


Johns Hopkins University

Financial Report 2005

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President's message

Greetings:

It is my pleasure to convey this annual financial report of The Johns Hopkins University covering fiscal year 2005.

This year the University earned membership in an elite club–joining Harvard, Stanford, and Cornell as the only universities to have raised above $300 million in cash receipts six or more years in a row. It is testimony to the exciting vision of the Knowledge for the World Campaign, and to the dedication of enthusiastic staff at all levels of the University, that we are squarely on track to achieve our ambitious goal of raising $2 billion to build and upgrade facilities on all campuses, to strengthen endowment for student aid and faculty support, and to advance our many research, academic, and clinical initiatives. To date, we have raised more than $1.8 billion, with two years remaining in the campaign.

Moreover, with its enormous scale and scope, the research enterprise at Johns Hopkins continues to play a vital role in our nation's arsenal of innovation and discovery. According to the National Science Foundation ranking, Johns Hopkins University performed $1.24 billion in scientific, medical, and engineering research in fiscal year 2003 (the most recent year for which complete numbers for all universities are available), making it—for the 25th year in a row—the country's leading academic institution in such expenditures. The University was at the same time first on NSF's list of federally funded research expenditures, spending $1.107 billion on research funded by agencies such as the National Institutes of Health, NASA, NSF, and the Department of Defense. We remain the only university ever to cross the $1 billion threshold on either list.

Although it seems out of place to say so in an annual financial report, Johns Hopkins University is really about much more than numbers alone can convey. At a time when social, political, economic, and technological changes present unprecedented challenges to our nation and our way of life, it is especially important for us to be fully engaged in doing what we do best: questioning common assumptions, exciting the next generation about the possibilities of the future, and discovering new and innovative solutions to some of humanity's most urgent problems.

Within these pages you'll find a snapshot of our continuing efforts to create and transmit knowledge for the world.

Sincerely,

William R. Brody

William R. Brody

Financial summary

I am pleased to present the fiscal year 2005 management discussion for The Johns Hopkins University. The University continues to perform admirably, with respect not only to its history of excellence but also to its ongoing improvements in the scope and quality of its reach.

While the University has worked continually to improve its business processes in support of the activities of its faculty and students, it, along with its sister organization, Johns Hopkins Health System, has embarked upon the replacement of legacy systems for financial, human resources, purchasing, and sponsored activities. Installation of this new technology provides a base for a massive change of related business processes, promising to bring all the Johns Hopkins enterprises onto modern systems and with streamlined processes that will improve service, compliance, and productivity. The initial roll-out is projected to occur during fiscal year 2007.

The financial condition of the University remains solid. Net assets, the amount by which the value of assets exceeds liabilities, increased during the fiscal year by $190 million from $3.21 billion to $3.40 billion.

Total operating revenues for the year was $2.92 billion. The major sources of these revenues were sponsored research of $1.698 billion or 58% of the total; tuition and fees of $291 million or 10%; and clinical services of $299 million or 10%. The remaining sources consist of reimbursements from affiliated institutions, primarily Hopkins Hospital; contributions; investment income; Maryland State aid; sales and services of auxiliary enterprises; and an all-other category of miscellaneous revenues. These sources amount to $632 million or 22% of the total. Comparable figures for fiscal year 2004 were sponsored research of $1.625 billion (60%); tuition and fees of $270 million (10%); clinical services of $276 million (10%); and an all-other category of $559 million (20%).

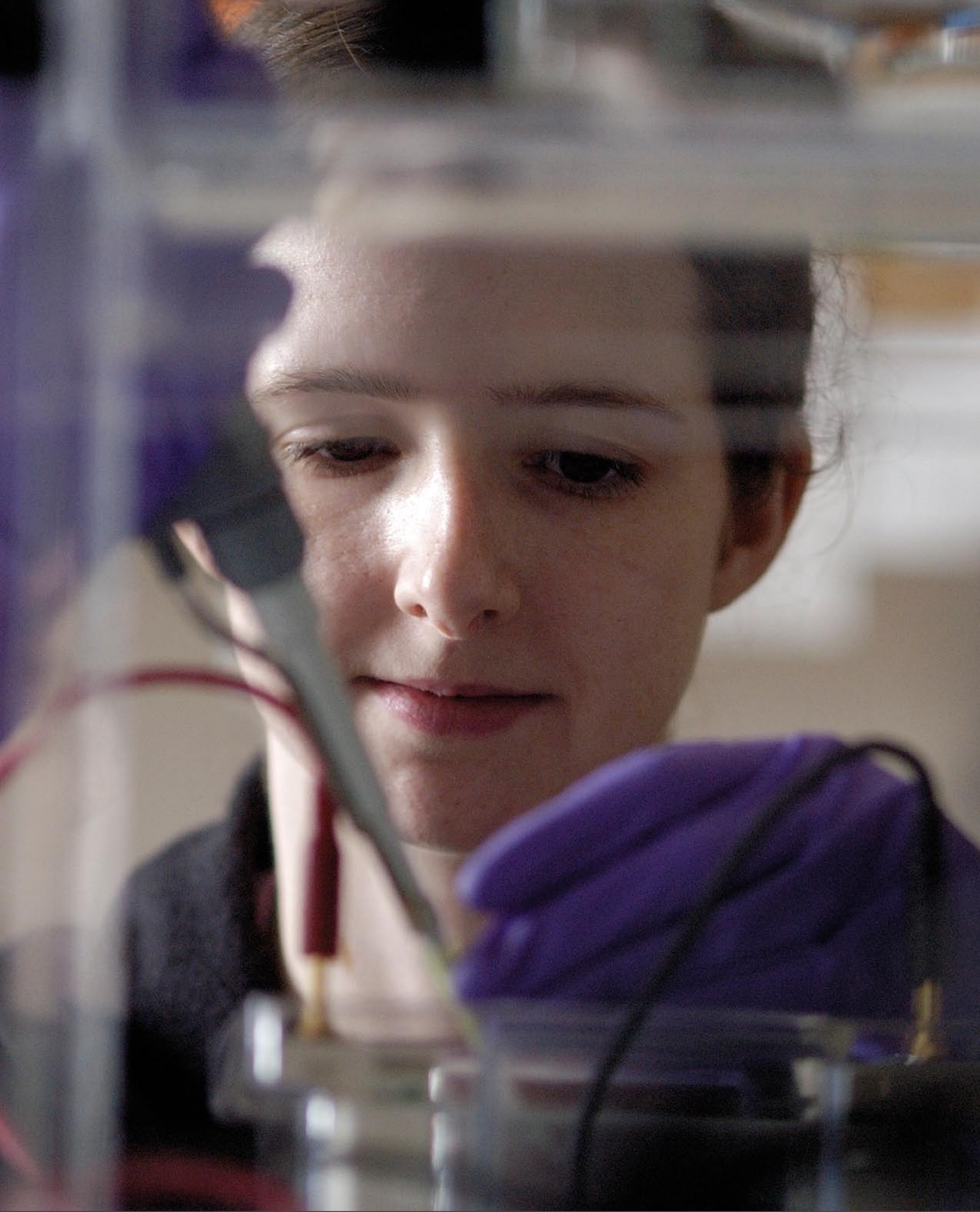
Total University operating expenses in fiscal year 2005 were $2.90 billion, distributed in the following way: instruction, research, and clinical practice expenses in academic and support divisions amounted to $1.92 billion or 66% of the total; expenses related to contracts at the Applied Physics Laboratory were $629 million or 22%; student services expenses were $59 million or 2%; library expenses were $32 million or 1%; general services and administration expenses were $196 million or 7%; and expenses of auxiliary enterprises were $68 million or 2%. Comparable figures for fiscal year 2004 were as follows: instruction, research and clinical practice expenses in academic and support divisions: $1.77 billion (65%); Applied Physics Laboratory contracts: $623 million (23%); student services: $54 million (2%); libraries: $29 million (1%); general services: $177 million (7%); and auxiliary enterprises: $63 million (2%).

Viewed another way, 60% of the University's operating expenses, or $1.73 billion, was absorbed by compensation and benefits for our 22,613 employees. Fiscal year 2004 employee compensation expense was $1.62 billion, also representing 60% of total expenses. The growth in this expenditure category reflects the addition of new employees to the payroll as well as a double-digit rise in benefit costs.

The University's rate of revenue growth, which averaged more than 10% annually from 1998 to 2003, continued to decrease to 7% in 2005 after growth of 8% in 2004. The decreased growth rate is attributable in large part to expendable gifts totaling in excess of $220 million received in years prior to fiscal year 2004 but used in part during subsequent years. Also, Johns Hopkins began to experience the effects of a leveling off of NIH support of sponsored research, a predicted occurrence. There are in place, and embodied in the ongoing five-year financial plan, management controls to bring the rate of growth of expenditures to levels commensurate with projected revenues, while continuing investment in facilities and in technology infrastructure.

The Johns Hopkins University remains a leader among the nation's research universities. Elsewhere in this report is a discussion of research highlights of the past year. Also, a record 11,102 students applied for admission to the freshman classes of the Krieger School of Arts and Sciences and the Whiting School of Engineering for the 2004–2005 school year. Of these, 3,321 were offered acceptances and 1,050 enrolled. University-wide student enrollment during the fall semester 2004 was 18,882 consisting of 10,569 full-time and 8,313 part-time students. Of the full-time students, 4,945 were undergraduates and 5,624 were graduate students. Of the part-time students, 509 were undergraduates and 7,804 were at the graduate level.

The fiscal year activity continued a focus on improving amenities and services to undergraduate students on the Homewood



and Peabody campuses. At Homewood, following the highly successful earlier openings of the Ralph S. O'Connor Recreation Center and the Mattin Center, construction began on the $76.4 million Charles Commons project, which will add over 600 contemporary living spaces, together with dining, social, credit union, and bookstore facilities, as well as other retail.

During fiscal year 2005, work was done on a number of other projects:

- The Cancer Research Building II for the School of Medicine neared completion;
- Construction of the San Martin Center on the Homewood campus, which provides a new home for the Carnegie Institution of Washington, space for new and growing University programs, and parking, was nearly completed;
- Construction began on the new Decker Quadrangle, the Mason visitor and admissions center, a computational sciences building for Engineering, and a 600-space underground parking garage, all associated with a redesign of the south entry to the Homewood campus;
- Construction was nearly completed on a remote book storage facility to be located on the Applied Physics Laboratory campus;
- Planning and design began for an addition to the School of Nursing Building for the Berman Bioethics Institute;
- Construction of an addition to the Hopkins-Nanjing Center at Nanjing University in China is underway;
- At the Bologna Center in Bologna, Italy, phase I of renovations was completed;
- Applied Physics Laboratory Buildings 29 and 35 were completed.

The University continues to manage its balance sheet with focus. The trustee debt policy, now more than five years old, continues to serve as the basis for prudent issuance of new debt and the management of its existing debt portfolio. Interest rate swaps to adjust variable and fixed rate proportions and commercial paper, both tax-exempt and taxable, are tools used to achieve lower cost of funds. On the asset side of the balance sheet, the University continues its focus on selling land assets that have no predictable future use and exploiting some off-campus owned properties using ground or facility leases that generate income while preserving flexibility for the future.

The revitalization of the area north of the Johns Hopkins medical complex, a partnership with the City of Baltimore, State of Maryland, and local foundations, is becoming a reality. The not-for-profit corporation East Baltimore Development, Inc. is managing the effort. It has developed plans to bring to reality the vision of a vital community anchored by the biotechnology industry. During 2005 a master developer for the site was selected. The Johns Hopkins School of Medicine will occupy approximately 100,000 square feet in the first bioscience building which is scheduled for completion in fiscal year 2008.

The leadership of any complex organization is strengthened by a mix of continuing people, coupled with new people. At the senior ranks of Johns Hopkins, the bulk of the management team continues to serve, with many of its officers having been in place for more than a half decade. The notable exceptions are a new vice president and general counsel who joined the University in November 2005; Stephen Dunham is an experienced, highly regarded attorney who will lead a competently staffed office. Also, Philip Tahey, the University's new controller, is broadly experienced in all relevant areas, plus he is familiar with Johns Hopkins from his prior experience at its external audit firm. Finally, the University successfully completed the search for a first-ever dedicated chief investment officer, resulting in the hiring of Kathryn Crecelius, an experienced and highly successful investment professional. The recruitment of all three people was conducted during 2005 with each beginning service in the 2006 fiscal year.

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

Jim McGill

James T. McGill
Senior Vice President for Finance and Administration

During fiscal year 2005, commitments to The Johns Hopkins Campaign: Knowledge for the World amounted to $395.3 million. At the close of the fiscal year, commitments totaled $1.82 billion, or 91% of the campaign's $2 billion goal.

Total cash received during fiscal year 2005 was $329.8 million, marking the sixth consecutive year at Johns Hopkins in which cash receipts totaled $300 million or more. Those totals gave Johns Hopkins its second-best fundraising year in history.

Campaign Priorities

The Knowledge for the World campaign—headed by trustees C. Michael Armstrong, Anthony W. Deering, Richard S. Frary, J. Barclay Knapp, and Gail J. McGovern—addresses priorities at Johns Hopkins Medicine, in all the academic divisions of the University, and in several centers and institutes. The campaign, which began in July 2000 and was announced to the public in May 2002, is slated to conclude at the end of 2007.

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

Capital priorities at Johns Hopkins Medicine include a new Children's and Maternal Hospital, a new Cardiovascular and Critical Care Tower, and several research and educational buildings. On the Johns Hopkins University Homewood campus, capital priorities include the renovation of Gilman Hall at the Zanvyl Krieger School of Arts and Sciences, a new computational sciences building at the G.W.C. Whiting School of Engineering, construction of a visitors center and underground parking in the Alonzo G. and Virginia G. Decker Quadrangle, and completion of Charles Commons, a facility that will provide student housing, a credit union branch, and a bookstore. Elsewhere, such priorities include the construction of a new building that will support the expansion of the School of Nursing and provide a home to the Phoebe R. Berman Bioethics Institute, a new academic building at the Hopkins-Nanjing Center, and a renovation and expansion project at the Paul H. Nitze School of Advanced International Studies' Bologna Center.

To date, total campaign commitments from alumni have been $464.4 million; $510.7 million has come from friends of Johns Hopkins, $556.5 million from foundations, $143.2 million from organizations, and $144.7 million from corporations. Commitments have been designated as follows: $606 million for program support, $547.2 million for research, $251.1 million for facilities and instrumentation, $151.8 million for faculty support, and $161.4 million for student aid. An additional $102 million was undesignated or for current use.

Gifts and Pledges in Fiscal 2005

New commitments—including outright gifts and new pledges made during the year—were up 22 percent over the previous year. Fiscal year 2005 was Johns Hopkins' second best year for campaign commitments, after the campaign's first full year in 2001, when commitments totaled $419 million. Johns Hopkins Medicine, the School of Nursing, the School of Professional Studies in Business and Education, the Center for Talented Youth, the Sheridan Libraries, the Paul H. Nitze School of Advanced International Studies, and the Zanvyl Krieger School of Arts and Sciences all celebrated their best fundraising year ever, with the nursing school nearly doubling its previous best.

Leadership and principal commitments during fiscal year 2005 included the following:

- Several gifts and pledges for capital projects at Johns Hopkins Medicine, including $10 million from the Sol Goldman Charitable Trust to fund a pancreatic cancer research center; a $10 million gift from a Baltimore philanthropist for the Heart Institute within the Cardiovascular and Critical Care Tower; and $20 million from an anonymous donor for the medical education building.

- Also at Johns Hopkins Medicine, a host of commitments to research, including $15 million from an anonymous donor, which will be split between research support in the Therapeutic Cognitive Neuroscience Program and construction of basic sciences research facilities on the medical campus; a $15 million pledge from the Commonwealth Foundation for Cancer Research; a $5 million bequest to the Patrick C. Walsh Prostate

Cancer Research Fund to establish the O'Neal Scholar at the Brady Urological Institute; and a $4 million bequest to fund stem cell research.

• A $5.85 million commitment from the founder of a Baltimore-based national real estate firm to establish a full-time real estate master's degree program. This is the largest gift ever to the School of Professional Studies in Business and Education.

• At the Whiting School of Engineering, a $5 million commitment from an alumnus, which will be recognized by the naming of scholarship students attending the Whiting School from Baltimore Polytechnic Institute; and a full professorship in mechanical engineering.

• At the Krieger School of Arts and Sciences, endowments for two new humanities professorships; a $2.5 million bequest from a friend of the school for fellowships in the neurosciences; and a $2.5 million estate gift to complete funding of the Woodrow Wilson Fellowship program.

• In the Athletics Department, three $1 million pledges from former lacrosse players to endow scholarships for the lacrosse program.

• A $3 million endowment from the Starr Foundation for a professorship in South Asian Studies at the Nitze School of Advanced International Studies.

• A $5 million pledge from the E. Rhodes and Leona B. Carpenter Foundation toward the construction of a new building at the School of Nursing; and a $1 million endowment from a Baltimore family to establish a doctoral fellowship.

• At the Sheridan Libraries, a $2 million gift from the Hodson Trust to endow the University archivist's position; and a $1.7 million bequest intention to establish an endowment for humanities acquisitions.

• An anonymous $500,000 gift to support scholarships at the Peabody Institute.

• A $1.5 million grant to the Center for Talented Youth from the Jack Kent Cooke Foundation; two gifts from CTY alumni totaling $2.4 million for the Julian C. Stanley Study of Exceptional Talent.

• At the Bloomberg School of Public Health, $2 million in bequests from an alumnus to the Department of Population and Family Health Sciences.

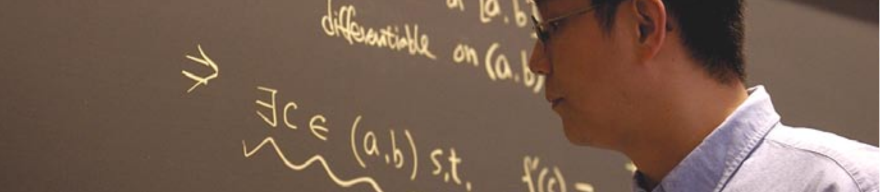
Annual Gifts and Alumni Involvement

More than 61,445 individuals made gifts to Johns Hopkins during fiscal year 2005, about a thousand more than the previous year. Annual gifts came from 17,774 alumni, 5,440 parents, and more than 1,800 faculty and staff.

Programs and outreach by the Johns Hopkins Alumni Office during the past year attracted more than 10,000 individuals to 250 alumni chapter events around the world. In addition, 360 individuals participated in Hopkins-sponsored international travel programs and more than 3,000 alumni were active as University volunteers. Twenty-six alumni and friends were honored with awards from the Alumni Association.

More than 25,000 individuals are registered users of HopkinsNET, which provides alumni and students access to a searchable online alumni directory. HopkinsNET also offers customized online job search and career management resources, as well as access to Hopkins KnowledgeNET, the Johns Hopkins alumni virtual library.

Launched in 2004, Hopkins KnowledgeNET has quickly become one of the nation's leading online alumni libraries. It offers Johns Hopkins alumni access to hundreds of publications and reference materials free of charge, thousands of full-text academic journals, professional publications and other resources for a modest annual fee.



Research at Johns Hopkins

Johns Hopkins continues to maintain its position as one of the foremost research universities in the United States because of the consistent excellence demonstrated by its research community. Obvious proof of its outstanding achievements is confirmed in the University's total research expenditures for fiscal 2005 in the amount of $1.698 billion from resources in the eight academic divisions and the Applied Physics Laboratory. The School of Medicine remains persistent in its status as a principal recipient of federal research funding.

Awards and Recognition

Once again, for the 14th consecutive year, *U.S. News and World Report* ranked Johns Hopkins Hospital number one out of 176 medical centers that appear in this year's edition of "America's Best Hospitals." Only 16 medical centers earned the particular distinction of Honor Roll status.

In September 2004, Gary Posner, professor of chemistry in the Zanvyl Krieger School of Arts and Sciences, was honored by the American Chemical Society for 35 years of outstanding work in the field of organic chemistry. Dr. Posner received the 2004 Arthur C. Cope Senior Scholar Award at the society's 228th annual national meeting held in Philadelphia.

In October 2004, three members of the Johns Hopkins research community were elected to membership in the National Academy of Sciences' Institute of Medicine. Thomas Quinn, professor of medicine and deputy director in the Division of Infectious Diseases at the School of Medicine; Diane Griffin, who holds full professorships in both medicine and neurology and is the Alfred and Jill Sommer Chair of the W. Harry Feinstone Department of Molecular Microbiology and Immunology in the Bloomberg School of Public Health; and John Griffin, professor of neurology, neuroscience, and pathology, are among only 65 new members announced by the Institute of Medicine. Election is one of the highest honors for those in the medical profession.

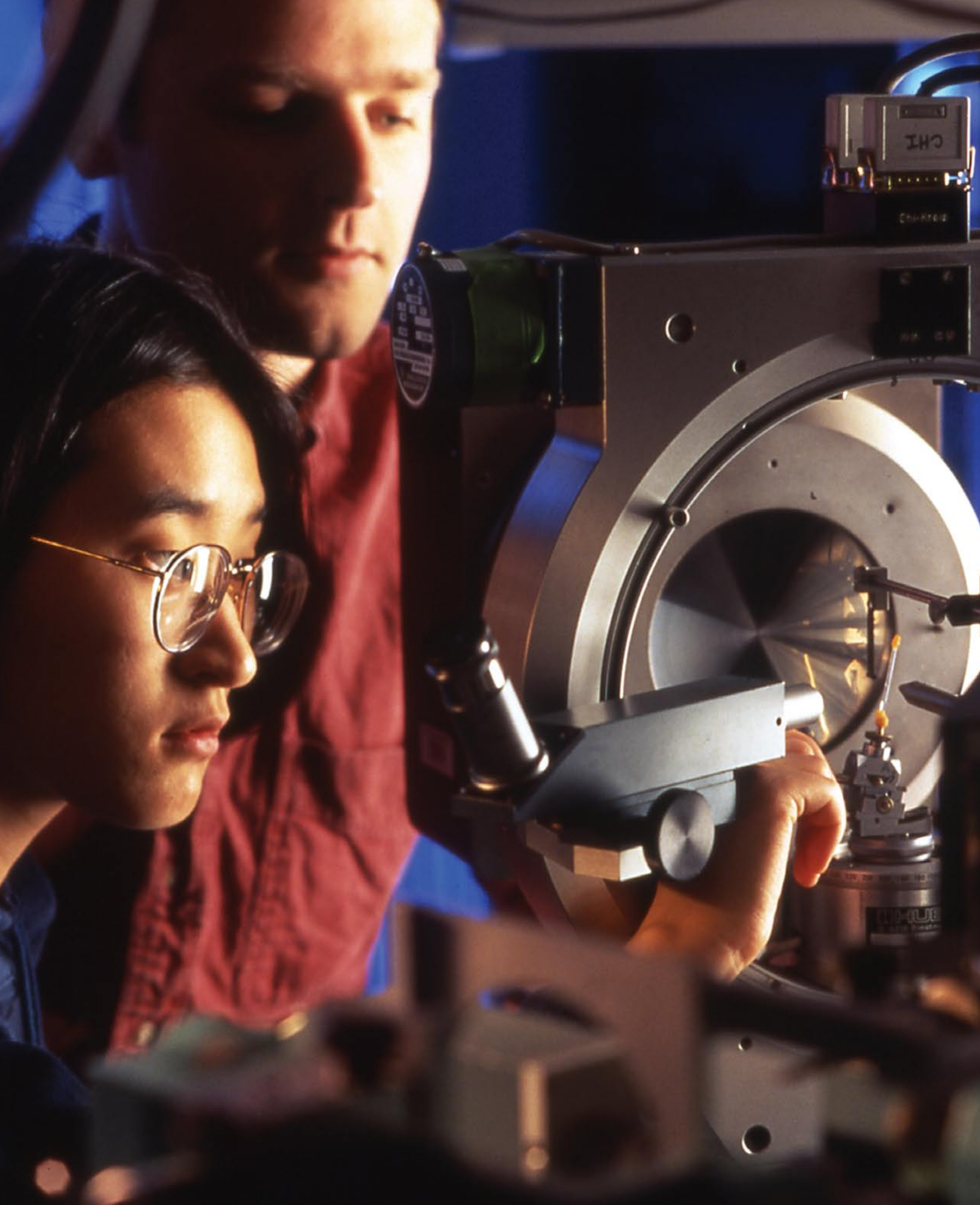
During November of 2004, it was announced that three Hopkins researchers—Stamatios "Tom" Krimigis, head emeritus of the Space Department at the Applied Physics Laboratory; J. Marie Hardwick, the David Bodian Professor in the Bloomberg School of Public Health; and Richard L. Huganir, professor in the School of Medicine—were elected fellows of the American Association for the Advancement of Science, the world's largest general scientific society and publisher of the journal *Science*.

On December 17, 2004, Alfred Sommer, dean of the Bloomberg School of Public Health, was awarded the prestigious Pollin Prize for Pediatric Research. Sommer's groundbreaking discoveries led to the widespread use of inexpensive vitamin A supplements that reduced childhood mortality by 34 percent in the developing countries—saving millions of children's lives.

It was announced in February 2005 that Charles L. Bennett, a professor in the Henry A. Rowland Department of Physics and Astronomy, was selected to receive the prestigious Henry Draper Medal at the 142nd annual meeting of the National Academy of Sciences in May 2005. The National Academy cited Dr. Bennett for his research with the Wilkinson Microwave Anistropy Probe, a NASA Explorer mission that is working to precisely determine the age, composition, and curvature of the universe.

The White House announced in February 2005 that Johns Hopkins astrophysicist Riccardo Giacconi and neuroscientist Solomon H. Snyder were two of eight recipients of the 2003 National Medal of Science, the nation's top scientific recognition. The two professors are the seventh and eighth Johns Hopkins faculty members awarded this honor.

It was also announced in February 2005 that A. Hope Jahren, associate professor in the Morton K. Blaustein Department of Earth and Planetary Sciences, would be awarded the James B. Macelwane Medal at an annual meeting of the American Geophysical Union scheduled to be held in San Francisco in December 2005.



In March 2005, Geraldine Seydoux, professor of molecular biology and genetics, and Alex Kolodkin, professor in the School of Medicine, were among a group of 43 professionals who were selected as Howard Hughes Medical Institute investigators—a prestigious honor that recognizes the nation's most promising biomedical scientists. The University now has 14 Howard Hughes Medical Institute investigators, scientists who have been recognized for their innovation, creativity, and productivity.

During the spring, the Applied Physics Laboratory announced its top three inventions for 2004, based on their potential benefit to society, improvement over existing technology, and commercial potential. The categories and recipients were *Physical Science*—Henry Kues and Eric Van Gieson; *Information Science*—Jerry Krill; and *Innovative Contributions to the Military*—Matthew Bevan, Bradley Boone, Ann Darrin, Donald Duncan, and Raymond Sova.

During a special reception held on April 27, 2005, Richard S. Ross, former dean of the School of Medicine and vice president for medicine at the University, and a celebrated cardiologist who served as president of the American Heart Association, was awarded the President's Medal in recognition of his distinguished career in medicine.

Finally, two faculty members from Johns Hopkins were among 72 scientists from the United States who were elected to membership in the National Academy of Sciences at its 142nd annual meeting in Washington, D.C., on May 3, 2005. Peter Devreotes, director of the Department of Cell Biology in the Institute for Basic Biomedical Sciences at the School of Medicine, and Charles Bennett, a professor in the Henry A. Rowland Department of Physics and Astronomy in the Zanvyl Krieger School of Arts and Sciences, joined 18 other faculty members from Johns Hopkins currently in the academy—an honorary society that advises the government on scientific matters. Dr. Devreotes' research focuses on understanding how cells sense their surroundings and move in response to what they detect. Dr. Bennett is a cosmologist whose interests include the origins and fate of the universe.

Grants and Contracts

The School of Medicine began fiscal 2004–2005 by announcing the receipt of a $5 million federal grant for what many believe to be the first university-based research center devoted to the study of epigenetics. Epigenetic "marks"are key factors in the biological functions of the human body, and the center will provide opportunities for researchers to learn more about the effects of epigenetics and the role it plays in disease and human health. This is the ninth grant Hopkins has been awarded that is funded through the Center for Excellence in Genome Science Program sponsored by the National Human Genome Research Institute and the National Institute for Mental Health Center. Andrew Feinberg, King Fahd Professor of Medicine, is the principal investigator of the project, which includes 15 other research professionals from Hopkins as well as several other research institutions.

A major goal of excellence in the compliance arena of Hopkins is solid policies and correct practices with regard to Conflict of Interest. A new four-year $3 million study funded by the National Heart, Lung, and Blood Institute will provide a framework for establishing sound policy and practices for disclosing conflict of interest in medical research. The project is being directed by Jeremy Sugarman, the newly endowed Harvey M. Meyerhoff Professor of Bioethics and Medicine at the School of Medicine.

A $2.7 million grant from the U.S. Department of Energy was awarded to Johns Hopkins and two collaborating institutions—the University of Delaware and Los Alamos National Laboratory—in order to establish the Institute for Multi-Scale Modeling of Biological Interactions. The institute involves more than 20 faculty from the Whiting School of Engineering, the Krieger School of Arts and Sciences, and the School of Medicine as well as faculty from Delaware and researchers from Los Alamos. Michael Paulaitis, professor of chemical and biomolecular engineering, is serving as director of the new institute.

In October 2004, a research team in the School of Medicine received a five-year $17 million grant from the National Institutes of Health's Roadmap for Medical Research to develop new technologies in order to comprehensively examine proteins' interactions in systems ranging from yeast to human cells. Jef Boeke, professor of molecular biology and genetics and director of the HighThroughput Biology Center, is the leader of the project that is the first of two awarded by NIH to support comprehensive studies of cells' complex biological interactions from the perspective of proteins.

Also in October 2004, the Johns Hopkins Kimmel Cancer Center won a five-year $10 million grant from the Department of Defense that brings together national breast cancer experts to discover new ways to halt metastasis, the elusive process that causes cancer cells to spread throughout the body and is the major cause of death in most patients suffering from cancer. The principal investigator of the project is Saraswati Sukumar, the Barbara B. Rubenstein Professor of Oncology in the School of Medicine. This grant is the most current example of collaboration that takes place between the Johns Hopkins Kimmel Cancer Center and the University of Maryland Greenebaum Cancer Center.

It was announced in November 2004 that Thomas August, Distinguished Service Professor of pharmacology, molecular sciences and oncology in the School of Medicine, is the lead Hopkins study investigator for a $7.3 million grant from the National Institute of Allergy and Infectious Diseases to study how certain viral infectious diseases trigger a response from the body's immune system. The award was one of 14 biodefense grants from the National Institute of Allergy and Infectious Diseases, part of the National Institutes of Health.

The Center for a Livable Future at the Bloomberg School of Public Health, which supports interdisciplinary study by Johns Hopkins faculty, fellows, and students, announced six recipients of the 2004–2005 Faculty and Student Innovation Grants. These grants promote innovative research and synthesis across disciplines on the complex interactions of diet, health, food production and food security, equity, the environment and the world's resources. The recipients are Nicole Cardello, a doctoral candidate from the Department of Environmental Health Sciences; Jay Graham, also a doctoral candidate from the Department of Environmental Health Sciences; Rolf U. Halden, assistant professor in the Department of Environmental Health Sciences; Roni Neff, a doctoral candidate from the Department of Health Policy and Management; Lance Price, a doctoral candidate from the Department of Environmental Health Sciences; and Nathan Wolfe, assistant professor in the Department of Epidemiology.

Another exceptional interdivisional research effort began when the Applied Physics Laboratory signed an exclusive agreement with Zargis Medical Corporation of Princeton, New Jersey, to license computer-assisted heart sound analysis technology developed jointly by Johns Hopkins researchers at the Applied Physics Laboratory and the School of Medicine. The license with APL will give the Zargis Corporation exclusive commercial rights to APL's signal processing algorithms and other intellectual property, which includes an extensive cardiac research database of approximately 6,500 recordings from over 1,200 individuals. The Zargis Corporation will support further research at APL and the School of Medicine to continue developing this technology.

The newest initiative in the School of Nursing to develop knowledge that promotes health and improved health services is the Center for Collaborative Intervention Research—designed to be a national model for interdisciplinary research efforts in developing, testing, and disseminating information between health care institutions and organizations. The center is funded by a five-year $1.59 million grant from the National Institute of Nursing Research at the National Institutes of Health. Vicki Mock is principal investigator of the project and director of the center.

Research Administration

Beth Ann Felder, former chief counsel with the Republican staff of the U.S. Senate Budget Committee, accepted the position of director of federal relations in the Office of Government, Community and Public Affairs at Johns Hopkins in September 2004. Felder represents the University and Health System in Washington on both legislative and executive branch matters, focusing on federal budget and appropriation issues as well as other areas of concern.

In January 2005, the Zanvyl Krieger School of Arts and Sciences welcomed Adam Falk as interim dean to serve until a replacement is identified for Daniel Weiss, who was elected president of Lafayette College. A member of the Hopkins faculty since 1994, Dr. Falk's research as a physicist focuses on elementary particle physics and quantum field theory, particularly the interactions and decay of heavy quarks.

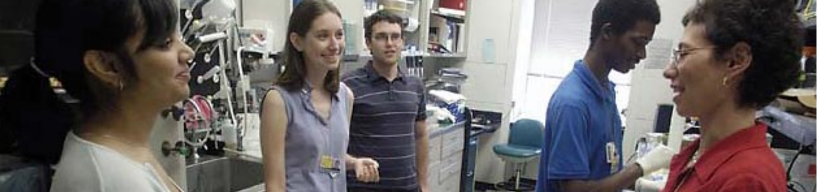
Jill Sorensen joined Hopkins as the new associate provost and director of the Office of Licensing and Technology Development, effective March 1, 2005. Sorensen is the former director of the Office of Technology Management at the University of Illinois at Chicago.

In May 2005, the Applied Physics Laboratory announced that Larry J. Crawford would succeed Michael Griffin as head of the Space Department.

Michael Klag, the David M. Levine Professor of Medicine in the School of Medicine, with joint appointments in the Bloomberg School's Department of Epidemiology and the Department of Health Policy Management, was selected to become the 10th dean of the Bloomberg School of Public Health.

Finally, HopkinsOne continues to make major strides in its efforts involving the transition of the University's current financial and administrative systems to a fully integrated and updated model that will serve the entire business and research community of the University. As the design phase has moved forward, there are two major focuses that directly affect research at Hopkins. They are the creation of shared service centers and more efficient and effective compliance features. In shared service centers, people who perform the same or similar functions are placed in one location in order to share common procedures, equipment, and personnel. With regard to more efficient and effective compliance features, the HopkinsOne team is structuring many automatic notifications and safeguards into the new system to assist faculty and staff in complying with over 100 regulations within the focus of the project. One of these, the Coeus software program, scheduled to be implemented in July of 2007, will fully support the proposal and budget development of sponsored projects with capabilities of linking to Click Commerce and eSirious. It will also promote the new system's capability to produce reports and obtain required information from a single source.


U.S. TREASURIES FALL AS



At June 30, 2005, the University's total invested funds had a market value of $3,027 million. The bulk of these funds were invested in the Endowment Investment Pool (EIP), which is comprised of assets for more than 3,000 separate endowments, each owning shares in the EIP. Although the endowments are pooled for investment purposes, the individual endowments are accounted for on an individual basis to ensure proper compliance with donor restrictions. The balance of invested funds is made up of current funds (e.g., working capital, gifts intended for current use, foundation funds, and funds held under deferred compensation agreements) and charitable remainder funds.

The market value of the EIP at June 30 was $ 2,155.5 million, a net increase of $101.7 million over the June 30, 2004 market value of $2,053.8 million. This increase in market value reflects the addition of about $87 million to the EIP in the form of new gifts from donors plus an increase in market value of $122.4 million, offset by the annual payout of $107.7 million.

The EIP's asset allocation for the 2005 and 2004 fiscal years is shown in the accompanying table. The changes in the asset allocation are relatively minor. The drop in the percentage of assets allocated to domestic equities reflects, in part, a shift of assets to non-marketable alternatives as part of a continuing effort to increase the share of endowment assets allocated to private equity, venture capital, and hard assets. The increase in the percentage allocated to these asset classes reflects continued draw downs on commitments as well as increases in valuations in the partnership portfolios. The University committed an additional $98 million to 14 limited partnerships in the 2005 fiscal year. In addition, some shift occurred from domestic equities to international as target allocations for international equities were increased during the fiscal year.

While every asset class out-performed its respective benchmark for the fiscal year, the primary drivers of the EIP's performance in fiscal 2005 were international equities with a return of 20.5% and the private equity program with a return of 20.6%. During the fiscal year, the S&P 500 U.S. stock market index returned 6.3%, and MSCI EAFE international stock index increased 13.7%. The Lehman Government/Credit Index had a return of 7.3%.

Combined, the domestic equity managers had a return of 7.0%, out-performing the S&P 500 Index return. As noted above, the non-U.S. equity managers had a composite return of 20.5%, also out-performing the MSCI EAFE benchmark return. The fixed income managers as a group had a return of 8.3% out-performing their Lehman Government/Credit benchmark return.

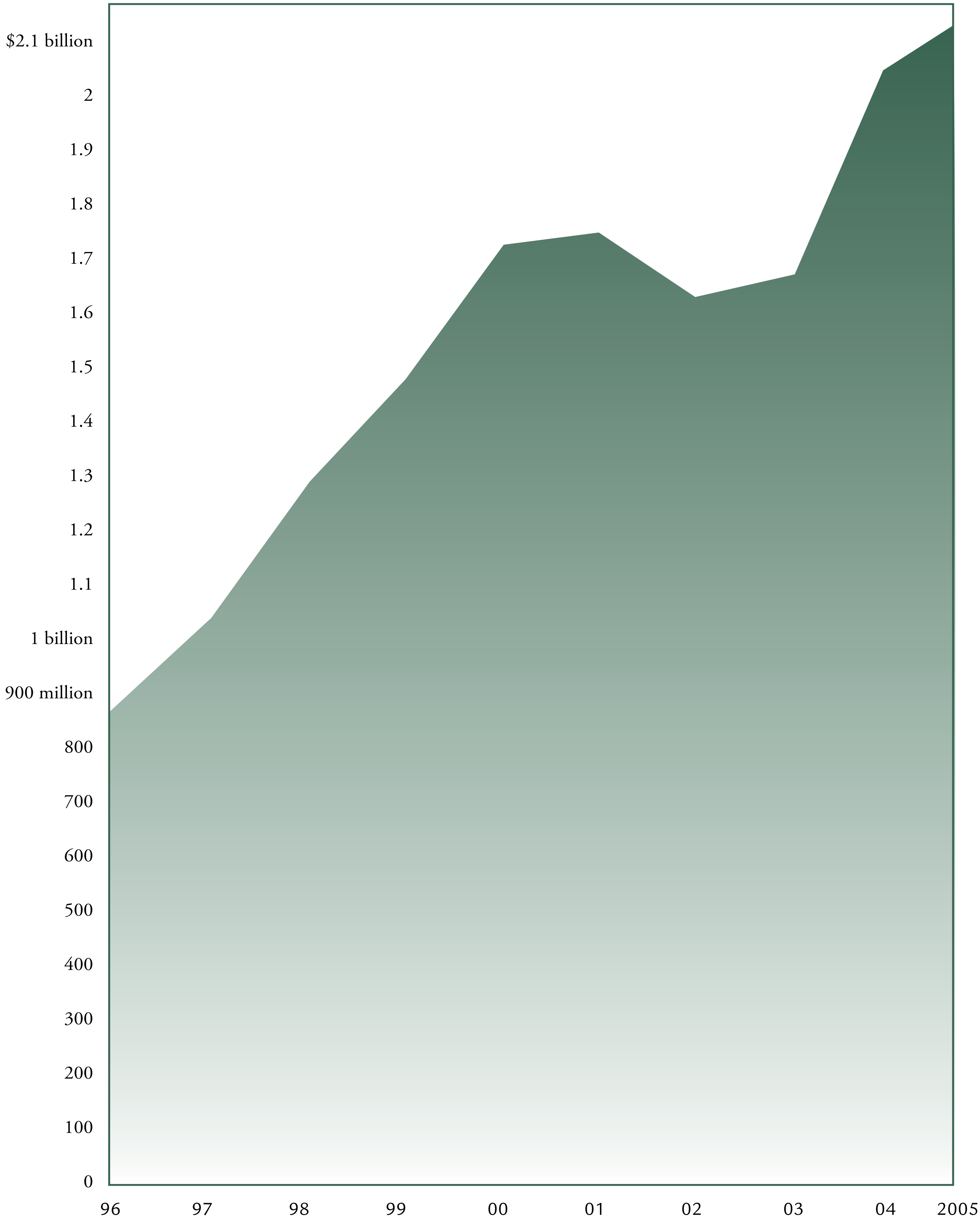
The marketable alternatives investment program in absolute return strategies generated a return of 6.2%. This program invests in various hedge fund strategies whose returns have a low expected correlation with equity and fixed income returns. The venture capital and private equity investment program generated the highest return of any asset class with a return of 20.6%, edging out the international equity composite return by 10 basis points.

EIP Asset Allocation

	June 30, 2005 Market Value		**June 30, 2004 Market Value**	
	(Millions)	*%*	*(Millions)*	*%*
Domestic Equities	$ 852.8	39.6	$ 869.2	42.3
Hedged Equities	130.5	6.0	118.1	5.8
International Equities	316.0	14.7	266.1	13.0
Marketable Alternatives	349.2	16.2	328.9	16.0
Non—Marketable Alternatives	157.4	7.3	114.5	5.6
Fixed Income	342.5	15.9	295.9	14.3
Real Estate & Misc.	30.7	1.4	30.8	1.5
Cash	(23.6)	(1.1)	30.3	1.5
Total	**$ 2,155.5**	**100.0%**	**$2,053.8**	**100.0%**

Johns Hopkins University
Endowment Market Value

As of June 30



Johns Hopkins University
Operating Revenues
Fiscal Year ended June 30, 2005 (in thousands)

Grants, contracts and similar agreements	$1,698,427	58.1%
Clinical services	299,274	10.2%
Tuition and fees	290,885	10.0%
Reimbursements from affiliated institutions	227,744	7.8%
Contributions	153,128	5.2%
Investment income	121,671	4.2%
Auxiliary enterprises	57,251	2.0%
Other sources	72,405	2.5%
Total	**$2,920,785**	**100.0%**

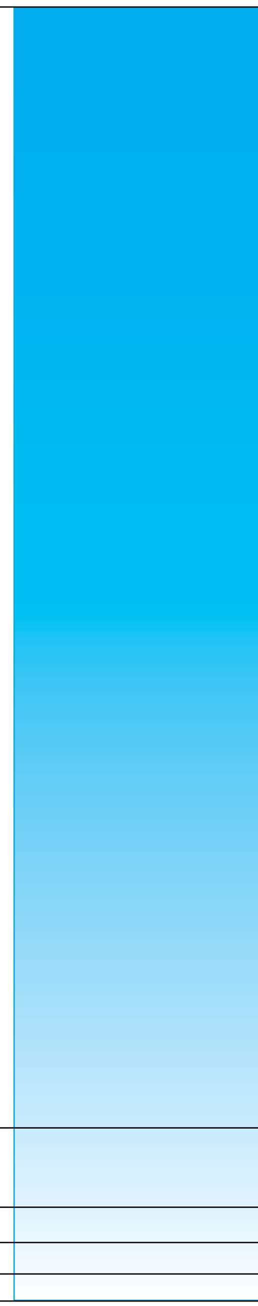
Johns Hopkins University
Operating Expenses—by Object
Fiscal Year ended June 30, 2005 (in thousands)

Compensation and benefits	$1,727,375	59.5%
Contractual services	601,286	20.7%
Supplies, materials and other	357,424	12.3%
Depreciation and amortization	120,660	4.2%
Travel	60,007	2.1%
Interest	34,087	1.2%
Total	**$2,900,839**	**100.0%**

Johns Hopkins University

Operating Expenses—by Function

Fiscal Year ended June 30, 2005 (in thousands)



Instruction, research and clinical practice		
—Academic and support divisions	$1,917,289	66.1%
—Applied Physics Laboratory research contracts	628,965	21.7%
General services and administration	196,518	6.8%
Auxiliary enterprises	67,706	2.3%
Student services	58,741	2.0%
Libraries	31,620	1.1%
Total	**$2,900,839**	**100.0%**

Johns Hopkins University
Five Year Financial Summary
2001–2005 (dollars in thousands)

Fiscal Year Ended June 30	2005	2004	2003	2002	2001
Operating revenues:					
Tuition and fees, net, of student financial aid	$ 290,885	269,683	259,659	254,062	231,783
Grants, contracts and similar agreements	1,698,427	1,625,454	1,506,660	1,394,147	1,190,958
Clinical services	299,274	275,662	253,048	228,069	194,538
Contributions	153,128	122,935	106,093	144,010	223,627
Investment income	121,671	116,066	122,074	124,322	109,846
Other	357,400	320,292	290,773	272,531	227,953
Total operating revenues	$ 2,920,785	2,730,092	2,538,307	2,417,141	2,178,705
Operating expenses:					
Compensation and benefits	$ 1,727,375	1,616,565	1,484,260	1,315,347	1,159,727
Contractual services	601,286	559,080	521,780	488,068	418,104
Supplies, materials and other	357,424	353,460	314,053	276,540	241,475
Depreciation and amortization	120,660	100,806	89,774	82,809	70,790
Travel	60,007	56,986	52,923	44,392	46,328
Interest	34,087	25,610	23,105	24,365	28,408
Total operating expenses	$ 2,900,839	2,712,507	2,485,895	2,231,521	1,964,832
Total assets	$ 5,202,840	4,775,148	4,355,676	4,236,506	4,035,054
Total liabilities	1,804,878	1,567,205	1,380,905	1,298,678	1,081,019
Total net assets	3,397,962	3,207,943	2,974,771	2,937,828	2,954,035
Investments, including cash and cash equivalents, at market value:					
Endowment investment pool	2,155,476	2,053,848	1,707,971	1,689,717	1,819,555
Total	3,026,764	2,677,429	2,477,776	2,494,307	2,515,424
Investments in plant assets, net	1,430,575	1,328,559	1,187,403	993,083	908,404
Debt	928,484	752,450	654,455	662,737	554,717
Head count enrollment (Fall)	18,882	19,097	18,235	18,074	17,967
Employees (at year-end)	22,613	22,588	21,644	20,691	19,897

KPMG LLP
111 South Calvert Street
Baltimore, Maryland 21202

Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University as of June 30, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2005 and 2004 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 6, 2005

Johns Hopkins University

Balance Sheets

June 30, 2005 and 2004 (In thousands)

	2005	2004
Assets:		
Cash and cash equivalents	$ 143,858	119,552
Accounts receivable, net	313,232	341,529
Contributions receivable, net	153,136	135,553
Prepaid expenses, deferred charges and other assets	81,873	86,986
Loans receivable, net	32,233	32,626
Deposits with bond trustees	72,518	69,041
Investments	2,882,906	2,557,877
Investment in property and equipment, net	1,430,575	1,328,559
Interests in trusts and endowment funds held by others	92,509	103,425
Total assets	**$ 5,202,840**	**4,775,148**
Liabilities:		
Accounts payable, deferred revenues and accrued expenses	$ 582,020	555,110
Payables and deferred revenues under split interest agreements	75,454	60,439
Debt	928,484	752,450
Obligations under deferred compensation agreements and other long-term liabilities	153,456	133,727
Endowment and similar funds held for purposes of Johns Hopkins Hospital	65,464	65,479
Total liabilities	1,804,878	1,567,205
Net assets:		
Unrestricted	2,011,454	1,926,633
Temporarily restricted	414,935	353,081
Permanently restricted	971,573	928,229
Total net assets	3,397,962	3,207,943
Total liabilities and net assets	**$ 5,202,840**	**4,775,148**

See accompanying notes to financial statements.

Johns Hopkins University

Statement of Activities

Year ended June 30, 2005 (In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 290,885	—	—	290,885
Grants, contracts and similar agreements	1,698,427	—	—	1,698,427
Clinical services	299,274	—	—	299,274
Reimbursements from affiliated institutions	227,744	—	—	227,744
Contributions	91,378	61,750	—	153,128
Investment income	121,671	—	—	121,671
Maryland State aid	14,555	—	—	14,555
Sales and services of auxiliary enterprises	57,251	—	—	57,251
Other	57,850	—	—	57,850
Net assets released from restrictions	48,705	(48,705)	—	—
Total operating revenues	2,907,740	13,045	—	2,920,785
Operating expenses:				
Compensation and benefits	1,727,375	—	—	1,727,375
Contractual services	601,286	—	—	601,286
Supplies, materials and other	357,424	—	—	357,424
Depreciation and amortization	120,660	—	—	120,660
Travel	60,007	—	—	60,007
Interest	34,087	—	—	34,087
Total operating expenses	2,900,839	—	—	2,900,839
Excess of operating revenues over expenses	6,901	13,045	—	19,946
Nonoperating revenues, gains and losses:				
Contributions	—	26,654	52,532	79,186
Investment income	93,571	26,311	(8,614)	111,268
Additional minimum pension liability	(22,012)	—	—	(22,012)
Net assets released from restrictions	4,156	(4,156)	—	—
Other	2,205	—	(574)	1,631
Nonoperating revenues, gains and losses, net	77,920	48,809	43,344	170,073
Increase in net assets	84,821	61,854	43,344	190,019
Net assets at beginning of year	1,926,633	353,081	928,229	3,207,943
Net assets at end of year	**$ 2,011,454**	**414,935**	**971,573**	**3,397,962**

See accompanying notes to financial statements.

Johns Hopkins University

Statement of Activities

Year ended June 30, 2004 (In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 269,683	—	—	269,683
Grants, contracts and similar agreements	1,625,454	—	—	1,625,454
Clinical services	275,662	—	—	275,662
Reimbursements from affiliated institutions	204,946	—	—	204,946
Contributions	94,981	27,954	—	122,935
Investment income	116,066	—	—	116,066
Maryland State aid	12,596	—	—	12,596
Sales and services of auxiliary enterprises	54,990	—	—	54,990
Other	47,760	—	—	47,760
Net assets released from restrictions	33,029	(33,029)	—	—
Total operating revenues	2,735,167	(5,075)	—	2,730,092
Operating expenses:				
Compensation and benefits	1,616,565	—	—	1,616,565
Contractual services	559,080	—	—	559,080
Supplies, materials and other	353,460	—	—	353,460
Depreciation and amortization	100,806	—	—	100,806
Travel	56,986	—	—	56,986
Interest	25,610	—	—	25,610
Total operating expenses	2,712,507	—	—	2,712,507
Excess (deficit) of operating revenues over expenses	22,660	(5,075)	—	17,585
Nonoperating revenues, gains and losses:				
Contributions	—	24,776	47,703	72,479
Investment income	147,677	2,597	1,545	151,819
Net assets released from restrictions	30,804	(30,804)	—	—
Other	13,058	—	(21,769)	(8,711)
Nonoperating revenues, gains and losses, net	191,539	(3,431)	27,479	215,587
Increase (decrease) in net assets	214,199	(8,506)	27,479	233,172
Net assets at beginning of year	1,712,434	361,587	900,750	2,974,771
Net assets at end of year	**$ 1,926,633**	**353,081**	**928,229**	**3,207,943**

See accompanying notes to financial statements.

Johns Hopkins University

Statements of Cash Flows

Years ended June 30, 2005 and 2004 (In thousands)

		2005	2004
Cash flows from operating activities:			
Increase in net assets	$	190,019	233,172
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation, amortization and loss on asset disposals		121,813	106,148
Decrease (increase) in accounts receivable, net		28,297	(68,878)
Decrease (increase) in prepaid expenses, deferred charges, other assets and interests in trusts and endowment funds held by others		16,030	(23,624)
(Increase) decrease in contributions receivable, net		(17,583)	32,930
Increase in accounts payable, deferred revenues and accrued expenses		26,910	78,605
Increase in payables and deferred revenues under split interest agreements		15,015	4,833
Contributions restricted for long-term investment		(65,153)	(105,017)
Net realized and unrealized gains from investments		(208,325)	(230,205)
Increase in other liabilities		19,729	3,314
Net cash provided by operating activities		126,752	31,278
Cash flows from investing activities:			
Purchases of investments		(1,406,318)	(2,298,047)
Proceeds from sales and maturities of investments		1,289,613	2,196,487
Purchases of property and equipment		(223,745)	(252,068)
Disbursements for student loans		(6,921)	(6,619)
Repayments of student loans		7,314	6,707
Increase in deposits with bond trustees, net		(3,477)	(19,062)
(Decrease) increase in endowments held for others		(15)	6,382
Net cash used by investing activities		(343,549)	(366,220)
Cash flows from financing activities:			
Contributions restricted for long-term investment		65,153	105,017
Proceeds from borrowings		193,056	111,552
Scheduled payments of bonds and notes payable		(17,106)	(13,739)
Net cash provided by financing activities		241,103	202,830
Net increase (decrease) in cash and cash equivalents		24,306	(132,112)
Cash and cash equivalents at beginning of year		119,552	251,664
Cash and cash equivalents at end of year	**$**	**143,858**	**119,552**

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

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

Education and related services (e.g., room, board, etc.) are provided to over 20,000 students, including approximately 12,000 full-time students and 8,300 part-time students, and produced about 11% of the University's operating revenues in 2005 and 2004. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided through more than 1,200 government and private sponsors. Grants, contracts and similar agreements produced approximately 60% of the University's operating revenues in 2005 and 2004. Approximately 90% of the revenues from research and related services come from departments and agencies of the United States Government. Major government sponsors include the Department of Health and Human Services, the Department of Defense, the National Aeronautics and Space Administration and the Agency for International Development; these sponsors provided approximately 36%, 28%, 11% and 5%, respectively, of revenues from grants, contracts and similar agreements in 2005.

Professional medical services are provided by members of the University's faculty to patients at Johns Hopkins Hospital (the Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced about 10% of the University's operating revenues in 2005 and 2004. 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 and Peabody Institute of the City of Baltimore. All significant inter-entity activities and balances are eliminated for financial reporting purposes. Investments in organizations which the University does not control, including Dome Corporation, FSK Land Corporation, Johns Hopkins Healthcare LLC, Johns Hopkins Home Care Group, Inc., and Johns Hopkins International LLC, are accounted for using the equity method. Certain amounts for 2004 have been reclassified to conform to the presentation for 2005.

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. The most significant estimates and judgments affecting the University's financial statements relate to determination of the fair values of nonmarketable investments, the allowances for uncollectible accounts and contributions receivable, the provisions for self-insured liability and property damage claims, the payables and deferred revenues under split interest agreements and the obligations under defined benefit pension and postretirement plans.

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

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

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

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

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

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received, except that contributions which impose restrictions that are met in the same fiscal year are included in unrestricted revenues. Contributions under split interest agreements and contributions received for capital projects or perpetual or term endowment funds are reported as nonoperating revenues. All other contributions are reported as operating revenues. Changes in the nature of any restrictions on contributions due to amendments to or clarifications of agreements with donors are recognized as nonoperating reclassifications of net assets in the period in which the amendments or clarifications are approved. During 2005 and 2004, $574,000 and $21,769,000, respectively, of contributions were reclassified from permanently restricted net assets to unrestricted net assets as a result of clarifications of agreements with certain donors. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures and similar assets held as part of collections are not recognized or capitalized.

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

(d) Cash and Cash Equivalents

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

(e) Deposits with Bond Trustees

Deposits with bond trustees consist of debt service funds and the unexpended proceeds of certain debt. These funds are invested primarily in short-term, highly liquid securities and will be used for construction of or payment of debt service on certain facilities.

(f) Clinical Services

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

(g) 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. Investments in private equity and venture capital and absolute return are valued at the proportionate share of estimated fair values of the underlying investments. The fair values of investments included in private equity and venture capital and absolute return are estimated by the general partners or investment managers. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant. Investment transactions are accounted for on the trade date basis.

Assets of pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains of these funds may be used to support operations provided that the funds have market values in excess of their historical values. The endowment investment pool payout was approximately 5.1% and 5.7% of average market values in 2005 and 2004, respectively.

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

(h) Investment in Property and Equipment

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

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

(i) 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.

(j) Fair Values of Financial Instruments

Fair values of financial instruments approximate their carrying values in the financial statements, except for debt for which fair value information is provided in note 7 and loans receivable from students under loan programs of the United States Government ($26,836,000 and $26,534,000 at June 30, 2005 and 2004, respectively). A reasonable estimate of the fair value of these loans cannot be made because they are not saleable and can only be assigned to the government or its designees.

(k) Affiliated Institutions

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

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

(l) Insurance

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

(m) Sponsored Projects

Revenues under grants, contracts and similar agreements with sponsors are recognized as expenditures are incurred for agreement purposes. These revenues include recoveries of facilities and administrative costs which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions. Facilities and administrative cost recovery revenues for the academic and support divisions of the University were $236,274,000 in 2005 and $227,026,000 in 2004.

(n) Student Financial Aid

The University provides financial aid to eligible students, generally in a "package" that includes loans, compensation under work-study programs and/or grant and scholarship awards. The loans are provided primarily through programs of the United States Government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid and University funds. Grant and scholarship awards were $145,917,000 in 2005 and $135,831,000 in 2004 and are netted against tuition and fees revenues.

(o) Income Taxes

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. No provision for income taxes was required for 2005 or 2004.

(p) Derivative Financial Instruments

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

The University's external investment managers are authorized to use specified derivative financial instruments, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Trustees. Futures contracts, which are commitments to buy or sell designated financial instruments at a future date for a specified price, may be used to adjust asset allocation, neutralize options in securities or construct a more efficient portfolio. The managers have made limited use of exchange-traded interest rate futures contracts. Margin requirements are met in cash; however, the managers settle their positions on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Forward currency contracts, which are agreements to exchange designated currencies at a future date at a specified rate, may be used to hedge currency exchange risk associated with investments in fixed-income securities denominated in foreign currencies and investments in equity securities traded in foreign markets. The managers settle these contracts on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Changes in the market value of the futures and forward currency contracts are included in investment income and were not significant in 2005 or 2004.

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

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The University does not require any collateral under these agreements, but deals only with highly rated financial institution counterparties and expects that they will meet their obligations. Changes in the market value of the interest rate swap agreements are recognized as nonoperating gains or losses in the statements of activities.

(2) Applied Physics Laboratory (APL)

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

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

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

The APL stabilization, contingency and research fund is included in unrestricted net assets and was $269,691,000 and $250,457,000 at June 30, 2005 and 2004, respectively, including net investments in property and equipment of $162,240,000 and $147,450,000, respectively. At June 30, 2005, APL purchase and subcontract commitments were $84,077,000.

(3) Accounts Receivable

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

	2005	**2004**
Reimbursement of costs incurred under grants and contracts	$ 204,754	216,414
Affiliated institutions, primarily the Hospital	27,549	37,770
Students	4,167	6,763
Others	40,261	43,454
Total research, training and other, less allowances of $18,374 in 2005 and $14,668 in 2004	276,731	304,401
Receivables for medical services, less allowances of $83,660 in 2005 and $62,642 in 2004	36,501	37,128
	$ 313,232	**341,529**

(4) Contributions Receivable

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

	2005	**2004**
Unconditional promises scheduled to be collected in:		
Less than one year	$ 40,493	29,887
One year to five years	122,068	107,502
Over five years	28,062	29,981
	190,623	167,370
Less unamortized discount (interest rates ranging from 2.0% to 5.0%) and allowance for uncollectible contributions	37,487	31,817
	$ 153,136	**135,553**

At June 30, 2005 and 2004, 38% and 37%, respectively, of the gross contributions receivable were due from ten donors. Approximately 29% and 35% of contribution revenues for 2005 and 2004, respectively, were from ten donors. At June 30, 2005, the University had also received bequest intentions in excess of $249,000,000 and certain other conditional promises to give. These conditional promises to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

(5) Investments

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

	2005	2004
Cash and cash equivalents	$ 32,029	18,216
United States Government and agency obligations	375,522	344,508
Debt securities	381,709	268,959
Public equities	1,386,764	1,322,417
Private equity and venture capital	120,098	103,792
Real property assets	152,970	86,072
Absolute return	349,122	328,854
Other	84,692	85,059
	$ 2,882,906	**2,557,877**

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

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

	2005	2004
Dividend and interest income	$ 44,343	43,756
Net realized and unrealized gains	208,325	230,205
Investment management fees	(7,189)	(7,536)
Change in value of interests in trusts and endowment funds held by others	(12,540)	1,460
	$ 232,939	**267,885**

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

	2005	2004
Operating	$ 121,671	116,066
Nonoperating	111,268	151,819
	$ 232,939	**267,885**

At June 30, 2005 and 2004, assets of endowment and similar funds, including cash and cash equivalents and investments, amounted to $2,009,841,000 and $1,911,770,000, respectively. Substantially all assets of endowment and similar funds and certain other assets are combined in a common investment pool known as the Endowment Investment Pool (EIP). Purchases and sales of shares in the EIP are made based on the market value per share at the end of the quarter during which the transaction takes place. At June 30, 2005 and 2004, assets of the EIP, including cash and cash equivalents and investments, amounted to $2,155,476,000 and $2,053,848,000, respectively.

At June 30, 2005 and 2004, other investments represent 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, 2005, commitments to fund investments in private equity and venture capital and real property assets were $202,996,000.

(6) Investment in Property and Equipment

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

	2005	2004	Range of useful lives
Land	$ 28,999	29,212	N/A
Land improvements	59,265	55,568	15 years
Buildings and leasehold improvements	1,548,490	1,426,857	10 – 40 years
Equipment and software	492,255	440,694	7 – 15 years
Library collections	167,269	156,004	25 years
Construction in progress	149,968	127,958	N/A
	2,446,246	2,236,293	
Less accumulated depreciation and amortization	1,015,671	907,734	
	$ 1,430,575	**1,328,559**	

(7) Debt

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

	2005	2004
Bonds payable	$ 537,862	476,978
Notes payable	146,899	149,662
Commercial paper revenue notes – tax-exempt	170,100	100,110
Commercial paper revenue notes – taxable	70,988	25,700
Capital lease obligations	2,635	—
	$ 928,484	**752,450**

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

	2005	2004
Revenue Bonds of 1983, 6.00%, due July 2007, net of unamortized discount of $200 and $380	$ 4,010	5,755
Refunding Revenue Bonds of 1997, 5.15% to 5.625%, due July 2027, net of unamortized discount of $212 and $217	12,918	13,218
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $370 and $407	149,675	155,552
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $375 and $431	18,645	19,096
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,365 and $1,378	84,410	84,397
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,561 and $1,586	105,165	105,140
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $1,269 and $1,315	93,774	93,820
Revenue Bonds of 2005A, variable rate, due July 2036	69,265	—
	$ 537,862	**476,978**

The bonds payable outstanding at June 30, 2005 are unsecured general obligations of the University. The loan agreements generally provide for semi-annual payments of interest and annual payments of principal, except that no principal payments are due on the Refunding Revenue Bonds of 2001B, the Revenue Bonds of 2002A or the Revenue Bonds of 2005A prior to maturity. The Revenue Bonds of 2005A bear interest at a variable rate which is reset on a weekly basis (2.23% at June 30, 2005) and provide for monthly payments of interest. The Revenue Bonds of 2004A provide for serial principal payments prior to maturity of $9,100,000, $10,000,000, $10,000,000 and $23,400,000 in 2020, 2024, 2029, and 2033, respectively. The loan agreement relating to the Revenue Bonds of 1983 provides for limitations on the amount of indebtedness the University may incur.

Certain MHHEFA revenue bonds were advance refunded in 1988 using proceeds of an issue of bonds that was later refinanced. The net proceeds were irrevocably placed in trust pursuant to escrow agreements and used to purchase government securities which are payable as to principal and interest at such times and in such amounts as to pay all principal and interest on the refunded bonds. Accordingly, these bonds are considered to have been extinguished and neither the debt ($33,135,000 at June 30, 2005) nor the irrevocable trusts are included in the balance sheets.

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

	2005	2004
MHHEFA note due July 2007	$ 5,635	2,760
MHHEFA note due November 2015	38,963	41,420
MHHEFA note due November 2020	15,477	16,017
MHHEFA note due February 2025	4,370	4,489
MHHEFA note due July 2026	5,853	5,956
Note due July 2004, 3.00% (government subsidized effective rate)	—	30
Note due June 2012, 7.29%	1,710	1,892
Note due December 2019, 8.88%	69,891	72,098
Note due December 2006	5,000	5,000
	$ 146,899	**149,662**

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate (3.50% at June 30, 2005) and are due in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances.

The note due December 2019 is secured by certain of the University's property. The note due June 2012 is an unsecured general obligation of the University and is due in annual installments (with interest payable semi-annually). Under terms of the related loan agreement, the University may be required to provide security for the loan in certain circumstances. The note due December 2019 is due in annual installments with interest payable monthly. The note due December 2006 is an unsecured general obligation of the University, bears interest at a variable rate (8.92% at June 30, 2005) and provides for annual interest payments with principal payments due in full on December 1, 2006.

The commercial paper revenue notes were issued by MHHEFA. Under the commercial paper program, the University may have revenue notes outstanding of up to $400,000,000 to finance and refinance the costs of qualified assets to July 2031. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from that date, although it is anticipated that the University will continuously renew maturing tax-exempt notes for a period of up to 120% of the estimated useful lives of the related assets. The notes outstanding at June 30, 2005 bear interest at a weighted average rate of 2.76%.

Certain of the University's debt agreements include covenants that require the University to maintain minimum levels of financial ratios. The University was in compliance with its covenant requirements as of June 30, 2005.

The University has two interest rate swap agreements to reduce its interest rate risk on a portion of the commercial paper revenue notes and on the Revenue Bonds of 2005A. The agreement related to the commercial paper revenue notes extends through April 2007 and provides for the University to pay a fixed rate of 5.415% and receive a variable rate based on a notional principal amount of $20,100,000. The agreement relating to the Revenue Bonds of 2005A extends through July 2036 and provides for the University to pay a fixed rate of 3.868% and receive a variable rate based on a notional principal amount of $69,265,000.

The University has two interest rate swap agreements to adjust its debt structure in accordance with its policy guidelines. Under the agreements, each with a notional principal amount of $15,000,000, the University receives fixed rates of 2.966% and 3.102%, respectively, and pays floating rates through January 2009 and January 2007, respectively.

The aggregate annual maturities of the bonds and notes payable for the five years subsequent to June 30, 2005 are as follows: 2006, $16,447,000; 2007, $27,504,000; 2008, $16,903,000; 2009, $17,551,000; and 2010, $19,352,000.

Total interest costs incurred and paid were $38,232,000 in 2005 and $31,645,000 in 2004, of which $3,657,000 in 2005 and $6,210,000 in 2004 were capitalized. Interest income of $1,223,000 in 2005 and $1,067,000 in 2004 earned from the investment of the unexpended proceeds of certain tax-exempt borrowings has been applied to reduce the costs of the related assets acquired.

Under terms of a master note agreement with a commercial bank, the University may borrow up to $50,000,000 under a line of credit for APL working capital purposes. Advances under the line of credit are unsecured, due on demand and bear interest at a rate which varies based on certain specified market indices. There were no borrowings outstanding on the line of credit at June 30, 2005 or 2004.

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):

	2005		**2004**	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Variable rate debt	$ 75,298	75,298	75,642	75,642
Fixed rate debt	612,098	645,358	550,998	556,366
Commercial paper revenue notes	241,088	241,088	125,810	125,810
	$ 928,484	**961,744**	**752,450**	**757,818**

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

(8) Refundable Advances from the United States Government

Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds are ultimately refundable to the government and are included in obligations under deferred compensation agreements and other long-term liabilities. These advances totaled $30,344,000 and $31,366,000 at June 30, 2005 and 2004, respectively.

(9) Net Assets

Under accounting principles generally accepted in the United States of America for external financial reporting by not-for-profit organizations, unrestricted net assets are those which are not subject to donor-imposed restrictions. The practices used by the University for internal financial management and reporting purposes differ in certain respects from the practices prescribed for external financial reporting purposes, particularly with respect to the timing of recognition of the release of donor-imposed restrictions on contributions and related investment income and gains. In addition, certain net assets classified as unrestricted for external financial reporting purposes are designated for specific purposes or uses under various internal operating and administrative practices of the University. As a result, substantially all of the net assets classified as unrestricted as of June 30, 2005 and 2004 have been invested in property and equipment or are designated for specific uses.

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

	2005	**2004**
Net investment in property and equipment	$ 568,920	638,457
APL stabilization, contingency and research fund, excluding net investment in property and equipment	107,451	103,007
Funds designated for divisional and departmental support	1,321,585	1,171,719
Student loan funds	13,498	13,450
	$ 2,011,454	**1,926,633**

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

	2005	2004
Contributions designated for departmental and divisional support or facilities	$ 342,939	308,016
Split interest agreements	28,716	31,877
Land subject to time and purpose restrictions	43,280	13,188
	$ 414,935	**353,081**

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

	2005	2004
Perpetual endowment funds	$ 888,392	834,229
Interests in perpetual trusts	50,585	49,594
Split interest agreements	32,596	44,406
	$ 971,573	**928,229**

(10) Affiliated Organizations

(a) The Johns Hopkins Health System Corporation (JHHS)

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

(b) The Hospital

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services by the University, aggregated $108,600,000 in 2005 and $99,000,000 in 2004 and are included in reimbursements from affiliated institutions in the statements of activities. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated $65,000,000 in 2005 and $57,300,000 in 2004 and are included in operating expenses in the statements of activities.

(11) Pension and Postretirement Benefit Plans

The University has several pension plans that are available to substantially all full-time employees. Most of these plans are defined contribution plans for which the University's policy is to fund pension costs as accrued. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was $107,574,000 in 2005 and $101,035,000 in 2004, including $31,594,000 and $30,099,000, respectively, related to pension plans for employees at APL.

The University has retiree benefits plans that provide postretirement medical benefits to employees, including those at APL, who meet specified minimum age and service requirements at the time they retire. The University pays a portion of the cost of participants' medical insurance coverage. The University's portion of the cost for an individual participant depends on various factors, including the age, years of service and time of retirement or retirement eligibility of the participant. The University has established a trust fund for its retiree benefits plans and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost.

The University uses a June 30 measurement date for its defined benefit pension plan and retiree benefit plans. Information relating to the benefit obligation, assets and funded status of the defined benefit pension plan and the postretirement benefit plans as of and for the years ended June 30, 2005 and 2004 is summarized as follows (in thousands):

	Pension Plan		Postretirement Plans	
	2005	**2004**	**2005**	**2004**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 227,780	219,928	173,534	197,732
Service cost	11,940	12,202	5,392	6,130
Interest cost	13,816	12,938	10,553	11,600
Plan participant contributions	—	—	2,831	2,364
Plan amendment	—	—	29,580	(19,313)
Actuarial (gain) loss	34,870	(9,838)	6,077	(14,040)
Benefits paid	(7,938)	(7,450)	(11,807)	(10,939)
Benefit obligation at end of year	280,468	227,780	216,160	173,534
Change in plan assets:				
Fair value of plan assets at beginning of year	211,298	191,290	84,624	64,104
Actual return on plan assets	16,216	27,458	8,367	9,564
University contributions	—	—	18,429	19,531
Plan participant contributions	—	—	2,831	2,364
Benefits paid	(7,938)	(7,450)	(11,807)	(10,939)
Fair value of plan assets at end of year	219,576	211,298	102,444	84,624
Funded status	(60,892)	(16,482)	(113,716)	(88,910)
Unrecognized net actuarial loss	53,819	17,556	79,771	79,399
Unamortized prior service cost (recovery)	1,521	1,794	20,627	(9,505)
Unrecognized transition obligation	—	—	12,050	13,556
Additional minimum pension liability	(22,012)	—	—	—
Prepaid (accrued) benefit cost	**$ (27,564)**	**2,868**	**(1,268)**	**(5,460)**
Amounts recognized in the financial statements include:				
Accrued expenses	$ (5,552)	—	(1,268)	(5,460)
Other assets	1,521	2,868	—	—
Other long-term liabilities	(23,533)	—	—	—
Net amount recognized	**$ (27,564)**	**2,868**	**(1,268)**	**(5,460)**

For the pension plan, the benefit obligation is the projected benefit obligation. For the postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation. The accumulated benefit obligation for the pension plan was $248,661,000 at June 30, 2005 and $201,083,000 at June 30, 2004.

	Pension Plan		Postretirement Plans	
	2005	**2004**	**2005**	**2004**
Weighted average assumptions at June 30:				
Discount rate	5.25%	6.25%	5.25%	6.25%
Expected rate of return on plan assets	8.50%	9.00%	7.00%	7.00%
Rate of increase in health care costs for next year	N/A	N/A	10.00%-11.00%	11.00%-12.00%
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	6.25%	6.00%	6.25%	6.00%
Expected rate of return on plan assets	8.50%	9.00%	7.00%	7.00%
Rate of compensation increase	4.00%	5.00%	N/A	N/A

At June 30, 2005, the accumulated benefit obligation for the pension plan exceeded the plan's assets, thus creating an unfunded accumulated benefit obligation. This required the recognition of a minimum pension liability adjustment of $22,012,000 which is reported as a nonoperating change in unrestricted net assets in the statement of activities for 2005. The additional minimum pension liability is reported with other long-term liabilities and the intangible asset is reported with other assets in the balance sheets.

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

The University's target asset and actual asset allocation by category as of June 30, 2005 and 2004 are as follows:

		Actual Allocation			
		Pension Plan		Postretirement Plans	
	Target Allocation	**2005**	**2004**	**2005**	**2004**
United States equity securities	54%	53%	60%	50%	52%
International equity securities	11	5	12	15	13
Debt securities	35	36	28	32	35
Cash and cash equivalents	—	6	—	3	—
	100%	**100%**	**100%**	**100%**	**100%**

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

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law on December 8, 2003. The Act introduces a Medicare prescription-drug benefit beginning in 2006 as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. Management has concluded that the University's plans are at least "actuarially equivalent" to the Medicare benefit and, accordingly, has included the federal subsidy from the Act in the normal year-end measurement process for the retiree benefit plans at June 30, 2005 and 2004. The effect was to reduce the benefit obligation by $26,255,000 as of June 30, 2004 of which $19,313,000 related to APL employees. The plan covering APL employees was amended during 2004 to integrate with the Act beginning January 1, 2006, and accordingly, the decrease in the benefit obligation related to the APL plan was reported as a plan amendment in the reconciliation of the beginning and ending balances of the benefit obligation for 2004 presented above. Effective July 1, 2005, the APL plan was again amended to remove the integration with the Act and elect the federal subsidy approach beginning January 1, 2006. The net effect of the second amendment was an increase in the APL's net benefit obligation of approximately $5,000,000 at June 30, 2005 which is reported as an increase in the net benefit obligation due to a plan amendment of $29,580,000, partially offset by an actuarial experience gain of $24,580,000. The actuarial loss of $6,077,000 reported in the change in benefit obligation in 2005 is attributable primarily to a decrease in the discount rate from 6.25% to 5.25% and other demographic changes, partially offset by the gain related to the election of the federal subsidy approach for the APL plan. The other University plan was not amended to integrate with the Act and the decrease in the benefit obligation of $6,955,000 was reported in 2004 as an actuarial experience gain. The impact of the Act on net periodic postretirement benefit cost and on benefits paid in future years is not expected to be material.

The University expects to contribute $17,437,000 to its postretirement benefit plans in 2006, including $10,612,000 related to APL. The University does not expect to make a contribution to the pension plan in 2006.

The benefits expected to be paid in the five years subsequent to June 30, 2005 and in aggregate for the five years thereafter are as follows (in thousands):

	Pension Plan	**Postretirement Plans**
2006	$ 8,222	9,138
2007	8,661	8,574
2008	9,121	9,103
2009	9,766	9,650
2010	10,477	10,178
2011 – 2015	68,979	57,898

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

	2005	**2004**
Service cost	$ 11,940	12,202
Interest cost on accumulated benefit obligation	13,816	12,938
Amortization of prior service cost	273	272
Amortization of actuarial loss	—	1,421
Expected return on plan assets	(17,609)	(16,866)
	$ 8,420	**9,967**

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

	2005	**2004**
Service cost	$ 5,392	6,130
Interest cost on accumulated benefit obligation	10,553	11,600
Amortization of transition obligation	1,506	2,562
Amortization of prior service cost	(552)	77
Amortization of actuarial loss	3,629	4,746
Expected return on plan assets	(6,095)	(4,876)
	$ 14,433	**20,239**

The rate of increase in health care costs was assumed to decrease to 5.5% in 2011 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the reported postretirement benefit cost and obligation. A one-percentage point change in the assumed rates used at June 30, 2005, would have the following effects (in thousands):

	Increase	Decrease
Total service and interest cost components	$ 2,480	(1,928)
Postretirement benefit obligation	31,404	25,065

(12) Functional Expense Information

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

	2005	2004
Instruction, research and clinical practice:		
Academic and support divisions	$ 1,917,289	1,765,780
APL contracts	628,965	623,225
Student services	58,741	54,029
Libraries	31,620	29,330
General services and administration	196,518	176,667
Auxiliary enterprises	67,706	63,476
	$ 2,900,839	**2,712,507**

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities. Fundraising costs were not significant in 2005 or 2004.

(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, 2006.

The University leases certain other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2016, subject to renewal options in certain cases. Certain of these facilities are leased from Dome Corporation or other affiliated organizations.

The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases are as follows at June 30 (in thousands):

	Affiliates	Others	Total
2006	$ 15,452	22,423	37,875
2007	14,072	20,473	34,545
2008	9,256	18,581	27,837
2009	7,265	16,252	23,517
2010	6,663	10,448	17,111
After 2010	12,289	31,561	43,850
	$ 64,997	**119,738**	**184,735**

(14) Other Commitments and Contingencies

At June 30, 2005, the University had the following additional commitments and guarantees relating to affiliated organizations:

• The University has guaranteed timely payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for Johns Hopkins Medical Institutions Utilities, LLC (JHMI Utilities). JHMI Utilities is equally owned by the Hospital and the University and will use the proceeds of the 2005B Bonds ($24,300,000) and the 2005A Bonds ($24,545,000) guaranteed by the Hospital to finance the construction, renovation and equipping of a central power plant serving primarily the facilities of the Hospital and University in East Baltimore. The University's guarantee continues until maturity of the bonds in 2035.

• The University has also provided a guarantee of principal and interest payments related to a loan granted to JHMI Utilities under the MHHEFA Pooled Loan Program. This loan of up to $24,205,000, in addition to a pooled loan of up to $16,500,000 guaranteed by the Hospital, will also be used to finance the central power plant project. The University's guarantee continues until maturity of the loan in 2012.

• The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of $385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.

• The University has guaranteed payment of up to $1,400,000 of debt obligations of Dome Corporation under terms of a credit enhancement agreement relating to financing of certain properties and, together with JHHS, has agreed to provide Dome Corporation with funds required, if any, to meet its obligations under the agreement.

• The University, through a participation agreement with an unrelated third party, has guaranteed payment of certain financing of East Baltimore Development, Inc. up to $3,750,000.

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

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

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