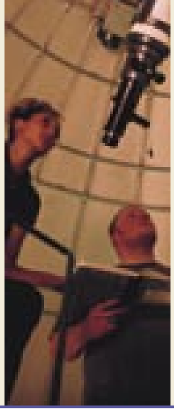
A second Cancer Research Building on the Johns Hopkins medical campus was begun during the year.

Notably, the University and the Johns Hopkins Health System continue their joint activities to improve the efficiency and enhance the administrative effectiveness of both entities. During fiscal year 2003, the two institutions completed a feasibility study that concluded that both organizations would benefit from sharing administrative support software. Subsequently, a project team is focused on acquiring and implementing new enterprise-wide systems. This project, titled HopkinsOne, is expected to begin to be implemented in fiscal year 2004.

A direct corollary of the growth in employment is Johns Hopkins' economic impact on its hosting communities. Tangible evidence of the "anchor-institution" character of Johns Hopkins' presence in Baltimore is the fact that the Johns Hopkins Institutions—the University and the Health System—continue to be the largest private sector employer in the state of Maryland. Together, they have added about 1,000 jobs per year for the past four years. In all, Johns Hopkins generates at least $7 billion in economic activity a year in Maryland.

Johns Hopkins is also a partner in revitalization efforts in East Baltimore, an effort led by Baltimore City to redevelop an 80-acre area to the immediate north of the medical campus. The project, which envisions new housing, a new school, and new retail space, will be anchored by a life sciences and technology park. The aim is to provide homes and jobs, as well as hope, for residents of what currently is one of the city's most distressed areas.

James T. McGill
Senior Vice President for
Finance and Administration



Development & Alumni Relations

During fiscal year 2003, commitments to The Johns Hopkins Campaign: Knowledge for the World surpassed the halfway mark. At the close of the fiscal year, commitments totaled $1.1 billion, or 55% of the $2 billion goal.

More than $335.7 million was committed during fiscal year 2003, and cash receipts, which totaled $319.5 million, were up $800,000 from fiscal year 2002 to become the second highest ever at Johns Hopkins.

Campaign Priorities

The Knowledge for the World campaign—headed by trustees George L. Bunting Jr., J. Barclay Knapp, and Gail J. McGovern—addresses priorities at Johns Hopkins Medicine, in all the academic divisions of the University, and at several centers and institutes. The campaign, which began in July 2000 and was announced to the public in May 2001, is slated to conclude in 2007.

Campaign priorities include building and upgrading facilities on all campuses; advancing research, academic, and clinical initiatives; and strengthening endowment 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 new Cardiovascular and Critical Care Tower. Elsewhere, capital priorities include completion of campus renovations at the Peabody Institute, additions to the Bloomberg School of Public Health, renovation of Gilman Hall at the Zanvyl Krieger School of Arts and Sciences, and construction of a new computer science building at the G.W.C. Whiting School of Engineering.

Commitments so far from alumni account for 30.6% of total campaign commitments; 25.9% have come from friends, 30% from foundations, 7.3% from organizations, and 6.2% from corporations. Total campaign commitments are designated as follows: 42.4% for program support, 29% for research, 10.9% for facilities and instrumentation, 8.3% for faculty support, and 5.4% for student aid. An additional 4% is undesignated or for unrestricted use.

Near-Record Gifts and Pledges in FY 2003

Cash receipts in fiscal year 2003 were the second highest in the history of Johns Hopkins. The cash total of $319.5 million, including outright gifts plus pledge payments received during FY 2003, was only slightly below the remarkable record set in fiscal year 2001.

New commitments—including outright gifts plus new pledges made during FY 2003—were only 10% lower than last year's total, which included a record-setting single gift of $150 million to create the Sidney Kimmel Comprehensive Cancer Center.

Leadership and principal commitments during fiscal year 2003 included the following:

- At the School of Public Health, $40 million from the Bill and Melinda Gates Foundation for the Bill and Melinda Gates Institute for Population and Reproductive Health; a $20 million gift from an anonymous donor to create a new Department of Behavior and Health that focuses on identifying why people behave the way they do and how most effectively to change and prevent behaviors associated with the leading causes of illness and premature death; and a $3 million initial commitment from a friend of the School to support the Center for a Livable Future

- A $24 million grant from the Las Vegas–based Donald W. Reynolds Foundation to Johns Hopkins Medicine to establish the Reynolds Center for Cardiovascular Clinical Research; a $10 million commitment from the Avon Foundation for multiple initiatives related to breast cancer research, education, and care at the Sidney Kimmel Comprehensive Cancer Center; $6 million from a Hopkins alumnus for a new Patient and Family Pavilion at the Kimmel Cancer Center; and five gifts of $2 million each from friends and alumni to endow new professorships at the School of Medicine in neurosurgery, neurology, cardiac surgery, oncology, and ophthalmology

- Several significant commitments for new research and clinical buildings at Johns Hopkins Medicine including $2 million from the Women's Board of The Johns Hopkins Hospital for the planned Children's and Maternal Hospital, and commitments of $3 million from a Hopkins trustee and $1.7 million from a friend for the planned Cardiovascular and Critical Care Tower

- A $7.2 million pledge by a trustee emeritus, who is an alumnus, to endow a professorship at the Krieger School of Arts and Sciences, augment scholarships for Homewood undergraduates and Center for Talented Youth students, and create a Vision Fund for the University president

- A $4 million pledge to the Paul H. Nitze School of Advanced International Studies to support Strategic Studies from diplomat, businessman, and SAIS Advisory Council member Philip Merrill; also a planned gift established by an alumnus of the School that will eventually provide $1 million

- A commitment of $2 million from the Leonard and Helen R. Stulman Charitable Foundation to the School of Nursing to endow the Stulman Professorship in Mental Health and Psychiatric Nursing; a $1.5 million commitment from the Helene Fuld Health Trust of New York to endow a program to enhance the leadership skills of student nurses; and a bequest intention of $825,000 announced by an alumna of the School

- At the Krieger School of Arts and Sciences, a bequest of $1.9 million to support the Woodrow Wilson Undergraduate Research Fellowship Program; also, a $1.8 million commitment from the Morton K. and Jane Blaustein Foundation to support the Blaustein Department of Earth and Planetary Sciences

- Pledges from two area corporations of $1 million each to support campus renovations at the Peabody Institute, and $500,000 from a third firm for the project

- A pledge of $1 million from a trustee emeritus to the Phoebe R. Berman Bioethics Institute for unrestricted endowment
- A gift of $717,000 from the Freeman Foundation renewing its support of two term professorships at the Hopkins-Nanjing Center
- A grant of $560,000 to the Whiting School of Engineering from the Robert J. Kleberg Jr. and Helen C. Kleberg Foundation to fund research into genetically encoded biosensors

Annual Gifts and Alumni Involvement

More than 58,600 individuals made gifts to Johns Hopkins during fiscal year 2003, up 6% over the previous year. Annual gifts came from 18,161 alumni, 6,122 parents, and more than 3,400 faculty and staff.

Programs and outreach by the Johns Hopkins Alumni Office during the past year attracted nearly 8,000 individuals to 174

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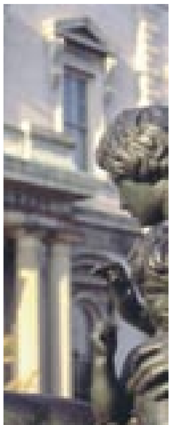
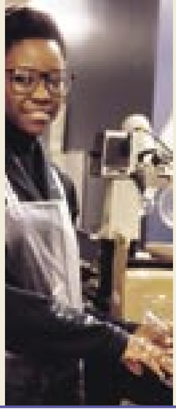
grams, and more than 3,000 alumni were active as University volunteers. Twelve alumni and friends were honored with awards from the Alumni Association.





Research at Johns Hopkins

This year, Johns Hopkins continued to maintain its position as the leading research university in the nation as its faculty conducts work in diverse pioneering areas. Proof of Hopkins' monumental accomplishments is reflected in its fiscal year 2003 research expenditures that totaled $1.475 billion in funds from the eight academic research divisions and the Applied Physics Laboratory. In addition, the School of Medicine continued to retain its standing as a leading recipient of federal research funding, receiving a total of $563 million during fiscal year 2003. Finally, the Applied Physics Laboratory announced in October that it had signed a $1.75 billion five-year contract with the Naval Sea Systems Command to carry out research, development, and specialized engineering tasks.

Awards and Recognition

Once again, The Johns Hopkins Hospital was listed at the top of the honor roll of *U.S. News & World Report*'s ranking of American hospitals. The Department of Biomedical Engineering received top honors again this year by ranking No. 1 in a reputation survey among deans conducted by *U.S. News & World Report*. The School of Medicine started fiscal year 2003 with a special ceremony on July 12, 2002, for Hopkins' Center for ALS (amyotrophic lateral sclerosis) in recognition of a $5 million commitment from the Robert Packard Foundation. The center was officially renamed the Robert Packard Center for ALS Research. In a commentary about the center, Dr. Brody said, "The Robert Packard Foundation's investment in ALS research at Hopkins will help attract other interest and investments. It will secure the center's future in helping find a cure for ALS." Throughout the past four years, the center has awarded approximately $3 million to fund more than 23 research projects determined most promising by a select panel of ALS scientists.

A new Hubble Space Telescope instrument called the Advanced Camera for Surveys (ACS) and built by a group whose leader is a Johns Hopkins astronomer won a "Best of What's New Award" from *Popular Science* magazine in November 2002. The award winners were featured in a special section in the magazine's December issue. In March 2002, NASA astronauts installed the ACS in the Hubble Space Telescope while in orbit.

In December 2002, Hopkins received an award of $1.764 million from the Hodson Trust for the Provost's Undergraduate Research Awards, the Digital Knowledge Center at the Milton S. Eisenhower Library, and a Young Investigator's Award at the Kimmel Cancer Center.

The first Rita Allen Foundation Award received by Hopkins was given to Leslyn Hanakahi, an assistant professor in the Department of Biochemistry and Molecular Biology, Bloomberg School of Public Health, in March 2003. She will receive $50,000 annually for the next three years. The Rita Allen Foundation Award supports researchers in the early stages of their careers who demonstrate potential of becoming leaders in research for the cure and treatment of cancer, cerebral palsy, and multiple sclerosis, and the development of euphorics and

analgesics in the treatment of terminal illnesses.

The Applied Physics Laboratory announced its top three inventions for 2002, which were selected from 123 APL submissions representing the work of 204 inventors. The inventions were judged on their potential benefit to society, improvement over existing technology, and commercial prospects. Awards recognizing these achievements were made to the following researchers:

- Plamen Demirev, Andrew Feldman, Nirbhay Kumar, Peter Scholl, and David Sullivan of the Bloomberg School of Public Health for work on an in vitro method of detecting very low levels of the malaria-causing parasite Plasmodium in blood.
- Carol Sniegoski for development of software to overcome the problem of how to compile hospital emergency room initial complaint records quickly so they can be used to monitor geographic regions for indications of chemical or biological weapons attack.
- Wayne Bryden, Scott Ecelberger, and Robert Cotter, of the School of Medicine, for developing technology that combines chemical and biological sample measurements in a single, time-of-flight mass spectrometer to reduce significantly detection and identification times.

Grants and Contracts

During September 2002, researchers in the Bloomberg School of Public Health and Morgan State University received a $6 million grant from the National Institutes of Health's National Center on Minority Health and Health Disparities. The grant established the Center for Health Disparities Solutions that focuses on studies of disparities in racial and ethnic groups, urban and rural populations, and income and social classes. Thomas A. LaVeist, an associate professor in the Department of Health Policy and Management, and Dorothy Browne, a professor of public health and director of the Prevention Sciences Research Center/Drug Abuse Research Program at Morgan State University, are the principal investigators at the center.

In October 2002, the School of Medicine won a seven-year $18 million contract from the National Heart, Lung and Blood Institute (NHLBI) to create one of 10 centers nationwide devoted to the study and application of proteomics. The center's research focuses on understanding the functions of proteins in the development of cells, tissues, and organisms and in normal and disease processes. Eduardo Marban, director of Hopkins' Institute for Molecular Cardiology, is the contract's principal investigator. The center's major research efforts include implementing the Technological Implementation and Coordination Core (TCC) as well as applying new technologies and managing data and various educational components.

The Bloomberg School of Public Health was awarded funding by the Centers for Disease Control and Prevention in November 2002 to establish a National Center of Excellence in Environmental Public Health Tracking and will receive $700,000 annually for the next three years. The center will develop a national electronic network to identify and monitor the links between exposure to environmental factors and chronic conditions, including autoimmune and neurological diseases, birth defects, cancer, asthma, lead poisoning and developmental disabilities. Professor Thomas Burke of the Department of Health Policy and Management is the principal investigator.

The Fogarty International Center at the National Institutes of Health has awarded a five-year $2 million grant for Johns Hopkins to establish and conduct an international training program in genetics in conjunction with Peking Union Medical College and Peking University in Beijing, China. This program is one of six new programs nationwide, and the collaboration—which is officially called the International Collaborative Genetics Research Training Program—will bring students, researchers, and clinicians from two of China's major academic institutions to Hopkins for training in genetics, medical genetics, and bioethics. Training will take place in Baltimore, and subsequent research projects will be focused on genetic components of health and disease in China.

The first awards of the Dorothy Evans Lyne Fund for Collaborative Nursing Research were given to two teams comprised of nurses from the School of Nursing and The Johns Hopkins Hospital in October 2002. The fund, started by a grateful patient and administered by the Institute for Johns Hopkins Nursing, focuses on improved patient care and outcomes through clinical nursing research. The principal investigators of the two teams are Benita Walton-Moss, assistant professor, and Candis Morrison, associate professor—both from the School of Nursing.

A gift of hardware and software from IBM is enabling Hopkins researchers to develop a plan to create computer models that reveal how genes and proteins inside human cells can influence the development of heart disease. Studies involving the origins of heart disease at the cellular level may produce a computer tool that can help develop drugs to halt or reverse these illnesses. In support of this effort that requires complex software and hardware, IBM provided additional computing equipment to Johns Hopkins under its Shared University Research awards program in February 2003. Two teams of researchers are utilizing this grant to assemble highly detailed computational models of the heart and other organs, and to develop software that permits massive amounts of data to be shared productively by researchers who work in separate locations.

A consortium of Johns Hopkins schools and affiliates, led by JHPIEGO, was awarded $4 million in February 2003 to assist Health and Human Services' Centers for Disease Control and Prevention in implementing a worldwide initiative to reduce transmission of the HIV virus from mothers to their children. The consortium, which includes the School of Medicine, the School of Nursing, the Bloomberg School of Public Health, the Center for Communication Programs, and the Academic Alliance for AIDS Care and Prevention in Africa, will develop model training and service delivery programs to permit communities around the world to build and maintain their response to the AIDS epidemic. The National Endowment for the Humanities announced in April 2003 that the

Sheridan Libraries would receive a $150,500 grant to preserve a collection of more than 700 education television films produced by Johns Hopkins between 1948 and 1960. The collection includes four programs: *The Johns Hopkins Science Review, Tomorrow, Tomorrow's Careers,* and *Johns Hopkins File 7*. All were recorded on kinescopes, 16-millimeter films that recorded the show as it was broadcast directly from a cathode-ray monitor. Well-known scientists who are featured in the films include George Gamow, a popular advocate of the big-bang theory of the universe, and alumnus John Mauchly, PhD 1932, who was one of the principal inventors of ENIAC, the first large-scale general-purpose electronic computer.

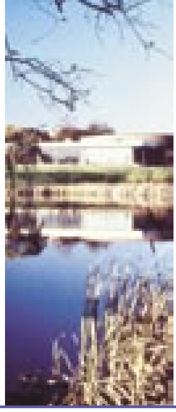
The Wald Center in the Hopkins School of Nursing received a "Healthy Vision 2010" Community Award from the National Eye Institute of the National Institutes of Health. This was one of 32 NEI grants that were awarded in May 2003, totaling over $315,000 to promote health vision in East Baltimore.

The Johns Hopkins University Information Security Institute received a $2.92 million grant from the National Science Foundation to fund graduate education in information security. Over a four-year period, the funding from the Federal Cyber Service: Scholarship for Service program will pay tuition, fees, housing, and a stipend for full-time information security students planning to enter federal employment. Also in June 2003, Johns Hopkins was recognized as a Center of Academic Excellence in Information Assurance Education by the National Security Agency. This designation demonstrates the strength of the University's interdisciplinary programs in education and research.

Research Administration

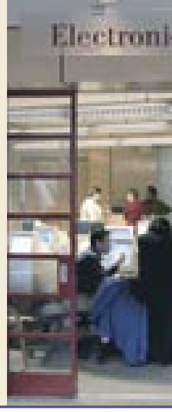
With various changes in administration taking place during the year, Johns Hopkins maintained the capacity to expand its research program. Daniel Weiss officially began his term as dean of the Krieger School of Arts and Sciences on July 1, 2002, with a commitment to implement the strategic plan proposed for the division while supporting the research efforts in the natural sciences, social sciences, humanities, and interdisciplinary research. Although the G.W.C. Whiting School of Engineering experienced the resignation of Ilene Busch-Vishniac, it continued to maintain its role in the University's research on engineering science and technology with the appointment of Andrew Douglas as interim dean until a new dean is appointed in early 2004. The strengthening of the research programs in the School of Nursing was enhanced by the appointment of Jerilyn Allen as associate dean for research in November 2002. In June 2003, Johns Hopkins appointed Christian Newcomer, a well-known veterinarian, as its first associate provost for animal research. Dr. Newcomer is responsible for the University-wide planning as well as other matters pertaining to research involving animal-related subjects.

A feasibility study called Enterprise Resource Planning (ERP) conducted throughout the University and Health System entered the second phase of a significant effort to transform Johns Hopkins' current financial and adminis-



trative systems into an integrated updated model that is expected to serve virtually the entire University business and research community. The outcome of the study, which was completed in October 2002 and included personnel from an outside consulting firm and approximately 300 Johns Hopkins staff, proposed the implementation of a comprehensive administrative support system that will be shared by the University and the Health System. This system has been named HopkinsOne. This project is expected to result in an integrated software-based computer system that will link and modernize a number of Johns Hopkins business functions, including purchasing, accounts payable, payroll, sponsored projects management, general ledger, materials management, and human resources. Stephen Golding, executive director of financial affairs in the School of Medicine, is the executive director of HopkinsOne and is working with a team of professionals assembled from the Hopkins business community. With the first phase complete, the next set of goals includes identifying specific details, namely, how integrated and comprehensive the system will be, and who will be selected to design and implement it. It is anticipated that this system will be paperless and with a significant concentration on addressing compliance issues. The project will carefully review all the requirements pertaining to research, patient care, and teaching.

Finally, in a related initiative, a committee was constituted of senior research administration members chaired by Donna Helm, assistant dean of research administration for the Bloomberg School of Public Health, to identify the best research accounting and reporting practices that could be incorporated into a completely automated system of managing and monitoring sponsored research awards.



Investments

The University's total invested funds as of June 30, 2003, had a market value of $2.484 billion. The bulk of these assets was held in the Endowment Investment Pool (EIP), which is comprised of over 2,700 separate endowments, each of which is unitized and owns shares in the pool. The assets of the individual endowments are invested in the pool while being accounted for on an individual basis through unitization, to ensure proper compliance with donor restrictions. The other invested funds consist of the University's working capital, gifts intended for current usage, foundation funds, assets held under deferred compensation agreements, and charitable remainder trusts.

As of June 30, 2003, the EIP had a market value of $1.703 billion as compared to $1.690 billion a year earlier. The change in value reflects a combination of returns, additions to endowment, and endowment payout.

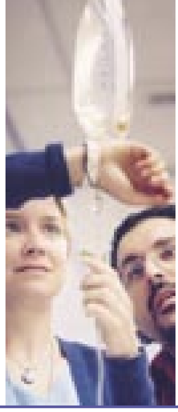
The EIP was allocated among the following asset classes for the 2003 and 2002 fiscal years as shown in the table:

EIP Asset Allocation

	June 30, 2003 Market Value (millions)	%	June 30, 2002 Market Value (millions)	%
Domestic Equities	$ 757.2	44.5	$ 747.3	44.2
International Equities	213.0	12.5	228.5	13.5
Marketable Alternatives	263.6	15.5	188.1	11.1
Nonmarketable Alternatives	83.0	4.9	73.7	4.5
Fixed Income	352.0	20.6	426.0	25.2
Real Estate & Other	30.8	1.8	8.4	0.5
Cash	2.9	0.2	17.6	1.0
Total	$1,702.5	100.0%	$1,689.7	100.0%

The most significant shifts in asset allocation occurred in the fixed income and marketable alternatives asset classes. Included in the 20.6% of fixed income assets is a new 5.0% allocation to Treasury Inflation-Protected Securities (TIPS), which are meant to serve as a hedge against inflation as well as to enhance the diversification of the EIP. The marketable alternative investments are comprised of absolute return hedge funds whose objective is to provide returns comparable to expected long-term returns of equities but with significantly less volatility.

The slight increase in the percentage allocation to nonmarketable alternatives (venture capital and private equity) is a result of steady investment in private equity and venture capital limited partnership funds offset by poor returns



in the asset class as partnerships continue to write-down investments made during the height of the technology bubble. A total of $16 million in commitments was made in fiscal year 2003 to four private equity/venture capital limited partnerships.

For the fiscal year ended June 30, the EIP had a total return of 1.9% compared to returns of 0.3% for the S&P 500 Index, -6.5% for the MSCI EAFE Index, and 13.2% for the Lehman Brothers Government/Credit bond index. The return reflects the relatively high allocation to equities in the EIP during a very difficult and volatile period for stocks.

The endowment pool's domestic equity managers as a group returned -1.2%, underperforming the S&P 500's 0.3% for the same period, reflecting the fact that the managers had little exposure to technology growth stocks, the best performing stocks in the fourth quarter. In addition, despite the EIP's international equity managers outperforming their benchmark, -4.4% versus -6.5% for the MSCI EAFE Index, foreign equities still contributed a negative return to the endowment pool.

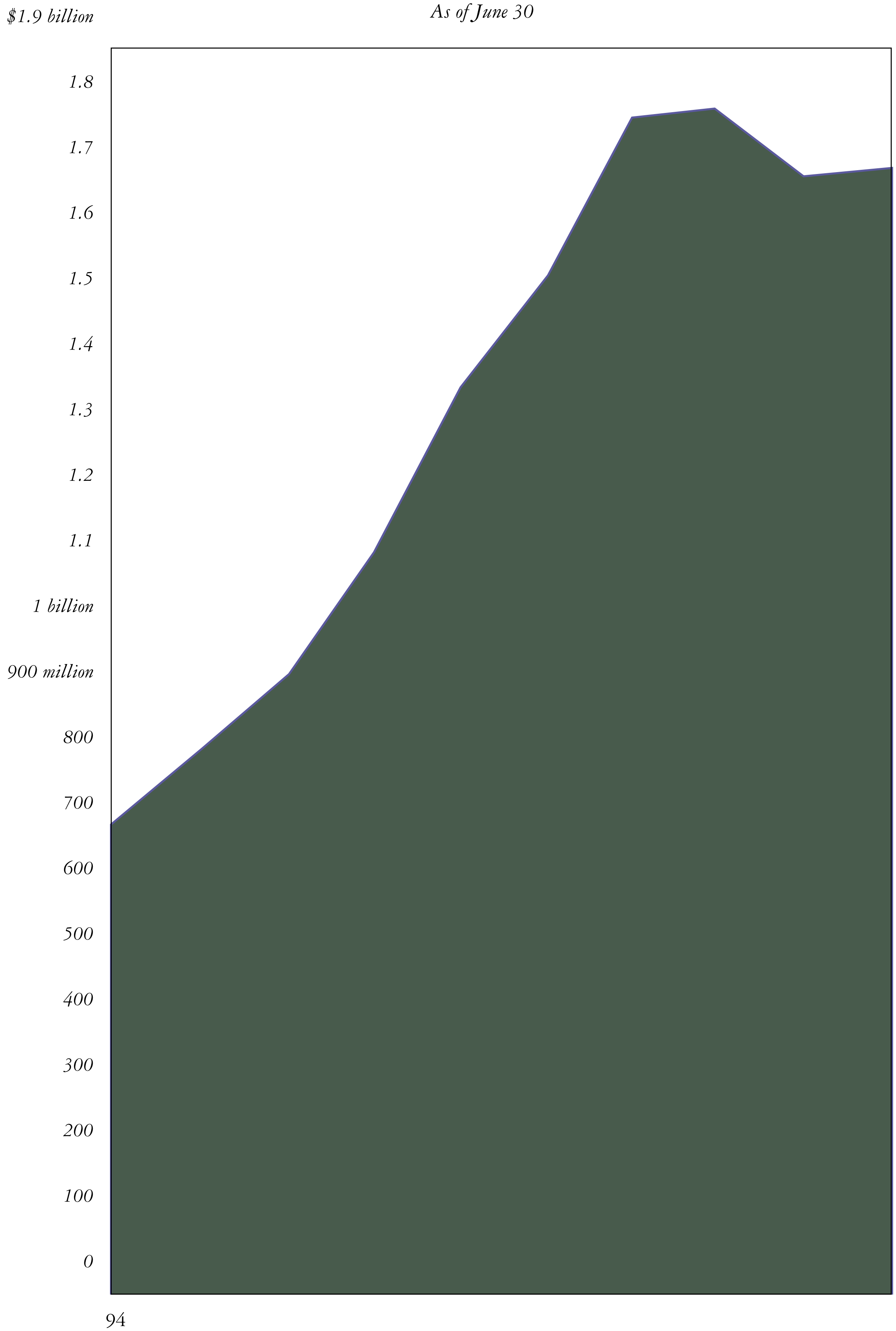
The EIP's largest contributor to positive performance in fiscal year 2003 was fixed income, which returned 11.9%. Effectively, the fixed income allocation served its intended role as a source of positive returns in times of economic slowdown and interest rate decline. The absolute return hedge funds generated a return of 7.0% for the year ended June 30, 2003. As is the case with fixed income, the absolute return program significantly outperformed the S&P 500 index with much less volatility.

The nonmarketable alternatives asset class generated a return of -15.2% for the year ended June 30, 2003. As noted above, the negative performance reflects the continuing write-down of information technology companies founded during the Internet bubble in the late 1990s. In addition, the nonmarketable program is relatively new so that the limited partnership funds are in the early stages of investment when most write-downs occur.

As has been the case in the last two fiscal years, 2003, with the exception of the fourth quarter, presented a very difficult environment for equity markets. For the three-year period ending June 30, 2003, the S&P 500 index had an annualized return of -11.2%, and the MSCI EAFE index had an annualized return of -13.5%. In that context, allocations to fixed income and absolute return hedge funds contributed significant positive returns to the endowment pool, reflecting the benefits of broad diversification.

Johns Hopkins University
Endowment Market Value

As of June 30



Johns Hopkins University
Operating Revenues

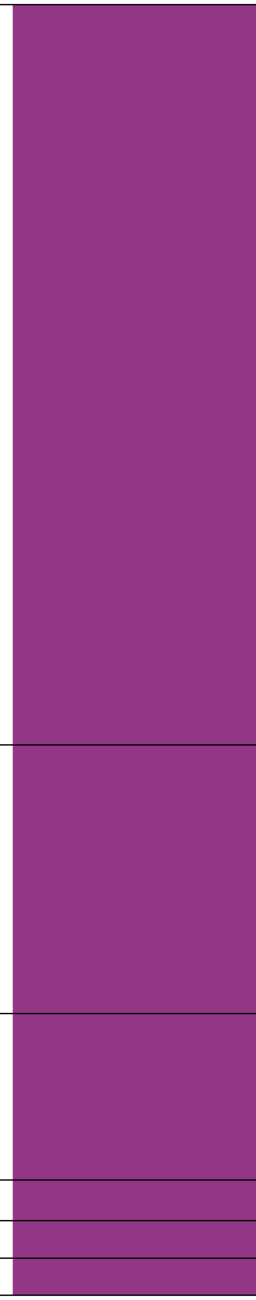
Fiscal year ended June 30, 2003 (in thousands)

Grants, contracts and similar agreements	$1,506,660	59.4%
Tuition and fees	259,659	10.2%
Clinical services	253,048	10.0%
Reimbursements from affiliates	177,427	7.0%
Investment income	122,074	4.8%
Contributions	106,093	4.2%
Other sources	61,881	2.4%
Auxiliary enterprises	51,465	2.0%
Total	**$2,538,307**	**100.0%**

Johns Hopkins University
Operating Expenses—by Object

Fiscal year ended June 30, 2003 (in thousands)

Compensation and benefits	$1,484,260	59.8%
Contractual services	521,780	21.0%
Supplies, materials and other	314,053	12.6%
Depreciation	89,774	3.6%
Travel	52,923	2.1%
Interest	23,105	0.9%
Total	**$2,485,895**	**100.0%**



Johns Hopkins University
Operating Expenses—by Function

Fiscal year ended June 30, 2003 (in thousands)

Instruction, research and clinical practice		
—Academic and support divisions	$1,644,271	66.1%
—Applied Physics Laboratory research contracts	564,408	22.7%
General services and administration	147,347	5.9%
Auxiliary enterprises	56,955	2.3%
Student services	46,587	1.9%
Libraries	26,327	1.1%
Total	**$2,485,895**	**100.0%**

Johns Hopkins University
Five Year Financial Summary

1999–2003 (dollars in thousands)

FISCAL YEAR ENDED JUNE 30	2003	2002	2001	2000	1999
Operating revenues:					
Tuition and fees, net	$ 259,659	254,062	231,783	215,076	196,743
Grants, contracts and similar agreements	1,506,660	1,394,147	1,190,958	1,057,513	1,023,937
Clinical services	253,048	228,069	194,538	187,271	177,482
Contributions	106,093	144,010	223,627	90,125	90,674
Investment income	122,074	124,322	109,846	91,558	82,457
Other	290,773	272,531	227,953	239,656	197,347
Total operating revenues	$ 2,538,307	2,417,141	2,178,705	1,881,199	1,768,640
Operating expenses:					
Compensation and benefits	$ 1,484,260	1,315,347	1,159,727	1,051,929	966,408
Contractual services	521,780	488,068	418,104	377,908	386,985
Supplies, materials and other	314,053	276,540	241,475	222,407	202,812
Depreciation of property and equipment	89,774	82,809	70,790	75,254	76,801
Interest	23,105	24,365	28,408	25,773	26,433
Travel	52,923	44,392	46,328	40,896	36,501
Total operating expenses	$ 2,485,895	2,231,521	1,964,832	1,794,167	1,695,940
Total assets	$ 4,352,933	4,236,506	4,035,054	3,832,944	3,324,100
Total liabilities	1,319,065	1,237,203	993,842	971,226	836,692
Endowments and similar funds held for purposes of Johns Hopkins Hospital	59,097	61,475	57,177	60,275	55,185
Total net assets	2,974,771	2,937,828	2,954,035	2,801,443	2,432,223
Investments, including cash and cash equivalents, at market value:					
Endowment investment pool	1,702,481	1,689,717	1,819,555	1,803,289	1,472,752
Total	2,483,598	2,500,209	2,521,246	2,458,226	2,022,719
Investments in plant assets, net	1,187,403	993,083	908,404	832,715	781,251
Indebtedness	654,455	662,737	554,717	539,958	427,683
Head count enrollment (Fall)	19,443	18,235	18,074	17,967	17,996
Employees (at year-end)	21,644	20,691	19,897	18,335	17,389

Johns Hopkins University
Independent Auditors' Report

111 South Calvert Street
Baltimore,MD 21202

The Board of Trustees

The Johns Hopkins University:

We -

ments of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We

require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Johns Hopkins University as of June 30, 2003 and 2002 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 13, 2003

Johns Hopkins University
Balance Sheets
June 30, 2003 and 2002 (in thousands)

	2003	2002
Assets:		
Cash and cash equivalents	$ 229,763	185,230
Accounts receivable, net	272,651	248,508
Prepaid expenses, deferred charges and other assets	63,646	57,489
Contributions receivable, net	168,483	195,382
Loans receivable, net	32,597	34,324
Investments	2,253,835	2,314,979
Deposits with bond trustees	49,979	118,621
Investment in property and equipment, net	1,187,403	993,083
Interests in trusts and endowment funds held by others	94,576	88,890
Total assets	**$ 4,352,933**	**4,236,506**
Liabilities:		
Accounts payable, deferred revenues and accrued expenses	$ 478,526	390,973
Payables and deferred revenues under split interest agreements	55,606	51,951
Debt	654,455	662,737
Obligations under deferred compensation agreements and other long-term liabilities	130,478	131,542
Total liabilities	1,319,065	1,237,203
Endowment and similar funds held for purposes of Johns Hopkins Hospital	59,097	61,475
Net assets:		
Unrestricted	1,712,434	1,708,794
Temporarily restricted	361,587	380,119
Permanently restricted	900,750	848,915
Total net assets	2,974,771	2,937,828
Total liabilities and net assets	**$ 4,352,933**	**4,236,506**

See accompanying notes to financial statements.

Johns Hopkins University
Statement of Activities
Year ended June 30, 2003 (in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 259,659	-	-	259,659
Grants, contracts and similar agreements	1,506,660	-	-	1,506,660
Clinical services	253,048	-	-	253,048
Reimbursements from affiliated institutions	177,427	-	-	177,427
Contributions	66,273	39,820	-	106,093
Investment income	122,074	-	-	122,074
Maryland State aid	17,516	-	-	17,516
Sales and services of auxiliary enterprises	51,465	-	-	51,465
Other	44,365	-	-	44,365
Net assets released from restrictions	29,482	(29,482)	-	-
Total operating revenues	2,527,969	10,338	-	2,538,307
Operating expenses:				
Compensation and benefits	1,484,260	-	-	1,484,260
Contractual services	521,780	-	-	521,780
Supplies, materials and other	314,053	-	-	314,053
Depreciation of property and equipment	89,774	-	-	89,774
Travel	52,923	-	-	52,923
Interest	23,105	-	-	23,105
Total operating expenses	2,485,895	-	-	2,485,895
Excess of operating revenues over expenses	42,074	10,338	-	52,412
Nonoperating revenues, gains and losses:				
Contributions	-	22,671	53,638	76,309
Investment income (loss)	(80,418)	202	(1,803)	(82,019)
Loss on disposals of property and equipment	(2,412)	-	-	(2,412)
Net assets released from restrictions	42,161	(42,161)	-	-
Other	2,235	(9,582)	-	(7,347)
Nonoperating revenues, gains and losses, net	(38,434)	(28,870)	51,835	(15,469)
Increase (decrease) in net assets	3,640	(18,532)	51,835	36,943
Net assets at beginning of year	1,708,794	380,119	848,915	2,937,828
Net assets at end of year	**$1,712,434**	**361,587**	**900,750**	**2,974,771**

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
Statements of Cash Flow

Years ended June 30, 2003 and 2002 (in thousands)

	2003	2002
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 36,943	(16,207)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and loss on disposals of property and equipment	92,186	86,641
Loss on extinguishment of debt	-	8,443
Increase in accounts receivable, net	(24,143)	(53,010)
Increase in prepaid expenses, deferred charges, other assets and interest in trusts and endowments held by others	(11,843)	(33,081)
Decrease in contributions receivable, net	26,899	6,394
Increase in accounts payable, deferred revenues and accrued expenses	82,797	92,299
Increase (decrease) in payables and deferred revenues under split interest agreements	3,654	(2,584)
Contributions restricted for long-term investment	(68,529)	(70,197)
Net realized and unrealized losses from investments	20,397	162,242
Other, net	140	239
Net cash provided by operating activities	158,501	181,179
Cash flows from investing activities:		
Purchases of investments	(1,580,285)	(2,256,191)
Proceeds from sales and maturities of investments	1,621,032	2,040,558
Purchases of property and equipment	(281,750)	(179,706)
Disbursements for student loans	(5,692)	(5,617)
Repayments of student loans	7,466	6,850
Decrease (increase) in deposits with bond trustees, net	68,642	(59,437)
Increase (decrease) in endowments held for others	(2,378)	4,298
Net cash used by investing activities	(172,965)	(449,245)
Cash flows from financing activities:		
Contributions restricted for long-term investment	68,529	70,197
Proceeds from borrowings	18,866	219,043
Scheduled payments of bonds and notes payable	(12,735)	(16,700)
Advance refundings and other payments of borrowings	(14,599)	(102,914)
(Decrease) increase in other long-term liabilities	(1,064)	7,490
Net cash provided by financing activities	58,997	177,116
Net increase (decrease) in cash and cash equivalents	44,533	(90,950)
Cash and cash equivalents at beginning of year	185,230	276,180
Cash and cash equivalents at end of year	**$ 229,763**	**185,230**

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 certain foreign locations.

Education and related services (e.g., room, board, etc.) are provided to approximately 19,400 students, including 11,000 full-time students and 8,400 part-time students, and produced about 12% of the University's operating revenues in 2003. 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 government and private sponsors. Grants, contracts and similar agreements produced about 59% of the University's operating revenues in 2003. Approximately 90% of the revenues from research and related services come 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 34%, 26%, 14% and 7%, respectively, of revenues from grants, contracts and similar agreements in 2003.

Professional medical services are provided by members of the University's faculty to patients at Johns Hopkins Hospital (Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced about 10% of the University's operating revenues in 2003. 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 2002 have been reclassified to conform to the presentation for 2003.

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 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 included in contributions 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 6.4% and 5.3%, respectively, of average market values in 2003 and 2002.

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.

(f) Investment in Property and Equipment

Investments in property and equipment 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 property and equipment. Certain equipment used by the APL in connection with its performance under agreements with the United States Government is 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 and loans receivable from students under loan programs of the United States Government ($26,034,000 and $27,431,000 at June 30, 2003 and 2002, respectively). A reasonable estimate of the fair value of these loans cannot be made because they are not saleable and can only be assigned to the government or its designees.

(i) Affiliated Institutions

The University has separate administrative agreements for the exchange of services with the 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 $206,559,000 in 2003 and $190,661,000 in 2002.

(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 $121,575,000 in 2003 and $106,367,000 in 2002 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 activities that are not related to its exempt purpose.

(n) Derivative Financial Instruments

Derivative financial instruments are measured at fair value and recognized in the balance sheet as assets or liabilities.

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 specified 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 2003 and 2002.

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with certain 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 expects that they will 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 $229,457,000 and $214,784,000 at June 30, 2003 and 2002, respectively, including net investments in property and equipment of $126,537,000 and $101,385,000, respectively. At June 30, 2003, APL purchase and subcontract commitments were approximately $105,700,000.

(3) Accounts Receivable

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

	2003	2002
Reimbursement of costs incurred under grants and contracts	$ 168,085	151,622
Affiliated institutions, primarily the Hospital	19,857	14,099
Students	8,306	6,080
Others	39,972	37,850
Total research and training, less allowances of $19,558 in 2003 and $14,608 in 2002	236,220	209,651
Patient payor receivables for medical services, less allowances of $65,332 in 2003 and $61,468 in 2002	36,431	38,857
	$ 272,651	**248,508**

(4) Contributions Receivable

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

	2003	2002
Unconditional promises scheduled to be collected in:		
Less than one year	$ 78,871	68,390
One year to five years	101,611	131,877
Over five years	16,599	30,153
	197,081	230,420
Less unamortized discount and allowance for uncollectible contributions	28,598	35,038
	$ 168,483	**195,382**

At June 30, 2003 and 2002, approximately 46% and 57%, respectfully of the gross contributions receivable were due from ten donors. Approximately 39% and 44% of contribution revenues for 2003 and 2002, respectively, were from ten donors. At June 30, 2003, the University had also received bequest intentions in excess of $250,000,000 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):

	2003	2002
Cash and short-term investments	$ 201,208	90,948
United States Government and agency obligations	252,241	391,734
Other debt securities	423,160	419,955
Common and preferred stocks	863,946	1,017,885
Limited partnership and similar interests	340,665	255,800
Mortgages and notes receivable and other investments	172,615	138,657
	$ 2,253,835	**2,314,979**

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 derivatives, investments in foreign securities and various other matters.

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

	2003	2002
Dividend and interest income	$ 68,890	71,574
Net realized losses	(50,457)	(22,706)
Net unrealized gains (losses)	30,060	(139,536)
Increase (decrease) in interests in perpetual trusts	1,474	(8,623)
Investment management fees	(6,922)	(7,236)
Equity in earnings (losses) of non-consolidated subsidiaries	(2,990)	3,659
	$ 40,055	**(102,868)**

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

	2003	2002
Operating	$ 122,074	124,322
Nonoperating	(82,019)	(227,190)
	$ 40,055	**(102,868)**

At June 30, 2003 and 2002, assets of endowment and similar funds, including cash and cash equivalents and investments, amounted to $1,646,897,000 and $1,637,529,000, 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 sales 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, 2003 and 2002, assets of the EIP, including cash and cash equivalents and investments, amounted to $1,702,481,000 and $1,689,717,000, respectively.

At June 30, 2003 and 2002, other investments include $81,855,000 and $83,472,000, 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, 2003 and 2002, investments having a fair value of $9,293,000 and $9,449,000, respectively, were pledged as security for the payment of unemployment claims. At June 30, 2003, commitments for purchases of investments were approximately $87,116,000.

(6) Investment in Property and Equipment

Investment in property and equipment, net, is summarized as follows at June 30 (in thousands):

	2003	2002
Land	$ 25,762	21,806
Land improvements	49,180	33,228
Buildings and leasehold improvements	1,185,420	1,096,857
Equipment	432,186	386,855
Library collections	144,758	134,273
Construction in progress	228,148	117,285
	2,065,454	1,790,304
Less accumulated depreciation and amortization	878,051	797,221
	$ 1,187,403	**993,083**

(7) Debt

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

	2003	2002
Bonds payable	$ 391,271	398,771
Notes payable	150,106	166,275
Commercial paper revenue notes	113,078	97,691
	$ 654,455	**662,737**

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):

	2003	2002
Revenue Bonds of 1983, 6.00% to 9.88%, due July 2013, net of unamortized discount of $604 and $863	$ 7,379	8,692
Refunding Revenue Bonds of 1997, 4.50% to 5.625%, due July 2027, net of unamortized discount of $221 and $225	13,504	13,775
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $447 and $489	161,340	166,814

Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $490 and $552	19,563	20,032
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,389 and $1,401	84,386	84,374
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,627 and $1,641	105,099	105,084
	$ 391,271	**398,771**

The bonds payable outstanding at June 30, 2003, 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 another issue of revenue bonds in 2002. 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, 2003) nor the irrevocable trusts are included in the balance sheet.

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

	2003	2002
MHHEFA note due May 2006	$ 2,886	3,013
MHHEFA note due November 2015	43,711	45,848
MHHEFA note due November 2020	16,520	16,990
MHHEFA note due February 2025	4,600	4,710
MHHEFA note due July 2026	6,053	6,143
Note due December 2002, 7.91%	-	11,120
Note due July 2004, 3% (government subsidized effective rate)	149	243
Note due June 2012, 7.29%	2,062	2,221
Note due December 2019, 8.88%	74,125	75,987
	$ 150,106	**166,275**

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 (1.5% at June 30, 2003) 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 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 June 2012 is an unsecured general obligation of the University and is due in annual installments (with interest payable semi-annually). Under terms of the related loan agreement, the University may be required to provide security for the loan in certain circumstances. 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 $400,000,000 to finance and refinance the costs of qualified assets 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, although it is anticipated that the University will continuously renew maturing notes for a period of up to 120% of the estimated useful lives of the related assets. The notes outstanding at June 30, 2003, bear interest at a weighted-average rate of 1.06%.

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, 2003 are as follows: 2004, $16,805,000; 2005, $14,112,000; 2006, $14,987,000; 2007, $16,023,000 and 2008, $16,610,000.

Total interest costs incurred and paid were approximately $31,300,000 in 2003 and $29,800,000 in 2002, of which $5,237,000 and $5,432,000 was capitalized in 2003 and 2002, respectively. Interest income of $3,489,000 in 2003 and $4,686,000 in 2002 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 balance drawn on the line of credit was $4,902,000 as of June 30, 2002 and was included in accounts payable, deferred revenues and accrued expenses on the balance sheet. There was no balance drawn on the line as of June 30, 2003.

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):

	2003		**2002**	
	Carrying amount	*Estimated fair value*	*Carrying amount*	*Estimated fair value*
Variable rate bonds and notes	$ 73,770	73,770	76,704	76,704
Fixed rate bonds and notes	467,607	605,608	488,342	518,820
Commercial paper revenue notes	113,078	113,078	97,691	97,691
	$ 654,455	**792,456**	**662,737**	**693,215**

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, administered by the University, 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 $31,046,000 and $30,810,000 at June 30, 2003 and 2002, 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, 2003 and 2002 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):

	2003	2002
Net investment in property and equipment	$ 582,570	448,967
APL stabilization, contingency and research fund, excluding net investment in property and equipment	102,920	113,399
Funds designated for divisional and departmental support	1,014,364	1,134,308
Student loan funds	12,580	12,120
	$ 1,712,434	**1,708,794**

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

	2003	2002
Contributions designated for departmental and divisional support or facilities	$ 319,449	346,944
Split interest agreements	28,950	19,987
Land subject to time and purpose restrictions	13,188	13,188
	$ 361,587	**380,119**

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

	2003	2002
Perpetual endowment funds	$ 825,679	777,333
Interests in perpetual trusts	43,764	42,396
Split interest agreements	31,307	29,186
	$ 900,750	**848,915**

(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 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 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 $89,300,000 in 2003 and $81,600,000 in 2002. 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 $51,800,000 in 2003 and $50,000,000 in 2002.

(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 $86,747,000 in 2003 and $70,954,000 in 2002, including $27,859,000 and $25,179,000, 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 obligation, assets and funded status of the postretirement benefit plan as of and for the years ended June 30, 2003 and 2002 is summarized as follows (in thousands):

	2003	2002
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 149,566	101,593
Service cost	3,776	3,391
Interest cost	10,564	10,114
Plan participant contributions	2,088	1,991
Actuarial loss	41,734	41,208
Benefits paid	(9,996)	(8,731)
Benefit obligation at end of year	197,732	149,566
Change in plan assets:		
Fair value of plan assets at beginning of year	56,990	55,624
Actual return on plan assets	2,568	(3,583)
University contribution	12,454	11,689
Plan participant contributions	2,088	1,991
Benefits paid	(9,996)	(8,731)
Fair value of plan assets at end of year	64,104	56,990
Funded status	(133,628)	(92,576)
Unrecognized net actuarial loss	102,677	60,867
Unamortized prior service cost	387	464
Unrecognized transition obligation	25,616	28,178
Accrued postretirement benefit cost	**$ (4,948)**	**(3,067)**
Weighted-average assumptions at June 30:		
Discount rate	6.00%	7.25%
Expected rate of return on plan assets	7.00%	8.50%
Rate of increase in health care costs for next year	5.50–12.00%	5.50–10.00%

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

The rate of increase in health care costs was assumed to decrease to 5.5% in 2011 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, 2003 would have the following effects (in thousands):

	Increase	*Decrease*
Total service and interest cost components	$ 1,979	(1,578)
Postretirement benefit obligation	**27,023**	**(21,928)**

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

	2003	2002
Service cost	$ 3,776	3,391
Interest cost on accumulated benefit obligation	10,564	10,114
Amortization of transition obligation	2,562	2,562
Amortization of prior service cost	77	77
Amortization of actuarial loss gain	2,616	1,791
Immediate recognition of life insurance surplus	-	(882)
Expected return on plan assets	(5,064)	(4,927)
	$ 14,531	**12,126**

(12) Functional Expense Information

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

	2003	2002
Instruction, research and clinical practice:		
Academic and support divisions	$ 1,644,271	1,460,527
APL contracts	564,408	519,556
Student services	46,587	41,674
Libraries	26,327	25,006
General services and administration	147,347	128,857
Auxiliary enterprises	56,955	55,901
	$ 2,485,895	**2,231,521**

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities. Fundraising costs were not significant in 2003 and 2002.

(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, 2004.

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 Corporation or other affiliated organizations.

The aggregate annual minimum guaranteed 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
2004	$ 15,604	18,783	34,387
2005	12,774	17,785	30,559
2006	12,187	15,895	28,082
2007	11,769	13,811	25,580
2008	9,737	11,375	21,112
After 2008	135,347	50,954	186,301
	$ 197,418	**128,603**	**326,021**

(14) Other Commitments and Contingencies

At June 30, 2003, 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 $4,000,000; no advances were outstanding at June 30, 2003.
- 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 Corporation under terms of a credit enhancement agreement relating to financing of certain properties and, together with JHHS, has agreed to provide Dome Corporation 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 the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

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