Johns Hopkins *building blocks*

financial report Johns Hopkins University 2004 *contents*

On the cover: A detail of the new roofline of the Bloomberg School of Public Health building; hall of the School of Medicine's Broadway Research Building

president's message

Greetings:

It is my pleasure to convey this annual financial report of The Johns Hopkins University covering fiscal year 2004.

For many years now, Johns Hopkins has been engaged in a truly global enterprise, with principal campuses located in the United States, Italy, China, and Singapore, and research and health projects under way in dozens of countries. In August 2004 we became an interplanetary university as well, with the successful launch of Messenger, the first spacecraft destined to visit Mercury since Mariner 10's flyby in 1975. Our Applied Physics Laboratory designed, built, and will direct Messenger, the latest in a series of Hopkins-supported spacecraft that are helping to reshape our understanding of the universe.

The breadth and scope of the Hopkins research effort is unparalleled. Recently, the University became the first to receive over $1 billion in federally sponsored research funds in a single year. At the same time, and in tandem with this effort, we remain dedicated to our core mission of teaching the next generation of scientific, medical, political, and humanitarian leaders.

The following pages provide a financial snapshot of this dynamic undertaking. Johns Hopkins remains robust across all nine divisions, with $323.9 million in gifts and pledges received during the year. As of June 30, 2004, the Knowledge for the World campaign had commitments exceeding $1.4 billion, and annual giving was up 10 percent across the Institutions from the previous year.

Our continuing success is a tribute to the enduring commitment of women and men across Johns Hopkins to discover and build a better future for us all.

Sincerely,

William R. Brody

William R. Brody

new & old

◀ The landmark building on Johns Hopkins' Mount Washington campus, the Octagon dates from 1855. The campus, located several miles north of Homewood, provides office space and conference facilities.

financial summary

IT IS MY PLEASANT responsibility to summarize the financial results of The Johns Hopkins University for fiscal year 2004. The University is not a business, but we must use businesslike administrative practices to ensure that we provide proper stewardship for the assets entrusted to us, and that we maximize the contribution of those assets to the University's successful pursuit of its mission to educate its students and cultivate their capacity of lifelong learning, to foster independent and original research, and to bring the benefits of discovery to the world.

The financial condition of The Johns Hopkins University remains strong. Net assets—the amount by which the value of assets exceeds liabilities—increased during the fiscal year by $233 million from $2.975 billion to $3.208 billion.

Total operating revenue for the year was $2.730 billion. The major sources of these revenues were federally sponsored research of $1.519 billion or 56% of the total; tuition and fees of $270 million or 10%; clinical services of $276 million or 10%; philanthropy of $229 million or 8%; and investment income of $117 million or 4%. The remaining sources consist of reimbursements from affiliated institutions, Maryland state aid, sales and services of auxiliary enterprises, and an all-other category of miscellaneous revenues. These sources amounted to $319 million or 12% of the total. Comparable figures for fiscal year 2003 were: total revenues $2.538 billion; federally sponsored research: $1.405 billion (56%); tuition and fees: $260 million (10%); clinical services: $253 million (10%); philanthropy: $208 million (8%); investment income $122 million (5%); and all other: $290 million (11%).

Total University operating expenses in fiscal year 2004 were $2.713 billion, distributed in the following way. Instruction, research, and clinical practice expenses in academic and support divisions amounted to $1.766 billion or 65% of the total; expenses related to contracts in the Applied Physics Laboratory were $623 million or 23%; student services expenses were $54 million or 2%; library expenses were $29 million or 1%; general services and administration expenses were $177 million or 7%; and expenses of auxiliary enterprises were $63 million or 2%. Comparable figures for fiscal year 2003 were as follows: total expenditures $2.486 billion; instruction, research, and clinical practice expenses in academic and support divisions: $1.644 billion (66%); Applied Physics Laboratory: $564 million (23%); student services: $47 million (2%); libraries: $26 million (1%); general services: $147 million (6%); and auxiliary enterprises: $57 million (2%).

Viewed another way, 61% of the University's operating expenses during fiscal 2004, or $1.660 billion, were absorbed by compensation and benefits for our 22,588 employees. Fiscal year 2003 employee compensation expense was $1.484 billion, representing 60% of total expenses. The growth in this expenditure category reflects the addition of substantial numbers of new employees to the payroll, as well as a double-digit rise in benefits costs.

The University's revenue growth, which had averaged more than 10% annually in the previous five years, abated somewhat in fiscal 2004. This was attributable in large part to expendable gifts totaling in excess of $220 million received in years prior to fiscal year 2004 but used in part during the year. Also, Johns Hopkins began to experience a leveling off of NIH support of sponsored research, a predicted occurrence. There are in place, and embodied in the ongoing five-year financial plan, management controls to bring the rate of growth of expenditures to levels commensurate with projected revenues, all while continuing investments in facilities and in technology infrastructure.

The Johns Hopkins University remains a leader among the nation's research universities. Elsewhere in this report is a discussion of research highlights of the past year. Also, a record 10,022 students applied for admission to the freshman classes of the Krieger School of Arts and Sciences and the Whiting School of Engineering for the 2003–2004 school year. Of these, 3,052 were offered acceptances and 1,048 enrolled. University-wide student enrollment during fall semester 2003 was 18,869, consisting of 10,112 full-time and 8,757 part-time students, including Bologna and Nanjing non-degree students. Of the full-time students, 4,789 were undergraduates and 5,323 were graduate students. Of the part-time students, 969 were undergraduates and 7,788 were graduate students.

The fiscal year activity confirmed a focus on improving amenities and services to undergraduate students on the Homewood and Peabody campuses. At Homewood, following the highly successful introduction of the new Ralph S. O'Connor Recreation Center and Mattin Center, planning was completed for the $62 million Charles Commons project, which will add 618 contemporary living spaces, and dining, social, and bookstore facilities; the redo of the heavily used swimming facilities in the Newton White Athletic Center; and the acquisition of the Stafford Apartments near the Peabody Institute to provide housing for its students.

Equally important is the continued expansion and renovation of facilities to support other University missions. During fiscal year 2004, the University completed the construction of the Broadway Research Building for the School of Medicine, additions to the Bloomberg School of Public Health's research and teaching buildings, a new Chemistry Building for the Krieger School of Arts and Sciences, and the retrofit of the Whiting School of Engineering's Barton Hall. Also completed this year were the Applied Physics Laboratory Building 17 and major renovations to the Peabody Institute and the George Peabody Library.

During fiscal year 2004, work was begun or continued on a number of other projects:

- The Cancer Research Building II for the School of Medicine
- Construction of the San Martin Center on the Homewood campus that will provide a new building for the Carnegie Institution of Washington, space for new and growing University programs, and structured parking
- On the Homewood campus, planning and design for a visitor and admissions center, a computational sciences building for Engineering and a parking garage associated with a redo of the south entry to the campus
- Construction of a third building on the Montgomery County Campus, owned and operated by a third party developer
- Planning and design of a remote book storage facility to be located on the Applied Physics Laboratory campus
- Early planning for an addition to the School of Nursing Building for the School and for the Berman Bioethics Institute
- Construction of an addition to the Hopkins Nanjing Center at Nanjing University in Nanjing, China

I am pleased to report that the administrative systems redesign project the University is pursuing with the Johns Hopkins Health System is progressing on schedule. The project, called HopkinsOne, is focused on improvement of business processes in finance, human resources, research administration, procurement, and related activities. The “HopkinsOne” appellation is significant, as this project will result in common systems and processes across both Johns Hopkins entities (the University and the Health System but excluding APL). Three major steps were accomplished during fiscal year 2004: selection of a software vendor, selection of an integrator/implementer consulting firm, and completion of workshops familiarizing key Hopkins personnel with the capabilities of the software and defining high-level requirements for the final system. The objectives of this project are to improve service, compliance, and productivity in support of the Johns Hopkins Institutions’ primary missions.

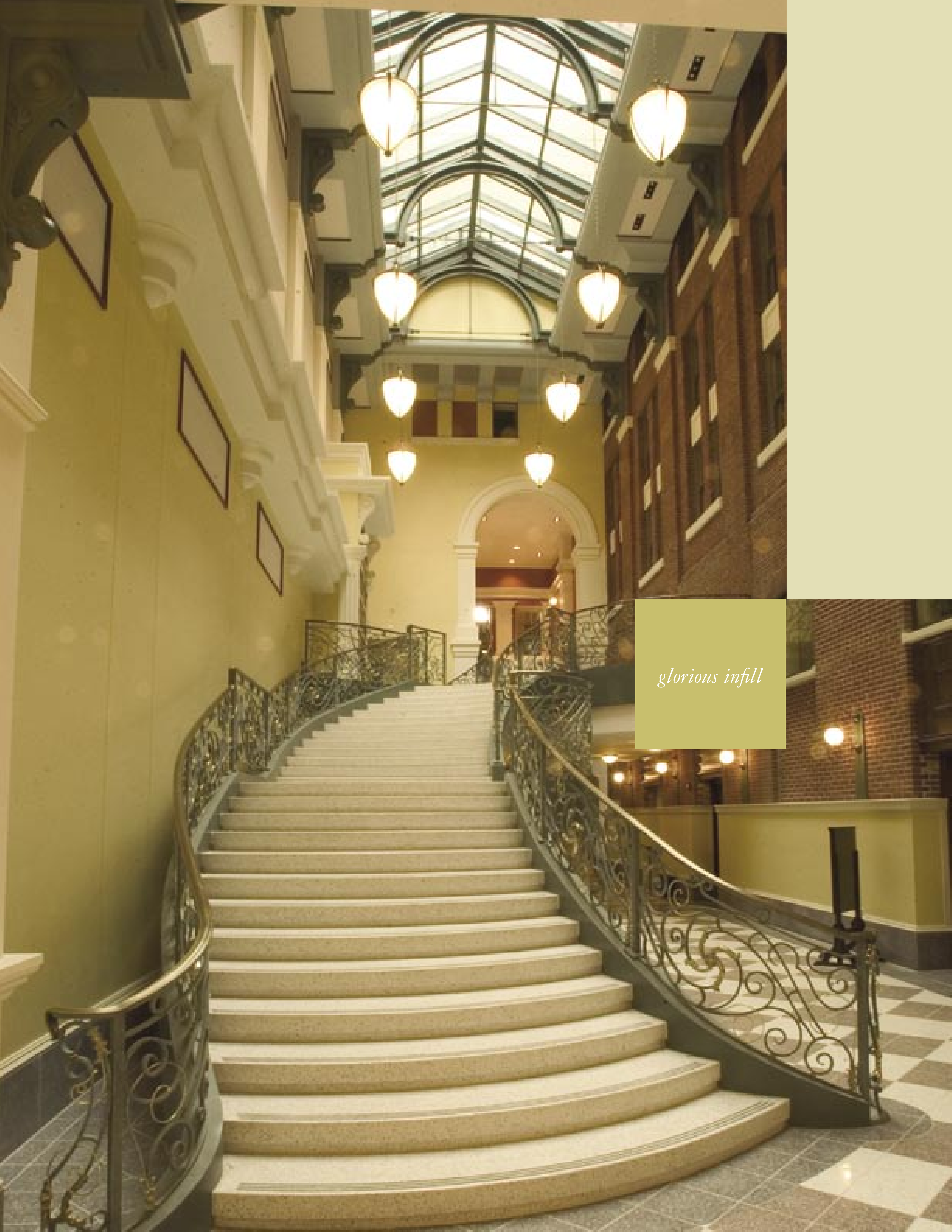
The revitalization of the area north of the Johns Hopkins medical complex—a partnership with the city of Baltimore, state of Maryland, and local foundations—is becoming a reality. A new not-for-profit corporation has been chartered as East Baltimore Development Inc. (EBDI) to manage the effort. EBDI has developed a series of plans to bring to reality the vision of a vital community anchored by the biotechnology industry and has begun the process of implementing those plans.

The 80-acre renewal project also focuses on rebuilding the East Baltimore community with new housing, retail, and a community school campus.

Finally, I must note the significant role that the trustees of The Johns Hopkins University play in ensuring the current and future success of the University. This diverse group of men and women, fully committed to Johns Hopkins, gives unselfishly of their talents to the University. Their collaboration with management, pursued with full understanding of the respective roles of the trustees and management, is highly salutary. Johns Hopkins is much better for their involvement.

Jim McGill

James T. McGill
Senior Vice President for
Finance and Administration



glorious infill

◀ The Grand Arcade is the capstone of Peabody Institute's $26.8 million makeover. The two-and-a-half-year renovation was completed in spring 2004.

development and alumni relations

During fiscal year 2004, commitments to The Johns Hopkins Campaign: Knowledge for the World were $323.9 million. At the close of the fiscal year, commitments totaled $1.44 billion, or 72% of the $2 billion goal.

Total cash received during fiscal year 2004 was $315.7 million, marking the fifth consecutive year at Johns Hopkins in which cash receipts totaled $300 million or more.

Campaign Priorities

The Knowledge for the World campaign—headed by trustees George L. Bunting Jr., J. Barclay Knapp, and Gail J. McGovern—addresses priorities in Johns Hopkins Medicine, in all the academic divisions of the University, and in several centers and institutes. The campaign, which began in July 2000 and was announced to the public in May 2002, is slated to conclude in 2007.

Campaign priorities include building and upgrading facilities on all campuses; advancing research, academic, and clinical initiatives; and strengthening endowments for student aid and faculty support.

Capital priorities at Johns Hopkins Medicine include a new Cancer Research Building, a new Children's and Maternal Hospital, and a new Cardiovascular and Critical Care Tower. Elsewhere, capital priorities include renovation of Gilman Hall at the Zanvyl Krieger School of Arts and Sciences, and construction of a new Computational Sciences Building at the G.W.C. Whiting School of Engineering.

To date total campaign commitments from alumni have been $409.8 million; $364.6 million has come from friends of Johns Hopkins, $448.7 million from foundations, $112.8 million from organizations, and $103.8 million from corporations. Commitments have been designated as follows: $537.6 million for program support, $407.0 million for research, $191.7 million for facilities and instrumentation, $122 million for faculty support, and $116.8 million for student aid. An additional $64.6 million was undesignated or for current use.

Gifts and Pledges in Fiscal 2004

New commitments—including outright gifts and new pledges made during the year—were slightly below the previous year's, when total campaign commitments were $335.7 million.

Leadership and principal commitments during fiscal year 2004 included the following:

- In the Bloomberg School of Public Health, $22.3 million from an anonymous alumnus to establish the Sommer Scholars program; and $1.6 million from a New York family to establish a professorship in molecular microbiology/immunology.
- Several significant commitments for new clinical and research buildings at Johns Hopkins Medicine including $15 million for the Neonatal Intensive Care Unit (NICU) and Nursery in the new Children's and Maternal Hospital from a family who wishes to remain anonymous; $10 million from the Eudowood Sanitarium of Baltimore for the Children's Building Initiative; $3 million from the Legum Foundation for undesignated

With seven stories and 240,000 square feet, Building 17 is APL's largest multipurpose facility. The building provides offices and labs for 534 staff members.

at APL

research buildings; $4 million from an anonymous donor for the new Cancer Research Building; and $2 million from an emeritus trustee to support the new Cardiovascular and Critical Care Tower.

- Also at Johns Hopkins Medicine, $2.27 million from the Commonwealth Foundation for Cancer Research for research on immunotherapy at the Sidney Kimmel Comprehensive Cancer Center; a $2 million bequest from a friend of the School of Medicine to establish a professorship in oncology; a $2 million pledge from the Abramson Family Foundation to the Department of Neurology to endow a professorship; a $1 million gift from a friend of Hopkins Medicine to support research in Alzheimer's disease; $1 million from a Maryland family to name an operating room in the Wilmer Eye Institute; and a $2 million gift from QLT Inc., to endow a professorship in ophthalmology.
- A $2.2 million gift from the estate of Fulton R. Gruver to endow one of the first Presidential Professorships. This will allow the University to hire exceptional faculty in any field who become available at a time when Johns Hopkins does not have a position open.
- A gift commitment of $2 million to the Whiting School of Engineering from a University trustee and Engineering alumnus to endow a professorship; $1 million from an alumnus for the renovation of the auditorium in Maryland Hall; and a $2.9 million bequest for an undergraduate scholarship fund.
- A $1.7 million grant from the John Templeton Foundation to the Center for Talented Youth to establish a Web site and newsletter for young scientists.
- A $1.3 million grant from Wyeth Pharmaceuticals for advanced studies in nursing at the School of Nursing.
- At the Krieger School of Arts and Sciences, a $1.2 million grant from the W. M. Keck Foundation for postdoctoral fellows in advanced scientific data analysis in the Department of Physics and Astronomy; $1 million from a parent to support a professorship in Economics; $1 million from an alumnus and trustee to establish a scholarship fund and to support the Hopkins Fund; and a $550,000 bequest from an alumni couple to create an endowed fellowship in History or Art History.
- A $2 million gift from an alumnus of the Paul H. Nitze School of Advanced International Studies to establish the Riordan Roett Chair in Latin American Studies; and a bequest of over $1 million from an alumnus to the Dean's Leadership Fund.
- A $569,000 gift through the estate of Marion Hayden for the Howard Reid Hayden Memorial Scholarship at the Peabody Institute.

Annual Gifts and Alumni Involvement

More than 60,450 individuals made gifts to Johns Hopkins during fiscal year 2004, up 3% over the previous year. Annual gifts came from 24,428 alumni, 6,784 parents, and more then 3,800 faculty and staff.

Programs and outreach by the Johns Hopkins Alumni Office during the past year attracted nearly 10,000 individuals to more than 250 alumni chapter events around the world. In addition, 250 individuals participated in Hopkins-sponsored international travel programs, and more than 3,000 alumni were active as University volunteers. Fifteen alumni and friends were honored with awards from the Alumni Association.

Nearly 22,000 individuals are registered users of HopkinsNET, a service of the Alumni Association that offers alumni and students access to an online alumni directory.

HopkinsNET also offers customized online job search and career management resources, as well as access to Hopkins KnowledgeNET, the Johns Hopkins alumni virtual library. Hopkins KnowledgeNET, a new service of the Alumni Association and the Sheridan Libraries, gives alumni access to hundreds of publications and reference materials free of charge, and thousands more for the price of a single journal subscription.

new home for chemistry

The $18 million, 50,000-square-foot chemistry building provides lab and office space for faculty members and their students, as well as an adjoining underground structure that houses the multidepartmental Nuclear Magnetic Resonance Center for Fundamental Studies of Biological Molecules.

research

ONCE AGAIN this year, Johns Hopkins retained its position as one of the leading research universities in the nation as the faculty carried on valuable work in various areas of research. Evidence of Hopkins' colossal achievements is demonstrated in its research expenditures that totaled $1.595 billion in fiscal 2004 in the eight academic research divisions and the Applied Physics Laboratory. The School of Medicine remains consistent in its standing as a leading recipient of federal research funding, receiving a total of $571 million during the year.

Awards and Recognition

In a report from the National Science Foundation (NSF) published in June 2004, it was announced that the University performed $1.14 billion in science, medical, and engineering research in fiscal 2002, making it—for the 24th consecutive year—the country's leading research university. The University also ranked No. 1 on the NSF list of federally funded research expenditures with a spending total of $1.023 billion in fiscal 2002 for research funded by the National Institutes of Health, the National Aeronautics and Space Administration, the National Science Foundation, and the Department of Defense.

For the 13th consecutive year, The Johns Hopkins Hospital topped the honor roll of *U.S. News and World Report*'s rankings of American hospitals. This honor is due in large part to the work of University faculty members.

It was announced in September 2003 that Jeremy Berg, director of Biophysics and Biophysical Chemistry and director of the Institute for Basic Biomedical Sciences at the School of Medicine, was appointed director of the National Institute for General Medical Sciences at the National Institutes of Health.

In September 2003, the Bloomberg School of Public Health formed the Institute for Global Health and Security in order to assemble its diverse biodefense and public health preparedness research and training initiatives. The institute initially involved 65 full-time faculty at the Bloomberg School. Their research efforts are supported by the Centers for Disease Control and Prevention, the Health Resources and Services Administration, and the National Institutes of Health, as well as public and private funding. The new institute comprises biodefense programs and other activities already being conducted in the School of Public Health including the Center for Public Health Preparedness, Mid-Atlantic Public Health Training Center, Risk Sciences and Public Policy Institute, and the Center for Civilian Biodefense Strategies, as well as newly funded global health research projects. The institute continues with its collaborative efforts involving CEPAR—Johns Hopkins Office of Critical Event Preparedness and Response—and the Applied Physics Laboratory.

On October 8, 2003, Peter Agre, a professor in the Department of Biological Chemistry of the School of Medicine, was awarded the 2003 Nobel Prize in chemistry by the Royal Swedish Academy of Sciences. Dr. Agre was recognized by the academy for his laboratory's 1991 discovery of the long-sought "channels" that regulate and facilitate water molecule transport through cell membranes, a process essential to all living organisms.

During ceremonies in November 2003 that took place in the lobby of Clark Hall located on the Homewood campus, the IBM Corporation honored Hopkins as one of the first two IBM Life Sciences Institutes of Innovation. This program recognizes those academic institutions that make outstanding contributions to life sciences research. Raimond Winslow, director of the Center for Cardiovascular Bioinformatics and Modeling, accepted a plaque on behalf of Hopkins.

This spring, the Applied Physics Laboratory announced its top three inventions for 2003. The winners were selected from 139 APL inventions, representing the work of 220 inventors. Criteria for selection were potential benefit to society, improvement over existing technology, and commercial potential. Awards recognizing these achievements were made to the following individuals:

Life Science: Richard Potember and Wayne Bryden developed a system to destroy airborne biological agents as they move through a building's heating and air-conditioning ducts. The technology works without any special filtering that could impede airflow and uses a reaction chamber attached to a heating/ventilation/air-conditioning (HVAC) unit.

Physical Science: APL researchers Jack Roberts and Paul Biermann and their colleague Richard Reidy of the University of North Texas developed a soft body-armor vest that is light enough to prevent fatigue after considerable use and flexible enough to allow ease of movement, yet rigid enough to stop automatic assault rifle bullets.

Information Science: James Franson, Bryan Jacobs, and Todd Pitman have discovered a way to reduce significantly the number of errors in quantum computing calculations. Such errors occur primarily because of the seemingly random behavior of quantum computing bits, called "qubits."

On March 11, 2004, Provost Stephen Knapp honored 41 winners of the 11th annual Provost's Undergraduate Research Awards at a special ceremony. The awards, funded through a donation from the Hodson Trust, are an integral part of the University's dedication to research opportunities for undergraduate students.

On May 6, 2004, Grace Brush, a faculty member in the Department of Geography and Environmental Engineering in the Whiting School, received the prestigious Mathias Medal during a special ceremony conducted in Washington, D.C. Dr. Brush is renowned for her work on the pre-Colonial ecology of the Chesapeake Bay and is the first paleoecologist as well as the first woman to receive the award. The medal is awarded by the Sea Grant programs of Maryland and Virginia along with the Chesapeake Research Consortium and has been awarded only four times since its inception in 1990.

Grants and Contracts

It was announced in September 2003 that the Bloomberg School of Public Health is one of 16 biomedical research institutions that will become part of the New Middle Atlantic Regional Center of Excellence for Biodefense and Emerging Infectious Diseases Research founded by the National Institutes of Health. More than 60 scientists are participating as investigators and co-investigators of research projects conducted under the auspices of a five-year, $42 million grant from NIAID to the University of Maryland School of Medicine to lead the Middle Atlantic Regional Center of Excellence in developing new and improved vaccines and various diagnostic tools and treatments, for potential biological agents and infectious diseases. Donald Burke, director of the Center for Immunization Research at Johns Hopkins Bloomberg School of Public Health, is a co-investigator.

Richard Rothman, a member of the School of Medicine Department of Emergency Medicine, received a $1.05 million grant from the National Institute of Allergy and Infectious Diseases to oversee a five-year study on the rapid detection of blood-borne and pulmonary infectious diseases by using the most current university bacterial and viral microbiologic diagnostics. The funding for this particular award is supported by a $40 million multi-institutional programmatic award from Regional Center of Excellence.

During November 2003, the Johns Hopkins Office of Critical Event Preparedness and Response received several federal grants totaling $3.5 million in order to develop plans for health system response to bioterrorism and other catastrophes, including outbreaks of infectious diseases. Gabor Kelen, director of CEPAR and chair of the School of Medicine's Department of Emergency Medicine, was the recipient of a $1 million grant from the Agency for Healthcare Research and Quality to develop a system that pre-identifies hospital patients who would be at a minimal risk should they be discharged from the hospital immediately in order to provide space for incoming patients who would be victims of bioterrorism and various other disasters.

Gary Green, also a member of the Department of Emergency Medicine, received a $1 million grant from the Agency of Healthcare Research and Quality to develop and test a Web-based technology to train community health care providers in bioterrorism and disaster response. Additionally, the Office of Emergency Preparedness of the U.S. Department of Health and Human Services awarded a $500,000 grant to CEPAR for developing a model for regional surge capacity systems in different areas of the country. James Scheulen, administrator of CEPAR and the Department of Emergency Medicine, is overseeing the project.

The Bloomberg School of Public Health announced in November 2003 that it would expand its vaccine development and research efforts with $1.6 million grants from Becton Dickinson and Company. The funding from these grants will support the establishment of the BD Immune Function Laboratory and the Vaccine Evaluation Unit, a research collaboration to evaluate Becton Dickinson devices for delivery of new vaccines.

December 2003 was a memorable time for the Institute for Policy Studies. Housing policy researchers Sandra Newman and Joseph Harkness received a two-year $482,000 grant from the John D. and Catherine T. MacArthur Foundation to study the effects of affordable housing on children's well-being. There are several objectives for this initiative: It will evaluate whether preserving affordable housing offers cost-effective benefits for families, communities, and regional economies; it will assess the impact of public and private investment in preserving affordable rental housing; and it will inform public policies concerning a new generation of home owners to safeguard a minimum of 1 million units of affordable rental housing in the next decade.

Susan L. Furth, a pediatric nephrologist at the Johns Hopkins Children's Center, was the recipient of a $3 million grant for five years from the National Institute of Diabetes and Digestive and Kidney Diseases for her work in the study of chronic kidney disease in children.

The Bloomberg School of Public Health was awarded $2.9 million to create computer models for analyzing potential epidemics and evaluating methods for containing potential bioterrorism and other disease outbreaks such as SARS and West Nile virus. MIDAS (Models of Infectious Disease Agent Study) is a $28 million project that is funded by the National Institute of General Medical Sciences, which is part of the National Institutes of Health. Donald Burke, professor of international health and epidemiology at the Bloomberg School, is the lead investigator of the MIDAS group, which includes researchers from the Brookings Institution, the National Aeronautics and Space Administration, the University of Maryland, and Imperial College in London.

Research Administration

With various changes in administration taking place throughout the year, Hopkins maintained the capacity to further expand its research programs. Gary Ostrander, vice dean for research and graduate education in the Krieger School of Arts and Sciences, was appointed associate provost and chair of the Graduate Board. Eaton (Ed) Latman, chair of the Department of Biophysics in the Krieger School, was appointed the new dean for research and graduate education effective July 1, 2004. The Whiting School of Engineering continued its progress in research on engineering science and technology and welcomes the return of Dr. Nicholas P. Jones, a former member of the faculty of the Department of Civil Engineering, as the fourth dean, effective July 1, 2004.

The HopkinsOne program continues to make strides in its efforts to transform the University's current financial and administrative systems into an integrated updated model that will be expected to serve virtually the entire University business and research community. This project's anticipated result—an integrated software-based computer system that will link and update a number of Johns Hopkins business functions including purchasing, accounts payable, payroll, sponsored projects management, the general ledger, materials management, and human resources—is becoming more of a reality. Stephen Golding, executive director of finance at the School of Medicine and executive director of the Enterprise Business Systems Project, is working with a team of professionals assembled from the Hopkins business community. The first two phases of the project are now complete. The goals for the project's next phase include the identification of specific details of the integration and comprehensiveness of the system. The high-level objective of the project is to improve service, compliance, and productivity.

Public Health's new building

The completion in April 2004 of two new teaching and research facilities marks the final phase of expansion of the Bloomberg School of Public Health campus. The 12-year construction and renovation project has nearly doubled the size of the facility and extensively modernized the look and feel of the 78-year-old building.

investments

THE UNIVERSITY'S total invested funds as of June 30, 2004, had a market value of $2,677 million. The majority of these assets were held in the Endowment Investment Pool (EIP), which comprises more than 3,000 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 use, foundation funds, assets held under deferred compensation agreements, and charitable remainder trusts.

As of June 30, 2004, the EIP passed the $2.0 billion milestone with a market value of $2.054 billion, representing a 20.3% increase from $1.708 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 2004 and 2003 fiscal years as shown in the table:

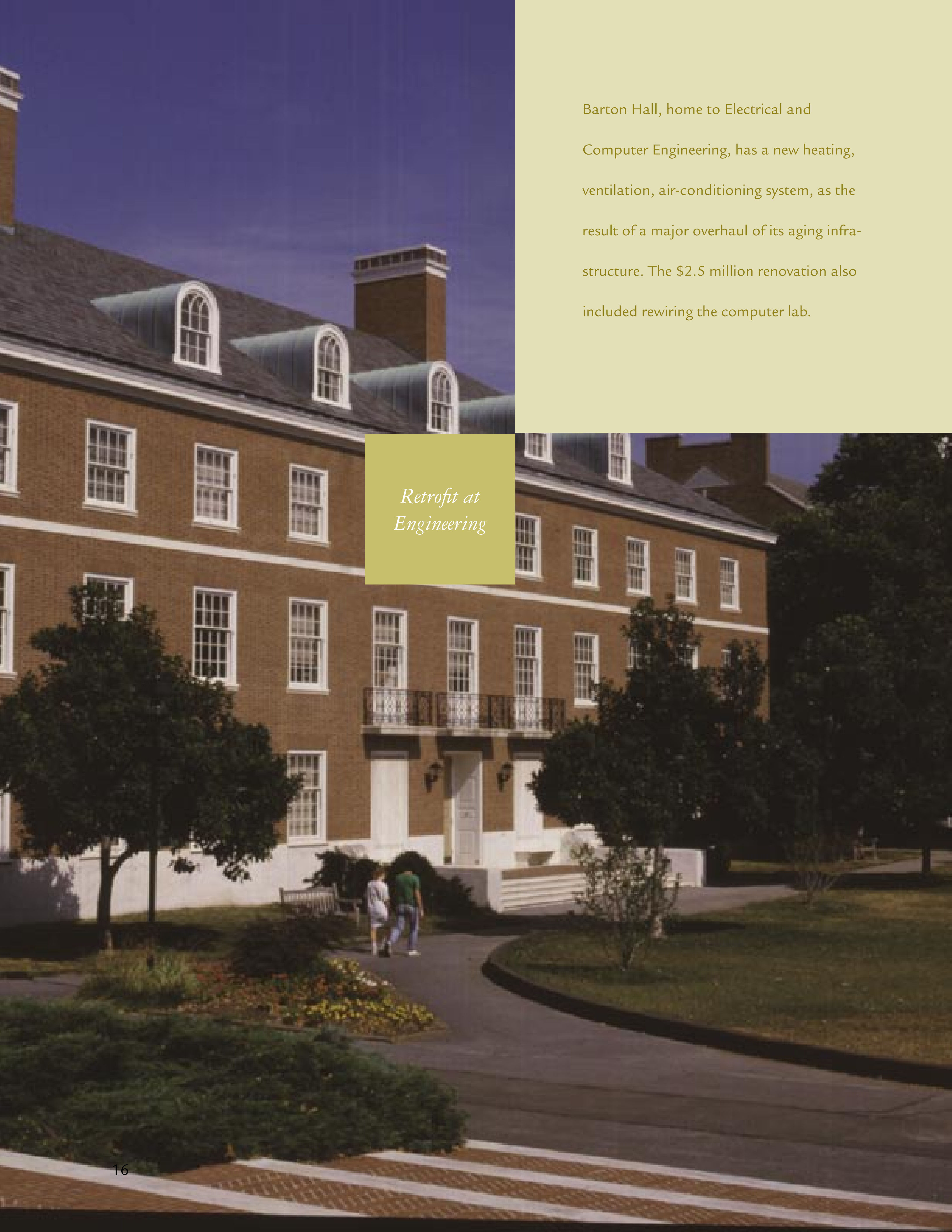
EIP Asset Allocation

	June 30, 2004 Market Value (millions)	%	June 30, 2003 Market Value (millions)	%
Domestic Equities	$ 987.3	48.0	$ 757.2	44.3
International Equities	266.1	13.0	213.0	12.5
Marketable Alternatives	328.9	16.0	263.6	15.5
Non-Marketable Alternatives	114.5	5.6	77.3	4.5
Fixed Income	295.9	14.4	352.0	20.6
Real Estate & Misc.	30.8	1.5	30.8	1.8
Cash	30.3	1.5	14.1	0.8
Total	$2,053.8	100.0%	$1,708.0	100.0%

The most significant shifts in asset allocation occurred in domestic equity and fixed income. Fixed income declined by over 6.0% as a result of an asset allocation review undertaken by the Committee on Investments. The bulk of those assets was reallocated to domestic equities. The slight increase in the percentage allocation to non-marketable alternative investments is a result of a steady increase in investment in private equity and venture capital limited partnership funds. A total of $28 million in new commitments was made in fiscal year 2004 to private equity/venture capital limited partnerships.

For the fiscal year ended June 30, 2004, the EIP had a total return of 15.3% compared to returns of 19.1% for the S&P 500 Index, 32.4% for the MSCI EAFE Index, and –0.7% for the Lehman Brothers Government/Credit bond index. For the one-year period the EIP surpassed its weighted benchmark return of 14.7%. Given the returns of equities and fixed income over the fiscal year, the EIP's domestic and international equity allocations were significant contributors to returns. For the trailing three-year period, the EIP's annualized return matched its benchmark return of 3.3%, and for the five-year period, the EIP's annualized return of 4.5% significantly outperformed the benchmark return of 1.6%.

The endowment pool's domestic equity managers as a group returned 17.0%, underperforming the S&P 500's 19.1% return



Retrofit at Engineering

Barton Hall, home to Electrical and Computer Engineering, has a new heating, ventilation, air-conditioning system, as the result of a major overhaul of its aging infrastructure. The $2.5 million renovation also included rewiring the computer lab.

for the same period. The endowment has a blend of three value and two growth managers. Value stocks outperformed growth stocks in the domestic markets for that period, thus exposure to growth oriented domestic equity managers detracted from performance. As a style group, the domestic growth managers underperformed the S&P 500.

For the fiscal year, international equity markets, both developed and emerging, generated strong performance relative to U.S. equity markets. The EIP's international equity managers as a group had a total return of 30.3%, underperforming the MSCI EAFE benchmark by 210 basis points. Emerging markets performed very strongly for the period as evidenced by the MSCI Emerging Markets Free Index, which returned 33.5%, surpassing the developed markets MSCI EAFE Index return for the same period of 32.4%. The EIP has a 4% allocation to emerging markets. As a whole, the international equity asset class was the strongest contributor to positive returns for the EIP.

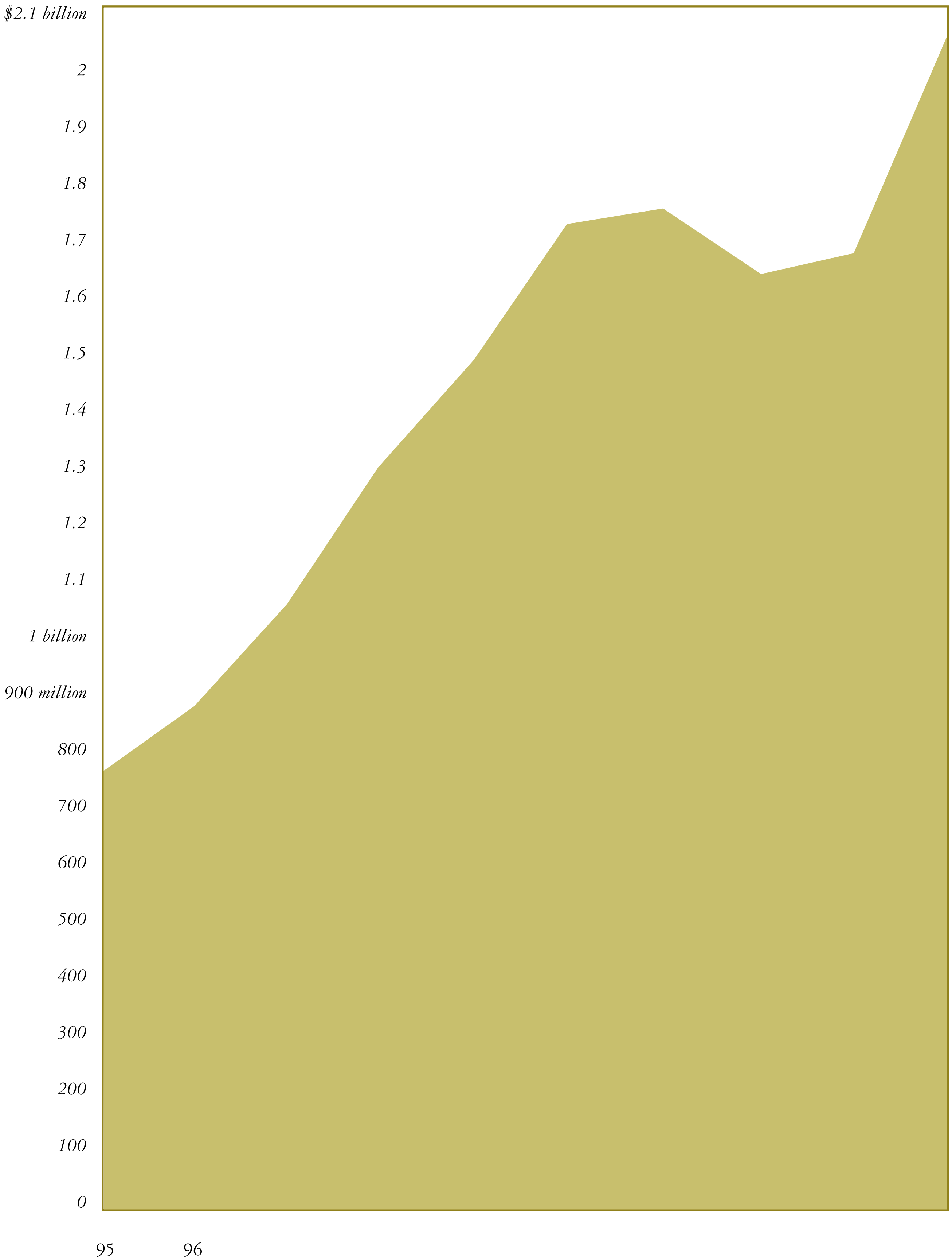
The hedge fund portfolios in the EIP collectively returned 8.0%, fulfilling their intended role as a source of positive returns uncorrelated with traditional equity or fixed income markets and as a diversifier for the overall portfolio.

The fixed income allocation provided a positive contribution to the portfolio despite the expectations of increasing interest rates as the economy improved. The EIP's fixed income portfolios generated 2.6%, handily outperforming the Lehman Government/Credit Index, which returned –0.7%. The outperformance for the asset class was attributable to the endowment's non-U.S. Treasury bond holdings, including corporate bonds and mortgage securities; and the endowment's allocation to Treasury Inflation Protected Securities or TIPS.

The non-marketable alternatives asset class, which includes private equity and venture capital investments, generated a return of 27.2% for fiscal 2004. Several of the endowment's partnerships from before 1999 provided large distributions boosting returns and offsetting the more recent partnerships whose returns have been adversely impacted by the bursting of the technology bubble in 1999 and 2000. This marks the first time since fiscal 2001 that this asset class has contributed positive returns for a fiscal year.

Fiscal 2004 provided a stark contrast to the previous fiscal year when equity markets globally were negative. Both domestic and international equity markets performed very strongly, marking the end of a three-year bear market. At the three-year mark, the S&P 500 is just slightly negative at a –0.7% annualized return, and the MSCI EAFE Index generated an annualized return of 3.9%. Bonds, on the other hand, have entered a period of what many expect to be the end of a bull market in fixed income. The Lehman Government Credit Index returned -0.7% for the year, but for the trailing three years has returned 6.7%, thus demonstrating that bonds function effectively as a source of returns for poor equity market environments and a dampener of overall portfolio volatility.

Johns Hopkins University
Endowment Market Value
As of June 30



Johns Hopkins University
Operating Revenues

Fiscal year ended June 30, 2004 (in thousands)

Grants, contracts and similar agreements	$1,625,454	59.5%
Clinical services	275,662	10.2%
Tuition and fees	269,683	9.9%
Reimbursements from affiliated institutions	204,946	7.4%
Contributions	122,935	4.5%
Investment income	117,154	4.3%
Auxiliary enterprises	54,990	2.0%
Other sources	59,268	2.2%
Total	**$2,730,092**	**100.0%**

Johns Hopkins University
Operating Expenses—by Object
Fiscal year ended June 30, 2004 (in thousands)

Compensation and benefits	$1,660,026	61.2%
Contractual services	559,080	20.6%
Supplies, materials and other	309,999	11.4%
Depreciation of property and equipment	100,806	3.7%
Travel	56,986	2.1%
Interest	25,610	1.0%
Total	**$2,712,507**	**100.0%**

Johns Hopkins University
Operating Expenses—by Function
Fiscal year ended June 30, 2004 (in thousands)

Instruction, research and clinical practice		
—Academic and support divisions	$1,765,780	65.1%
—Applied Physics Laboratory research contracts	623,225	23.0%
General services and administration	176,667	6.5%
Auxiliary enterprises	63,476	2.3%
Student services	54,029	2.0%
Libraries	29,330	1.1%
Total	**$2,712,507**	**100.0%**

Johns Hopkins University
Five Year Financial Summary
2000–2004 (dollars in thousands)

FISCAL YEAR ENDED JUNE 30	**2004**	**2003**	**2002**	**2001**	**2000**
Operating revenues:					
Tuition and fees, net, of student financial aid	$ 269,683	259,659	254,062	231,783	215,076
Grants, contracts and similar agreements	1,625,454	1,506,660	1,394,147	1,190,958	1,057,513
Clinical services	275,662	253,048	228,069	194,538	187,271
Contributions	122,935	106,093	144,010	223,627	90,125
Investment income	117,154	122,074	124,322	109,846	91,558
Other	319,204	290,773	272,531	227,953	239,656
Total operating revenues	$2,730,092	2,538,307	2,417,141	2,178,705	1,881,199
Operating expenses:					
Compensation and benefits	$1,660,026	1,484,260	1,315,347	1,159,727	1,051,929
Contractual services	559,080	521,780	488,068	418,104	377,908
Supplies, materials and other	309,999	314,053	276,540	241,475	222,407
Depreciation of property and equipment	100,806	89,774	82,809	70,790	75,254
Interest	25,610	23,105	24,365	28,408	25,773
Travel	56,986	52,923	44,392	46,328	40,896
Total operating expenses	$2,712,507	2,485,895	2,231,521	1,964,832	1,794,167
Total assets	$4,757,868	4,355,676	4,236,506	4,005,054	3,832,944
Total liabilities	1,484,446	1,321,808	1,237,203	993,842	971,226
Endowments and similar funds held for purposes of Johns Hopkins Hospital	65,479	59,097	61,475	57,177	60,275
Total net assets	3,207,943	2,974,771	2,937,828	2,954,035	2,801,443
Investments, including cash and cash equivalents, at market value:					
Endowment investment pool	2,053,848	1,707,971	1,689,717	1,819,555	1,803,289
Total	2,677,429	2,477,776	2,494,307	2,515,424	2,452,404
Investment in property and equipment	1,328,559	1,187,403	993,083	908,404	832,715
Debt	752,450	654,455	662,737	554,717	539,958
Head count enrollment (Fall)	18,869	19,443	18,235	18,074	17,967
Employees (at year-end)	22,588	21,644	20,691	19,897	18,335

KPMG LLP
111 S. Calvert Street
Baltimore, Maryland 21202

Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University as of June 30, 2004 and 2003, and the related statements 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, 2004 and 2003 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 4, 2004

Johns Hopkins University

Balance Sheets

June 30, 2004 and 2003 (in thousands)

	2004	2003
Assets:		
Cash and cash equivalents	$ 223,149	229,763
Accounts receivable, net	324,249	272,651
Prepaid expenses, deferred charges and other assets	86,986	72,211
Contributions receivable, net	135,553	168,483
Loans receivable, net	32,626	32,597
Investments	2,454,280	2,248,013
Deposits with bond trustees	69,041	49,979
Investment in property and equipment, net	1,328,559	1,187,403
Interests in trusts and endowment funds held by others	103,425	94,576
Total assets	**$ 4,757,868**	**4,355,676**
Liabilities:		
Accounts payable, deferred revenues and accrued expenses	$ 537,830	481,269
Payables and deferred revenues under split interest agreements	60,439	55,606
Debt	752,450	654,455
Obligations under deferred compensation agreements and other long-term liabilities	133,727	130,478
Total liabilities	1,484,446	1,321,808
Endowment and similar funds held for purposes of Johns Hopkins Hospital	65,479	59,097
Net assets:		
Unrestricted	1,926,633	1,712,434
Temporarily restricted	353,081	361,587
Permanently restricted	928,229	900,750
Total net assets	3,207,943	2,974,771
Total liabilities and net assets	**$ 4,757,868**	**4,355,676**

See accompanying notes to financial statements.

Johns Hopkins University

Statement of Activities

Year ended June 30, 2004 (in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 269,683	—	—	269,683
Grants, contracts and similar agreements	1,625,454	—	—	1,625,454
Clinical services	275,662	—	—	275,662
Reimbursements from affiliated institutions	204,946	—	—	204,946
Contributions	94,981	27,954	—	122,935
Investment income	117,154	—	—	117,154
Maryland State aid	12,596	—	—	12,596
Sales and services of auxiliary enterprises	54,990	—	—	54,990
Other	46,672	—	—	46,672
Net assets released from restrictions	33,029	(33,029)	—	—
Total operating revenues	2,735,167	(5,075)	—	2,730,092
Operating expenses:				
Compensation and benefits	1,660,026	—	—	1,660,026
Contractual services	559,080	—	—	559,080
Supplies, materials and other	309,999	—	—	309,999
Depreciation of property and equipment	100,806	—	—	100,806
Travel	56,986	—	—	56,986
Interest	25,610	—	—	25,610
Total operating expenses	2,712,507	—	—	2,712,507
Excess (deficit) of operating revenues over expenses	22,660	(5,075)	—	17,585
Nonoperating revenues, gains and losses:				
Contributions	—	24,776	47,703	72,479
Investment income	142,895	2,597	1,545	147,037
Loss on disposals of property and equipment	(5,342)	—	—	(5,342)
Net assets released from restrictions	30,804	(30,804)	—	—
Other	23,182	—	(21,769)	1,413
Nonoperating revenues, gains and losses, net	191,539	(3,431)	27,479	215,587
Increase (decrease) in net assets	214,199	(8,506)	27,479	233,172
Net assets at beginning of year	1,712,434	361,587	900,750	2,974,771
Net assets at end of year	**$1,926,633**	**353,081**	**928,229**	**3,207,943**

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

Statements of Cash Flows

Years ended June 30, 2004 and 2003 (in thousands)

	2004	2003
Cash flows from operating activities:		
Increase in net assets	$ 233,172	36,943
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities:		
Depreciation and loss on disposals of property and equipment	106,148	92,186
Increase in accounts receivable, net	(51,598)	(24,143)
Increase in prepaid expenses, deferred charges, other assets		
and interests in trusts and endowment funds held by others	(23,624)	(20,408)
Decrease in contributions receivable, net	32,930	26,899
Increase in accounts payable, deferred revenues and accrued expenses	61,325	85,540
Increase in payables and deferred revenues under		
split interest agreements	4,833	3,654
Contributions restricted for long-term investment	(105,017)	(68,529)
Net realized and unrealized (gains) losses from investments	(230,205)	20,397
Increase (decrease) in other liabilities	3,314	(924)
Net cash provided by operating activities	31,278	151,615
Cash flows from investing activities:		
Purchases of investments	(2,172,549)	(1,580,285)
Proceeds from sales and maturities of investments	2,196,487	1,626,854
Purchases of property and equipment	(252,068)	(281,750)
Disbursements for student loans	(6,619)	(5,692)
Repayments of student loans	6,707	7,466
(Increase) decrease in deposits with bond trustees, net	(19,062)	68,642
Increase (decrease) in endowments held for others	6,382	(2,378)
Net cash used by investing activities	(240,722)	(167,143)
Cash flows from financing activities:		
Contributions restricted for long-term investment	105,017	68,529
Proceeds from borrowings	111,552	18,866
Scheduled payments of bonds and notes payable	(13,739)	(12,735)
Advance refundings and other payments of borrowings	—	(14,599)
Net cash provided by financing activities	202,830	60,061
Net increase (decrease) in cash and cash equivalents	(6,614)	44,533
Cash and cash equivalents at beginning of year	229,763	185,230
Cash and cash equivalents at end of year	**$ 223,149**	**229,763**

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

Johns Hopkins University (the 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 18,900 students, including 10,600 full-time students and 8,300 part-time students, and produced about 10% of the University's operating revenues in 2004 and 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 2004 and 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 35%, 29%, 12% and 6%, respectively, of revenues from grants, contracts and similar agreements in 2004.

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 2004 and 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. All significant activities and balances are eliminated for financial reporting purposes. 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 2003 have been reclassified to conform to the presentation for 2004.

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:

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

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.

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.

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 or clarifications of agreements with donors are recognized by reclassifying the net assets in the period in which the amendments or clarifications are approved. During 2004, $21,769,000 of contributions were reclassified from permanently restricted net assets to unrestricted net assets as a result of clarifications of agreements with certain donors. 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) Clinical Services

Clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Allowance is made for uncollectible accounts based primarily on past collection experience and analyses of outstanding receivables. Contractual allowances are estimated based on actual claims paid by third-party payors.

(f) Investments

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

Assets of pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains of these funds may be used to support operations provided that the funds have market values in excess of their historical values. The endowment investment pool payout was approximately 5.7% and 6.4% of average market values in 2004 and 2003, respectively.

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 payout 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 payout for pooled endowment and similar funds and income and realized gains restricted by donors are reported as nonoperating revenues.

(g) 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 sheets; however, the University is accountable to the government for them. Repairs and maintenance costs are expensed as incurred.

Costs of purchased software are capitalized along with internal and external costs incurred during the application development stage (i.e., from the time the software is selected until it is ready for use). Capitalized costs are amortized on a straight-line basis over the expected life of the software. Computer software maintenance costs are expensed as incurred.

(h) 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.

(i) Fair Values of Financial Instruments

Fair values of financial instruments approximate their carrying values in the financial statements, except for debt for which fair value information is provided in note 7 and loans receivable from students under loan programs of the United States Government ($26,534,000 and $26,034,000 at June 30, 2004 and 2003, 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.

(j) 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.

(k) 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 claims liabilities are recognized as claims are incurred based upon actuarial studies and are included in operating expenses.

(l) 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 $227,026,000 in 2004 and $206,559,000 in 2003.

(m) 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 University funds. Grant and scholarship awards were $135,831,000 in 2004 and $121,575,000 in 2003 and are netted against tuition and fees revenues.

(n) 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. No provision for income taxes was required for 2004 or 2003.

(o) Derivative Financial Instruments

Derivative financial instruments are measured at fair value and recognized in the balance sheets 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 2004 or 2003.

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. Changes in the market value of the interest rate swap agreements are recognized in the statement of activities.

(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, as determined by the trustees, 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 $250,457,000 and $229,457,000 at June 30, 2004 and 2003, respectively, including net investments in property and equipment of $147,450,000 and $126,537,000, respectively. At June 30, 2004, APL purchase and subcontract commitments were $104,900,000.

(3) Accounts Receivable

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

	2004	2003
Reimbursement of costs incurred under grants and contracts	$ 199,134	168,085
Affiliated institutions, primarily the Hospital	38,484	19,857
Students	6,763	8,306
Others	42,740	39,972
Total research, training and other, less allowances of $14,668 in 2004 and $19,558 in 2003	287,121	236,220
Patient payor receivables for medical services, less allowances of $62,642 in 2004 and $65,332 in 2003	37,128	36,431
	$ 324,249	272,651

(4) Contributions Receivable

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

	2004	2003
Unconditional promises scheduled to be collected in:		
Less than one year	$ 29,887	68,871
One year to five years	107,502	111,611
Over five years	29,981	16,599
	167,370	197,081
Less unamortized discount (interest rates ranging from 2.0% to 5.0%) and allowance for uncollectible contributions	31,817	28,598
	$ 135,553	168,483

At June 30, 2004 and 2003, 37% and 46%, respectively, of the gross contributions receivable were due from 10 donors. Approximately 35% and 39% of contribution revenues for 2004 and 2003, respectively, were from 10 donors. At June 30, 2004, the University had also received bequest intentions in excess of $240,000,000 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):

	2004	2003
Cash and short-term investments	$ 40,864	201,208
United States Government and agency obligations	245,969	252,241
Other debt securities	242,894	423,160
Common and preferred stocks	1,197,064	863,946
Limited partnership and similar interests	557,883	340,665
Other investments	169,606	166,793
	$ 2,454,280	2,248,013

Investments are professionally managed, primarily by outside investment organizations, subject to direction and oversight by a committee of the board of trustees. The committee 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):

	2004	2003
Dividend and interest income	$ 43,756	68,890
Net realized gains (losses)	76,138	(50,457)
Net unrealized gains	154,067	30,060
Increase in interests in perpetual trusts	1,460	1,474
Investment management fees	(7,536)	(6,922)
Equity in losses of unconsolidated entities	(3,694)	(2,990)
	$ 264,191	**40,055**

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

	2004	2003
Operating	$ 117,154	122,074
Nonoperating	147,037	(82,019)
	$ 264,191	**40,055**

At June 30, 2004 and 2003, assets of endowment and similar funds, including cash and cash equivalents and investments, amounted to $1,911,770,000 and $1,652,387,000, 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, 2004 and 2003, assets of the EIP, including cash and cash equivalents and investments, amounted to $2,053,848,000 and $1,707,971,000, respectively.

At June 30, 2004 and 2003, other investments include $86,434,000 and $81,855,000, 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, 2004, commitments for purchases of investments were $152,969,000.

(6) Investment in Property and Equipment

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

	2004	2003	Range of Useful Lives
Land	$ 29,212	25,762	N/A
Land improvements	55,568	49,180	N/A
Buildings and leasehold improvements	1,426,857	1,185,420	10–40 years
Equipment and software	440,694	432,186	7–15 years
Library collections	156,004	144,758	25 years
Construction in progress	127,958	228,148	N/A
	2,236,293	2,065,454	
Less accumulated depreciation and amortization	907,734	878,051	
	$ 1,328,559	**1,187,403**	

(7) Debt

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

	2004	2003
Bonds payable	$ 476,978	391,271
Notes payable	149,662	150,106
Commercial paper revenue notes– tax-exempt	100,110	87,378
Commercial paper revenue notes– taxable	25,700	25,700
	$ 752,450	**654,455**

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):

	2004	2003
Revenue Bonds of 1983, 6.00% to 9.88%, due July 2013, net of unamortized discount of $380 and $604	$ 5,755	7,379
Refunding Revenue Bonds of 1997, 4.50% to 5.625%, due July 2027, net of unamortized discount of $217 and $221	13,218	13,504
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $407 and $447	155,552	161,340
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $431 and $490	19,096	19,563
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,378 and $1,389	84,397	84,386
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,586 and $1,627	105,140	105,099
Revenue Bonds of 2004A, 4.65% to 5.00%, due July 2038, net of unamortized discount of $1,315	93,820	—
	$ 476,978	**391,271**

The bonds payable outstanding at June 30, 2004, 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 and the Revenue Bonds of 2004A provide for serial principal payments prior to maturity of $9,100,000, $10,000,000, $10,000,000 and $23,400,000 in 2020, 2024, 2029 and 2033, respectively. The loan agreement relating to the Revenue Bonds of 1983 provides for limitations on the amount of indebtedness the University may incur.

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, 2004) nor the irrevocable trusts are included in the balance sheet.

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

	2004	2003
MHHEFA note due May 2006	$ 2,760	2,886
MHHEFA note due November 2015	41,420	43,711
MHHEFA note due November 2020	16,017	16,520
MHHEFA note due February 2025	4,489	4,600
MHHEFA note due July 2026	5,956	6,053
Note due July 2004, 3.00% (government subsidized effective rate)	30	149
Note due June 2012, 7.29%	1,892	2,062
Note due December 2019, 8.88%	72,098	74,125
Note due December 2006, 8.92%	5,000	—
	$ 149,662	**150,106**

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 (2.0% at June 30, 2004) 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 note due December 2006 is an unsecured general obligation of the University and provides for annual interest payments with principal payments due in full on December 1, 2006.

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 tax-exempt notes for a period of up to 120% of the estimated useful lives of the related assets. The notes outstanding at June 30, 2004, bear interest at a weighted average rate of 1.07%.

In April 2001, the University entered into an interest rate swap agreement 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.

In January 2004, the University entered into two interest rate swap agreements, each in a notional principal amount of $15,000,000, to adjust its debt structures in accordance with its debt policy guidelines. Under the agreements, the University receives fixed rates of 2.9655% and 3.102%, respectively, and pays floating rates through January 2009 and January 2007, respectively.

The aggregate annual maturities of the bonds and notes payable for the five years subsequent to June 30, 2004 are as follows: 2005, $14,202,000; 2006, $15,114,000; 2007, $36,367,000; 2008, $21,961,000; and 2009, $30,288,000.

Total interest costs incurred and paid were $31,645,000 in 2004 and $31,300,000 in 2003, of which $6,210,000 and $5,237,000 was capitalized in 2004 and 2003, respectively. Interest income of $1,067,000 in 2004 and $3,489,000 in 2003 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. There were no borrowings outstanding on the line of credit at June 30, 2004 or 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):

	2004		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Variable rate bonds and notes	$ 75,642	75,642	73,770	73,770
Fixed rate bonds and notes	550,998	556,366	467,607	529,939
Commercial paper revenue notes	125,810	125,810	113,078	113,078
	$ 752,450	757,818	654,455	716,787

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 $31,366,000 and $31,046,000 at June 30, 2004 and 2003, 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, 2004 and 2003 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):

	2004	2003
Net investment in property and equipment	$ 645,150	582,571
APL stabilization, contingency and research fund, excluding net investment in property and equipment	103,007	102,920
Funds designated for divisional and departmental support	1,165,026	1,014,363
Student loan funds	13,450	12,580
	$ 1,926,633	1,712,434

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

	2004	2003
Contributions designated for departmental and divisional support or facilities	$ 308,016	319,449
Split interest agreements	31,877	28,950
Land subject to time and purpose restrictions	13,188	13,188
	$ 353,081	361,587

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

	2004	2003
Perpetual endowment funds	$ 834,229	825,679
Interests in perpetual trusts	49,594	43,764
Split interest agreements	44,406	31,307
	$ 928,229	900,750

(10) Affiliated Organizations

(a) 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.

(b) 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 $99,000,000 in 2004 and $89,300,000 in 2003. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated $57,300,000 in 2004 and $51,800,000 in 2003.

(11) Pension and Postretirement Benefit Plans

The University has several pension plans that are available to substantially all full-time employees. Most of these plans are defined contribution plans for which the University's policy is to fund pension costs as accrued. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was $101,035,000 in 2004 and $86,747,000 in 2003, including $30,099,000 and $27,859,000, respectively, related to pension plans for employees at APL.

The University has retiree benefits plans that provide postretirement medical benefits to employees, including those at APL, 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 plans and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost.

The University uses a June 30 measurement date for its defined benefit pension plan and retiree benefit plans. Information relating to the benefit obligation, assets and funded status of the defined benefit pension plan and the postretirement benefit plans as of and for the years ended June 30, 2004 and 2003 is summarized as follows (in thousands):

	Pension Plan		Postretirement Plans	
	2004	2003	2004	2003
Change in benefit obligation: (A)				
Benefit obligation at beginning of year	$ 219,928	166,192	197,732	149,566
Service cost	12,202	8,379	6,130	3,776
Interest cost	12,938	11,896	11,600	10,564
Plan participant contributions	—	—	2,364	2,088
Plan amendment	—	—	(19,313)	—
Actuarial (gain) loss	(9,838)	40,458	(14,040)	41,734
Benefits paid	(7,450)	(6,997)	(10,939)	(9,996)
Benefit obligation at end of year	227,780	219,928	173,534	197,732
Change in plan assets:				
Fair value of plan assets at beginning of year	191,290	191,125	64,104	56,990
Actual return on plan assets	27,458	5,917	9,564	2,568
University contributions	—	1,245	19,531	12,454
Plan participant contributions	—	—	2,364	2,088
Benefits paid	(7,450)	(6,997)	(10,939)	(9,996)
Fair value of plan assets at end of year	211,298	191,290	84,624	64,104
Funded status	(16,482)	(28,638)	(88,910)	(133,628)
Unrecognized net actuarial loss	17,556	39,407	79,399	102,677
Unamortized prior service cost (recovery)	1,794	2,066	(9,505)	387
Unrecognized transition obligation	—	—	13,556	25,616
Prepaid (accrued) benefit cost	**$ 2,868**	**12,835**	**(5,460)**	**(4,948)**

(A) For the pension plan, the benefit obligation is the projected benefit obligation. For the postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation. The accumulated benefit obligation for the pension plan was $198,717,901 at June 30, 2004 and $191,115,049 at June 30, 2003.

	2004	2003	2004	2003
Weighted-average assumptions at June 30:				
Discount rate	6.25%	6.00%	6.25%	6.00%
Expected rate of return on plan assets	9.00%	9.00%	6.50%–7.00%	7.00%
Rate of increase of health care costs for next year	N/A	N/A	5.50%–11.00%	5.50%–12.00%
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	6.00%	7.25%	6.00%	7.25%
Expected rate of return on plan assets	9.00%	9.00%	6.50%–7.00%	6.50%–8.50%
Rate of compensation increase	5.00%	5.00%	N/A	N/A

The University's investment objective for the plans' assets is to meet the benefit obligations while minimizing required future University contributions. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term investment return and risk. Target ranges for asset allocations are determined by matching the actuarial projections of the plans' future liabilities and benefit payments with expected long-term rates of return on the assets, taking into account investment return volatility and correlations across asset classes. Plan assets are diversified across several investment managers and are generally invested in mutual funds that are selected to track broad market equity and bond indices. Investment risk is carefully controlled with plan assets rebalanced to target allocations on a periodic basis and continual monitoring of investment managers' performance relative to the investment guidelines established with each investment manager.

The University's target asset and actual asset allocation by category as of June 30, 2004 and June 30, 2003 are as follows:

	Target Allocation	2004	2003	2004	2003
United States equity securities	54%	60%	59%	52%	52%
International equity securities	11%	12%	10%	13%	13%
Debt securities	35%	28%	31%	35%	35%
	100%	100%	100%	100%	100%

The weighted-average expected long-term rate of return for the plans' total assets is based on the expected return of each of the above categories weighted-average based on the median of the target allocation for each investment class. Based on historical experience, the University expects that the Plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. This Act introduces a Medicare prescription-drug benefit beginning in 2006 as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. Management has concluded that the University's plans are at least "actuarially equivalent" to the Medicare benefit and, accordingly, has included the federal subsidy from the Act in the normal year-end measurement process for the retiree benefit plans at June 30, 2004. The effect was to reduce the benefit obligation by $26,255,000 as of June 30, 2004 of which $19,300,000 relates to APL employees. The plan covering APL was amended to integrate with the Act beginning January 1, 2006 and accordingly, the decrease in the benefit obligation related to the APL plan is reported as a plan amendment in the reconciliation of the beginning and ending balances of the benefit obligation above. The other University plan has not been amended to integrate with the Act and the decrease in the benefit obligation of $6,955,000 is reported as an actuarial experience gain. The impact on net periodic postretirement benefit cost and on benefits paid in future years is not expected to be material.

The University expects to contribute $16,613,000 to its postretirement benefit plans in 2005, including $8,800,000 related to APL. The University does not expect to make a contribution to the pension plan in 2005. The benefits expected to be paid in the five years subsequent to June 30, 2004 and in aggregate for the five years thereafter are as follows (in thousands):

	Pension Plan	Postretirement Plans
2005	$ 7,181	8,478
2006	8,642	9,183
2007	7,923	8,235
2008	8,391	9,774
2009	8,944	10,342
2010–2014	57,374	59,144

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

	2004	2003
Service cost	$ 12,202	8,379
Interest cost on accumulated benefit obligation	12,938	11,896
Amortization of prior service cost	272	272
Amortization of actuarial loss	1,421	—
Expected return on plan assets	(16,866)	(16,860)
	$ 9,967	**3,687**

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

	2004	2003
Service cost	$ 6,130	3,776
Interest cost on accumulated benefit obligation	11,600	10,564
Amortization of transition obligation	2,562	2,562
Amortization of prior service cost	77	77
Amortization of actuarial loss	4,746	2,616
Expected return on plan assets	(4,876)	(5,064)
	$ 20,239	**14,531**

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, 2004 would have the following effects (in thousands):

	Increase	Decrease
Total service and interest cost components	$ 3,014	(2,329)
Postretirement benefit obligation	23,641	(19,039)

(12) Functional Expense Information

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

	2004	2003
Instruction, research and clinical practice:		
Academic and support divisions	$ 1,765,780	1,644,271
APL contracts	623,225	564,408
Student services	54,029	46,587
Libraries	29,330	26,327
General services and administration	176,667	147,347
Auxiliary enterprises	63,476	56,955
	$ 2,712,507	**2,485,895**

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. Fund-raising costs were not significant in 2004 or 2003.

(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, 2005.

The University leases certain other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2016, 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
2005	$ 13,078	18,932	32,010
2006	12,500	17,025	29,525
2007	12,092	15,481	27,573
2008	8,395	12,602	20,997
2009	6,448	11,598	18,046
After 2009	18,512	40,455	58,967
	$ 71,025	**116,093**	**187,118**

(14) Other Commitments and Contingencies

At June 30, 2004, the University had the following additional commitments and guarantees relating to affiliated organizations:

- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of $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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