Performance Goal: Establish a transparent financial reporting system available and understood by all Johns Hopkins Medicine constituencies.

For Johns Hopkins Medicine to continue carrying out our three-part mission in research, education and patient care, we must first meet our financial goals. A healthy bottom line means we have resources to invest in finding treatments, providing top-notch care and training tomorrow’s leaders.

But, like all health care systems, Johns Hopkins Medicine is seeing a flattening in revenue as expenses continue to grow. Maintaining our fiscal stability—particularly in light of the changes facing health care and the tough economic climate—requires that we set up smart processes, efficient systems and financial controls.

The Johns Hopkins Medicine budget affects every one of our 41,000-plus faculty, staff, students and trainees. Everyone—from our frontline support staff, to our clinicians and researchers, to our students and trainees—plays an invaluable role in helping create efficiencies and cost savings for sustainable financial success throughout the enterprise.

This special insert provides an overview of the Johns Hopkins Medicine capital and operating budgets for fiscal year 2015. It is designed to help you understand our sources of revenue, our expenses and challenges, and how the Strategic Plan is guiding our decisions for future growth and development.

1

**ABOUT THE FISCAL YEAR 2015 BUDGET**

We face significant operating and financing challenges in 2015, but Johns Hopkins Medicine is well positioned to meet these challenges through our:

- Commitment to mission and values
- Excellent workforce
- Portfolio of high-quality and diverse operating entities
- Strong system of governance and management
- Disciplined approach to setting and meeting targets
- Continued organizational realignment and consolidation
- Focus on safety, quality and value through the Armstrong Institute for Patient Safety and Quality

We have made significant new commitments in human resources and financial investments, including:

- Workforce initiatives
- Growth of academic programs
- Development of a comprehensive provider network
- Improved patient access
- Epic
- Managed care workforce
- Maximizing the value of intellectual property

2

**MAJOR REVENUE ASSUMPTIONS**

- Strong demand for Johns Hopkins Medicine services
- Strong interest in Johns Hopkins Medicine as a strategic partner both domestically and internationally
- Maryland hospital revenues reflect the recently negotiated Global Budget Revenue agreements with the Health Services Cost Review Commission
- Continued rate constraints in fiscal year 2015 for Medicare and US Family Health Plan as the federal government attempts to lower its costs
- Slightly improved reimbursements for physician services and continued reductions in home care reimbursement
- Fundraising is critical to support Johns Hopkins Medicine core mission
- Continued growth of international operations

3

**MAJOR EXPENSE ASSUMPTIONS**

- Major effort for supply chain expense reductions
- Prioritization of the Strategic Plan, with over $17 million committed to specific plan initiatives, making the Strategic Plan the driving force in the budget
- Significant targeted expense reductions needed to achieve budgeted income from operations

A FEW OF THE WAYS YOU CAN HELP:

- Carry out your job responsibilities in the most efficient way.
- Identify, share and adopt opportunities for efficiency and cost savings in partnership with your colleagues and supervisor.
- Go to a Johns Hopkins physician or location when you or your family members need health care.
- Use the Johns Hopkins pharmacies; employees receive a discount depending on the type of prescription.

This special insert provides an overview of the Johns Hopkins Medicine capital and operating budgets for fiscal year 2015. It is designed to help you understand our sources of revenue, our expenses and challenges, and how the Strategic Plan is guiding our decisions for future growth and development.

**FISCAL YEAR 2015 BUDGET SUMMARY:**

- **$7.177 billion budgeted net revenue**
- **Expenses of $6.995 billion**
- **Budgeted operating income** of $182.3 million with 2.5% operating margin versus fiscal year 2014 actual of $180 million (2.7%)**
- **Performance improvements** of $95 million assumed in operations
- **Strategic Plan-driven expenses** of $51 million budgeted (not including Epic costs)
- Slight reduction in **budgeted cash and investments**
- **Net assets** expected to increase by 6.5%
Fiscal Year 2015 Budget—Income/(Loss) from Operations ($ thousands)

<table>
<thead>
<tr>
<th>Division</th>
<th>Net Revenue</th>
<th>Expenses</th>
<th>Operating Income/Loss</th>
<th>Operating Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Hospital Division</td>
<td>$2,640,141</td>
<td>$2,543,541</td>
<td>$96,600</td>
<td>3.7%</td>
</tr>
<tr>
<td>Community Hospital Division</td>
<td>814,398</td>
<td>777,798</td>
<td>36,600</td>
<td>4.5%</td>
</tr>
<tr>
<td>All Children’s Hospital</td>
<td>453,094</td>
<td>397,849</td>
<td>55,245</td>
<td>6.0%</td>
</tr>
<tr>
<td>JHU School of Medicine</td>
<td>2,001,400</td>
<td>2,002,400</td>
<td>10,000</td>
<td>0.1%</td>
</tr>
<tr>
<td>Johns Hopkins Health System - Other</td>
<td>904,730</td>
<td>890,687</td>
<td>14,043</td>
<td>1.6%</td>
</tr>
<tr>
<td>Johns Hopkins Community Physicians</td>
<td>205,409</td>
<td>202,914</td>
<td>2,495</td>
<td>1.2%</td>
</tr>
<tr>
<td>Johns Hopkins HealthCare</td>
<td>1,524,827</td>
<td>1,460,484</td>
<td>64,343</td>
<td>4.2%</td>
</tr>
<tr>
<td>Johns Hopkins Medicine International</td>
<td>104,508</td>
<td>90,008</td>
<td>14,500</td>
<td>13.9%</td>
</tr>
<tr>
<td>Johns Hopkins Home Care Group</td>
<td>137,255</td>
<td>135,135</td>
<td>2,120</td>
<td>1.5%</td>
</tr>
<tr>
<td>Elimination of Duplicate Entries</td>
<td>(1,588,935)</td>
<td>(1,505,109)</td>
<td>(83,826)</td>
<td></td>
</tr>
</tbody>
</table>

Fiscal Year 2015 Total Budget $7,177,027  $6,994,707  $182,320  2.5%

Fiscal Year 2014 Total (Actual) $180,018  2.7%

KEY CHALLENGES TOWARD ACHIEVING BUDGET

1. Negotiating equitable reimbursement rates
2. Responding to the incentives inherent in the new hospital reimbursement system
3. Meeting goals for fundraising and governmental support
4. Meeting budgeted growth while addressing capacity and productivity
5. Controlling cost while addressing competitive compensation for faculty and staff; continuing to absorb high rates of increase in other components of the budget, e.g., new technology, safety initiatives, compliance issues, interest on debt, depreciation and benefits
6. Meeting projections for medical expenses incurred through managed care products
7. Maximizing the value of completed hospital mergers and consolidations; evaluating new merger and affiliation opportunities
8. Improving faculty and staff efficiency

STRATEGIC PLAN-DRIVEN INVESTMENTS

High-Impact Expenses by Strategic Priority

- People $10,500,000
- Biomedical Discovery $7,000,000
- Patient- and Family-Centered Care $5,400,000
- Education $2,800,000
- Integration $8,400,000
- Performance $17,100,000

FISCAL YEAR 2015 PROPOSED CAPITAL BUDGET EXPENDITURE by entity or project ($ million)

- $104 Sibley Memorial Hospital
- $65 Johns Hopkins Bayview Medical Center
- $59 Johns Hopkins University School of Medicine
- $40 Johns Hopkins Health System
- $37 Suburban Hospital
- $34 All Children’s Hospital
- $19 Howard County General Hospital
- $136 The Johns Hopkins Hospital

FISCAL YEAR 2015 FUNDING SOURCES ($ million)

- $13 Sponsored Funds/Grants
- $13 Fundraising
- $104 Debt
- $399 Operating Cash

CAPITAL INVESTMENTS

The proposed fiscal year 2015 spending demonstrates Johns Hopkins Medicine’s commitment to grow in key and strategic markets while also reducing capital consumption to best address health care reform.

SIGNIFICANT CAPITAL ITEMS

- Johns Hopkins Medicine:
  - Development for the planned expansion of Pavilion 3 at Green Spring Station, including land acquisition
  - Continued implementation of Epic

- The Johns Hopkins Hospital:
  - Completion of the 136 private inpatient bed renovation for Nelson/Harvey
  - Continuation of planning and design of the Vitragh Building, which will house oncology multidisciplinary clinics and all solid tumor infusions

- Johns Hopkins Bayview Medical Center:
  - Completion of an oncology center focusing on lung cancer
  - Expansion of the Emergency Department

- All Children’s Hospital:
  - Planning for a new research and education building

- Sibley Memorial Hospital:
  - Continued work on a modern bed tower and a proton therapy facility

- Suburban Hospital:
  - Continuation of the campus enhancement project, which will result in a replacement hospital facility in approximately five years