the Annual Report of The Johns Hopkins University

2001

student life

table of contents

YEAR IN REVIEW

1 President's Message
2 Financial Summary
5 Research
17 Development & Alumni Relations
24 Investments

STATISTICAL DATA

27 Endowment Market Value
28 Operating Revenues
29 Operating Expenses—by Object
30 Operating Expenses—by Function
31 Five Year Financial Summary

FINANCIAL STATEMENTS

32 Independent Auditors' Report
33 Balance Sheets
34 Statement of Activities
36 Statements of Cash Flows
37 Notes to Financial Statements

Greetings:

It is my pleasure to convey this annual financial report of The Johns Hopkins University covering fiscal year 2001.

Throughout its 125-year history, Johns Hopkins has distinguished itself by continuously pioneering new fields of research and study. As the first modern research university in America, we introduced a new model of education focused on discovery. Medical education was revolutionized when we created the nation's first true teaching hospital with an integrated scientific medical school. In academic disciplines ranging from public health to international relations, astronomy to biomedical engineering, Hopkins has blazed new paths by supporting a world-class faculty of creative individuals and giving them the freedom to pursue their own research interests.

At the conclusion of an unprecedented period of growth and achievement, Johns Hopkins University finishes the first year of a new century in sound financial condition. The Johns Hopkins Initiative raised more than $1.5 billion in gifts and commitments, and upon its successful completion the Board of Trustees voted at the start of fiscal year 2001 to begin immediately laying the groundwork for a new campaign.

The following pages offer a closer look at some of the remarkable financial achievements of the past year, and how the funds raised—including an unprecedented $347.4 million in new gifts and payments on pledges—are being targeted toward projects and programs that will keep Hopkins at the forefront of discovery. But more than a catalog of gifts received, this report documents the way Johns Hopkins is building a foundation for the future. From one of the nation's first centers for civilian biodefense research to one of its most respected graduate programs in international studies, the University continues to pioneer new areas of critical importance in these dangerous and turbulent times.

Sincerely,

William R. Brody

William R. Brody

President, The Johns Hopkins University

financial summary

As a research university, Johns Hopkins partners with the federal government and other funding sponsors in seeking answers to humanity's most important and pressing questions on issues ranging from human health to the nature of existence. It is not surprising, therefore, that the predominant revenue source for the University is sponsored research, comprising 54.6% of the total.

Other sources of revenue, equally critical to serving the University's mission, include instruction and related revenues (tuition, fees, housing, food service) representing 11.6% of the total. Clinical service revenues, primarily from the delivery of health care by the faculty of the medical and nursing schools, represent 9% of the University's revenues. Most of the balance is from philanthropy and investments.

The University is pleased to report an operating surplus of $213.9 million. This figure compares to the fiscal year 2000 total of $87.0 million. The current year's surplus includes $120.8 million in the unspent portion of two exceedingly generous anonymous gifts in support of the development of the Johns Hopkins Malaria Institute and the Johns Hopkins Institute for Cell Engineering. These funds are classified as temporarily restricted, and they will be spent for their intended purposes in future years.

The University continues to improve its business processes, focusing on providing more cost-effective service in areas as diverse as grants management, purchasing, travel, and internal mail delivery. Also, a plan to replace and upgrade information systems for existing administrative and support services has been completed and is beginning implementation.

The University has been investing in its future with the construction of a number of facilities that will enhance student amenities, allow expansion of research activities, and provide overall improved support for Hopkins programs. Completed during the 2000–2001 fiscal year were:

- The Mattin Center, Homewood Campus
- Downtown Center, Baltimore

Currently under way are several other major construction projects. They include:

- Clark Hall, Homewood Campus
- Hodson Hall, Homewood Campus
- Student Recreation Center, Homewood Campus

- Broadway Research Building, School of Medicine
- Additions to the Bloomberg School of Public Health
- Peabody Institute renovations
- Several buildings at the Applied Physics Laboratory

In addition, the already beautiful Homewood campus has been transformed with the replacement of asphalt walks and drives with brick and stone, landscaping, and other amenities.

To a large extent, these projects are being financed by donations from Johns Hopkins supporters. The State of Maryland's generous support of its independent higher education sector has also been critical to some of these improvements. Some debt is being used for the new research and teaching facilities in the School of Medicine and the Bloomberg School of Public Health.

The University continues its rolling five-year financial planning process. Every year, in conjunction with the development of its annual budget, each of the University's divisions projects detailed estimates of revenue and expense. They are subjected to analysis by University management and reviewed in depth by the Finance Committee of the Board of Trustees. For the first time, the five-year plan includes a capital plan, documenting the facilities needs across Hopkins through 2005–2006. The five-year plan provides a basis for financial planning and assures that the consequences of near-term decisions are understood in a long-term context. Coupled with a debt policy adopted by the trustees a year ago, the University has the fiscal tools to manage its financial resources prudently.

James T. McGill

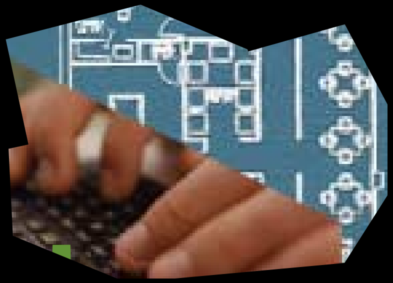
Senior Vice President for Finance

and Administration

improvements to student

residential space

at JHMI



During the spring and summer of 2001, the Medical Divisions installed in the Reed Medical Residence Hall the network wiring for direct internet service in the dorm. Students can now have network access within 24 hours of move-in by completing a simple application form.

Reed Hall is also undergoing renovations on the first floor of the West Wing which will provide much-needed student recreational space in the building. Planned for this first floor area are the following: a recreational lounge with ping pong and pool table, new vending area, gaming lounge, conference room, small group meeting room, computer room with approximately 12 stations to start with, and a TV lounge.

Johns Hopkins University entered the turn of the millennium still ranked at the top of the list in earning research dollars. The School of Medicine retained its place as the principal recipient of federal research funds in the United States and ranked second among the nation's select medical schools in training grants. Research expenditures in the University and the Applied Physics Laboratory exceeded $1 billion.

The University's sponsors include federal, state and local agencies, private foundations, and generous benefactors who are among those with the imagination to expect tangible results in areas only dreamed about not so long ago. Individual investigator projects over $1million are fairly common, especially as the NIH doubles its research budget and other science agencies gear up for increased spending on research grants, but the pressures on investigators to quickly produce these results also multiply. To help mediate these pressures and position itself for continued research leadership in the 21st century, the School of Medicine formed the Institute for Basic Biomedical Sciences (IBBS). Concentrating the eight basic science departments under a single umbrella will foster the interdisciplinary connections that more sponsors recognize as the key to success. Catalyzed by $30 million from a private donor, a $125 million funding campaign is under way to confirm this effort as a model for biomedical research and teaching in the basic sciences.

Johns Hopkins faculty's virtuosity would be hampered without the best research facilities. Buildings designed for modern biomedical research must break the molds of the past and offer the capacity to transcend the boundaries between scientific disciplines. A 10-story, $140 million research building begun on the East Baltimore campus this year is such a space. When the Broadway Research Building opens in 2004, clusters of laboratories arranged according to scientific problems will have replaced the traditional departmental structure. This design, part of a $324 million investment in research infrastructure on the medical campus, will promote natural interaction among researchers from diverse disciplines who can help each other with their focused insights. Anchored by the McKusick-Nathans Institute for Genetic Medicine, the building will also contain core facilities, offering advanced technologies and techniques out of the range of individual labs, and a state-of-the-art mouse facility for modeling human disease.

The most advanced and powerful equipment

keeping your distance at the Bloomberg School of Public Health

The nation's largest, oldest, and most acclaimed school of public health has recently become a leader in another field—distance education. With a catalog of over 400 courses, the Bloomberg School offers students unrivaled resources and access to the kind of technology available only at large research and teaching institutions. The iMPH program has allowed the school to reach out beyond the physical campus and make the entire world eligible to pursue an MPH here, particularly important as public health workers are often found in the far reaches of the globe.

is another necessity for the progression of knowledge. On the Homewood campus the Center for Macro-molecular X-Ray Crystallography opened with receipt of a 1,600-pound Rigaku X-ray generator. Funded in part by a $300,000 National Science Foundation grant, the new center will serve Hopkins scientists from Arts and Sciences, Engineering, and Medicine who study proteins and nucleic acids to gain insights into their structures that otherwise would be unobtainable.

In biomedical research, cancer is being tackled from every known angle. Breast cancer has received particular attention from both private and government sponsors. Avon Products Foundation made an award of $2.2 million from funds raised by the Avon Breast Cancer Crusade to the Johns Hopkins Oncology Center. Studies will run the gamut from molecular genetic biomarkers for cancer detection to behavioral aspects associated with screening and care. Breast cancer research gave the Oncology Center an unprecedented fourth SPORE (Specialized Programs for Research Excellence) grant from the National Cancer Institute (NCI). This SPORE joins others currently funding research in cancers of the colon, prostate, and lungs. It will provide $2.7 million during the first year of funding and a total of $14 million over five years for a range of prevention, diagnostic, and therapeutic strategies. NCI also awarded researchers in the Bloomberg School of Public Health $4.4 million for studies designed to demonstrate the ability to evaluate rapidly and efficiently multiple types of biomarkers for the early detection of cancer or markers of developing cancer. Using study cohorts, which have been active since 1974, researchers will learn how to assess potential markers for breast, skin, and lung cancers rapidly and aid in their transition from the laboratory to the clinical setting.

Alternative research and treatments for cancer are gaining prominence in the medical arena. The National Institutes of Health (NIH) National Center for Complementary and Alternative Medicine awarded a five-year $7.8 million grant to Johns Hopkins Medicine to establish the Johns Hopkins Center for Complementary and Alternative Medicine in Cancer. Initially, four studies of alternative therapies for breast and prostate cancers will be pursued, including the use of certain herbs as antioxidants, soy and sour cherries for pain relief, and the impact of prayer on the health of African-American women with breast cancer. The findings are believed to be generalizable to other forms of cancer. The center eventually will review and fund pilot studies of other alternative treatments with the goals of determining the most promising alternative treatments and the most scientific way of studying them.

Many other diseases are undergoing close scrutiny, which is changing thinking about effective therapies. Approaches range from investigation of their genetic antecedents to the sociological factors that may trigger disease or determine whether or how those afflicted are treated. Researchers in Medicine, Cardiology, and Biomedical Engineering, for example, are working to correct heart failure abnormalities by dual gene therapy. The NIH has provided them with $1.6 million to test the hypothesis that targeting a single gene is ineffective because of the interplay of factors in heart physiology. Hopkins is helping to advance understanding of the possibilities for using human cells as therapeutic agents. With a $58.5 million gift from a visionary anonymous donor, the School of Medicine has initiated the Institute for Cell Engineering. Researchers comprising multidisciplinary teams have an exceptional new environment in which to work on cell engineering problems, such as the use of adult stem cells, unraveling mysteries and applying the results to the repair of everything from heart failure to injuries to neurological disorders.

Child health is of great concern for the future of our nation and the world. Johns Hopkins Children's Center gastroenterologists received a $1 million research grant from the National Institute on Drug Abuse to study viral hepatitis in the children of injection drug users.

Eradication in the U.S. of hepatitis B and C infection, to which these children are prone, could save at least $200 million over the next 10 years. Pediatrics researchers received $1.9 million from the National Institute for Nursing Research to determine the benefits of home nebulizer education intervention for low-income minority children with asthma. These children have unusually high rates of emergency department care and hospital visits compared to other children. The researchers hope that the intervention will reduce morbidity and save money that can be rechanneled into finding a cure.

Led by the Bloomberg School of Public Health, Johns Hopkins has intensified its commitment to global child health with a grant of $20 million from the Bill and Melinda Gates Foundation to find the precise combination of vitamins and other micronutrients that will most effectively save lives and prevent illness among impoverished mothers and children in the developing world. Nepal, representing this world, became a double beneficiary of micronutrient research when the National Institute for Child Health and Development awarded Bloomberg School investigators $3 million to study the impact of zinc supplementation on child mortality there. This follows Hopkins' critical research on vitamin A supplementation, which has already drastically reduced preschool child and maternal mortality. The drive to eradicate infectious diseases and epidemics prompted a fourth major grant to Public Health from the Bill and Melinda Gates Foundation. Hopkins and the University of Maryland School of Medicine each received grants of $21.4 million to work collaboratively to develop a safe and effective new vaccine to protect the world's youngest children from measles and help save millions of lives. Bloomberg School researchers also hope to conquer malaria within the next 10 years. A $100 million gift from an anonymous donor has established the Johns Hopkins Malaria Institute to battle an affliction so great that it literally can leave a whole country in ruins.

AIDS is still a major global tragedy. The National Institute of Allergy and Infectious Diseases inaugurated the next generation of AIDS research under Hopkins leadership. The agency committed $7.3 million to help fund a collaborative AIDS research effort by a group representing 101 researchers at the schools of Medicine, Public Health, and Arts and Sciences. The Johns Hopkins Center for AIDS Research will focus on four critical aspects of HIV infection: pathogenesis, latent HIV infection, immune restoration, and prevention; and encourage high-risk innovative research. The threat of local and global devastation from naturally occurring new and emerging infections as well as man-made biological warfare is behind the concept of the Center for Civilian Biodefense Studies at the schools of Public Health and Medicine. A $300,000 grant from the Robert Wood Johnson Foundation stimulated the center's work in analyzing the public health dimensions of these threats and helping to develop tools that would build a response system to these problems at the municipal, county, state, and federal levels. The Sloan Foundation has focused its support on the biological weapons aspect with a $3.5 million award to examine the national security and public health emergency potential of such a crisis. In the biotechnology sector, the U.S. Army Soldier and Biological Chemical Command, known as SBCCOM, and the Applied Physics Laboratory are working together to create and operate a national biotechnology center of excellence to counteract the possibility of mass destruction. Includ-

techno-musicians

at the Peabody Institute

Whether in use as an enhanced classroom where audio and video bring music theory and history courses to life, as a language lab for voice students practicing German or Italian pronunciation, as an online research library, as a training facility for the latest software programs, or as a multimedia studio for composition and computer music students, the Computer Center is a lively spot as students prepare to meet the challenges and opportunities of music careers in the new century.

ing the participation of the academic research divisions of the University, the center will ultimately team Army agencies, universities, and private companies in projects to research, develop, test, and deliver innovative biotechnologies, and provide related education and training to Army leaders.

Environmental stresses as contributing factors to the state of human health have attracted serious funding this year. A team of chemists in the Krieger School of Arts and Sciences and environmental engineers in the Whiting School of Engineering received a five-year $2.71 million grant from the National Science Foundation for basic research in environmental science, focusing on a widely used class of industrial chemicals—organohalides—that have applications in such everyday processes as dry cleaning and air conditioning. In collaboration with partners in industry and the U.S. Department of Energy's National Laboratories, the Hopkins team is studying ways to break down the chemicals into less toxic substances. Awarded under NSF's Collaborative Research Activities in Environmental Molecular Science program, known as CRAEMS, the grant is among the largest made under this program. Exploring the interaction of living things with the environment is a priority of the NSF Biocomplexity Program, which seeks to integrate the biological, physical, and social sciences to understand fundamental processes. Researchers in the Whiting School received $1 million under this program to study eukaryotic chemotaxis, a biological process that occurs to some extent in almost every cell type at some time during its development. This ability to sense the direction of external chemical sources and respond by either moving toward or away from them is a major component of the inflammatory and wound-healing responses, the mammalian reproductive systems, the development of the nervous system, and tumor metastasis. A thorough understanding of this phenomenon will advance scientific knowledge of one of the basic properties of life—purposeful movement—and enable a logical approach to the treatment of many devastating human diseases that result when this process fails.

Even Hopkins space research has implications for human health. A Johns Hopkins–Goddard Space Flight Center team received an $815,500 three-year grant from NASA to develop a prototype of a device to monitor the health of the atmosphere. The satellite-mounted fiber-optic laser system could be in orbit gathering data on air pollution and other atmospheric changes within five to seven years. As manned space flights become longer and more frequent, space revisiting

World W

at the Nitze School of Advanced Intern udies

During Spring Break this past March, about 35 SAIS students traveled to Turkey for eight days to participate in the second annual Strategic Studies International Staff Ride sponsored by the school. A staff ride, more than a mere battlefield tour, teaches students about the enduring aspects of war. The trip included visits to the World War I battlefields of Gallipoli, the site of several ambitious amphibious assaults in 1915. While walking the ground where these historic events occurred, SAIS students played the role of key participants in the military campaign, presenting an analysis of their actions as World War I commanders. To prepare for the trip, students mastered maps and more than 350 pages of data, attended preliminary briefings, and developed role-playing presentations delivered during the on-scene battlefield walks.

In the photograph, American foreign policy professor Fred Holborn lectures to the group of staff ride participants in an ampitheater in Gallipoli.

medicine, where the convergence between technology and the human body reaches peak expression, is filling a critical need. The NASA-sponsored National Space Biomedical Research Institute (NSBRI) approved more than $7 million over three years to fund five biomedical projects, including a "digital human," proposed by the Applied Physics Laboratory. APL, along with the School of Medicine, is a charter member of NSBRI, a consortium of 12 institutions headed by the Baylor College of Medicine in Houston. NASA also recognized the Applied Physics Lab's skill in conducting space missions with approval to move into the development phase of the first trip to the planet Mercury in more than a generation. APL will manage the mission and design, build, and operate the MESSENGER spacecraft. The $256 million MESSENGER (for Mercury Surface, Space Environment, Geochemistry and Ranging) is the third Discovery project managed by APL.

Hopkins is also keeping pace with space age technologies. The Materials Research Science and Engineering Center succeeded in its second competition for a five-year $5.4 million grant from the National Science Foundation. Specializing in nanostructured materials—materials of extraordinarily small dimensions that have applications in computers and other magnetoelectronic devices—the center supports research by eight scientists from Arts and Sciences and Engineering, two from Brown University, and one from the National Institute of Standards and Technology, and hosts educational outreach programs.

Strategic partnerships have created some important new research resources that reflect salient contemporary issues. These alliances maintain the University's fundamental mission of research and education while helping to apply the knowledge gained to matters of crucial importance. Anticipating the continuing debate on health care, the Bloomberg School of Public Health and the Georgetown University Law Center entered into one such partnership with the establishment of the Center for Law and the Public's Health, located at the Bloomberg School. A three-year $900,000 award from the Public Health Law Program at the Centers for Disease Control and Prevention readies the center, in partnership with the CDC Public Health Law Program and other organizations, to conduct applied research, training and education, and other activities to strengthen the contribution law makes to improved health. Privacy is no less a concern in an increasingly electronic world. To confront these issues, the Johns Hopkins University Information Security Institute (JHUISI) was formed,

The Mattin Center—a place for the arts at the Homewood campus

Student thespians now have what they never had before—a professionally run "black box" theater complete with nicely appointed dressing rooms and an area for constructing sets. A new digital media center offers students the technological resources to design Web sites, edit digital videos, burn CDs, and create three-dimensional computer models, among other things. There is also a new darkroom for photography, music practice rooms, a dance room, and space—long-sought-after meeting and office space—for Homewood's student activity groups.

And then there are the visual art studios. The Homewood Art Workshops, consigned since 1974 to the cramped and nearly windowless basement of Merryman Hall, now sprawls across the sunlight-strewn top floor of the center's Ross Jones Building.

Homewood's new Mattin Center—a sleek, three-building, glass-and-stone "creative chrysalis"—is, in the words of President Brody, "writing a new chapter in the history of the Homewood campus."

supported by a $10 million seed gift. Involving nearly all University schools and divisions as well as industry and government agencies, where some of the most advanced knowledge in information security is held, the institute will examine major security and privacy issues in their technical, business, legal, and policy contexts.

Research deriving from the complexities of human behavior is helping to draw thinking away from one-size-fits-all models. Supported by $1.6 million from the National Institute of Mental Health, investigators in the Department of Psychiatry in the School of Medicine are studying the regulation of energy balance in obese individuals. They are building a unique genetic model of obesity that considers multiple elements: the interaction of genetic determinants with environmental factors such as exercise and dietary practices, as well as with signaling pathways in the brain. Behaviors associated with contrasting life stages are the objectives of funding in the School of Public Health. Researchers there received $3.8 million from CDC to establish the JHU Center for the Prevention of Youth Violence. Departments and investigators throughout the school will work together to formulate programs that can guide the development and implementation of interventions designed to deter violent behavior. At the other end of the spectrum is a $3 million grant from the National Institute on Aging to explain disparities in cognitive function in seniors more completely than can be shown by gene-environment interactions alone. The goal of this research is to understand the direct and indirect influences of lead absorption, four specific genes, individual social and behavioral traits, contextual factors, and blood pressure in accounting for the associations of race/ethnicity and socioeconomic status with cognitive function and cognitive decline. True to its mission of understanding the nature and dynamics of ecosystems, engineered systems, and societies, the Department of Geography and Environmental Engineering in the Whiting School received $1.4 million from the Environmental Protection Agency to consider the implications of climate change for regional air pollution, health effects, and energy consumption behavior. Findings based on the interconnections among these components will lead to better models for environmental management and achieve improved living standards.

women in Computing

at the School of Professional Studies in Business and Education

The School of Professional Studies in Business and Education (SPSBE) provides support systems and services tailored for working adult professionals who study part-time. Among these are student organizations. The latest one was created with the sponsorship of the school's Office of Student Affairs and the Development of Information Technology. Three students in the Master of Science in Information and Telecommunication Systems program established a Hopkins chapter of the nationwide Association for Women in Computing. Specifically designed to help women at Hopkins to find jobs in the technology field or redirect their technology careers, the new group now has 15 members. "We needed guidance to help other students and alumni like ourselves," says Cathy Clement, a founder of the group along with Suzette Johnson and Suzanne Innes. The group meets monthly, hears from speakers, networks with IT faculty and industry representatives, and is beginning a mentoring program. It even has its own Web site, http://www.awcjhu.jhu.org. "Our real mission is to empower women in technology," says Clement, who will receive her MS in Information and Telecommunication Systems in May.

With the June 2000 conclusion of its Initiative fund-raising campaign, Johns Hopkins became the sixth U.S. university to raise over $1.5 billion in a single campaign. The Johns Hopkins Initiative raised $1.52 billion in gifts and commitments, substantially strengthening and stabilizing the Institutions' financial position.

Building on Success of Initiative

The Initiative's remarkable success raised for Hopkins a total of $859.7 million in commitments for endowment and capital projects, as well as $660.3 million for program support. Of these total funds, $162.8 million was designated for student aid. Gifts and pledges to Johns Hopkins Medicine—comprising the School of Medicine and the Hospital and Health System—accounted for $703.8 million, 46% of the total committed during the Initiative.

The Johns Hopkins Initiative drew unprecedented support from more than 100,000 alumni, friends, corporations, foundations, and other organizations. Fiscal year 2000 brought record-setting cash receipts from private donors—including new gifts and payments on pledges—of $304 million. This established a new single-year record for cash receipts—up nearly 47% over the previous year. With continuing this momentum in mind, the Board of Trustees voted to begin a new campaign on July 1, 2000, with a likely duration of seven years. The public announcement of this new campaign is planned for May 2002.

Given the institutional needs and the opportunities that now exist, the administration will continue to work unceasingly to bring Johns Hopkins the continued support it merits from alumni and friends. Ongoing fund raising continues to focus on priorities of the Johns Hopkins Initiative, while also addressing emerging needs. The top priorities of the last campaign were endowment for student aid and the libraries, as well as support for facilities.

Endowment

Despite the Initiative's accomplishments, Johns Hopkins' endowment continues to be below that of many peer institutions. At the 1994 start of the Initiative campaign, the Hopkins endowment ranked 20th among U.S. colleges and universities; seven years later, it was 23rd, despite the fact that its endowment had increased from $600 million to $1.5 billion. Thus, fund-raising efforts at Johns Hopkins will continue to focus on endowment gifts as a priority.

Student aid also remains a pressing need throughout the Institutions, as Hopkins seeks to attract the best students and to ensure that they can afford a Hopkins education.

Endowment for the Sheridan Libraries, as well as expanded resources for the Welch Medical Library and other divisional libraries, was also an institutional priority during the Initiative resulting in considerable progress, including the establishment of the Milton S. Eisenhower Library's Digital Knowledge Center, which serves as the library's information technology research and development department. With the cost of materials rising faster than inflation, and with the ever-growing demand for electronic enhancements of library services, the need to invest in these vital resources remains an urgent fund-raising concern.

Facilities

Finally, the emphasis placed by the Initiative on buildings and facilities across the Institutions is continuing. Funds raised during the Initiative provided support for the recently opened Harry and Jeanette Weinberg and Bunting-Blaustein cancer buildings at the Johns Hopkins Medical Institutions, the Anne M. Pinkard Building which provides a permanent home for the School of Nursing, a new research and teaching space at the Bloomberg School of Public Health, and the Griswold Hall recital facility at the Peabody Institute. At Homewood, engineering facilities have been modernized, and the Bunting-Meyerhoff Interfaith and Community Service Center was purchased and renovated. The Mattin Center, which supports student arts and activities, was dedicated in April 2001; a biomedical engineering building, Clark Hall, was dedicated in October 2001; and a student recreation center is nearly complete. Construction of a new classroom building, Hodson Hall, is under way while several new buildings are critically needed for the Hospital and School of Medicine. Furthermore, renovations and additions are under way at Peabody. Major renovations of academic buildings at Homewood also are needed.

Annual Giving

Johns Hopkins has heightened its commitment to increase the base of alumni support through gifts to the schools' annual funds. In 2000, the Krieger School and the Whiting School combined their annual giving programs for undergraduate alumni into a single Hopkins Fund, in which both schools invested significant resources. The Hopkins Fund raised nearly $1.8 million, and surpassed the previous year's total with three months remaining in the fiscal year. The spirit of the Hopkins Fund—and increased emphasis on annual fund gifts and alumni participation—will be a hallmark as similar efforts are organized for other University divisions.

FY 2001 Giving

In fiscal year 2001 $347.7 million was raised—including new gifts and payments on pledges—which represents an increase of 14.4% over last year's activity. FY 2001 has yielded many exciting opportunities and developments across the divisions.

The Bloomberg School

Most remarkably, an anonymous donor committed $100 million to the Bloomberg School of Public Health (renamed this year from the School of Hygiene and Public Health) to establish the Johns Hopkins Malaria Institute. The Bloomberg School also benefited from two awards from the Bill and Melinda Gates Foundation: $21.4 million to promote the development of a new type of measles vaccine and $20 million to find the precise combination of vitamins and other micronutrients that will most effectively save lives and prevent illness among impoverished mothers and children in the developing world.

Within the Bioethics Institute, a commitment of $2 million will establish a new professorship in Bioethics and Public Policy.

Medicine

Johns Hopkins Medicine has received from anonymous donors several generous gifts which include $58.5 million for the launch of the Institute for Cell Engineering (ICE) and $30 million for the Institute for Basic Biomedical Sciences (IBBS). Additional gifts to Medicine included $3 million for an endowed Professorship in Urologic Pathology, as well as for an accompanying research fund; a $3 million bequest from Sarah Hall Sayler for the Johns Hopkins Hospital Endowment and the cancer buildings; a $2.6 million grant from the Robert Wood Johnson Foundation to support the school's continued participation in the foundation's Clinical Scholars Program; $2.5 million from an anonymous donor for chemoprotection research in Basic Sciences; a $2.2 million research award from the Avon Products Foundation to support breast cancer research and treatment for medically underserved women in the Oncology Center; $2 million to create the Kyle Haydock Professorship in Pediatric Oncology; $2 million to create a new Professorship in Adult Medicine in support of colon cancer research; a $2 million bequest from Barbara Flinn Klotz for the new Broadway Research Building; $1.5 million toward a named Professorship in Medicine to support stem cell research; a $1.3 million grant for the Children's Center from the Theodore and Vada Stanley Foundation; $1.3 million for clinical care and research in pediatric endocrinology in the Children's Center; $1.2 million from a family foundation for the Department of Urology; $1 million to establish an endowed fellowship and Resource Center for Diabetes; $1 million for ARVD (arrhythmogenic right ventricular dysplasia or sudden cardiac death) research; a $1 million lead trust for pediatric emergency services; $1 million for diabetes research; and $1 million to benefit the Center for Avascular Necrosis in the Department of Orthopaedic Surgery.

The Wilmer Eye Institute announced a generous commitment to support research in genetic and molecular ophthalmology; $1 million for macular degeneration research; $1 million to support the Walter J. Stark Corneal Research Fund; $1 million to create an endowment in corneal diseases; and $1 million for the library at the Wilmer Eye Institute.

Collaborative Programs

Johns Hopkins Medicine and the Bloomberg School will both benefit from two additional grants: a generous gift from a family foundation designated for six different medical research initiatives: bioethics, diseases of the eye and patient-physician trust, clinical medicine professorship, gastrointestinal surgery, ophthalmology, and prostate cancer; and $3.5 million from the Alfred P. Sloan Foundation to the Center for Civilian Biodefense, a collaborative program between the two divisions.

The Whiting School

The Whiting School of Engineering announced this fiscal year an anonymous $10 million "seed" gift for the establishment of the Johns Hopkins Information Security Institute, a University-wide research center to tackle the complex technological, legal, ethical, and public policy challenges of keeping information private and computer systems secure in an increasingly electronic world.

The Krieger School

In the Krieger School of Arts & Sciences, an alumnus has committed $2 million to endow a professorship in modern Jewish history in the new Jewish Studies Program. The Krieger School has also received $1.7 million from the estate of alumna Dorothy L. Thomson; $1 million from an alumni couple for an endowed scholarship and the Dean's use; a $1 million grant from The David and Lucile Packard Foundation in support of a multi-year project in the Department of Sociology to assess the effects on American families of reforms in federal welfare policies; and $1 million from getting a workout at the

rec center

at the Homewood campus

The Recreation Center, now rising on the south wall of the Newton H. White Athletic Center, will finally put an end to the competition for space between recreation and varsity sports at Homewood. Designed by the Boston firm Sasaki, which specializes in athletics and fitness facilities, the Rec Center's two stories will provide a fitness center; courts for basketball, volleyball, racquetball, and squash; an indoor track; a climbing wall; and multipurpose spaces for use by such groups as Homewood's several martial arts clubs. The building will also offer space in which concerts, lectures, dinners, and other large events can be held.

the Ford Foundation for the Institute for Policy Studies.

The Nitze School

An anonymous $4 million commitment will fund two professorships at SAIS, and a $3.9 million grant from the Pew Charitable Trusts will provide for the continuation and expansion of the Pew International Journalism Program.

Peabody & Nursing

Additional leadership gifts this year include a $10 million anonymous gift for renovations at the Peabody Institute, and at the School of Nursing $1.2 million from the E. Rhodes and Leona B. Carpenter Foundation to fund community health nursing efforts in Baltimore City.

Impact of Giving

Gifts received during fiscal year 2001 directly benefited teaching, research, student life, and patient care. In addition, these gifts helped both increase the financial stability and provide the flexibility the Johns Hopkins Institutions need to ensure continued leadership and innovation.

making it

feel real

at the School of Nursing

Three Nursing Practice Labs are available at the School of Nursing to provide the student with an opportunity to gain experience and confidence in performing a wide variety of nursing technologies.

Patient care stations in the laboratories, designed to closely approximate inpatient areas and stocked with necessary supplies, are available for students to practice both basic and advanced nursing technologies. Practice using actual hospital equipment is an integral part of the laboratory experience and patient simulators are provided to facilitate clinical skill mastery.

Additionally, students receive individual instruction and guidance in the performance of key nursing technologies including vital signs, medication administration, intravenous therapy, and sterile technique.

At June 30, 2001, the University's total invested funds had a market value of $2,494 million. The bulk of these funds was held in the Endowment Investment Pool (EIP), which is comprised of assets of some 2,470 separate endowments, each owning shares in the EIP. While the assets of the individual endowments are pooled for investment purposes, each endowment continues to be accounted for individually to ensure proper compliance with donor restrictions. The balance of invested funds is made up of current funds (e.g., working capital, gifts intended for current use, foundation funds, and funds held under deferred compensation agreements) and charitable remainder funds.

The market value of the EIP at June 30 was $ 1,820 million, increasing by some $17 million during the fiscal year from its market value of $1,803 million at June 30, 2000. This increase in market value reflects the addition of about $120 million to the EIP, offset by the impact of the protracted decline in the domestic and international equity markets, which began in the spring of 2000.

The EIP asset allocation for the 2000 and 2001 fiscal years is shown in the accompanying table. The increased allocation to alternative investment strategies reflects actions taken as a result of the Investment Committee's comprehensive review of asset allocation and long-term strategy for the endowment pool. As a result of that review, the committee decided to increase its allocation to marketable alternative investments, specifically absolute return strategies. Absolute return investing seeks to generate equity-like returns with lower volatility than the equity markets and low correlation with those markets. Absolute return strategies seek to exploit pricing inefficiencies in marketable securities. The current asset allocation reflects the increased allocation to absolute return strategies, effectively doubling the allocation to this asset class at June 30, 2000. The first allocation to the asset class was made in fiscal year 2000. The increased allocation in fiscal year 2001 was funded with net cash inflow to the EIP.

With respect to non-marketable alternative investments, the review led the committee to increase its target allocation to venture capital and buyout funds, from 10% to 15% of the EIP, recognizing that the higher target allocation will take five to six years to fully implement. In its continuing effort to increase the share of endowment assets allocated to venture capital and buyout funds, the University committed an additional $31.3 million to five limited partnerships in the 2001 fiscal year. The decline year over year of the percentage allocated to the asset class reflects market value adjustments associated with the decline in technology over the last year, as well as significant net distributions from the limited partnerships in the early part of the fiscal year.

The decline in the allocation to international equities reflects the decline in the value of those assets as a result of market performance. As noted below, international equities were the worst performing asset class in the endowment pool. The decline in the allocation to international equities also reflects a decision by the Investment Committee not to add funds to the asset class.

The other year-to-year changes in asset allocation reflect changes in market value. Aside from alternative investments, domestic equities were the only asset class to which additional net cash inflow was allocated during the year.

As noted above, fiscal year 2001 was a very difficult year for both domestic and international equity managers. During the fiscal year the S&P 500 U.S. stock benchmark declined 14.8%, and the MSCI EAFE international stock index declined 23.8%. At the same time, after declining during the first half of the year, the Lehman Government / Corporate Fixed Income Index had a positive return of 11.1% reflecting falling interest rates and rising bond prices resulting from the aggressive easing of the federal funds rate and the discount rate by the Federal Reserve in the second half of the fiscal year.

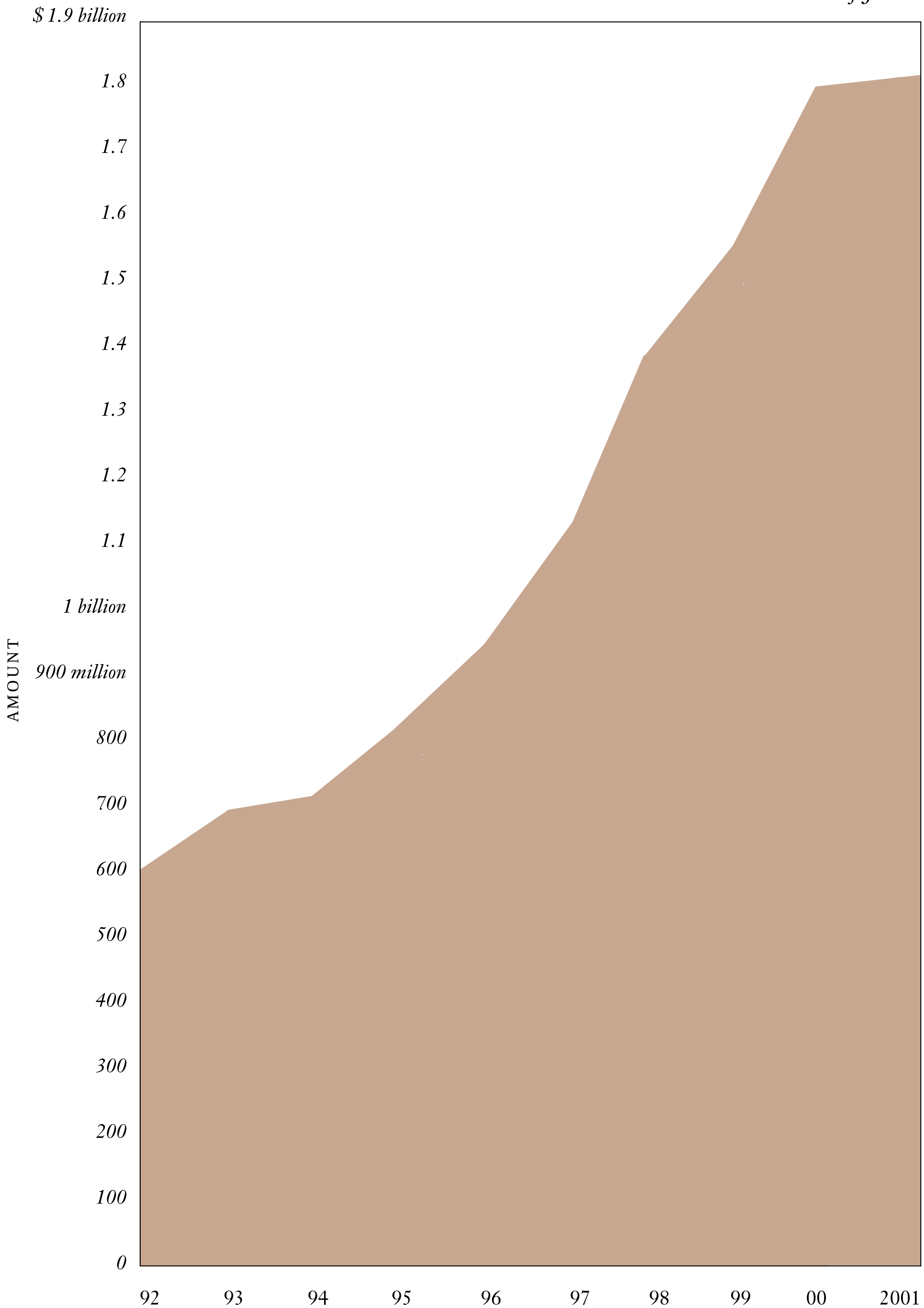
In this context the EIP had a total return of –1.1% for the year ending June 30, 2001. The strong performance of the endowment pool relative to the major stock indices highlights the importance of a broad diversification by asset class. Combined, the fixed income managers had a return of 13.3%, which significantly outperformed the benchmark and contributed significantly to overall performance. In addition, the marketable alternative funds as a group generated returns of 10.6%, also helping overall performance. Importantly, the combined returns of domestic equity managers of –4.5% significantly outperformed the S&P 500, thereby dampening the impact of negative returns in the equity markets. This strong relative performance of the domestic equity portfolio reflects the importance of diversification within an asset class. Domestic equities have been allocated roughly equally to growth and value styles of investment.

As noted above, international equities were the worst performing asset class during the fiscal year, and the University's international equity assets were no exception. Still, our managers as a group managed to outperform the MSCI EAFE Index by a small margin. Finally, non-marketable alternative investments, that is, venture capital and private equity investments, were the best performing asset class with returns of 31.8%. Effectively, the benefits of broad diversification significantly dampened the negative impact of declining equity markets worldwide.

The Johns Hopkins University

endowment market value

As of June 30



operating revenues

Fiscal year ended June 30, 2001 (in thousands)

Grants, contracts and similar agreements	$1,190,958	54.7%
Contributions	223,627	10.3%
Tuition and fees	210,452	9.7%
Clinical services	194,538	8.9%
Reimbursements from affiliates	132,497	6.0%
Investment income	109,846	5.0%
Other sources	74,084	3.4%
Auxiliary enterprises	42,703	2.0%
Total	**$2,178,705**	**100.0%**

operating expenses—by object

Fiscal year ended June 30, 2001
(in thousands)

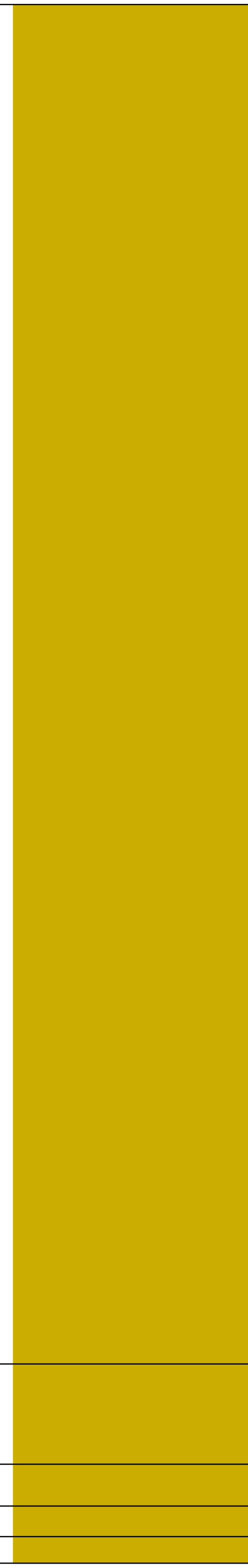
Compensation and benefits	$1,159,727	59.0%
Contractual services	418,104	21.3%
Supplies, materials and other	241,475	12.3%
Depreciation	70,790	3.6%
Travel	46,328	2.4%
Interest	28,408	1.4%
Total	**$1,964,832**	**100.0%**

The Johns Hopkins University

operating expenses—by function

Fisal year ended June 30, 2001
(in thousands)

Instruction, research and clinical practice		
Academic and support divisions	$1,272,065	64.7%
Applied Physics Laboratory research contracts	453,545	23.1%
General services and administration	129,657	6.6%
Auxiliary enterprises	54,399	2.8%
Student services	33,228	1.7%
Libraries	21,938	1.1%
Total	**$1,964,832**	**100.0%**



five year financial summary

1997–2001 (dollars in thousands)

Fiscal year ended June 30	2001	2000	1999	1998	1997
Operating revenues:					
Tuition and fees, net	$ 210,452	199,808	185,144	172,419	160,806
Grants, contracts and similar agreements:	1,190,958	1,057,513	1,023,937	986,925	946,540
Clinical services	194,538	187,271	177,482	169,170	162,705
Contributions	223,627	90,125	90,674	63,994	65,388
Investment income	109,846	91,558	82,457	69,920	64,985
Other	249,284	254,924	208,946	201,717	172,911
Total operating revenues	2,178,705	1,881,199	1,768,640	1,664,145	1,573,335
Operating expenses:					
Compensation and benefits	1,159,727	1,051,929	966,408	926,893	881,088
Contractual services	418,104	377,908	386,985	379,580	344,443
Supplies, materials, and other	241,475	222,407	202,812	183,274	178,865
Depreciation of property and equipment	70,790	75,254	76,801	76,579	73,114
Interest	28,408	25,773	26,433	30,740	30,315
Travel	46,328	40,896	36,501	37,516	34,251
Total operating expenses	1,964,832	1,794,167	1,695,940	1,634,582	1,542,076
Total assets	4,007,693	3,817,588	3,310,260	3,033,766	2,802,190
Total liabilities	1,053,658	1,016,145	878,037	858,877	857,847
Total net assets	2,954,035	2,801,443	2,432,223	2,174,889	1,944,343
Investments, including cash and cash equivalents, at market value:					
Endowment Investment Pool	1,819,555	1,803,289	1,472,752	1,346,255	1,107,582
Total	2,493,885	2,442,870	2,008,879	1,834,713	1,545,722
Investments in plant assets, net	908,404	832,715	781,251	758,812	754,605
Indebtedness	554,717	539,958	427,683	441,781	457,242
Head count enrollment (Fall)	18,074	17,967	17,996	17,279	16,500
Employees	21,251	19,659	17,389	17,474	17,119

111 South Calvert Street
Baltimore, MD 21202

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University as of June 30, 2001 and 2000 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, 2001 and 2000 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 1, 2001

balance sheets—June 30, 2001 and 2000

(in thousands)

	2001	2000
Assets:		
Cash and cash equivalents	$ 248,819	226,721
Accounts receivable, net	195,498	179,387
Prepaid expenses, deferred charges and other assets	41,450	25,171
Contributions receivable, net	201,776	136,926
Loans receivable, net	35,648	34,585
Investments	2,245,066	2,216,149
Deposits with bond trustees	59,184	86,624
Investment in plant assets, net	908,404	832,715
Interests in trusts and endowment funds held by others	71,848	79,310
Total assets	**$ 4,007,693**	**3,817,588**
Liabilities:		
Accounts payable, deferred revenues and accrued expenses	$ 266,159	226,693
Payables and deferred revenues under split interest agreements	54,535	52,676
Debt	554,717	539,958
Obligations under deferred compensation agreements and other long-term liabilities	178,247	196,818
Total liabilities	1,053,658	1,016,145
Net assets:		
Unrestricted	1,828,524	1,846,706
Temporarily restricted	342,874	224,572
Permanently restricted	782,637	730,165
Total net assets	2,954,035	2,801,443
Total liabilities and net assets	**$ 4,007,693**	**3,817,588**

See accompanying notes to financial statements.

statement of activities

Year ended June 30, 2001
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 210,452	-	-	210,452
Grants, contracts and similar agreements	1,190,958	-	-	1,190,958
Clinical services	194,538	-	-	194,538
Reimbursements from affiliated institutions	132,497	-	-	132,497
Contributions	51,393	172,234	-	223,627
Investment income	109,846	-	-	109,846
Maryland State aid	17,680	-	-	17,680
Sales and services of auxiliary enterprises	42,703	-	-	42,703
Other	56,404	-	-	56,404
Net assets released from restrictions	51,441	(51,441)	-	-
Total operating revenues	2,057,912	120,793	-	2,178,705
Operating expenses:				
Compensation and benefits	1,159,727	-	-	1,159,727
Contractual services	418,104	-	-	418,104
Supplies, materials and other	241,475	-	-	241,475
Depreciation of property and equipment	70,790	-	-	70,790
Travel	46,328	-	-	46,328
Interest	28,408	-	-	28,408
Total operating expenses	1,964,832	-	-	1,964,832
Excess of operating revenues over expenses	93,080	120,793	-	213,873
Nonoperating revenues, gains and losses:				
Contributions	-	23,461	59,352	82,813
Investment loss	(131,033)	(502)	(5,024)	(136,559)
Loss on disposals of property and equipment	(2,368)	-	-	(2,368)
Net assets released from restrictions	27,595	(27,595)	-	-
Loss on extinguishment of debt	(585)	-	-	(585)
Other	(4,871)	2,145	(1,856)	(4,582)
Nonoperating revenues, gains and losses, net	(111,262)	(2,491)	52,472	(61,281)
Increase (decrease) in net assets	(18,182)	118,302	52,472	152,592
Net assets at beginning of year	1,846,706	224,572	730,165	2,801,443
Net assets at end of year	**$ 1,828,524**	**342,874**	**782,637**	**2,954,035**

See accompanying notes to financial statements.

statement of activities

Year ended June 30, 2000
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 199,808	-	-	199,808
Grants, contracts and similar agreements	1,057,513	-	-	1,057,513
Clinical services	187,271	-	-	187,271
Reimbursements from affiliated institutions	123,433	-	-	123,433
Contributions	66,487	23,638	-	90,125
Investment income	91,558	-	-	91,558
Maryland State aid	15,477	-	-	15,477
Sales and services of auxiliary enterprises	44,724	-	-	44,724
Other	71,290	-	-	71,290
Net assets released from restrictions	25,756	(25,756)	-	-
Total operating revenues	1,883,317	(2,118)	-	1,881,199
Operating expenses:				
Compensation and benefits	1,051,929	-	-	1,051,929
Contractual services	377,908	-	-	377,908
Supplies, materials and other	222,407	-	-	222,407
Depreciation of property and equipment	75,254	-	-	75,254
Travel	40,896	-	-	40,896
Interest	25,773	-	-	25,773
Total operating expenses	1,794,167	-	-	1,794,167
Excess (deficiency) of operating revenues over expenses	89,150	(2,118)	-	87,032
Nonoperating revenues, gains and losses:				
Contributions	-	33,528	82,124	115,652
Investment income	164,361	733	7,031	172,125
Loss on disposals of property and equipment	(3,292)	-	-	(3,292)
Net assets released from restrictions	36,600	(36,600)	-	-
Other	(3,211)	(2,744)	3,658	(2,297)
Nonoperating revenues, gains and losses, net	194,458	(5,083)	92,813	282,188
Increase (decrease) in net assets	283,608	(7,201)	92,813	369,220
Net assets at beginning of year	1,563,098	231,773	637,352	2,432,223
Net assets at end of year	**$ 1,846,706**	**224,572**	**730,165**	**2,801,443**

See accompanying notes to financial statements.

statements of cash flows

Years ended June 30, 2001 and 2000
(in thousands)

	2001	2000
Cash flows from operating activities:		
Increase in net assets	$ 152,592	369,220
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and loss on disposals of property and equipment	73,158	78,546
Loss on extinguishment of debt	585	-
Decrease (increase) in accounts receivable, net	(16,111)	37,027
Increase in prepaid expenses, deferred charges and other assets	(16,279)	(8,359)
Decrease (increase) in contributions receivable, net	(64,850)	36,967
Increase in accounts payable, deferred revenues and accrued expenses	40,612	1,490
Increase in payables and deferred revenues under split interest agreements	1,859	7,697
Contributions restricted for long-term investment	(86,975)	(142,996)
Net realized and unrealized (gains) losses from investments	96,015	(202,913)
Other, net	21	1,265
Net cash provided by operating activities	180,627	177,944
Cash flows from investing activities:		
Purchases of investments	(1,996,016)	(2,603,490)
Proceeds from sales and maturities of investments	1,878,546	2,495,333
Purchases of property and equipment	(149,993)	(126,557)
Disbursements for student loans	(5,600)	(5,282)
Repayments of student loans	4,636	4,278
Decrease (increase) in deposits with bond trustees, net	27,440	(83,002)
Net cash used by investing activities	(240,987)	(318,720)
Cash flows from financing activities:		
Contributions restricted for long-term investment	86,975	142,996
Proceeds from borrowings	71,372	127,560
Repayments of borrowings	(57,318)	(15,450)
Increase (decrease) in other long-term liabilities	(18,571)	13,193
Net cash provided by financing activities	82,458	268,299
Net increase in cash and cash equivalents	22,098	127,523
Cash and cash equivalents at beginning of year	226,721	99,198
Cash and cash equivalents at end of year	**$ 248,819**	**226,721**

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

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

Education and related services (e.g., room, board, etc.) are provided to approximately 19,000 students, including 10,200 full-time students and 8,800 part-time students, and produce about 12% of the University's operating revenues. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided to more than 1,340 government and private sponsors. Grants, contracts and similar agreements produce about 55% of the University's operating revenues. Approximately 90% of the revenues from research 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 36%, 33%, 8% and 8%, respectively, of revenues from grants, contracts and similar agreements in 2001.

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

(b) Basis of Presentation

The financial statements include the accounts of the various academic and support divisions, the Applied Physics Laboratory (APL), the Johns Hopkins University Press and affiliated organizations which are controlled by the University, including JHPIEGO Corporation, Peabody Institute of the City of Baltimore and the Fund for Johns Hopkins Medicine. Investments in organizations which the University does not control, including Dome Corporation, Johns Hopkins Healthcare LLC and Johns Hopkins Home Care Group, Inc., are accounted for using the equity method. Certain amounts for 2000 have been reclassified to conform to the presentation for 2001.

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

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

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

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

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

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

(c) Contributions

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

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

(d) Cash and Cash Equivalents

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

(e) Investments

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

Assets of pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains of these funds may be used to support operations provided that the funds have market values in excess of their historical values. The endowment investment pool payout was approximately 4.5% of average market values in 2001 and 2000.

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

(f) Investment in Plant Assets

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

(g) Split Interest Agreements and Perpetual Trusts

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

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

(h) Insurance

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

(i) Affiliated Institutions

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

The University holds and manages endowment and similar funds which were designated by the donors for purposes or activities that are carried out by the Hospital. These funds are included in investments and other long-term liabilities. The liabilities are adjusted for earnings from and changes in the fair values of the investments.

(j) Fair Values of Financial Instruments

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

(k) Sponsored Projects

Revenues under grants, contracts and similar agreements with sponsoring organizations 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 $170,669,000 in 2001 and $150,958,000 in 2000.

(l) Student Financial Aid

The University provides financial aid to eligible students, generally in a "package" that includes loans, compensation under work-study programs and/or grant and scholarship awards. The loans are provided primarily through programs of the United States Government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid and general funds. Grant and scholarship awards were $96,644,000 in 2001 and $89,963,000 in 2000 and are netted against tuition and fees revenues.

(m) Income Taxes

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

(n) Derivative Financial Instruments

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

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

Futures contracts, which are commitments to buy or sell designated financial instruments at a future date for a 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 2001 and 2000.

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

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

(2) Applied Physics Laboratory (APL)

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

The current contract with NAVSEA expires on September 30, 2002. 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 is can no longer sponsor the APL or the Secretary of the Navy should determine that the Navy can no longer contract with the University with respect to the APL, the University will establish a charitable trust to provide for the continued availability of the APL. The trust would be administered by five trustees and the corpus would consist of the University's interest in the APL facilities, including land to the extent necessary, and the balances in the University's APL stabilization, contingency and research fund on the date the trust is established, less certain costs. Upon termination of the trust, the corpus, in whole or in part, would be returned to and held and used by the University for such educational or research purposes and in such manner as the trustees and University agree.

The APL stabilization, contingency and research fund is included in unrestricted net assets and was approximately $209,046,000 and $195,586,000 at June 30, 2001 and 2000, respectively, including net investments in property and equipment of $92,390,000 and $89,011,000, respectively. At June 30, 2001, APL purchase and subcontract commitments were approximately $62,000,000.

(3) Accounts Receivable

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

	2001	**2000**
Reimbursement of costs incurred under grants and contracts	$ 109,870	106,033
Affiliated institutions, primarily Johns Hopkins Hospital	18,885	12,896
Students and others	32,872	22,960
Total research and training, less allowances of $23,783 in 2001 and $14,809 in 2000	161,627	141,889
Medical services to patients, less allowances of $46,470 in 2001 and $49,800 in 2000	33,871	37,498
	$ 195,498	**179,387**

(4) Contributions Receivable

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

	2001	**2000**
Unconditional promises scheduled to be collected in:		
Less than one year	$ 66,613	42,335
One year to five years	139,918	103,580
Over five years	34,346	32,680
	240,877	178,595
Less unamortized discount and allowance for uncollectible contributions	39,101	41,669
	$ 201,776	**136,926**

At June 30, 2001, approximately 57% of the gross contributions receivable were due from ten donors. At June 30, 2000, approximately 30% of the gross contributions receivable were due from eleven donors. Approximately 66% and 29% of contribution revenues for 2001 and 2000, respectively, were from ten donors. At June 30, 2001, the University had also received bequest intentions of approximately $85,675,000 and certain other conditional promises to give. These intentions and 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):

	2001	2000
Cash and short-term investments	$ 103,017	66,299
United States Government and agency obligations	329,098	341,537
Other debt securities	352,225	266,454
Common and preferred stocks	1,075,899	1,203,407
Limited partnership and similar interests	259,405	209,118
Mortgages and notes receivable and other investments	125,422	129,334
	$ 2,245,066	**2,216,149**

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

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

	2001	2000
Dividend and interest income	$ 78,036	65,404
Net realized gains	66,995	108,067
Net unrealized appreciation (depreciation)	(163,010)	94,846
Increase (decrease) in interests in perpetual trusts	(1,423)	2,954
Investment management fees	(7,311)	(7,588)
	$(26,713)	**263,683**

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

	2001	2000
Operating	$ 109,846	91,558
Nonoperating	(136,559)	172,125
	$ (26,713)	**263,683**

At June 30, 2001 and 2000, assets of endowment and similar funds, including cash and cash equivalents and investments, amounted to $1,760,356,000 and $1,787,752,000, respectively. Substantially all assets of endowment and similar funds and certain other assets are combined in a common investment pool known as the Endowment Investment Pool (EIP). Purchases and disposals of shares in the EIP are made based on the market value per share at the end of the quarter during which the transaction takes place. At June 30, 2001 and 2000, assets of the EIP, including cash and cash equivalents and investments, amounted to $1,819,555,000 and $1,803,289,000, respectively.

At June 30, 2001 and 2000, other investments include $89,498,000 and $106,860,000, 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, 2001, investments having a fair value of $9,270,000 were pledged as security for the payment of unemployment claims. At June 30, 2001, commitments for purchases of investments were approximately $81,437,000.

(6) Investment in Plant Assets

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

	2001	2000
Land	$ 35,346	35,077
Land improvements	16,176	15,573
Buildings and leasehold improvements	1,014,379	959,587
Equipment	358,808	336,226
Library collections	124,294	114,474
Construction in progress	85,451	48,257
	1,634,454	1,509,194
Less accumulated depreciation and amortization	726,050	676,479
	$ 908,404	**832,715**

(7) Debt

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

	2001	2000
Bonds payable	$ 292,941	303,163
Notes payable	181,776	205,400
Commercial paper revenue notes	80,000	31,395
	$ 554,717	**539,958**

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

	2001	2000
Maryland Health and Higher Educational Facilities Authority (MHHEFA) issues:		
Revenue Bonds of 1979, 5.40% to 6.40%, due January 2009	$ -	3,425
Revenue Bonds of 1983, 6.00% to 9.88%, due July 2013,net of unamortized discount of $1,100 and $1,316	8,455	27,570
Revenue Bonds of 1985 (APL/STScI Project), 67.22% of prime interest rate, due October 2000	-	83
Revenue Bonds of 1985, 73.32% of prime interest rate, due January 2001	-	730
Refunding Revenue Bonds of 1997, 4.50% to 5.625%, due July 2027, net of unamortized discount of $230 and $233	14,035	14,282
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $533 and $580	174,173	181,160
Revenue Bonds of 1999, 6%, due July 2039, net of unamortized discount of $2,043 and $2,057	75,762	75,748
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $616	20,516	-
Other issue - Fifth Off-Street Parking Serial Bonds, Series A, 4.26%, due October 2009	-	165
	$ 292,941	**303,163**

The bonds payable outstanding at June 30, 2001, are unsecured general obligations of the University.

The loan agreement relating to the Revenue Bonds of 1983 provides for limitations on the amount of indebtedness the University may incur.

In August 2001, MHHEFA issued an additional series of refunding revenue bonds (2001B bonds) aggregating $85,775,000 on behalf of the University. The proceeds of the 2001B bonds were used to refinance the Revenue Bonds of 1999. The series 2001B bonds are unsecured, bear interest at an effective rate of 5.15% and mature on July 31, 2041. The University will recognize an extraordinary loss of approximately $9,000,000 on the early extinguishment of the Revenue Bonds of 1999 in 2002.

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, 2001) nor the irrevocable trusts are included in the balance sheet.

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

	2001	2000
MHHEFA note due February 2001	$ -	131
MHHEFA note due May 2004	3,139	1,430
MHHEFA note due January 2010	-	19,000
MHHEFA note due November 2015	47,841	49,700
MHHEFA note due November 2020	17,428	17,835
MHHEFA note due February 2025	13,740	14,093
MHHEFA note due July 2026	6,227	6,305
Note due June 2002, 10%	1,673	3,194
Note due December 2002, 7.91%	11,325	11,515
Note due July 2004, 3% (government subsidized effective rate)	337	423
Note due June 2012, 7.29%	2,369	2,506
Note due December 2019, 8.88%	77,697	79,268
	$181,776	**205,400**

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University and bear interest at a variable rate (3.40% at June 30, 2001). Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances.

The notes due June 2002, December 2002 and June 2012 are unsecured general obligations of the University. Under terms of the related loan agreements, the University may be required to provide security for the loans in certain circumstances. The notes due July 2004 and December 2019 are secured by certain of the University's property.

The commercial paper revenue notes were issued by MHHEFA. Under the commercial paper program, the University may have revenue notes outstanding of up to $80,000,000 to finance and refinance the costs of qualified projects to July 2031. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from that date. The notes outstanding at June 30, 2001, bear interest at a weighted-average rate of 3.24%.

In April 2001, the University entered into an interest rate swap agreement with a national bank to reduce its interest rate risk on a portion of the commercial paper revenue notes. The agreement extends through April 2007 and provides for the University to pay a fixed rate of 5.414% and receive a variable rate based on a notional principal amount of $20,100,000.

The aggregate annual maturities of the bonds and notes payable for the five years subsequent to June 30, 2001 are as follows: 2002, $14,850,000; 2003, $24,306,000; 2004, $16,772,000; 2005, $14,451,000; and 2006, $15,359,000.

Total interest costs incurred and paid were $28,922,000 in 2001 and $28,426,000 in 2000, of which $514,000 and $2,653,000 was capitalized in 2001 and 2000, respectively. Interest income of $2,484,000 in 2001 and $2,480,000 in 2000 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 a rate which varies based on certain specified market indices. No advances were outstanding at June 30, 2001 and 2000.

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):

	2001		**2000**	
	Carrying amount	*Estimated fair value*	*Carrying amount*	*Estimated fair value*
Variable rate bonds and notes	$ 88,375	88,375	109,308	109,308
Fixed rate bonds and notes	386,342	420,100	399,255	423,924
Commercial paper revenue notes	80,000	80,000	31,395	31,395
	$ 554,717	**588,475**	**539,958**	**564,627**

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

(8) Refundable Advances from the United States Government

Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included in obligations under deferred compensation agreements and other long-term liabilities. These advances totaled approximately $30,352,000 and $29,812,000 at June 30, 2001 and 2000, 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 uses.

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

	2001	**2000**
Net investment in property and equipment	$ 397,411	360,386
APL stabilization, contingency and research fund, excluding net investment in property and equipment	116,656	106,575
Funds designated for divisional and departmental support	1,301,531	1,367,419
Student loan funds	12,926	12,326
	$ 1,828,524	**1,846,706**

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

	2001	**2000**
Contributions designated for departmental and divisional support or facilities	$ 308,319	192,488
Split interest agreements	21,367	18,896
Land subject to time and purpose restrictions	13,188	13,188
	$ 342,874	**224,572**

Permanently restriced new assets consist of the following at June 30 (in thousands):

	2001	**2000**
Perpetual endowment funds	$ 719,930	663,619
Interests in perpetual trusts	45,305	49,765
Split interest agreements	17,402	16,781
	$ 782,637	**730,165**

(10) Affiliated Organizations

The Johns Hopkins Health System Corporation (JHHS)

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

The Johns Hopkins Hospital (Hospital)

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services by the University, aggregated approximately $68,000,000 in 2001 and 2000. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated approximately $43,600,000 in 2001 and $42,900,000 in 2000.

Dome Corporation (Dome)

Dome is a for-profit, corporate joint venture of the University and JHHS which is 50% owned by each institution. Dome provides property management and development and certain other services to its owners and others. Costs charged to the University by Dome and its affiliates, related primarily to property rentals and management services, aggregated approximately $13,100,000 in 2001 and $13,300,000 in 2000.

(11) Pension and Postretirement Benefit Plans

The University has several pension plans, primarily defined contribution plans, that are available to substantially all full-time employees. The policy of the University is to fund pension costs as accrued. Pension expense was $52,416,000 in 2001 and $52,217,000 in 2000, including $16,888,000 and $19,792,000, respectively, related to pension plans for employees at APL.

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

Information relating to the obligations, assets and funded status of the plan at June 30, 2001 and 2000 and for the years then ended is summarized as follows (in thousands):

	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 92,839	94,935
Service cost	2,391	2,321
Interest cost	7,171	7,002
Plan participant contributions	1,390	1,221
Actuarial loss (gain)	2,907	(6,530)
Benefits paid	(7,266)	(6,110)
Benefit obligation at end of year	99,432	92,839
Change in plan assets:		
Fair value of plan assets at beginning of year	54,315	50,959
Actual return on plan assets	(4,336)	541
University contribution	8,478	7,704
Plan participant contributions	1,390	1,221
Benefits paid	(7,266)	(6,110)
Fair value of plan assets at end of year	52,581	54,315
Funded status	(46,851)	(38,524)
Unrecognized net actuarial loss	12,744	495
Unamortized prior service cost	541	618
Unrecognized transition obligation	30,740	33,302
Accrued postretirement benefit cost	**$ (2,826)**	**(4,109)**
Weighted-average assumptions at June 30:		
Discount rate	7.75%	8.00%
Expected rate of return on plan assets	8.50%	8.50%
Rate of increase in health care costs for next year:		
Participants over age 65	6.50%	7.25%
Participants under age 65	6.50-8.00%	6.50-7.25%

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

The rates of increase in health care costs were assumed to decrease to 5.25% in 2003 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, 2001 would have the following effects (in thousands):

	One-percent Increase	*One-percent Decrease*
Total service and interest cost components	$ 1,200	(971)
Postretirement benefit obligation	11,653	(9,647)

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

	2001	2000
Service cost	$ 2,391	2,321
Interest cost on accumulated benefit obligation	7,171	7,002
Amortization of transition obligation	2,562	2,562
Amortization of prior service cost	77	77
Amortization of actuarial gain	(86)	(37)
Expected return on plan assets	(4,724)	(4,463)
	$ 7,391	**7,462**

(12) Functional Expense Information

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

	2001	2000
Instruction, research and clinical practice:		
Academic and support divisions	$ 1,272,065	1,175,208
Applied Physics Laboratory contracts	453,545	401,584
Student services	33,228	32,656
Libraries	21,938	18,765
General services and administration	129,657	117,281
Auxiliary enterprises	54,399	48,673
	$ 1,964,832	**1,794,167**

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities. Fundraising costs were not significant in 2001 and 2000.

(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, 2002.

The University leases certain other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2019, subject to renewal options in certain cases. Certain of these facilities are leased from Dome or other affiliated organizations. The aggregate annual minimum rents to be paid to the expiration of the initial terms of these leases are as follows at June 30 (in thousands):

	Affiliates	Others	Total
2002	$ 15,049	14,411	29,460
2003	13,452	13,065	26,517
2004	13,595	12,365	25,960
2005	13,363	11,209	24,572
2006	12,756	8,591	21,347
After 2006	154,573	39,591	194,164
	$ 222,788	**99,232**	**322,020**

(14) Other Commitments and Contingencies

At June 30, 2001, the University had the following additional commitments and guarantees relating to affiliated organizations:

- Subject to various terms and conditions, the University and JHHS have jointly and severally agreed, on the occurrence of certain events, to either assume the obligations of Patient First Corporation (Patient First) under a loan agreement with a commercial bank or purchase the bank's interest in the loan agreement. Patient First is developing a network of primary care sites in central Maryland. The maximum amount of the credit facility available under the loan agreement is $24,000,000; the amount outstanding at June 30, 2001 was approximately $6,530,000.
- The University has guaranteed payment of 50% of amounts borrowed by Johns Hopkins Home Care Group, Inc. under line of credit agreements with a commercial bank. The maximum amount available under these agreements is $7,500,000; the amount outstanding at June 30, 2001 was approximately $5,908,000.
- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of approximately $385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.
- The University has guaranteed payment of up to $1,400,000 of debt obligations of Dome under terms of a credit enhancement agreement relating to financing of certain properties and, together with JHHS, has agreed to provide Dome with funds required, if any, to meet its obligations under the agreement.

The University is a party to various claims and litigation in the ordinary course of business. In the opinion of management, adequate provision has been made for possible losses on claims and litigation matters, where appropriate, and their ultimate resolution will not have a significant effect on the financial position of the University.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In 1997, the Office of Inspector General, Department of Health and Human Services (OIG), advised the University that as part of its national program to determine compliance with Medicare guidelines, an audit would be performed of billings to Medicare for services of faculty teaching physicians from 1991-1995. The audit began in 1998 and is in progress. Management believes the University has made a good faith effort to comply with Medicare billing guidelines, but that the guidelines were unclear, excessively detailed, lacking consistent application and, in some respects, contrary to published regulations. It is possible that the OIG's interpretations of the guidelines with respect to the nature, extent and/or specific content of the records needed to support billings to Medicare may differ from the University's. Interim findings provided in December 2000 by independent auditors reviewing the University's compliance with Medicare regulations identified variances, which even if sustained, would not have a material effect on the financial condition of the University and for which, in the opinion of management, adequate provision has been made.

On July 19, 2001, the Office of Human Research Protections ("OHRP") suspended clinical trials conducted under the University's OHRP "assurance". Funding for federal research was not interrupted. The assurance is authorization to conduct human subjects research. The suspension halted the continued enrollment of human subjects in most federally funded research at the University and related organizations named in the assurance, including The Johns Hopkins Hospital (the "Covered Organizations"). On July 21, 2001, the University filed its plan of correction with OHRP and on July 22, 2001 OHRP accepted the University's plan of correction, with conditions. Under the plan of correction, the Covered Organizations must address the research protocol review process, including conducting a re-review of a majority of ongoing protocols prior to resuming them.

The Food and Drug Administration ("FDA") also reviewed the University's research review procedures and issued a report on its observations in September 2001. The University's OHRP corrective action plan satisfied most FDA concerns and steps have been taken to address the remainder, including closer scrutiny of drugs administered in human research studies.

Based on the progress of the OHRP and FDA reviews, management does not believe that compliance by the University with the additional requirements for human subjects research studies summarized above will have a significant effect on its financial position.

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