

CASE WESTERN RESERVE UNIVERSITY

**Report on Federal Awards in Accordance
With OMB Circular A-133 for the Year Ended
June 30, 2013**

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CASE WESTERN RESERVE UNIVERSITY

REPORT ON FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133

June 30, 2013

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FINANCIAL



Independent Auditor's Report

To the Board of Trustees,
Case Western Reserve University:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Case Western Reserve University, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Case Western Reserve University as of June 30, 2013, and the changes in their net assets



and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We have previously audited Case Western Reserve University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2013 on our consideration of Case Western Reserve University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2013. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Case Western Reserve University's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 5, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| <i>in thousands of dollars</i> | For the year ended June 30 | |
|---|-------------------------------|---------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Cash and cash equivalents | \$ 151,100 | \$ 133,905 |
| Operating investments, at market | 112,618 | 87,304 |
| Accounts and loans receivable, net | 100,734 | 102,681 |
| Pledges receivable, net | 93,423 | 69,126 |
| Prepaid expenses and other assets | 7,448 | 6,979 |
| Investments, held for long-term purposes | 1,266,661 | 1,229,017 |
| Funds held in trust by others | 305,682 | 285,756 |
| Property, plant, equipment and books, net | 724,547 | 730,637 |
| TOTAL ASSETS | \$ 2,762,213 | \$ 2,645,405 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 57,116 | \$ 66,376 |
| Deferred income and other liabilities | 53,605 | 61,120 |
| Annuities payable | 41,550 | 41,454 |
| Refundable advances | 7,541 | 5,449 |
| Accrued pension liability | 40,778 | 63,291 |
| Notes and bonds payable | 601,980 | 559,978 |
| Refundable federal student loans | 23,735 | 23,088 |
| TOTAL LIABILITIES | \$ 826,305 | \$ 820,756 |
| NET ASSETS | | |
| Unrestricted | \$ 164,526 | \$ 146,716 |
| Temporarily restricted | 845,028 | 793,989 |
| Permanently restricted | 926,354 | 883,944 |
| TOTAL NET ASSETS | \$ 1,935,908 | \$ 1,824,649 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,762,213 | \$ 2,645,405 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2012

| <i>in thousands of dollars</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | For the year ended June 30 | |
|--|-------------------|---------------------------|---------------------------|-------------------------------|---------------------|
| | | | | 2013 | 2012 |
| OPERATING REVENUES | | | | | |
| Student tuition and fees | \$ 346,792 | | | \$ 346,792 | \$ 317,861 |
| Less: Student aid | (137,534) | | | (137,534) | (118,152) |
| | 209,258 | | | 209,258 | 199,709 |
| Investment returns distributed for operations | 60,568 | | | 60,568 | 60,833 |
| FHBO returns distributed | 12,870 | \$ 1,061 | | 13,931 | 13,326 |
| Investment returns on operating investments | 13,642 | | | 13,642 | 10,006 |
| Grants and contracts | 252,854 | | | 252,854 | 265,888 |
| CCLCM grants and contracts | 91,316 | | | 91,316 | 92,961 |
| Gifts & Pledges | 3,703 | 55,798 | \$ 17,997 | 77,498 | 62,165 |
| State of Ohio appropriation | 2,758 | | | 2,758 | 2,744 |
| Facilities and administrative cost recovery | 76,196 | | | 76,196 | 79,607 |
| Organized activities | 13,542 | | | 13,542 | 11,927 |
| Other sources | 37,835 | | 527 | 38,362 | 40,534 |
| Auxiliary services - students | 45,330 | | | 45,330 | 39,788 |
| Auxiliary services - other | 12,920 | | | 12,920 | 11,214 |
| Net assets released from restrictions | 38,108 | (38,240) | 132 | - | - |
| TOTAL OPERATING REVENUES | \$ 870,900 | \$ 18,619 | \$ 18,656 | \$ 908,175 | \$ 890,702 |
| OPERATING EXPENSES | | | | | |
| Instructional | 287,539 | | | 287,539 | 269,966 |
| Sponsored research and training | 257,272 | | | 257,272 | 269,865 |
| Other sponsored projects | 25,834 | | | 25,834 | 27,153 |
| CCLCM research and training | 91,316 | | | 91,316 | 92,961 |
| Libraries | 22,466 | | | 22,466 | 22,279 |
| Student services | 23,304 | | | 23,304 | 22,780 |
| University services | 92,230 | | | 92,230 | 90,404 |
| Auxiliary services - students | 50,342 | | | 50,342 | 47,376 |
| Auxiliary services - other | 15,661 | | | 15,661 | 11,595 |
| TOTAL OPERATING EXPENSES | \$ 865,964 | \$ - | \$ - | \$ 865,964 | \$ 854,379 |
| NET OPERATING ACTIVITY | \$ 4,936 | \$ 18,619 | \$ 18,656 | \$ 42,211 | \$ 36,323 |
| NON-OPERATING ACTIVITIES | | | | | |
| Long-term investment activities | | | | | |
| Investment income | \$ 4,493 | 16,246 | 8,226 | \$ 28,965 | \$ (15,540) |
| Net appreciation | (1,619) | 62,016 | 19,926 | 80,323 | (45,393) |
| Total long-term investment activities | 2,874 | 78,262 | 28,152 | 109,288 | (60,933) |
| Long-term investment income and gains distributed for operations | (60,568) | | | (60,568) | (60,833) |
| Change in liabilities due under life-income agreements | | | (3,492) | (3,492) | (4,472) |
| Loss on disposal of plant assets | (3,144) | | | (3,144) | (1,680) |
| Pension plan changes other than periodic benefit costs | 26,964 | | | 26,964 | (55,655) |
| Other non-operating activity | - | | | - | (1,642) |
| Net assets released from restrictions | 46,748 | (45,842) | (906) | - | - |
| NET NON-OPERATING ACTIVITY | \$ 12,874 | \$ 32,420 | \$ 23,754 | \$ 69,048 | \$ (185,215) |
| CHANGE IN NET ASSETS | \$ 17,810 | \$ 51,039 | \$ 42,410 | \$ 111,259 | \$ (148,892) |
| Beginning Net Assets | 146,716 | 793,989 | 883,944 | 1,824,649 | 1,973,541 |
| ENDING NET ASSETS | \$ 164,526 | \$ 845,028 | \$ 926,354 | \$ 1,935,908 | \$ 1,824,649 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>in thousands of dollars</i> | For the year ended June 30 | |
|---|-------------------------------|-------------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 111,259 | \$ (148,892) |
| <i>Adjustments to reconcile change in net assets to net (cash used for) provided by operating activities:</i> | | |
| Depreciation | 62,169 | 63,356 |
| Amortization of bond issuance costs | 125 | 98 |
| Amortization of bond premiums | (1,504) | (755) |
| Increase in capital appreciation notes | 602 | 1,044 |
| Net unrealized depreciation in the fair market value of investments | (71,968) | 34,371 |
| Realized gains on investments | (33,130) | (6,897) |
| Increase to annuities payable resulting from actuarial adjustments | 3,492 | 4,472 |
| Gifts of property and equipment | (59) | (377) |
| Receipt of contributed securities | (3,566) | (3,429) |
| Loss on disposal of plant assets | 3,144 | 1,680 |
| Contributions restricted for long-term investment | (11,733) | (20,729) |
| Decrease in accounts and loans receivable, net | 1,974 | 19,938 |
| Increase in pledges receivable, net | (24,297) | (6,936) |
| (Increase) decrease in prepaid expenses and other assets | (593) | 1,346 |
| (Increase) decrease in funds held in trust by others | (18,475) | 12,012 |
| (Decrease) increase in accounts payable and accrued expenses | (10,356) | 8,450 |
| (Decrease) increase in deferred income and other liabilities | (7,515) | 11,705 |
| Increase (decrease) in refundable advances | 2,093 | (1,055) |
| (Decrease) increase in accrued pension liability | (22,514) | 40,709 |
| NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES | \$ (20,852) | \$ 10,111 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Student loans | | |
| Collected | \$ 6,859 | \$ 6,899 |
| Issued | (6,886) | (7,839) |
| Proceeds from the sale of investments | 2,012,876 | 2,713,818 |
| Purchase of investments | (1,968,622) | (2,654,842) |
| Proceeds from the sale of plant assets | 316 | 1,005 |
| Purchases of property, plant, equipment and books | (58,383) | (50,948) |
| NET CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES | \$ (13,840) | \$ 8,093 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in federal advances for student loans | \$ 646 | \$ 3,202 |
| Contributions restricted for long-term investment | 11,733 | 20,729 |
| Proceeds from short-term debt | 45,000 | 15,000 |
| Repayment of short-term debt | (20,000) | (15,000) |
| Proceeds from commercial paper | 27,000 | - |
| Proceeds from notes and bonds payable | 7,256 | - |
| Repayment of notes and bonds payable | (16,352) | (10,489) |
| Increase to annuities payable resulting from new gifts | 291 | 1,147 |
| Decrease to annuities payable resulting from payments | (3,687) | (4,788) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | \$ 51,887 | \$ 9,801 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | \$ 17,195 | \$ 28,005 |
| Cash and cash equivalents, beginning of year | 133,905 | 105,900 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 151,100 | \$ 133,905 |
| SUPPLEMENTAL DATA: | | |
| Interest paid in cash | \$ 14,657 | \$ 16,968 |
| Construction in progress payments included in accounts payable | 3,190 | 2,093 |

The accompanying notes are an integral part of the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Case Western Reserve University ("the University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2013, and for the year then ended, as well as summarized information for the year ended June 30, 2012, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

The University wholly owns two subsidiaries. Triangle Residential LP is a limited partnership formed in 2005 that owns and operates two apartment buildings and a parking garage located in the Ford-Euclid-Mayfield Road area. The University is the sole limited partner. The general partner is Triangle Residential LLC, also a wholly-owned subsidiary of the University, formed in 2005. All material transactions between the University and its subsidiaries have been eliminated.

Net Asset Categories

Standards for external financial reporting by not-for-profit organizations require that resources be classified for reporting purposes into three net asset categories according to donor-imposed restrictions:

UNRESTRICTED net assets are available for any purpose consistent with the University's mission. Unrestricted net assets and related activity include the following:

- All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts, investment returns on unrestricted funds designated to function as endowment, recovery of facility and administrative costs from grants and contracts, and auxiliary services revenues
- Revenues related to sponsored research and other sponsored program agreements which are considered exchange transactions
- Unrestricted funds functioning similar to endowment and related investment returns
- Gifts with donor-imposed restrictions, if the restriction is anticipated to be met within the current fiscal year of the University
- Investments in plant assets
- All expenses of the University

TEMPORARILY RESTRICTED net assets include investment returns from endowments and gifts for which donor-imposed restrictions have not been met. This restriction on temporarily restricted endowment returns (income and realized and unrealized gains and losses) is released when appropriations are distributed for use and the funds have been spent. The category also includes pledges receivable and life-income gifts for which the ultimate purpose of the proceeds is not permanently restricted.

PERMANENTLY RESTRICTED net assets include gifts, trusts and pledges on which donors have imposed the restriction that the corpus is maintained in perpetuity and only the investment returns be made available for program operations. In the case of trusts, gains and losses are added to the gift amount. Gifts restricted by donors to provide loans to students are also included in permanently restricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Donor required matching from University funds and donor release or clarification of restrictions is also included in this category.

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 958, "Not for Profit Entities," in August 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and expanded disclosures about an organization's endowment (both donor-restricted and board-designated funds).

The University's Board of Trustees ("the Board") has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated and expended by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Contributions

Contributions, including unconditional pledges to give and irrevocable trusts held by others with the University as the beneficiary, are recognized as revenues in the period received or promised. They are classified as unrestricted, temporarily restricted, or permanently restricted net assets depending upon the donor's intent.

Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets when the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts whose restrictions are met in the same fiscal year in which they are received are reported with unrestricted contribution revenues. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted using a market rate (Note 3).

Grants and Contracts (Government and Private)

Revenues from government and private grants and contracts are recognized as earned in accordance with the terms of the grant or contract. Any government payment received before it has been expended is recorded as a refundable advance. Projects funded by government grants that incur expenses prior to payment receipt are recorded as revenue with a corresponding receivable.

Investment Returns on Operating Investments

The University has invested excess operating funds and certain Board-designated funds with the University's investment pool. The operating funds are invested alongside other funds and receive a pro-rata portion of income, expenses, gains, and losses of the pool.

Cash and Cash Equivalents

The University considers all highly liquid investments with an original maturity of 90 days or fewer when purchased as cash and cash equivalents, except those amounts managed by investment managers as part of the investment pool that do not belong to operations, or unspent bond proceeds, which are classified as investments. The University maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

Operating Investments, at Market

Operating investments include all other current investments with original maturities greater than 90 days that are used to support operations. These investments include obligations of triple A rated banks, various United States Government agencies, and internal operating funds invested in the University's investment pool. Although the pool primarily invests in mid to long term investments, the pool maintains a sufficient investment mix that allows operating assets to be liquidated upon demand.

Investments

Investments are made within guidelines authorized by the Board. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date.

Endowment returns are calculated net of internal and external investment management expenses.

Investments are stated at fair value as defined by ASC 820, "Fair Value Measurements and Disclosures." Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability, i.e., an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Realized gains and losses on investments are included in investment income. Average cost is generally used to determine gains or losses on securities sold. Unrealized changes in the fair value of investments are shown as net unrealized appreciation or depreciation.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis (Note 6). The three levels of inputs are as follows:

Level 1 — Quoted unadjusted prices in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and volume to produce pricing information on an ongoing basis. Market price data are generally obtained from exchange or dealer markets.

Level 2 — Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices

for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Collections

The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. Their value is not reflected in the University's consolidated financial statements.

Funds Held in Trust by Others

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2013 and 2012, which approximates the present value of the future income flows from these funds.

Income received from funds held in trust by others is classified as temporarily restricted net assets until those amounts are appropriated and expended by the University. Income appropriated within the same year is classified as unrestricted. Unrealized changes in the fair value of investments are shown as net unrealized appreciation or depreciation in permanently restricted net assets.

Fixed Assets

When capital assets are sold or disposed, the carrying value of such assets and any accumulated depreciation are removed from the asset accounts. Any resulting gain or loss on disposal is recognized in the non-operating portion of the statement of activities.

Expenditures for construction in progress are capitalized as incurred and depreciated when placed into service. All identifiable direct costs including other costs incurred to ready

the asset for its intended use are included in the cost of the project. The University capitalizes interest on borrowings to finance facilities, net of any investment income earned through the temporary investment of project borrowings, during construction until the project has been substantially completed.

Asset Retirement Obligations

The University accounts for asset retirement obligations in accordance with ASC 410, "Asset Retirement Environmental Obligations." The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

Allocation of Certain Expenses

The consolidated statement of activities presents expenses by function. Some expenses — such as depreciation, amortization, and expenses related to the operation of the physical plant — are allocated by square footage. Interest expense is allocated to the functions that derive the greatest benefit from the facilities financed.

Retirement Plans

The University accounts for its defined benefit postretirement plan in accordance with ASC 715 "Compensation - Retirement Plans." The University recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated statement of financial position in the year in which the change occurs, with an offsetting impact to unrestricted net assets.

Use of Estimates

Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At

June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

Comparative Information

The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ending June 30, 2012, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c)(3) of the Internal Revenue Code. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2013 and 2012. ASC 740, "Income Taxes," prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification and disclosure requirements for uncertain tax provisions. The University has no financial reporting requirements associated with ASC 740 for the years ended June 30, 2013 and 2012.

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| ACCOUNTS RECEIVABLE, NET | | |
| Grants, contracts and others | \$ 46,273 | \$ 49,414 |
| Students | 2,961 | 1,934 |
| STUDENT LOANS, NET | 51,500 | 51,333 |
| ACCOUNTS AND LOANS RECEIVABLE, NET | \$ 100,734 | \$ 102,681 |
| Allowances for doubtful accounts: | | |
| Accounts receivable | \$ 2,969 | \$ 3,496 |
| Loans receivable | \$ 2,788 | \$ 2,076 |

Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluations of the various components of the accounts receivable and student loan portfolios, including such factors as the differing economic risks associated with each category, the financial condition of specific borrowers, the economic environment in which the borrowers

operate, the level of delinquent loans, and the past history of the various borrowers and the University.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the various receivables and loans, and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Management considers the allowance for doubtful accounts losses to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2013, is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. Unconditional promises to give at June 30, 2013 and 2012, are expected to be realized in the following periods:

| | 2013 | 2012 |
|--------------------------------------|------------------|------------------|
| In one year or less | \$ 14,190 | \$ 11,173 |
| Between one year and five years | 76,374 | 55,015 |
| More than five years | 17,485 | 13,805 |
| | 108,049 | 79,993 |
| Less: Discount | (8,278) | (6,911) |
| Less: Allowance | (6,348) | (3,956) |
| TOTAL PLEDGES RECEIVABLE, NET | \$ 93,423 | \$ 69,126 |

Management follows a similar approach as described in Note 2 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts to be prudent and reasonable. Management believes that the

allowance for doubtful accounts at June 30, 2013, is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2013 and 2012, had the following restrictions:

| | 2013 | 2012 |
|--|------------------|------------------|
| Department programs and activities | \$ 42,522 | \$ 32,277 |
| Endowments for scholarships and department programs and activities | 21,584 | 18,270 |
| Building construction | 29,317 | 18,579 |
| TOTAL PLEDGES RECEIVABLE, NET | \$ 93,423 | \$ 69,126 |

Uncollectible pledges totaling \$1,122 (2013) and \$4,042 (2012) were written off against the allowance for uncollectible pledges.

The University had conditional pledge commitments totaling \$54,016 (2013) and \$48,048 (2012).

4. LONG TERM INVESTMENTS

The University holds long term investments for permanently restricted endowment funds, donor-restricted funds, annuity assets, Board-designated funds and excess operating assets that are able to be invested in longer term investments. The

University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (see Note 5). The University's long term investments at June 30, 2013 and 2012, were as follows

| | 2013 | 2012 |
|--------------------------------|---------------------|---------------------|
| Cash & cash equivalents | \$ 88,581 | \$ 53,799 |
| Domestic stocks | 54,307 | 68,117 |
| International securities | 24,580 | 36,444 |
| Bonds | | |
| Government and municipal | 17,079 | 28,503 |
| Corporate | 17,399 | 26,947 |
| Mutual funds | 142,592 | 183,080 |
| Derivatives | 8,318 | 11,217 |
| Limited partnerships and other | | |
| Venture capital | 93,887 | 78,331 |
| Private equity | 252,221 | 267,556 |
| Hedge funds | 477,569 | 412,188 |
| Other | 90,348 | 48,521 |
| Equity real estate | 112,398 | 101,618 |
| TOTAL INVESTMENTS | \$ 1,379,279 | \$ 1,316,321 |

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Operating investments, at market | \$ 112,618 | \$ 87,304 |
| Investments, held for long term purposes | 1,266,661 | 1,229,017 |
| TOTAL INVESTMENTS | \$ 1,379,279 | \$ 1,316,321 |

Investment returns shown on the statement of activities are netted against investment management fees of \$14,419 (2013)

and \$12,492 (2012). The investments were held for the following purposes:

| | 2013 | 2012 |
|--------------------------------------|---------------------|---------------------|
| Endowment | \$ 989,475 | \$ 911,980 |
| Donor restricted funds | 272,331 | 247,219 |
| University investments | 58,039 | 97,816 |
| Annuities | 51,177 | 51,450 |
| Funds held for the benefit of others | 8,257 | 7,856 |
| TOTAL INVESTMENTS | \$ 1,379,279 | \$ 1,316,321 |

5. ENDOWMENT AND SIMILAR FUNDS

Endowment Funds

The purpose of endowment funds is to generate in perpetuity revenue to support specific activities or for general institutional use. Endowments represent only those net assets that are under the control of the University. Gift annuities, interests in funds held in trust by others and pledges designated for the endowment but not yet received are not considered components of the endowment.

The state of Ohio has enacted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA stipulates that unless directed otherwise in the gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. Accordingly, the following items are recorded as permanently restricted net assets:

- The original value of initial gifts donated to the permanent endowment
- The original value of subsequent gifts to the permanent endowment
- For those endowment funds with donor-specified reinvestment provisions, accumulations to the permanent

endowment made in accordance with the gift instrument at the time the accumulation is added to the fund.

The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated and spent in accordance with the endowment purpose by the University.

Similar Funds

The University has made the decision to co-invest and treat in a similar fashion as endowment funds, certain funds that have been purpose-restricted by donors. These funds were not given to the University with the understanding that the gift amount would be maintained in perpetuity; however, the Board has elected to treat these funds in the same fashion as an endowment fund. Accordingly, the Board, at its option, may elect to change that treatment and spend these funds in accordance with donor wishes without the constraints of the University endowment spending formula. These funds follow the same rules as above; however, no portion is permanently restricted.

The breakdown of these classifications is:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2013 | 2012 |
| Donor restricted endowment funds | \$ (18,154) | \$ 461,264 | \$ 546,365 | \$ 989,475 | \$ 963,263 |
| Donor purpose restricted funds | | 266,604 | | 266,604 | 260,630 |
| TOTAL ENDOWMENT AND SIMILAR FUNDS | \$ (18,154) | \$ 727,868 | \$ 546,365 | \$ 1,256,079 | \$ 1,223,893 |

Investment Pool

The Board's interpretation of its fiduciary responsibilities for endowment and similar funds is to preserve intergenerational equity to the extent possible. This principle holds that future beneficiaries should receive at least the same level of economic support that the current generation enjoys. To that end, investment goals are formulated to earn returns over the long-term that equal or exceed the Board-approved distribution rates plus the impacts of inflation. The University's endowment and similar funds are invested in a broadly diversified portfolio

designed to produce long-term rates of return that sustain or increase the real spending contribution from endowed and similar assets and to mitigate downturns in a single sector.

Unless otherwise directed in the gift instrument, both endowment and similar funds are pooled for efficient investment purposes.

The pool is accounted for on a dollarized method of accounting similar to a money market fund where each unit is worth \$1 and

accounted for on a per endowment or account basis. The total investment return for the pooled investments, net of external manager fees, approximated 7.52% (2013) and -1.58% (2012).

Spending Policy

The Board has approved an endowment spending policy for pooled investments based on a hybrid formula. The objective of this two-pronged approach is to provide support for operations, preserve intergenerational equity, and insulate programming supported by endowment and similar funds from short-term fluctuations in the investment markets. The two components are:

- A constant growth component which seeks to provide growth in annual spending equal to the rate of academic inflation as measured by the Higher Education Price Index
- A market value component based on 5% of the average of the three previous calendar year-end market values

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves the operating budget for the following year. The fiscal 2013 and 2012 pooled endowment and similar funds spending allocation approximated 5.27% and 4.76% respectively of beginning market value. The total amount allocated was \$64,443 and \$63,769 respectively.

While the policy provides guidance for the level of spending permitted (allocation), the actual spending will vary from the spending allocation based on the timing of actual expenditures. Funds are transferred from the investment pool to the

University's operating account after they have been spent in accordance with the endowment and similar funds requirements. The actual movement of cash and investments between the investment pool and operating accounts occurs on a periodic basis as determined by the University and its processes to maintain the proper balance between liquidity and remaining invested.

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Both fiscal years 2013 and 2012, pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled \$7,200 in 2013 and \$7,900 in 2012.

Changes in endowment and similar funds net assets for fiscal year 2013 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2013 | 2012 |
| Endowment and similar funds | | | | | |
| net assets, beginning of year | \$ (20,079) | \$ 712,717 | \$ 531,255 | \$ 1,223,893 | \$ 1,300,019 |
| Investment income | | 16,246 | | 16,246 | 12,686 |
| Realized and unrealized gains | | 63,936 | | 63,936 | (32,292) |
| TOTAL INVESTMENT RETURN | | 80,182 | | 80,182 | (19,606) |
| Contributions | | 2,847 | 15,276 | 18,123 | 22,870 |
| Current year withdrawals | | (5,758) | (166) | (5,924) | (8,904) |
| Current year expenditures | | (60,195) | | (60,195) | (70,486) |
| Reclassification of deficits | | | | | |
| in donor-designated funds | 1,925 | (1,925) | | - | - |
| ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR | \$ (18,154) | \$ 727,868 | \$ 546,365 | \$ 1,256,079 | \$ 1,223,893 |

Occasionally, the fair market value of assets associated with individual donor-restricted endowment funds falls below the value of the original gift amounts. When deficits exist in these

funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$18,154 (2013) and \$20,079 (2012). These deficits resulted

from unfavorable market fluctuations that occurred after the investment of recently established endowments, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, \$461,264 (2013) and \$452,087 (2012) represented the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

6. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2013 and 2012 by the ASC 820 valuation hierarchy are as follows:

| June 30, 2013 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|--|---|--|---------------------|
| INVESTMENTS | | | | |
| Cash & cash equivalents | \$ 60,193 | \$ 28,388 | | \$ 88,581 |
| Domestic stocks | 1,388 | 18,736 | \$ 34,183 | 54,307 |
| International securities | 10 | 13,334 | 11,236 | 24,580 |
| Bonds | | | | |
| Government and municipal | | 17,079 | | 17,079 |
| Corporate | | 17,399 | | 17,399 |
| Mutual funds | 140,012 | 2,580 | | 142,592 |
| Derivatives | | 8,318 | | 8,318 |
| Limited partnerships and other | | | | |
| Venture capital | | | 93,887 | 93,887 |
| Private equity | | | 252,221 | 252,221 |
| Hedge funds | | 78,328 | 399,241 | 477,569 |
| Other | 111 | 74 | 90,163 | 90,348 |
| Equity real estate | 124 | | 112,274 | 112,398 |
| TOTAL INVESTMENTS | \$ 201,838 | \$ 184,236 | \$ 993,205 | \$ 1,379,279 |
| FUNDS HELD IN TRUST BY OTHERS | \$ - | \$ - | \$ 305,682 | \$ 305,682 |
| PENSION PLAN ASSETS | | | | |
| Cash & cash equivalents | \$ 6,859 | | | \$ 6,859 |
| Mutual funds | 49,529 | | | 49,529 |
| Limited partnerships and Other | | | | |
| Hedge funds | | \$ 66,362 | \$ 5,832 | 72,194 |
| Other | | | 490 | 490 |
| Equity real estate | | | 6,292 | 6,292 |
| TOTAL PENSION PLAN ASSETS (Note 9) | \$ 56,388 | \$ 66,362 | \$ 12,614 | \$ 135,364 |
| ASSETS AT FAIR VALUE | \$ 258,226 | \$ 250,598 | \$ 1,311,501 | \$ 1,820,325 |
| LIABILITIES AT FAIR VALUE | | | | |
| Interest rate swaps payable | \$ - | \$ 25,058 | \$ - | \$ 25,058 |
| LIABILITIES AT FAIR VALUE | \$ - | \$ 25,058 | \$ - | \$ 25,058 |

| June 30, 2012 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|--|---|--|---------------------|
| INVESTMENTS | | | | |
| Cash & cash equivalents | \$ 46,979 | \$ 6,820 | | \$ 53,799 |
| Domestic stocks | 27,238 | 11,355 | \$ 29,524 | 68,117 |
| International securities | 10 | 25,026 | 11,408 | 36,444 |
| Bonds | | | | |
| Government and municipal | | 28,503 | | 28,503 |
| Corporate | | 26,947 | | 26,947 |
| Mutual funds | 174,413 | 8,435 | 232 | 183,080 |
| Derivatives | | 11,217 | | 11,217 |
| Limited partnerships and other | | | | |
| Venture capital | | | 78,331 | 78,331 |
| Private equity | | | 267,556 | 267,556 |
| Hedge funds | | 79,309 | 332,879 | 412,188 |
| Other | 146 | 391 | 47,984 | 48,521 |
| Equity real estate | 213 | | 101,405 | 101,618 |
| TOTAL INVESTMENTS | \$ 248,999 | \$ 198,003 | \$ 869,319 | \$ 1,316,321 |
| FUNDS HELD IN TRUST BY OTHERS | \$ - | \$ - | \$ 285,756 | \$ 285,756 |
| PENSION PLAN ASSETS | | | | |
| Cash & cash equivalents | \$ 13,448 | | | \$ 13,448 |
| Mutual funds | 46,237 | | | 46,237 |
| Limited partnerships and Other | | | | |
| Hedge funds | | \$ 55,072 | \$ 5,092 | 60,164 |
| Other | | | 383 | 383 |
| Equity real estate | | | 4,814 | 4,814 |
| TOTAL PENSION PLAN ASSETS (Note 9) | \$ 59,685 | \$ 55,072 | \$ 10,289 | \$ 125,046 |
| ASSETS AT FAIR VALUE | \$ 308,684 | \$ 253,075 | \$ 1,165,364 | \$ 1,727,123 |
| LIABILITIES AT FAIR VALUE | | | | |
| Interest rate swaps payable | \$ - | \$ 34,038 | \$ - | \$ 34,038 |
| LIABILITIES AT FAIR VALUE | \$ - | \$ 34,038 | \$ - | \$ 34,038 |

Level 3 Investment Information

Investments included in Level 3 consist primarily of the University's ownership in alternative investments (principally limited partnership interests in hedge funds, private equity, real estate, real assets and other similar funds), beneficial interests in funds held in trust by others, and portions of investments in the pension assets. Level 3 investments are more difficult to value due to the following:

- The value of certain alternative investments represents the ownership interest in the net asset value of the respective partnership.

- The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner based on appraisals or other estimates that require varying degrees of judgment.
- If no public market consideration, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, or

other estimates requiring varying degrees of judgment. The University regularly reviews, evaluates and performs significant due diligence around these investments to ensure that the values provided by the investment managers are appropriate measures of fair value. The University agrees with the valuations and assumptions

used in determining the fair value of these investments.

A roll forward of the consolidated statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy is as follows:

| | Mutual Funds & Domestic Stocks | Int'l Securities | Venture Capital | Private Equity | Hedge Funds | Equity Real Estate | Other & Funds Held by Others | Total |
|---------------------------|---|---------------------|--------------------|-------------------|-------------------|-----------------------|------------------------------------|---------------------|
| Beginning balance, | | | | | | | | |
| July 1, 2011 | \$ 16,681 | \$ 10,553 | \$ 77,945 | \$ 278,205 | \$ 311,170 | \$ 106,471 | \$ 344,007 | \$ 1,145,032 |
| Investment income | (1,154) | | 2,300 | 17,902 | 4,291 | 1,792 | 661 | 25,792 |
| Unrealized gains (losses) | 11,383 | 855 | 387 | (12,058) | 110 | 3,188 | (15,401) | (11,536) |
| Purchases | 7,355 | | 13,668 | 36,078 | 127,000 | 11,897 | 8,776 | 204,774 |
| Settlements | (4,509) | | (15,969) | (52,571) | (51,242) | (17,129) | (3,920) | (145,340) |
| Transfers out of Level 3 | | | | | (53,358) | | | (53,358) |
| June 30, 2012 | \$ 29,756 | \$ 11,408 | \$ 78,331 | \$ 267,556 | \$ 337,971 | \$ 106,219 | \$ 334,123 | \$ 1,165,364 |
| Investment income | 7 | | 6,296 | 21,829 | (3,520) | (4,426) | 108 | 20,294 |
| Unrealized gains (losses) | 5,202 | (172) | 1,579 | 3,713 | 38,568 | 19,772 | 18,849 | 87,511 |
| Purchases | 753 | | 21,414 | 25,184 | 53,457 | 14,665 | 52,526 | 167,999 |
| Settlements | (1,535) | | (13,733) | (66,061) | (21,403) | (17,664) | (9,271) | (129,667) |
| ENDING BALANCE, | | | | | | | | |
| JUNE 30, 2013 | \$ 34,183 | \$ 11,236 | \$ 93,887 | \$ 252,221 | \$ 405,073 | \$ 118,566 | \$ 396,335 | \$ 1,311,501 |

The net realized and unrealized gains and losses in the table above are included in the University's consolidated statement of activities in one of two financial statement lines: *Investment income (loss)* or *Net (depreciation) appreciation*. In the case of pension assets, net realized and unrealized gains and losses are recognized in the financial statement line *Pension plan changes other than periodic benefit costs*.

The pricing inputs and methods described above could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

As a practical matter, the University is permitted under U.S. generally accepted accounting principles ("US GAAP") to estimate the fair value of an investment at the measurement date using

the reported net asset value ("NAV") without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real estate and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University's investments. Furthermore, investments which

can be redeemed at NAV by the University on the measurement date or within 90 days are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

The table below illustrates the fair value of the University's level 3 investments and the commitments that have been made for future purchases:

| Category | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--------------------------------|-------------------|----------------------|------------------------------|--------------------------|
| Domestic stocks (a) | \$ 34,183 | | monthly, quarterly, annually | 30 - 90 days |
| International securities (b) | 11,236 | | monthly, quarterly | 30 - 90 days |
| Limited partnerships and other | | | | |
| Venture capital © | 93,887 | \$ 17,943 | | |
| Private equity (d) | 252,221 | 57,229 | | |
| Hedge funds (e) | 399,241 | | monthly, quarterly, annually | 30 - 90 days |
| Other (f) | 90,163 | 36,846 | | |
| Equity real estate (g) | 112,274 | 48,509 | | |
| TOTAL | \$ 993,205 | \$ 160,527 | | |

(a) **Domestic stocks** include equity securities domiciled in the United States. Fund liquidity is daily, monthly, quarterly, semi-annual, annual, and up to a maximum period of three years. Approximately 87% of domestic equity exposure is accessible within one year or less, with all funds accessible within three years.

(b) **International securities** include equity securities domiciled in countries outside of the United States including developed and emerging markets. Approximately 87% of the net asset value is accessible within one year or less, with all funds accessible within three years.

(c) **Venture capital** includes several private equity funds that invest primarily in technology, health care or clean technology industries. While the portfolio is U.S. centric, there are small allocations to companies in foreign markets. The funds typically provide money and resources to entrepreneurs to finance a start-up company or product, with the hope that the company experiences exceptional growth and therefore would produce a successful investment. The funds invest at different stages of a company's growth, some very early and others at a later stage where the company may already produce revenues. The valuations for these investments have been estimated using the managers' fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the

underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(d) **Private equity** includes several private equity funds that invest across all industries. While the portfolio is U.S. centric, there has been an increasingly larger allocation to companies in foreign markets. The funds typically invest capital into more mature companies for a minority or majority of ownership and through operational and financial expertise, generate a return of capital greater than the original amount invested. The valuations for these investments have been estimated using the managers' fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(e) **Hedge funds** include hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top down macroeconomic analysis or bottom up company or theme specific analysis; managers may shift

portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the hedge fund category from monthly, quarterly, annually, and up to a maximum period of three years. Approximately 81% of the net asset value in this class is accessible within one year or less, with all funds accessible within three years.

(f) **Other** includes various direct private investments as well as private funds that do not fall within the other categories listed. Examples would include an Eastern Europe agriculture fund, some private U.S. oil and gas partnerships and various stakes in local private organizations. For the funds, the valuations have been estimated using manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-15 years.

(g) **Equity real estate** includes private real estate funds that invest primarily in the United States. Some of these private partnerships also make investments internationally, primarily in Europe, India and Brazil. The private funds make investments in various real estate types, such as office, industrial, retail and multi-family properties. The valuations for these investments have been estimated using the manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying properties are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 5-7 years.

Derivative Information

The use of financial derivative instruments is governed by the University's Investment Policy Statement, which is approved and overseen by the Investment Committee of the Board of Trustees. The University assumes many risks as a result of its investment decisions and investment holdings. Many risks are discussed in the Investment Policy Statement:

Manager risk – the risk that a manager underperforms similar managers, benchmarks, or appropriate indices.

Benchmark risk – the risk of harm caused by constructing, selecting, or managing to an inappropriate benchmark.

Peer risk – the risk that one's peers generate better investment performance, thereby boosting the relative size of their endowments and enhancing their competitive advantage.

Market risk – the risk that the value of an investment will decrease due to market moves.

Interest rate risk – the risk that an investment's value will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve, or any other interest rate relationship.

Concentration – the risk of being too concentrated in one particular security, manager, strategy, sector or asset class, thus being vulnerable to poor performance stemming from lack of diversification.

Absolute return risk – the ability to generate positive absolute returns, not just in favorable markets, but also in uncertain and negative phases measured over a business cycle.

Currency risk – the risk that currency fluctuations or trends reduce the value of investments in non-U.S. markets.

Commodity risk – refers to the uncertainties of future market values and the size of future income caused by fluctuation in the prices of commodities (energy, agricultural, precious and industrial metals) due to demand/supply imbalances.

Leverage – the risk that significant volatility or losses will be generated by the use of debt designed to magnify returns.

Counterparty risk – the risk that one party to a transaction does not make complete or timely payment of margin, swap cash flow, bond proceeds, or other similar payments.

Credit risk – the possibility that a bond issuer will default by failing to pay interest or repay principal in a timely manner.

Tail risk – a form of portfolio risk that arises when the possibility that an investment will move more than three standard

deviations from the mean is greater than what is shown by a normal distribution.

Liquidity risk – the inability to sell or trade securities at fair market value within a short period of time; also, the risk that sufficient cash is not maintained, or cannot be accessed, to meet short-term obligations.

Inflation risk – the risk that rising prices significantly erode the effective purchasing power of the portfolio, as measured by the University's cost inflation.

Shortfall risk – the risk that investment returns will be lower than expected, causing a failure to accomplish investment or financial objectives.

The University seeks to mitigate these risks by using derivative transactions. At the macro level of the investment portfolio, derivative transactions also create cost-effective beta exposure that may replace a fund or investment manager, add alpha, support liquidity management, and reduce the impact of extreme negative market conditions. The derivative instruments used include futures, total return swaps, and over-the-counter options.

Futures: An Equity Index Future is a standardized obligation to buy or sell a market index, at a certain date in the future (settlement date), at a specified price (futures price). Equity Index Futures are typically cash-settled. Trading Medium: Exchange A single clearing house (e.g., Options Clearing Corporation, for the Chicago Board Options Exchange) is the counterparty to both parties involved in the contract. Futures trade a premium or discount to the cash index level based on the following theoretical formula: $\text{Futures Fair Value} = \text{Cash Index Value} + \text{Expected Interest Income prior to contract expiry} - \text{Expected Dividend Income prior to contract expiry} - \text{Expected Lending Income prior to contract expiration}$. The value of a futures contract converges to that of the underlying index at expiration. The investor posts an initial margin and a maintenance margin which represents a small portion of the overall notional value (usually 12%-18% of the notional value). Collateral between the counterparties is exchanged daily based on the mark to market performance of the futures contract. Used to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side. Used primarily as a manager replacement strategy.

Total Return Swaps (TRS): A TRS is a non-standardized agreement whereby one party makes periodic cash payments based on a set rate (e.g., London Interbank Offered Rate ("LIBOR")) while another party makes periodic cash payments based on the total return of an underlying index. The total return payer agrees to pay the total return of the underlying index to the total return receiver. The total return receiver agrees to receive future total return, and pay periodic payments to the total return payer. Trading Medium: Over-The-Counter ("OTC"). Total Return Swaps offer synthetic exposure to beta returns while avoiding the transaction and administrative costs of owning the actual underlying equity shares. Subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Transacted via agreement between counterparties. There is no initial or maintenance margin posting. Collateral between the counterparties is exchanged daily based on the mark to market performance of the swap. Used to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side. The swap resets on a periodic basis (monthly or quarterly), at which point the LIBOR rate is reset and the gains/losses cash settled. A new notional value reflecting the settled gains/losses is established at this point. The next measurement begins with the new notional value. There may be a breakup fee if the swap is terminated earlier than its expiration date. Used primarily as a manager replacement strategy.

Options: Options or Option Structures are non-standardized agreements whereby one party makes or receives one payment at the time of initial transaction to/from a counterparty and may make or receive a second payment to/from the counterparty at the expiration date of the agreement based on an individual option or a combination of individual options. Trading Medium: OTC. Transacted via ISDA/CSA agreement between counterparties. Subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Options/Option Structures allow investors to customize the risk/return profile of existing portfolios. For example: Investors who are underweight equities and have a moderately positive outlook can obtain enhanced equity exposure by capping returns with or without a leveraged payoff. More bearish investors can opt for downside protection to reduce risk. Collateral between the counterparties is exchanged daily based on the mark to market performance of the Option or Option

Structure. At maturity the Option or Option Structure is cash settled. Prior to maturity, Options/Option Structures may trade above or below their intrinsic value due to various factors such as time, volatility, interest rates, skew, delta, gamma etc. The value eventually converges to intrinsic value at maturity. Used for beta replacement strategies, alpha strategies or hedging strategies.

Forward contracts: A forward contract is an agreement to buy or sell an asset at a certain future time for a certain price. A forward contract is traded in the over-the-counter market – usually between two financial institutions or a financial institution and a client. One party assumes a long position and agrees to buy the underlying asset on a certain date for a certain price. The other party assumes a short position and agrees to sell the underlying asset on a certain date for a certain price. The price in

a forward contract is known as the delivery price. Forward contracts are commonly used to hedge foreign currency risk. Payoff for a long position on a forward contract is $S_t - K$ where K is the delivery price and S_t is the spot price at maturity of the contract. Similarly the payoff on a short position in a forward contract is $K - S_t$. Settlement of forward contracts can be made with delivery of the underlying or cash settlement. Since the contract is OTC, margin and collateral are determined by individual agreements and sometimes fall under the agreement.

The following table provides detailed information on the derivatives included in the investment portfolio as of June 30 and where they are located in the consolidated statements of financial position:

| Location | Derivative Type | Notional Amount | 2013 | | |
|--------------------------------|----------------------------|-----------------|--------------------|--------------------|--------------------|
| | | | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
| Investments | Total return swaps | \$ 247,052 | | \$ 5,471 | |
| | Options (over-the-counter) | 2,562 | | 2,562 | |
| | Yield curve hedges | 150,419 | | 285 | |
| TOTAL DERIVATIVES, 2013 | | | \$ - | \$ 8,318 | \$ - |

| Location | Derivative Type | Notional Amount | 2012 | | |
|--------------------------------|----------------------------|-----------------|--------------------|--------------------|--------------------|
| | | | Level 1 Fair Value | Level 2 Fair Value | Level 3 Fair Value |
| Investments | Total return swaps | \$ 107,264 | | \$ 4,902 | |
| | Options (over-the-counter) | 26,363 | | 5,864 | |
| | Interest rate hedges | 78,187 | | 316 | |
| | Yield curve hedges | 145,471 | | 135 | |
| TOTAL DERIVATIVES, 2012 | | | \$ - | \$ 11,217 | \$ - |

The following table provides detailed information on the effect the derivatives had on the overall performance of the

investment portfolio which is reflected in the consolidated statement of activities:

| Location | Derivative Type | 2013 | 2012 |
|--|----------------------------|-------------------|--------------------|
| Net effect on investment income | | | |
| | Options (over the counter) | \$ (1,982) | \$ (27,738) |
| | Total return swaps | (1,158) | |
| | Forward contracts | (20) | |
| | Interest rate hedges | (160) | |
| | Futures contracts | | (10,255) |
| | | \$ (3,320) | \$ (37,993) |
| Unrealized gains (losses) | | | |
| | Options (over the counter) | (1,507) | (4,613) |
| | Total return swaps | (2,411) | (2,866) |
| | Yield curve hedges | 1,435 | |
| | | \$ (2,483) | \$ (7,479) |
| NET EFFECT OF DERIVATIVES | | \$ (5,803) | \$ (45,472) |

7. PROPERTY, PLANT, EQUIPMENT, AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 40 years

for buildings, 5 to 12 years for equipment, and 10 years for books. Components of property, plant, equipment and books are as follows:

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Land and land improvements | \$ 42,678 | \$ 38,359 |
| Building and building improvements | 1,152,290 | 1,137,051 |
| Equipment and software | 254,136 | 266,343 |
| Library books | 37,911 | 37,067 |
| Construction-in-progress | 47,554 | 27,818 |
| | 1,534,569 | 1,506,638 |
| Less: accumulated depreciation | (810,022) | (776,001) |
| TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET | \$ 724,547 | \$ 730,637 |

The above assets include \$503,423 leased from the Ohio Higher Education Facility Commission ("OHEFC"). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in Notes and bonds payable on the consolidated statements of financial position.

Capitalized interest of \$9 was added to construction in progress as of June 30, 2013. No interest was capitalized in the fiscal year ended June 30, 2012. The expected cost to complete construction in progress is approximately \$46,701.

Depreciation expense included in the consolidated statement of activities is \$62,169 (2013) and \$63,356 (2012).

8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

| | | Interest Rate | Maturity | 2013 | 2012 |
|--------------------------------------|--------------|---------------|-----------|-------------------|-------------------|
| OHEFC revenue notes and bonds: | Series 1988 | 7.90% | 2013 | \$ 6,406 | \$ 12,334 |
| | Series 1990 | 6.50% | 2015-2020 | 11,650 | 11,650 |
| | Series 1994 | 6.00 - 6.25% | 2014-2018 | 20,000 | 20,000 |
| | Series 1997 | 6.25% | 2013-2014 | 3,555 | 5,105 |
| | Series 2001 | 0.15% | 2013-2022 | 11,730 | 12,200 |
| | Series 2002A | 0.15% | 2023-2031 | 64,875 | 64,875 |
| | Series 2004A | 4.25 - 5.00% | 2024-2034 | 49,455 | 75,670 |
| | Series 2006 | 3.75 - 5.25% | 2013-2044 | 81,200 | 82,490 |
| | Series 2008A | 0.16% | 2030-2044 | 60,000 | 60,000 |
| | Series 2008B | 0.14% | 2044 | 67,500 | 67,500 |
| | Series 2008C | 4.00 - 5.25% | 2014-2033 | 50,490 | 50,490 |
| | Series 2012A | 2.00 - 5.00% | 2013-2023 | 28,345 | - |
| U.S. Government housing bonds: | Series 1966 | 3.00% | 2014-2016 | 405 | 535 |
| OHEFC commercial paper: | | .17 - .20% | 2030 | 90,000 | 63,000 |
| OHEFC capital lease: | | 6.75% | | - | 467 |
| | | 4.12% | | - | 5,205 |
| Compass Group USA, Inc.: | | -n/a- | 2013-2019 | 1,950 | 2,400 |
| Housing and Urban Development loan: | Part A | 4.96% | 2013-2041 | 11,885 | 12,082 |
| | Part B | 5.33% | 2013-2041 | 4,100 | 4,163 |
| TOTAL LIABILITY | | | | \$ 563,546 | \$ 550,166 |
| Line of Credit | | | | 25,000 | - |
| Unamortized Bond Premium | | | | 13,434 | 9,812 |
| TOTAL NOTES AND BONDS PAYABLE | | | | \$ 601,980 | \$ 559,978 |

The fair market value of the University's notes and bonds payable is approximately \$610,607 (2013) and \$578,290 (2012) and is considered Level 2 financial instruments as defined by the ASC 820 valuation hierarchy. These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

The U.S government housing bonds are collateralized by securities and pledges of net revenues from the University's student housing and dining facilities. In November 2012, the OHEFC Series 2012A bonds were issued to defease and refinance a portion of the OHEFC Series 2004A bonds and OHEFC capital lease. The amount defeased for OHEFC Series 2004A bonds was

\$26,215 and the amount refinanced for the OHEFC capital lease was \$4,852. Deferred financing fees of \$397 were paid and the unamortized balance is included in prepaid expenses and other assets.

The OHEFC authorized a \$63,000 tax exempt commercial paper program in February 2000 to provide construction funds for several approved capital projects and to refinance earlier projects. In November 2008, the OHEFC authorized a \$27,000 expansion of that program, to a total size of \$90,000, to provide funding for future projects.

In February 2013 \$27,000 was drawn to provide bridge financing for the construction of the Tinkham Veale University Center. At June 30, 2013, there were \$11,250 of unspent funds included in operating investments in the consolidated statement of financial position. Deferred financing fees of \$226 were paid and the unamortized balance is included in prepaid expenses and other assets. The amount outstanding under the commercial paper program was \$90,000 (2013) and \$63,000 (2012), with maturities not exceeding 270 days from the issuance date. All commercial paper issued under the terms of the program must mature no later than February 1, 2030. The annualized interest cost and credit facility expense for this program was 0.65% (2013) and 0.83% (2012).

The University has revolving lines of credit with two financial institutions in the amount of \$60,000 to finance working capital. Both lines are subject to review and renewal annually. The amount outstanding was \$25,000 (2013) and -0- (2012).

Principal payment requirements for bonds, notes, and capital lease obligations for the next five years and thereafter are as follows:

| Year | Scheduled Principal Payments | Outstanding VRDO's | Total Maximum Principal Payments |
|--------------|------------------------------------|-----------------------|---|
| 2014 | \$ 11,655 | \$ 110,105 | \$ 121,760 |
| 2015 | 11,728 | 33,500 | 45,228 |
| 2016 | 12,548 | 93,500 | 106,048 |
| 2017 | 13,134 | 13,500 | 26,634 |
| 2018 | 14,390 | 43,500 | 57,890 |
| Thereafter | 500,091 | (294,105) | 205,986 |
| TOTAL | \$ 563,546 | \$ - | \$ 563,546 |

The University has letter of credit agreements, standby bond purchase agreements and liquidity agreements with various financial institutions to purchase the University's variable rate demand obligations ("VRDO's") and commercial paper if they cannot be remarketed. Outstanding VRDO's in the above table represent amounts payable in the event that bonds are tendered but not successfully remarketed.

Interest expense, including those amounts for interest rate swap agreements (Note 12), was \$20,949 (2013) and \$21,090 (2012).

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2013.

9. RETIREMENT PLANS

The University has both defined benefit and defined contribution pension plans for its employees. In accordance with provisions of the Employee Retirement Income Security Act of 1974, the University has established a trust to hold plan assets for its defined benefit plan. The funded status of the University's defined benefit plan is as follows:

| | 2013 | 2012 |
|--------------------------------------|--------------------|--------------------|
| Benefit obligation at June 30 | \$ 176,142 | \$ 188,337 |
| Fair value of plan assets at June 30 | 135,364 | 125,046 |
| FUNDED STATUS AT JUNE 30 | \$ (40,778) | \$ (63,291) |
| Accumulated benefit obligation | \$ 175,260 | \$ 186,742 |

Benefit plan costs for the defined benefit plan are as follows:

| | 2013 | 2012 |
|---------------------------|-----------|----------|
| Net periodic benefit cost | \$ 11,105 | \$ 6,167 |
| Employer contributions | 6,655 | 21,113 |
| Benefits paid | 3,932 | 3,681 |

Estimated benefits expected to be paid under the defined benefit plan for the next five fiscal years are as follows:

| | |
|------|----------|
| 2014 | \$ 4,887 |
| 2015 | 4,768 |
| 2016 | 5,558 |
| 2017 | 5,954 |
| 2018 | 6,517 |

Amounts expected to be paid between 2019 and 2023 total \$41,778. The University's estimated employer contribution for the defined benefit plan in fiscal 2014 will depend on the results of the July 1, 2013 actuarial valuation and is estimated to be \$9,200.

Weighted-average assumptions used to determine the benefit obligation and benefit plan costs are as follows:

| | 2013 | 2012 |
|----------------------------------|---------|---------|
| BENEFIT OBLIGATION | | |
| Discount rate | 5.25% | 4.50% |
| Rate of compensation increase | 4.25% | 4.25% |
| Measurement date | 6/30/13 | 6/30/12 |
| Census date | 7/1/12 | 7/1/11 |
| NET PERIODIC BENEFIT COST | | |
| Discount rate | 4.50% | 6.00% |
| Expected return on plan assets | 8.50% | 8.50% |
| Rate of compensation increase | 4.25% | 4.25% |

The expected long-term rate of return for the defined benefit plan was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. The expected return on equities was computed utilizing a valuation framework that projected future returns based on current equity valuations rather than historical returns. Management estimated the rate by which the plan assets would outperform the market in the future based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on equities compared to past periods.

The investment objective for the defined benefit plan is to maximize total return with tolerance for slightly above average risk, in order to meet the obligations that the University has to its plan beneficiaries. To accomplish this objective, the University has established a broadly-diversified asset allocation strategy that includes absolute return strategies (combination of fixed income and equity securities) (50%), equity investments (30%), bonds and cash (16%), and real estate (4%). The weightings of the investments relative to each other in the total portfolio fluctuate as market conditions vary; they are adjusted regularly to remain within acceptable ranges.

The weighted-average asset allocation for the defined benefit plan is as follows:

| | 2013 | 2012 |
|-------------------------------|----------------|----------------|
| Equity securities | 60.00% | 60.00% |
| Fixed income securities | 25.00% | 25.00% |
| Real estate | 4.00% | 4.00% |
| Other | 11.00% | 11.00% |
| TOTAL ASSET ALLOCATION | 100.00% | 100.00% |

The amounts recognized in the University's consolidated statements of financial position and in unrestricted net assets related to the defined benefit plan are as follows:

| | 2013 | 2012 |
|--|--------------------|--------------------|
| STATEMENT OF FINANCIAL POSITION | | |
| NET LIABILITY | \$ (40,778) | \$ (63,291) |
| UNRESTRICTED NET ASSETS | | |
| Prior service costs | \$ - | \$ 160 |
| Actuarial losses | 56,751 | 83,555 |
| AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS | \$ 56,751 | \$ 83,715 |

The estimated amortization of prior year service costs expected in fiscal 2014 totals \$3,588. Components of the net periodic benefit cost and other changes in plan assets that are recognized in the consolidated statement of activities are as follows:

| | 2013 | 2012 |
|--|--------------------|------------------|
| Change in actuarial (gains) losses | \$ (26,804) | \$ 55,893 |
| Amortization of prior service cost | (160) | (238) |
| TOTAL (GAIN) LOSS RECOGNIZED, UNRESTRICTED NET ASSETS | (26,964) | 55,655 |
| Net periodic benefit cost | 11,105 | 6,167 |
| TOTAL (GAIN) LOSS RECOGNIZED, STATEMENT OF ACTIVITIES | \$ (15,859) | \$ 61,822 |

Benefit plan costs for the defined contribution plan are \$19,834 (2013) and \$19,499 (2012).

10. COMMITMENTS AND CONTINGENCIES

In its normal operations, the University is subject to various claims and lawsuits. In management's opinion, the resolution of these contingencies will not have a significant adverse effect on the University's financial position, operations, or cash flows.

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation ("CCF") to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine ("CCLCM"). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the School of Medicine. Expenditures for research conducted under this joint agreement totaled \$91,316 (2013) and \$92,961 (2012).

In April 2006, the Boards of University Hospitals Health System and the University approved a new affiliation agreement between the School of Medicine and University Hospitals of Cleveland ("UHC"). This agreement significantly strengthened the historical

relationship between the entities through the creation of the Case Medical Center, a virtual entity that encompasses certain teaching, research and clinical activities of the School of Medicine and UHC.

During 2013, the University entered into a joint purchase agreement to purchase real property from the Cleveland Institute of Art. The University's commitment is \$4,600 with \$500 placed as an earnest deposit and is shown on the consolidated statement of financial position in prepaid expenses and other assets. The remaining \$4,100 is due at closing, which is anticipated to be in fiscal 2016.

The University is self-insured for workers compensation and employee and student medical coverage. Property is commercially insured with an aggregate deductible of \$700. The University also carries general liability insurance with a deductible of \$100 per occurrence. The University believes its reserves for self-insured risks and the deductible portion of insured risks are sufficient.

11. RELATED PARTY TRANSACTION

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University

buildings. The amounts purchased were \$20,508 (2013) and \$21,998 (2012). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The University uses floating-to-fixed interest rate swap agreements of various durations to manage both its funding cost and the interest rate risk associated with variable rate debt. Under these swap agreements, the University pays a fixed rate and receives from its counterparty a variable rate payment, each calculated by reference to specified notional principal amounts during the agreement period. Operations are charged the variable rate interest on the corresponding bonds; the difference

between the fixed and variable interest amounts under the swap agreements is recorded in non-operating revenues and expenses as investment and other income.

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are

valued by an independent swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy.

At June 30, 2013, the University has five interest rate swap agreements. Net payments or receipts under the swap agreements are recorded as adjustments to investment and other income and the incremental expense is disclosed below.

Under one agreement in effect at June 30, 2013, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month LIBOR.

The following table provides detailed information on the interest rate swaps at June 30, 2013, with comparative fair values for June 30, 2012. The number of swaps is reported based on notional amount. Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the consolidated statements of financial position in deferred income and other liabilities are as follows:

| Notional Amount | Rate | Commencement | Date | Basis | 2013 | 2012 |
|---|-------|----------------|----------------|-------|---------------------------|--------------------|
| | | | | | Level 2 Fair Market Value | |
| \$ 12,200 | 4.34% | Aug. 12, 2004 | Oct. 1, 2022 | LIBOR | \$ (1,980) | \$ (2,646) |
| 15,000 | 4.43% | Jun. 5, 2002 | Jun. 5, 2022 | LIBOR | (3,306) | (4,321) |
| 15,000 | 3.60% | Sept. 25, 2002 | Sept. 25, 2022 | LIBOR | (2,310) | (3,254) |
| 35,000 | 3.81% | Aug. 4, 2004 | Aug. 1, 2034 | LIBOR | (7,952) | (11,795) |
| 100,000 | 3.37% | Jan. 3, 2012 | Jan. 1, 2017 | SIFMA | (9,510) | (12,022) |
| TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY | | | | | \$ (25,058) | \$ (34,038) |

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income. The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counterparty's financial exposure to the University to no more than \$20,000. The University had placed \$5,435 (2013) and \$17,796

(2012) into such a fund, which is shown in Cash and cash equivalents on the consolidated statements of financial position.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was \$6,182 in 2013 and \$6,161 in 2012.

13. RESTRICTED NET ASSETS

The University's restricted net assets as of June 30 were as follows:

| | Temporarily Restricted | Permanently Restricted | 2013 | 2012 |
|--|---------------------------|---------------------------|---------------------|---------------------|
| Endowment | | | | |
| True Endowment | \$ 461,264 | \$ 546,365 | \$ 1,007,629 | \$ 983,342 |
| Funds functioning as endowment (FFE) | 266,604 | | 266,604 | 260,630 |
| Total True endowment and FFE | 727,868 | 546,365 | 1,274,233 | 1,243,972 |
| Funds held in trust by others | | 305,682 | 305,682 | 285,756 |
| TOTAL UNIVERSITY ENDOWMENT | \$ 727,868 | \$ 852,047 | \$ 1,579,915 | \$ 1,529,728 |
| Other net assets | | | | |
| Pledges receivable | 71,807 | 18,647 | 90,454 | 65,295 |
| Funds held in trust by others, unused income | 5,057 | | 5,057 | 3,996 |
| Student loan funds | | 34,460 | 34,460 | 33,907 |
| Split interest agreements | | 16,229 | 16,229 | 11,496 |
| Purpose restricted gifts | 40,296 | 4,971 | 45,267 | 33,511 |
| TOTAL NET ASSETS | \$ 845,028 | \$ 926,354 | \$ 1,771,382 | \$ 1,677,933 |

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 5, 2013, the date on which the

consolidated financial statements were issued. No material items were noted which require disclosure.

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--|--|---|---------------------|
| Research and Development and Research Training Cluster - University | | | |
| Research and Development - University | | | |
| Department of Agriculture | | | |
| Direct Programs | | | |
| Market Protection and Promotion | 10.163 | | 28,136 |
| Scientific Cooperation and Research | 10.961 | | 3,264 |
| Department of Agriculture Subtotal | | | 31,400 |
| Department of Commerce | | | |
| Pass Through Programs | | | |
| Ohio State University Research Foundation | 11.417 | 60025701 | 306 |
| Ohio State University Research Foundation | 11.417 | RF01304568 | 5,567 |
| University of Michigan | 11.432 | 3001071084 | 5,365 |
| University of Michigan | 11.432 | 3001262960 | 703 |
| Department of Commerce Subtotal | | | 11,941 |
| Department of Defense | | | |
| Direct Programs | | | |
| Basic and Applied Scientific Research | 12.300 | | 1,097,114 |
| Military Medical Research and Development | 12.420 | | 1,891,542 |
| Basic Scientific Research-ARRA | 12.431 | | 425,634 |
| Air Force Defense Research Sciences Program-ARRA | 12.800 | | 3,274,776 |
| Mathematical Sciences Grants Program | 12.901 | | 746 |
| Research & Technology Development | 12.910 | | 1,102,641 |
| Pass Through Programs | | | |
| University of California, Berkeley | 12.002 | 4714-10417 | 76 |
| University of Virginia | 12.351 | GG11485-138899 | 111,584 |
| University of Pittsburgh | 12.420 | 0027150 (408007-1) | 156,542 |
| Ardiem Medical, Inc. | 12.420 | W81XWH0720044 | 556,048 |
| Cleveland Clinic Foundation | 12.420 | W81XWH-10-0270 | 116,342 |
| Henry M. Jackson Foundation | 12.42 | 2290 | 43,051 |
| Medical University of South Carolina | 12.420 | W81XWH (MUSC13-004) | 44,247 |
| Rutgers University | 12.420 | W81XWH (3423) | 184,591 |
| University of Chicago | 12.420 | 45846 | 45,968 |
| University of Colorado, Boulder | 12.420 | 1547915 | 5,490 |
| Johns Hopkins University-ARRA | 12.431 | W81XWH1020090 | 165,374 |
| Pennsylvania State University-ARRA | 12.431 | 4508-CWRU-USA-0534 | 53,580 |
| Johns Hopkins University | 12.910 | 2001175091 | 103,919 |
| Southern Methodist University | 12.910 | G001055-7520 | 26,915 |
| University of Virginia | 12.910 | GG11379-136861 | 174,155 |
| Department of Defense Subtotal | | | 9,580,335 |
| Department of Housing and Urban Development | | | |
| Direct Programs | | | |
| Transformation Initiative Research Grants: Natural Experiments | 14.524 | | 155,385 |
| Pass Through Programs | | | |
| National Center for Healthy Housing | 14.524 | NCHH-10-1184 | 1,460 |
| Cuyahoga County Board of Health | 14.900 | OHLHH0208-09 | 30,625 |
| Environmental Health Watch | 14.906 | OHLHH0203-09 | 34,028 |
| Environmental Health Watch | 14.910 | OHHHP0001-11 | 33,086 |
| Department of Housing and Urban Development Subtotal | | | 254,584 |
| Department of the Interior | | | |
| Direct Programs | | | |
| Science and Technology Projects Related to Coal Mining and Reclamation | 15.255 | | 44,620 |
| Pass Through Programs | | | |
| University of Michigan | 15.808 | 3002076062 | 59,448 |
| Department of the Interior Subtotal | | | 104,068 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| Department of Justice | | | |
| Pass Through Programs | | | |
| Cuyahoga County Board of Commissioners | 16.812 | CE1200094-01 | 66,235 |
| Department of Justice Subtotal | | | 66,235 |
| National Aeronautics and Space Administration | | | |
| Direct Programs | | | |
| Aerospace Education Services Program | 43.001 | | 690,384 |
| Technology Transfer | 43.002 | | 484,436 |
| Exploration | 43.003 | | 138,788 |
| Space Operations | 43.007 | | 16,491 |
| Cross Agency Support | 43.009 | | 61,270 |
| Pass Through Programs | | | |
| California Institute of Technology | 43.001 | 44E-1083742 | 8,547 |
| Ohio Aerospace Institute | 43.001 | WE-500077 | 212,391 |
| University of Michigan | 43.001 | 3001229609 | 255,916 |
| National Aeronautics and Space Administration Subtotal | | | 1,868,223 |
| National Endowment for the Arts | | | |
| Direct Programs | | | |
| Promotion of the Humanities Fellowships and Stipends | 45.160 | | 22,364 |
| Promotion of the Humanities Professional Development | 45.163 | | 22,605 |
| National Endowment for the Arts Subtotal | | | 44,969 |
| National Science Foundation | | | |
| Direct Programs | | | |
| Engineering Grants | 47.041 | | 2,088,161 |
| Mathematical & Physical Sciences | 47.049 | | 9,738,821 |
| Geosciences | 47.050 | | 177,335 |
| Computer and Information Science & Engineering | 47.070 | | 1,452,154 |
| Biological Sciences | 47.074 | | 1,046,343 |
| Social, Behavioral and Economic Sciences | 47.075 | | 120,763 |
| Education and Human Resources | 47.076 | | 216,871 |
| International Science and Engineering (OISE) | 47.079 | | 201,032 |
| Office of Cyberinfrastructure | 47.080 | | 60,303 |
| Trans-NSF Recovery Act Research Support-ARRA | 47.082 | | 1,530,790 |
| Pass Through Programs | | | |
| Oberlin College | 47.041 | CNS-0939153-CPATH-2 | 1,500 |
| Precision Made Parts, LLC | 47.041 | 1047151 | 1 |
| University of Kansas | 47.041 | FY2012-097 | 27,616 |
| University of Texas Health Science Center | 47.041 | 2610009561 | 19,217 |
| University of Utah | 47.041 | 10012597-CWRU | (722) |
| vascuVis Inc. | 47.041 | 1248316 | 39,624 |
| Columbia University | 47.049 | 5-25107, PO#G02694 | 6,834 |
| University of Michigan | 47.049 | 3002527784 | 5,000 |
| Rehabilitation Institute Research Corp. | 47.070 | PRIME CNS-0932263 | 82,927 |
| University of California, Davis | 47.074 | 201117695-01 | 45,377 |
| University of Iowa | 47.074 | 420-40-32A | 8,899 |
| Ohio State University Research Foundation | 47.075 | 60029525 | 32,349 |
| Cleveland State University | 47.076 | DELAT37D | (505) |
| State University of New York Research Foundation | 47.076 | R690341 | 21,202 |
| University of Denver | 47.076 | SC37033A-01-00 | 78,761 |
| University of Chicago | 47.078 | ANT-0638937 | 171,608 |
| National Science Foundation Subtotal | | | 17,172,261 |
| Environmental Protection Agency | | | |
| Pass Through Programs | | | |
| Buffalo State College | 66.469 | GL-00E00503-CWR | 32,685 |
| Environmental Protection Agency Subtotal | | | 32,685 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--|--|---|---------------------|
| Department of Energy | | | |
| Direct Programs | | | |
| Office of Science Financial Assistance Program-ARRA | 81.049 | | 776,579 |
| Renewable Energy Research and Development | 81.087 | | 132,897 |
| Fossil Energy Research and Development | 81.089 | | 516,655 |
| Stewardship Science Grant Program | 81.112 | | 20,904 |
| Advanced Research and Projects Agency Energy Financial Assistance Program | 81.135 | | 1,218,017 |
| Pass Through Programs | | | |
| Faraday Technology, Inc.-ARRA | 81.049 | DE-SC0007516 | 69,242 |
| Advanced Technology Institute | 81.086 | ATI 2005-301 | 91,387 |
| Bay Area Photovoltaic Consortium | 81.087 | 60220829-51077-T | 23,210 |
| Bayer Material Science | 81.087 | DE-EE0001361 | (574) |
| Indiana University | 81.087 | BL-4344500-CWRU | 34,182 |
| National Center for Manufacturing Science | 81.087 | 201149-130175 | (18,230) |
| North American Die Casting Associates | 81.117 | DE-EE0001100 | 33,016 |
| Univenture, Inc. | 81.135 | DE-AR0000037 | (223) |
| Department of Energy Subtotal | | | 2,897,062 |
| Department of Education | | | |
| Pass Through Programs | | | |
| Cincinnati Children's Hospital | 84.133 | H133B090010 (107354) | 93,957 |
| University of Pittsburgh | 84.133E | H133E070024 | 22,550 |
| Department of Education Subtotal | | | 116,507 |
| Department of Health & Human Services | | | |
| Direct Programs | | | |
| Food and Drug Administration Research | 93.103 | | 135,385 |
| Environmental Health | 93.113 | | 112,726 |
| Oral Diseases & Disorder Research | 93.121 | | 4,664,141 |
| Grants to Increase Organ Donations | 93.134 | | 287,081 |
| Human Genome Research | 93.172 | | 1,782,355 |
| Research Related to Deafness & Communications Disorders | 93.173 | | 1,942,328 |
| Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects | 93.185 | | 87,882 |
| Research and Training in Complementary and Alternative Medicine | 93.213 | | 711,698 |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | | 1,233,399 |
| National Center on Sleep Disorders Research | 93.233 | | 734,994 |
| Mental Health Research Grants | 93.242 | | 3,858,916 |
| Alcohol Research Programs | 93.273 | | 29,695 |
| Drug Abuse and Addiction Research Programs | 93.279 | | 2,595,069 |
| Centers for Disease Control and Prevention Investigations and Technical Assistance | 93.283 | | 2,470,655 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | | 3,803,753 |
| Minority Health and Health Disparities Research | 93.307 | | 691,172 |
| Trans-NIH Research Support | 93.310 | | 2,125,814 |
| National Center for Advancing Translational Sciences | 93.350 | | 11,964,804 |
| Research Infrastructure Programs | 93.351 | | 1,363,265 |
| Nursing Research | 93.361 | | 1,795,405 |
| National Center for Research Resources | 93.389 | | 857,613 |
| Cancer Cause & Prevention Research | 93.393 | | 2,633,665 |
| Cancer Detection and Diagnosis Research | 93.394 | | 2,055,589 |
| Cancer Treatment Research | 93.395 | | 2,224,687 |
| Cancer Biology Research | 93.396 | | 4,669,778 |
| Cancer Centers Support Grants | 93.397 | | 7,334,667 |
| Cancer Research Manpower | 93.398 | | 372,047 |
| Cancer Control | 93.399 | | 1,180,070 |
| Health Promotion and Disease Prevention Research Centers: PPHF 2012 - Affordable Care Act Projects-ARRA | 93.542 | | 716,581 |
| Trans-NIH Recovery Act Research Support-ARRA | 93.701 | | 2,222,570 |
| Cardiovascular Diseases Research | 93.837 | | 12,763,416 |
| Lung Diseases Research | 93.838 | | 3,975,772 |
| Blood Diseases and Resources Research | 93.839 | | 2,341,758 |
| Arthritis, Musculoskeletal, and Skin Diseases Research | 93.846 | | 5,199,569 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--|--|---|---------------------|
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | 18,958,480 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 9,311,653 |
| Allergy, Immunology and Transplantation Research | 93.855 | | 17,769,207 |
| Biomedical Research and Research Training | 93.859 | | 6,421,800 |
| Child Health and Human Development Extramural Research | 93.865 | | 3,292,489 |
| Aging Research | 93.866 | | 2,832,070 |
| Vision Research | 93.867 | | 11,847,141 |
| Medical Library Assistance | 93.879 | | 233,949 |
| International Research and Research Training | 93.989 | | 369,597 |
| Pass Through Programs | | | |
| University of Florida | 93.103 | UF06127 | 157 |
| American Academy of Pediatrics | 93.110 | 6636-99951-731100 | 32,329 |
| Cleveland Clinic Foundation | 93.110 | 228SUB; 328SUB | 18,812 |
| Hemophilia Foundation of Michigan | 93.110 | 1-H30MC24047-01-00 | 14,000 |
| Johns Hopkins University | 93.172 | 2001451384 | 16,871 |
| University of North Carolina | 93.172 | 5-31041 | 273,389 |
| University of Pennsylvania | 93.172 | HG005854 (555747) | 26,376 |
| University of Utah | 93.172 | 10020594-2 | 21,879 |
| Cornell University | 93.173 | 56083-8774 | 165,960 |
| Hemophilia Foundation of Michigan | 93.184 | ATH(CDC12-13-HTC443) | 12,131 |
| Kent State University | 93.213 | 443149-CWRU | 8,990 |
| Ohio State University | 93.213 | 60033066 | 318,791 |
| Cincinnati Children's Hospital | 93.226 | 130341 | 7,502 |
| Kent State University | 93.226 | 443167-CWRU | 3,204 |
| Brigham and Women Hospital | 93.233 | 106086 | 7,504 |
| Northwestern University | 93.233 | HL105549 | 23,333 |
| Cincinnati Children's Hospital | 93.242 | CHMC 102316 M4 | (221) |
| Geisinger Clinic | 93.242 | U01HG006382 | 91,858 |
| University of California, San Diego | 93.242 | 10313885-SUB | 98,005 |
| University of Rochester | 93.242 | MH (416088-G) | 4,959 |
| Johns Hopkins University | 93.242 | MH (2001815868) | 93,444 |
| Johns Hopkins University | 93.242 | MH075673(2001770076) | 6,827 |
| University of Texas Health Science Center | 93.242 | MH (53442/152932) | 86,676 |
| Vanderbilt University | 93.242 | VUMC 40221/MH095972 | 294,660 |
| Catholic Charities Corporation | 93.243 | 1H79TI-022425-02 | 82,642 |
| Mental Health Services | 93.243 | SPILSBURY | 6,689 |
| The University of British Columbia | 93.279 | DA021525 | 2,113 |
| University of North Carolina | 93.279 | DA030156(5-30857) | 218,637 |
| Central Brain Tumor Registry of the Unit | 93.283 | DP003831 (CWRU02) | 48,876 |
| Massachusetts Institute of Technology | 93.286 | 5710002285 | 107,686 |
| Rehabilitation Institute Research Corporation | 93.286 | EB11615 | 12,630 |
| University of the Virgin Islands | 93.307 | CALLWOOD-2008-1 | 21,007 |
| Wake Forest University | 93.307 | WFUHS42363 | 16,686 |
| Wake Forest University | 93.361 | WFUHS10104 | 7,095 |
| Georgia Institute of Technology | 93.389 | RC114-GI | 15,530 |
| Massachusetts Institute of Technology | 93.389 | 5710002814 | (2,543) |
| University of Mississippi | 93.389 | RR017701; 66209-CWRU | 168,862 |
| University of Utah | 93.389 | 10006464-03 | (57) |
| American College of Radiology | 93.393 | CA021661 | 248,423 |
| Baylor College of Medicine | 93.393 | CA139020 | 242,064 |
| Duke Univ. Comprehensive Cancer Center | 93.393 | 203-0309 | 249,962 |
| George Washington University | 93.393 | 09-M33 | 10,031 |
| Huntsman Cancer Institute | 93.393 | 10014775-01 | (2) |
| Institute for Systems Biology | 93.393 | 2011.0005 | 41,596 |
| Kaiser Permanente | 93.393 | R01 CA140377 | 42,027 |
| University of Michigan | 93.393 | 3002153816 | 43,658 |
| University of Texas- MD Anderson Cancer | 93.393 | 34134/98210590 | 393 |
| University of Washington | 93.393 | CA141439(735566) | 26,908 |
| Virginia Commonwealth University | 93.393 | PT102388-SC101313 | 249,286 |
| Washington University | 93.393 | 735566 | (28,634) |
| BioInVision, Inc. | 93.394 | CA124270 | 5,495 |
| Fred Hutchinson Cancer Research Ctr | 93.394 | 0000728543 | 288,763 |
| Kent State University | 93.394 | CA143408(403003CWRU) | 40,218 |
| University of California, San Diego | 93.394 | UCSD | 29,089 |
| University of Michigan | 93.394 | 3001861745 | 18,557 |

CASE WESTERN RESERVE UNIVERSITY
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For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| University of Michigan | 93.394 | 3001942590 | 32,300 |
| University of Pennsylvania | 93.394 | 557445 | 227,844 |
| University of Texas Health Science Center | 93.394 | 152906 | 117,929 |
| American College of Obstetricians & Gynecology | 93.395 | 27469-094 | 198,980 |
| American College of Radiology | 93.395 | U10CA021661 | 49,578 |
| Cleveland Clinic Foundation | 93.395 | CA138858 | 17,587 |
| Children's Hospital of Philadelphia | 93.395 | CA098543 | 21,311 |
| Gynecologic Oncology Group | 93.395 | 27469-94 | 7,280 |
| Invenio Therapeutics Inc. | 93.395 | CA134089 (INVENIO) | 43,511 |
| Lentigen Corporation | 93.395 | CA128269-LENTINGEN | 266,982 |
| National Surgical Adjuvant Breast & Bowel Project | 93.395 | TFED41-728 | 44,991 |
| Ohio State University Research Foundation | 93.395 | CA044971(60035402) | 59,337 |
| University of California, San Francisco | 93.395 | 7002SC | 242,615 |
| University of California, Berkeley | 93.397 | CA149233 (00008002) | 61,738 |
| Riverside Research | 93.397 | NYO.G00386P.01199512 | 98,125 |
| National Surgical Adjuvant Breast & Bowel | 93.399 | TIND-728 | 26,179 |
| Southwest Oncology Group | 93.399 | CA037429 | 177 |
| Brigham and Women Hospital-ARRA | 93.701 | HL101417 | 34,588 |
| Duke University-ARRA | 93.701 | 203-9436 | 24,000 |
| Duke University-ARRA | 93.701 | 203-9437 | 17,758 |
| George Washington University-ARRA | 93.701 | 10-D02 | 11,571 |
| Indiana University-ARRA | 93.701 | HL081819 | 2,903 |
| Johns Hopkins University-ARRA | 93.701 | 2000784928 | 13,186 |
| Johns Hopkins University-ARRA | 93.701 | 2000879393 | (94) |
| University of Colorado at Boulder-ARRA | 93.701 | 1546304 | 18,115 |
| Vanderbilt University-ARRA | 93.701 | VUMC 39667 | 44,082 |
| Massachusetts General Hospital-ARRA | 93.715 | 217197 | 183,121 |
| Ohio Health Information Partnership-ARRA | 93.718 | 90RC001201 | 1,371,557 |
| Biofunc | 93.837 | HL107037 | 42,532 |
| Duke University | 93.837 | HL075443 (203-1044) | 401,890 |
| Duke University | 93.837 | HL084904 (177494) | 55,836 |
| Henry Ford Health System | 93.837 | HFHS | 43,972 |
| Henry Ford Health System | 93.837 | HL028982 (HFHS) | 105,007 |
| Henry Ford Health System | 93.837 | HL090550 (HFHS) | 210,353 |
| Iasis Molecular Sciences | 93.837 | Iasis Molecular Sciences | 32,149 |
| Kent State University | 93.837 | 443165-CWRU | 344,562 |
| Loyola University Chicago | 93.837 | 200403 | 31,195 |
| Social & Scientific Systems, Inc. | 93.837 | CRB-UCLA1-S-10-00028 | 1,938 |
| University of California, Los Angeles | 93.837 | 1568 G KB381 | 38,452 |
| University of California, San Francisco | 93.837 | HL117713 (7418SC) | 17,891 |
| University of Maryland | 93.837 | SR00000925 | 350,486 |
| University of Michigan | 93.837 | 3001346374 | 44,471 |
| University of Michigan | 93.837 | HL094345 | 22,211 |
| University of Pittsburgh | 93.837 | 0025070(406794-2) | 70,090 |
| University of Pittsburgh | 93.837 | 9005405 (119281-1) | 85,133 |
| University of Texas Southwestern Medical | 93.837 | 0007173A | 190,575 |
| University of Toledo | 93.837 | 2008-007 | 121 |
| Wake Forest University | 93.837 | HHSN268201100027C | 1,151,617 |
| Brigham and Women Hospital | 93.838 | HL113338 (108605) | 68,911 |
| Emory University | 93.838 | S859799 | 105,616 |
| Mayo Foundation- Rochester | 93.838 | HL056470 | 81,707 |
| Pennsylvania State University | 93.838 | HL109086(RBCHL109086 | 4,845 |
| University of Washington | 93.838 | HL06800 (747426) | 9,369 |
| Vanderbilt University | 93.838 | HL079937(VUMC 38162) | 71,359 |
| Baylor College of Medicine | 93.839 | HL095647(5600698388) | 81,128 |
| Cincinnati Children's Hospital | 93.839 | HL095647-04 | 1,249 |
| St. Jude Medical, Inc. | 93.839 | 111513010-7365561 | 2,450 |
| Washington University | 93.839 | WU-09-30 | 1,503 |
| Burnham Institute | 93.846 | AR056273 | 42,826 |
| Children's Hospital and Regional Medical | 93.846 | 107387 | 974 |
| Cincinnati Children's Hospital | 93.846 | AR047363 (108808) | 3,140 |
| Cornell University | 93.846 | AR057362(60606-9536) | 20,941 |
| Drexel University | 93.846 | 232222; 232486-3850 | 74,819 |
| University of Maryland, College Park | 93.846 | Z036002 | 118,692 |
| Children's Mercy Hospital | 93.847 | 04-0032 | 27,444 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

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| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| Cleveland Clinic Foundation | 93.847 | 4655430 | 145,401 |
| Cleveland Clinic Foundation | 93.847 | 151SUBI | 10,827 |
| Emory University | 93.847 | S624243 | 43,703 |
| George Washington University | 93.847 | 10-D02 | 463,429 |
| George Washington University | 93.847 | DK (S-GRD1213-EAS) | 197,425 |
| Georgia Health Sciences University | 93.847 | DK076169 (25732-6) | 41,611 |
| Northwestern University | 93.847 | 60031497 | 189,818 |
| Thermalin Diabetes Incorporated | 93.847 | 1R43DK094668-01A1 | 96,305 |
| Thermalin Diabetes Incorporated | 93.847 | DK088506-01 | 261,216 |
| Thermalin Diabetes Incorporated | 93.847 | DK089831 | 10,046 |
| Thermalin Diabetes Incorporated | 93.847 | DK092041 | 31,727 |
| University of California, San Francisco | 93.847 | 4510SC | 31,755 |
| University of California, San Francisco | 93.847 | 7081SC | 157,195 |
| University of Chicago | 93.847 | 44692 | 192,940 |
| University of Medicine & Dentistry, NJ | 93.847 | DK090593 (UMDNJ) | 11,426 |
| University of Michigan | 93.847 | 3001822742 | 12,803 |
| University of Michigan | 93.847 | DK079912 | 17,453 |
| University of Michigan | 93.847 | DK083912 | 13,041 |
| University of North Carolina | 93.847 | 5-31660 | 135 |
| University of Pennsylvania | 93.847 | DK067390 (S55805) | 43,232 |
| University of Texas Southwestern Medical | 93.847 | DK083592 | 56,047 |
| University of Utah | 93.847 | 10017651-02 | 51,671 |
| University of Utah | 93.847 | 10019509-03 | 48,410 |
| University of Washington | 93.847 | 704053 | 7,584 |
| Vanderbilt University | 93.847 | R01DK(VUMC40347) | 49,132 |
| Yale University School of Medicine | 93.847 | M13A11503(A09021) | 25,848 |
| University of Virginia | 93.848 | GC11314-134338 | (273) |
| Cincinnati Children's Hospital | 93.853 | 107759 | 25,715 |
| ConservoCare | 93.853 | ConservoCare | 48,339 |
| Drexel University | 93.853 | 232475-5826 | 130,282 |
| Johns Hopkins University | 93.853 | 2000793423 | 11,214 |
| Johns Hopkins University | 93.853 | 2001648926 | 13,785 |
| Johns Hopkins University | 93.853 | 2001049002 | 13,205 |
| Medical University of South Carolina | 93.853 | MUSC08-063 | 11,352 |
| Northwestern University | 93.853 | 60029363 CWRU | 118,838 |
| University of Alabama, Birmingham | 93.853 | NS042685-071 | 819 |
| University of California, San Diego | 93.853 | 10322639 | 16,975 |
| University of California, San Diego | 93.853 | NS076896(S9000249) | 4,936 |
| University of Minnesota | 93.853 | NS062091(N000936937) | (6,316) |
| University of Pittsburgh | 93.853 | 0017392 (119947-2) | 266,643 |
| Washington University | 93.853 | WU-10-332 | 3,704 |
| Wayne State University | 93.853 | NS061264(WSU120523-A | 173,885 |
| Yale University School of Medicine | 93.853 | NS044876 (A07593) | 4,213 |
| Brigham and Women Hospital | 93.855 | 108084 | 339,865 |
| Brigham and Women Hospital | 93.855 | AI068636 (108080) | 480,262 |
| Brigham and Women Hospital | 93.855 | AI068636 (108561) | 48,348 |
| Brigham and Women Hospital | 93.855 | UM1 AI068636-07 | 8,975 |
| Duke University | 93.855 | AI098588 (203-2437) | 84,555 |
| Fred Hutchinson Cancer Research Ctr | 93.855 | AI068614(0000750859) | 212,086 |
| Iowa State University | 93.855 | 430-23-05B | 208,834 |
| Johns Hopkins University | 93.855 | 2001317194 | 80,009 |
| Los Angeles Biomedical Research Institute | 93.855 | AI101750(20439-01R) | 730 |
| Magee Woman's Hospital | 93.855 | AI068633-07(9241) | 54,117 |
| Medical University of South Carolina | 93.855 | AI091526(MUSC13-033) | 12,246 |
| Mount Sinai School of Medicine of the NE | 93.855 | 0255-1611-4609 | 88,571 |
| Mount Sinai School of Medicine of the NE | 93.855 | AI (0255-1357-4609) | 151,720 |
| New Jersey Medical School | 93.855 | 191712 | 60,344 |
| Social & Scientific Systems, Inc. | 93.855 | A5207 | 43,328 |
| Social & Scientific Systems, Inc. | 93.855 | BRS-ACURE-Q-06-00136 | (450) |
| Social & Scientific Systems, Inc. | 93.855 | BRS-ACURES-11-000049 | (7,668) |
| Tufts University | 93.855 | 5005292 | 12,800 |
| University of Alabama, Birmingham | 93.855 | AI (000397076-007) | 264,768 |
| University of Alabama, Birmingham | 93.855 | AI067039 | 156 |
| University of California, San Francisco | 93.855 | 6167SC | 27 |
| University of Iowa | 93.855 | 430-23-20A | 257,681 |

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|--|--|---|---------------------|
| University of North Carolina | 93.855 | AI050410 (5-33229) | 53,088 |
| University of North Carolina | 93.855 | AI096113-02(5-31533) | 291,802 |
| University of South Florida | 93.855 | AI(6408-1063-00-A) | 55,041 |
| University of Texas Medical Branch | 93.855 | 0007207A | 410,411 |
| University of Washington | 93.855 | 428287 | 93,178 |
| University of Washington | 93.855 | 747348 | 284,303 |
| ViTi, Inc. | 93.855 | AI091267 (9003_CWRU) | 26,708 |
| Washington University | 93.855 | AI057160 (WU-13-213) | 5,767 |
| Washington University | 93.855 | AI057160 (WU-13-229) | 290,289 |
| Washington University | 93.855 | WU-12-223 | 101,447 |
| The J. Craig Venter Institute | 93.856 | JCVI-12-006 | 15,169 |
| Affinity Therapeutics | 93.859 | AFFINITY | 21,275 |
| Mayo Foundation- Rochester | 93.859 | GM061388 | 107,634 |
| New York Structural Biology Center | 93.859 | GM(NYSBCG01908-4) | 328,818 |
| University of California, San Diego | 93.859 | 10313432-SUB | 118,263 |
| University of Michigan | 93.859 | 3002520016 | 62,160 |
| University of Pittsburgh | 93.859 | 0002343 | 16,250 |
| University of Pittsburgh | 93.859 | 0029564(122354-1) | 363,416 |
| University of Texas- MD Anderson Cancer | 93.859 | GM096101 (12083955) | 3,324 |
| BiolnVision, Inc. | 93.865 | BIOINVISION | 2,718 |
| Children's National Medical Center | 93.865 | HD (30000364-12-01) | 64,144 |
| Children's National Medical Center | 93.865 | HD(30000744-13-03) | 51,474 |
| Children's Research Institute | 93.865 | 388509 | (647) |
| Cincinnati Children's Hospital | 93.865 | HD042729 (106049) | 89,589 |
| Columbia University | 93.865 | 5-30279 | 11,545 |
| George Washington University | 93.865 | 21050 | 120,613 |
| Kent State University | 93.865 | 403004 CWRU | 54,782 |
| Ohio State University Research Foundation | 93.865 | 60035809-CWRU | 38,968 |
| Ohio State University Research Foundation | 93.865 | RF01076422/60012965 | (40) |
| RTI International | 93.865 | 8-312-0212512 | 24,603 |
| RTI International | 93.865 | HD036790 (0212456) | 172,466 |
| RTI International | 93.865 | HD063036 | 95,132 |
| StimDesigns LLC | 93.865 | HD076520 | 7,402 |
| The Ohio State University | 93.865 | RF01194520 | 96,034 |
| City of Hope | 93.866 | 23030.914940.6692 | 12,275 |
| Duke Clinical Research Institute | 93.866 | AG034661 (2039364) | 25,865 |
| Rensselaer Polytechnic Institute | 93.866 | A12193 | 194,986 |
| University of California, Irvine | 93.866 | SU01AG010483-21 | 17,984 |
| University of California, San Diego | 93.866 | 10321835 | 37,503 |
| University of California, San Diego | 93.866 | 114 HBA | 10,804 |
| University of California, San Diego | 93.866 | AG010483 (37336810) | 8,024 |
| University of California, San Diego | 93.866 | AG010483 (37617388) | 1,260 |
| University of California, San Diego | 93.866 | AG024904(114-ADNI-2) | 27,967 |
| University of California, San Diego | 93.866 | AG10483 (114-NGF) | 83,706 |
| University of California, Santa Barbara | 93.866 | KK1331 | 4,161 |
| University of Louisville Health Sciences | 93.866 | 05-1523-Z07 | 5,611 |
| Harvard University | 93.867 | 1RO1EY022302-01 | 40 |
| Jaeb Center for Health Research | 93.867 | EY012358 | 55,924 |
| Jaeb Center for Health Research | 93.867 | EY11751 | 2,466 |
| Jaeb Center for Health Research | 93.867 | EY014231 (DRCRN 58) | 36,924 |
| Jaeb Center for Health Research | 93.867 | EY020791 (JAEB) | 18,359 |
| Johns Hopkins University | 93.867 | EY021531 | 6,439 |
| Massachusetts Eye and Ear Infirmary | 93.867 | EY022302 (ME&EI) | 48,945 |
| University of Arkansas for Medical Science | 93.867 | EY021646 (37882) | 65,053 |
| University of Pennsylvania | 93.867 | 552812 | 111,704 |
| University of Wisconsin - Madison | 93.867 | 277K303 | 37,992 |
| University of Wisconsin - Madison | 93.867 | EY006594 (418K703) | 67,095 |
| Washington University | 93.867 | WU-06-180 | (12,360) |
| Ohio State University | 93.879 | 60027738 | 25,007 |
| West Virginia University | 93.879 | 06-650-CWRU | 36,403 |
| Northeastern Ohio Universities | 93.884 | HP20645 (NEOMED) | 3,581 |
| University of Illinois | 93.943 | 492078 E5381 | 1,559 |
| Cuyahoga County Board of Health | 93.944 | CCBH | 89,780 |
| Cincinnati Children's Hospital | 93.946 | | 9,908 |
| Iowa State University | 97.077 | 428-20-01 | 125,555 |

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|--|--|---|---------------------|
| Department of Health & Human Services Subtotal | | | 183,096,979 |
| Total Research and Development - University Only | | | 215,277,250 |
| Department of Defense | | | |
| Direct Programs | | | |
| Basic and Applied Scientific Research | 12.300 | | 114,383 |
| Military Medical Research and Development | 12.420 | | 30,873 |
| Department of Defense Subtotal | | | 145,256 |
| National Aeronautics and Space Administration | | | |
| Direct Programs | | | |
| Aerospace Education Services Program | 43.001 | | 56,503 |
| Education | 43.008 | | 75,172 |
| Cross Agency Support | 43.009 | | 185,391 |
| National Aeronautics and Space Administration Subtotal | | | 317,066 |
| National Science Foundation | | | |
| Direct Programs | | | |
| Engineering Grants | 47.041 | | 70,017 |
| Biological Sciences | 47.074 | | 43,119 |
| Education and Human Resources | 47.076 | | 574,858 |
| Trans-NSF Recovery Act Research Support-ARRA | 47.082 | | 11,337 |
| Pass Through Programs | | | |
| George Washington University | 47.076 | 30857/2/CCLS20557F | 8,930 |
| National Science Foundation Subtotal | | | 708,261 |
| Environmental Protection Agency | | | |
| Pass Through Programs | | | |
| Harrisburg University of Science & Tech | 66.951 | NE 00E01029 | 1,550 |
| Environmental Protection Agency Subtotal | | | 1,550 |
| Department of Education | | | |
| Direct Programs | | | |
| Graduate Assistance in Areas of National Need | 84.200 | | 835,653 |
| Department of Education Subtotal | | | 835,653 |
| Department of Health & Human Services | | | |
| Direct Programs | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | 164,167 |
| Oral Diseases & Disorder Research | 93.121 | | 96,473 |
| Nurse Anesthetist Traineeships | 93.124 | | 34,358 |
| Research Related to Deafness and Communication Disorders | 93.173 | | 84,514 |
| National Research Service Awards Health Services Research Training | 93.225 | | 247,910 |
| National Center on Sleep Disorders Research | 93.233 | | 445 |
| Advanced Nursing Education Grant Program | 93.247 | | 242,353 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | | 592,679 |
| National Center for Advancing Translational Sciences | 93.350 | | 574,004 |
| Nurse Education, Practice Quality and Retention Grants | 93.359 | | 177,427 |
| Nursing Research | 93.361 | | 44,277 |
| National Center for Research Resources | 93.389 | | 12,674 |
| Cancer Research Manpower | 93.398 | | 1,988,753 |
| Grants for Training in Primary Care Medicine and Dentistry Training and Enhancement-ARRA | 93.403 | | 8,584 |
| Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative | 93.513 | | 273,284 |
| Cancer Research Manpower-ARRA | 93.701 | | 5,051 |
| Cardiovascular Diseases Research | 93.837 | | 1,080,658 |
| Lung Diseases Research | 93.838 | | 192,545 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--|--|---|---------------------|
| Blood Diseases and Resources Research | 93.839 | | (7,533) |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | | 548,393 |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | 705,035 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 307,469 |
| Allergy, Immunology and Transplantation Research | 93.855 | | 666,594 |
| Biomedical Research and Research Training | 93.859 | | 2,258,351 |
| Child Health and Human Development Extramural Research | 93.865 | | 567,029 |
| Aging Research | 93.866 | | 45,885 |
| Vision Research | 93.867 | | 508,360 |
| Grants for Training in Primary Care Medicine and Dentistry | 93.884 | | 992,882 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | | 158,521 |
| International Research and Research Training | 93.989 | | 1,144,137 |
| Pass through programs | | | |
| Dartmouth College | 93.213 | Darthmouth | 12,834 |
| Ohio Department of Mental Health | 93.648 | NGAG-12-411-02-003 | |
| Makerere University | 93.853 | NS0808968 (01-01) | 7,106 |
| Ohio Department of Mental Health | 93.958 | BG 12-100-17-011 | 1,342 |
| Ohio Department of Mental Health | 93.958 | BG-12-328-06-001 | 1,960 |
| Ohio Department of Mental Health | 93.958 | BG-12-425-14-001 | 21,597 |
| Ohio Department of Mental Health | 93.958 | BG-12-429-06-001 | 10,801 |
| Ohio Department of Mental Health | 93.958 | BG-13-701-13-004 | 32,473 |
| Ohio Department of Mental Health | 93.958 | BG-13-701-13-006 | 35,849 |
| Ohio Department of Alcohol & Drug Addiction Services | 93.959 | 99-3095-SAMI-T-12-03 | 1 |
| University of Georgia | 93.989 | RR793-017/4690888 | 101,345 |
| Vanderbilt University | 93.989 | TW007988(VUMC 38303) | 62,321 |
| Department of Health & Human Services Subtotal | | | 14,002,908 |
| Total Research Training Grants | | | 16,010,694 |
| Sub Total Research and Development and Research Training Cluster | | | 231,287,944 |
| Research and Development - Cleveland Clinic Lerner College of Medicine (see Footnote 1) | | | |
| Department of Health & Human Services | | | |
| Direct Programs | | | |
| Environmental Health | 93.113 | | 10,691 |
| Oral Diseases and Disorders Research | 93.121 | | 867,016 |
| Human Genome Research | 93.172 | | 2,086 |
| Research Related to Deafness and Communication Disorders | 93.173 | | 355,181 |
| Mental Health Research Grants | 93.242 | | 292,361 |
| Geriatric Academic Career Awards | 93.250 | | 60,934 |
| Alcohol Research Programs | 93.273 | | 2,264,068 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | | 415,627 |
| Trans-NIH Research Support | 93.310 | | 531,946 |
| Nursing Research | 93.361 | | 58,568 |
| National Center for Research Resources | 93.389 | | 940,158 |
| Cancer Cause & Prevention Research | 93.393 | | 2,216,592 |
| Cancer Detection and Diagnosis Research | 93.394 | | 323,713 |
| Cancer Treatment Research | 93.395 | | 3,557,033 |
| Cancer Biology Research | 93.396 | | 3,723,656 |
| Cancer Research Manpower | 93.398 | | 150,529 |
| Trans-NIH Recovery Act Research Support-ARRA | 93.701 | | 518,715 |
| National Center for Research Resources, Recovery Act Construction Support-ARRA | 93.702 | | 1,694,760 |
| Cardiovascular Diseases Research | 93.837 | | 21,174,871 |
| Lung Diseases Research | 93.838 | | 4,714,759 |
| Blood Diseases & Resources Research | 93.839 | | 5,938,102 |
| Arthritis, Musculoskeletal, & Skin Diseases Research | 93.846 | | 1,914,806 |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | 9,071,223 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 9,459,622 |
| Allergy, Immunology and Transplantation Research | 93.855 | | 4,645,139 |
| Biomedical Research and Research Training | 93.859 | | 3,064,041 |
| Child Health and Human Development Extramural Research | 93.865 | | 1,730,218 |
| Aging Research | 93.866 | | 1,450,163 |
| Vision Research | 93.867 | | 3,018,202 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--------------------------------------|--|---|---------------------|
| Pass Through Programs | | | |
| Massachusetts General Hospital | 93.213 | U01AT000613 | 19,560 |
| Butler Hospital | 93.242 | U01MH076179 | 16,140 |
| Vanderbilt University | 93.242 | R01MH095621 | 76,269 |
| Floel, Inc. | 93.242 | MH093302 | 152,639 |
| Massachusetts General Hospital | 93.286 | R01EB009048 | 3,891 |
| University Of Southern California | 93.286 | R01EB010197 | 21,280 |
| Ohio State University | 93.350 | R42TR000473 | 5,377 |
| Vanderbilt University | 93.350 | UH2TR000491 | 242,967 |
| Princeton University | 93.389 | R21RR026231 | 74,883 |
| University Of N Carolina Chapel | 93.393 | R01CA059005 | 33,154 |
| University Of N Carolina Chapel | 93.393 | R01CA098286 | 160,119 |
| University Of Southern California | 93.393 | U24CA074799 | (10,661) |
| St. Jude Childrens Research Hospital | 93.393 | R01CA157838 | 19,895 |
| Advance Cell Diagnostics | 93.394 | R43CA168019 | 32,350 |
| Advance Cell Diagnostics | 93.394 | R44CA122444 | 102,463 |
| Harvard University | 93.394 | R01CA151532 | 66,583 |
| Ohio State University Rsc | 93.394 | R01CA134451 | (15,705) |
| American College Of Radiology | 93.395 | U10CA021661 | 214,801 |
| Duke University | 93.395 | U10CA076001 | (6,391) |
| Gynecological Oncology Group | 93.395 | U10CA027469 | 160,781 |
| Johns Hopkins University | 93.395 | U01CA137443 | 170,233 |
| Johns Hopkins University | 93.395 | R01CA161613 | 65,019 |
| Massachusetts General Hospital | 93.395 | P01CA084203 | 183,371 |
| Moffitt Cancer Ctr & Rsch | 93.395 | R01CA131076 | 76,961 |
| National Childhood Cancer | 93.395 | U10CA098543 | (9,101) |
| Ohio State University Rsc | 93.395 | U01CA044971 | 130,762 |
| Southwestern Oncology Group | 93.395 | U10CA004919 | 421,643 |
| University Of Miami | 93.395 | R33CA123027 | 138,993 |
| University Of Michigan | 93.395 | U10CA32102 | 44,740 |
| University Of Minnesota | 93.395 | R01CA138437 | 32,328 |
| Ohio State University | 93.396 | R01CA143082 | 23,365 |
| Ohio State University Rsc | 93.396 | P01CA124570 | 333,724 |
| Sloan-Kettering Cancer Research | 93.396 | U01CA105492 | 69,687 |
| Beth Israel Deconess Med-ARRA | 93.701 | RC1EB011001Z | 7,757 |
| Brigham & Women's Hospital-ARRA | 93.701 | R01AR05557Z | 5,011 |
| Children's Hospital of Philadelphia | 93.701 | U01CA098543 | 27,834 |
| Duke University-ARRA | 93.701 | RC2AR058934Z | (6,172) |
| Emmes Corporation-ARRA | 93.701 | U01NS026835Z | 32,747 |
| Kinetic Muscles, Inc.-ARRA | 93.701 | RC3NS070646Z | 120,972 |
| Mayo Clinic-ARRA | 93.701 | U01DK062410Z | (3,898) |
| Mount Sinai School Of Medicine-ARRA | 93.701 | U01AI063594Z | 129,445 |
| Texas A & M-ARRA | 93.701 | R21HL093689Z | 5,995 |
| University Of Toledo-ARRA | 93.701 | RC2CA148572Z | 74,994 |
| University Of Washington At St-ARRA | 93.701 | U01AI077810Z | 20,502 |
| University Of Illinois-ARRA | 93.701 | R56DK072231Z | (27,429) |
| University Of Michigan-ARRA | 93.701 | RC2HL101740Z | 993 |
| University Of Pittsburgh-ARRA | 93.701 | RC1HL102429Z | 2,227 |
| Vanderbilt University | 93.701 | R01DK080095 | 6,178 |
| Baystate Medical Center | 93.837 | R18HL108810 | 18,530 |
| Cleveland State University | 93.837 | R01HL079164 | 41,726 |
| Duke University | 93.837 | U01HL063747 | 3,003 |
| Duke University | 93.837 | U01HL084904 | 30,037 |
| Duke University | 93.837 | R34HL105422 | 30,739 |
| Massachusetts General Hospital | 93.837 | U01HL092040 | 9 |
| Mount Sinai School Of Medicine | 93.837 | U01HL088942 | 76,210 |
| Northwestern University | 93.837 | R01HL109244 | 53,120 |
| University of Colorado | 93.837 | K23HL096895 | 2,021 |
| University Of Connecticut | 93.837 | P01HL070694 | 71,987 |
| University of Maryland | 93.837 | R21HL114407 | 12,599 |
| University Of Pennsylvania | 93.837 | R01HL105993 | 302,165 |
| University Of Texas | 93.837 | U01HL087318 | 34,651 |
| Washington University | 93.837 | R34HL105412 | 2,492 |
| Bringham & Women's Hospital | 93.838 | U01HL102225 | 1,447 |
| Duke University | 93.838 | Site 113 | 27,341 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| Duke University | 93.838 | U10HL080413 | (2,843) |
| Johns Hopkins University | 93.838 | P50HL084946 | 20,388 |
| Medical University-Ohio | 93.838 | P30CA043703 | 9,657 |
| Medical University-Ohio | 93.838 | P30HL108016 | 7,986 |
| University Of Alabama At Birmingham | 93.838 | R01HL085324 | 57,165 |
| University Of Washington At St. Louis | 93.838 | R01HL091762 | (2,169) |
| University Of Michigan | 93.838 | U10HL074422 | 3,233 |
| University Of Pennsylvania | 93.838 | R01HL113988 | 22,304 |
| University of Virginia | 93.838 | U01HL109250 | 101,673 |
| University Of Washington | 93.838 | R01HL056643 | 29,221 |
| New England Research Institute | 93.839 | U01HL072268 | 2,394 |
| University Of Washington At St. Louis | 93.839 | U01HL088476 | 15,571 |
| Boston University | 93.846 | U54AR057319 | 134,887 |
| Brigham & Women's Hospital | 93.846 | R01AR055557 | 13,562 |
| Cincinnati Child Hosp Rsc | 93.846 | P60AR047784 | 19,292 |
| Drexel University | 93.846 | R01AR047904 | 16,138 |
| Vanderbilt University | 93.846 | R01AR053684 | 61,516 |
| Beth Israel Deconess Med | 93.847 | R01DK085185 | 16,591 |
| Diapedia LLC. | 93.847 | R44DK059074 | 11,096 |
| Kaiser Permanente | 93.847 | R01DK076165 | 30,278 |
| Mayo Clinic | 93.847 | U01DK062410 | 119,325 |
| Mayo Clinic | 93.847 | R01DK090358 | 49,670 |
| Mirimedical, LLC. | 93.847 | R42DK064500 | 37,623 |
| New York University | 93.847 | R33DK070341 | 30,976 |
| University Health Network | 93.847 | R01DK091288 | 57,448 |
| University Of Illinois | 93.847 | R01DK072231 | 32,354 |
| University Of Michigan | 93.847 | U01DK061028 | (17,255) |
| University Of Utah | 93.847 | R01DK088777 | 18,249 |
| University Of Utah | 93.847 | R01DK090046 | 114,610 |
| Wayne State University | 93.847 | U01NS061264 | 26,980 |
| Beth Israel Deconess | 93.853 | U01NS074425 | 31,560 |
| Cincinnati Child Hosp Rsc | 93.853 | U01NS076788 | 12,474 |
| Columbia University | 93.853 | R01NS048212 | 806 |
| Columbia University | 93.853 | R01NS078059 | 10,038 |
| Columbia University | 93.853 | U01NS043975 | 383 |
| H-Cubed Inc | 93.853 | R44NS052939 | 143,185 |
| Massachusetts General Hospital | 93.853 | U01NS049640 | 29 |
| Mayo Clinic | 93.853 | R01NS049577 | 23,178 |
| Mount Sinai School Of Medicine | 93.853 | U01NS045719 | 2,800 |
| The University Of Akron | 93.853 | R15NS071455 | 32,638 |
| University Of California At L. A | 93.853 | R01NS074980 | 45,055 |
| University Of California At San Francisco | 93.853 | R01NS062820 | (6,384) |
| University Of California At San Francisco | 93.853 | U01NS053998 | (27,567) |
| University of Cincinnati | 93.853 | U01NS039512 | 20,068 |
| University Of Iowa | 93.853 | R01NS040068 | 42,321 |
| University Of Iowa | 93.853 | R01NS054893 | 93,266 |
| University Of Iowa | 93.853 | R01NS077946 | 1,188 |
| University of New Mexico | 93.853 | Uof New Mexico | 43,678 |
| Wayne State University | 93.853 | U01NS061264 | 39,591 |
| Yale University | 93.853 | U01NS044876 | 9,260 |
| Seattle Children's Hospital | 93.853 | R01NS065818 | 10,343 |
| Medical College of Wisconsin | 93.853 | R01NS035929 | 112,530 |
| Medical University of South Carolina | 93.853 | U01NS058728 | 23,936 |
| University North Texas | 93.853 | R01NS048837 | 119,668 |
| University of Medicine & Dentistry | 93.854 | R01NS038384 | (16,093) |
| Brigham & Women's Hospital | 93.855 | U01AI063623 | 191,980 |
| Fred Hutchinson Center | 93.855 | U54CA163438 | 10,007 |
| Mount Sinai School Of Medicine | 93.855 | U01AI063594 | 326,662 |
| Northwestern University | 93.855 | U01AL084146 | 4,627 |
| University Of California At San Francisco | 93.855 | U01AI052748 | 751 |
| University Of Washington At St. Louis | 93.855 | U01AI077810 | 24,198 |
| University Of Washington At St. Louis | 93.855 | U54AI057160 | 126,049 |
| University of Pennsylvania | 93.855 | U of Penn. | 109,434 |
| Duke University | 93.859 | Duke Univ. | 57,814 |
| Brigham & Women's Hospital | 93.865 | U01CA076001 | 37,871 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| University of Kansas | 93.865 | R01HD069043 | 35,523 |
| Research Triangle International | 93.865 | U01HD041249 | 65,939 |
| University Of South Florida | 93.865 | U01DK061055 | 15,596 |
| New England Medical Center | 93.865 | R01AG027002 | 26,145 |
| Mount Sinai School Of Medicine | 93.866 | R01AG029656 | 43,232 |
| University of Nebraska | 93.866 | R01AG037120 | 39,742 |
| Duke University | 93.867 | R01EY023039 | 20,266 |
| Arteriocyte Inc. | 93.867 | R41EY018784 | (4,893) |
| Emory University | 93.867 | U01EY013272 | 17,539 |
| Jackson Laboratories | 93.867 | R01EY016501 | 48,892 |
| Jaeb Center Health Research | 93.867 | U10EY011751 | 7,075 |
| Oregon Health & Science University | 93.867 | R01EY013516 | 44,294 |
| Department of Health & Human Services Subtotal | | | 91,376,747 |
| Total Research and Development - Cleveland Clinic Lerner College of Medicine | | | 91,376,747 |
| Total Research and Development and Research Training Cluster | | | 322,664,691 |
| Head Start | | | |
| Department of Health & Human Services | | | |
| Pass through programs | | | |
| Educational Development Center | 93.600 | 90HC0006; EDC 11511 | 375,168 |
| Total Department of Health & Human Services-Head Start Cluster | | | 375,168 |
| Highway Planning & Construction | | | |
| Department of Justice | | | |
| Direct Programs | | | |
| Highway Planning and Construction | 20.205 | | 42,512 |
| Total Department of Justice-Highway Planning & Construction Cluster | | | 42,512 |
| Medicare | | | |
| Department of Health & Human Services | | | |
| Pass through programs | | | |
| Ohio State Research Foundation | 93.778 | RF01282919/RF0130261 | 74,910 |
| Ohio State University | 93.778 | G-1213-07-0343 | 873,076 |
| Ohio State University | 93.778 | MEDTAPP RONIS | 850,199 |
| Cincinnati Children's Hospital | 93.778 | G-1213-07 (130566) | 35,000 |
| Cuyahoga County Board of Commissioners | 93.778 | MEDTAPP (CUTTLER) | 139,775 |
| Ohio State University Research Foundation | 93.778 | G-1213-07-0343 | 413,766 |
| Total Department of Health & Human Services-Medicare Cluster | | | 2,386,726 |
| Student Financial Aid | | | |
| Department of Education | | | |
| Direct Programs-Student Financial Aid Cluster | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | 1,063,574 |
| Federal Work-Study Program | 84.033 | | 1,472,003 |
| Federal Pell Grant Program | 84.063 | | 3,545,822 |
| Total Department of Education-SFA Cluster | | | 6,081,399 |
| TRIO | | | |
| Department of Education | | | |
| Direct Programs | | | |
| TRIO_Upward Bound | 84.047 | | 541,703 |
| Department of Education Subtotal | | | 541,703 |
| Total TRIO | | | 541,703 |

CASE WESTERN RESERVE UNIVERSITY
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

| FEDERAL GRANTOR/PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Pass Through Entity Identifying Number | Expenditures |
|--|--|---|---------------------|
| Other Federal Assistance | | | |
| Department of Defense | | | |
| Direct Programs | | | |
| Basic and Applied Scientific Research | 12.300 | | 25,883 |
| Department of Defense Subtotal | | | 25,883 |
| Department of Education | | | |
| Direct Programs | | | |
| Safe and Drug-Free Schools and Communities_National Programs | 84.184 | | 165,140 |
| Pass through programs | | | |
| Brecksville-Broadview Heights | 84.184 | BBH | 7,530 |
| Department of Education Subtotal | | | 172,670 |
| Department of Health & Human Services | | | |
| Direct Programs | | | |
| Research and Training in Complementary and Alternative Medicine | 93.213 | | 3,366 |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 129,981 |
| Allergy, Immunology and Transplantation Research | 93.855 | | 50 |
| Child Health and Human Development Extramural Research | 93.865 | | 34,596 |
| Ryan White HIV/AIDS Dental Reimbursements Community Based Dental Partnership | 93.924 | | 140 |
| Pass Through Programs | | | |
| University of Pittsburgh | 93.242 | 0021129 | 48,622 |
| YMCA of Greater Cleveland | 93.283 | YMCA | 11,086 |
| Great Lakes Science Center | 93.389 | Great Lakes Science Center | 57,008 |
| Aeromics | 93.853 | Aeromics | 4,043 |
| Ohio Department of Mental Health | 93.958 | BF-13-100-14-001 | 27,620 |
| Ohio Department of Health | 93.994 | ODH/DHHS (TRAPL) | 4,088 |
| Department of Health & Human Services Subtotal | | | 320,600 |
| Total Other Federal Assistance | | | 9,946,661 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | 332,611,352 |

CASE WESTERN RESERVE UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant transactions of Case Western Reserve University (the "University") recorded on the accrual basis of accounting. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation ("CCF") to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine ("CCLCM"). This is a collaborative arrangement governed jointly by the University and CCF. The results of operations of the CCLCM are included in the University's accompanying financial statements. Beginning in fiscal 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the University's School of Medicine.

Subrecipients:

Certain funds are passed through to subgrantee organizations by the University and CCLCM. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. The University has 142 research and development cluster awards with subcontracts of its federal funds, which have been issued to subrecipients that total approximately \$21,075,626. Due to the large number of programs and sponsors, it is not practical to disclose the amount of payments to each research and development cluster subrecipient. The University has 2 non-research and development awards with subcontracts of its federal funds, which have been issued to subrecipients that total approximately \$143,481. Refer to the table below for the amount provided to subrecipients under each CFDA number.

| CFDA No Description | | | Amount provided to subrecipients | |
|----------------------------|---|---------------------------------------|---|---------|
| 93.853 | University of Utah | Department of Health & Human Services | \$ | 129,981 |
| 93.778 | Northeast Ohio Neighborhood Health Services, Inc. | Department of Health & Human Services | | 13,500 |
| | | | \$ | 143,481 |

2. Catalog of Federal Domestic Assistance Numbers:

Catalog of Federal Domestic Assistance ("CFDA") Numbers and Pass Through Entity Identifying Numbers are presented for those programs for which such numbers are available and were able to be identified by the University.

CASE WESTERN RESERVE UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

3. Facilities and Administrative Cost Rates:

The University recovers facilities and administrative costs by means of final facilities and administrative cost rates. The final rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The final rate effective for the period July 1, 2012 to June 30, 2013 for on-campus research and for the CCLCM is 57% of modified total direct costs. The base rates for off-campus research for the same period vary depending upon the location of the research. The University's facilities and administrative cost rates have been finalized through fiscal year 2016 as predetermined rates pursuant to the DHHS rate agreement dated March 25, 2013. Provisional rates have been established for fiscal year 2017 and beyond.

4. Loan Advances:

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins, Nursing, Health Professional Student and Disadvantaged Students Loan Programs for the year ended June 30, 2013:

| | CFDA Number | Advances | Outstanding Balance |
|--|------------------------|-----------------|--------------------------------|
| Perkins Loan Program | 84.038 | \$ 1,259,364 | \$ 13,070,046 |
| Nursing Student Loan Program | 93.364 | \$ 32,000 | \$ 302,149 |
| Health Professional Student Loan Program/PCL | 93.342 | \$ 145,000 | \$ 1,926,632 |
| Loan for Disadvantaged Students | 93.342 | \$ - | \$ 14,730 |

The Perkins Loan administrative cost allowance totaled \$0 for the year ended June 30, 2013.

The amount of Perkins loan principal cancelled under CFDA 84.037 totaled \$160,273 for the year ended June 30, 2013.

Federal Direct Loan Program

During the year ended June 30, 2013, the University disbursed the following loan amounts under the Federal Direct Loan Program (FDLP) (which includes Stafford Loans, unsubsidized Stafford Loans, and Parents Plus Loans for Undergraduate Students):

| | CFDA Number | Amounts |
|-----------------------------|------------------------|----------------|
| Federal Direct Loan Program | 84.268 | \$ 107,021,187 |

CASE WESTERN RESERVE UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

5. Housing and Urban Development (HUD, CFDA #14.) Mortgage Bonds:

During the year ended June 30, 2013, the University made principal and interest payments of \$390,420 and \$830,151 respectively on HUD mortgage bonds and U.S. Government housing bonds. HUD mortgage bonds and U.S. Government housing bonds payable at June 30, 2013 amounted to \$16,389,876. See note 8 to the financial statements for further information concerning the components of these loans.

REPORTS ON COMPLIANCE AND ON THE
INTERNAL CONTROL STRUCTURE



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Trustees,
Case Western Reserve University:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Case Western Reserve University, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Case Western Reserve University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Case Western Reserve University's internal control. Accordingly, we do not express an opinion on the effectiveness of Case Western Reserve University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2013-1.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Case Western Reserve University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Case Western Reserve University's Response to Findings

Case Western Reserve University's response to the finding identified in our audit is described in the accompanying Management Corrective Action Plan. Case Western Reserve University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

October 5, 2013



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees,
Case Western Reserve University:

Report on Compliance for Each Major Federal Program

We have audited Case Western Reserve University's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Case Western Reserve University's major federal programs for the year ended June 30, 2013. Case Western Reserve University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Case Western Reserve University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Case Western Reserve University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Case Western Reserve University's compliance.



Opinion on Each Major Federal Program

In our opinion, Case Western Reserve University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-2, 2013-3 and 2013-4. Our opinion on each major federal program is not modified with respect to these matters.

Case Western Reserve University's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. Case Western Reserve University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Case Western Reserve University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Case Western Reserve University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Case Western Reserve University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

March 28, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

| | | |
|--|----------------|--------------------------|
| • Material weakness(es) identified? | <u> </u> yes | <u>X</u> no |
| • Significant deficiency (s) identified that are not considered to be material weaknesses? | <u>X</u> yes | <u> </u> none reported |
| Noncompliance material to financial statements noted? | <u> </u> yes | <u>X</u> no |

Federal Awards

Internal control over major programs:

| | | |
|---|----------------|------------------------|
| • Material weakness(es) identified? | <u> </u> yes | <u>X</u> no |
| • Significant deficiency(s) identified that are not considered to be material weaknesses? | <u> </u> yes | <u>X</u> none reported |

Type of auditor’s report issued on compliance for major programs:

Unmodified

| | | |
|--|--------------|---------------|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | <u>X</u> yes | <u> </u> no |
|--|--------------|---------------|

| Identification of major programs: CFDA Number(s) | Name of Federal Program or Cluster | |
|--|--|---------------|
| Various | Research & Development and Research Training Cluster | |
| 84.047 | TRIO Cluster | |
| 93.600 | Head Start | |
| Dollar threshold used to distinguish between type A and type B programs: | \$3,000,000 | |
| Auditee qualified as low-risk auditee? | <u>X</u> yes | <u> </u> no |

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

Section II - Financial Statement Findings

Finding 2013-1 - Accounting for Pledges and Contributions

Criteria

Contributions, including unconditional promises to give (pledges), are recognized as revenues in the appropriate categories of net assets in the periods received. Conditional promises to donate to the University are not recognized until the conditions are substantially met.

Condition

In connection with our audit procedures for fiscal year 2013 we identified the following errors:

- 1) A pledge totaling \$5.0 million was improperly recorded in the conditional pledge listing and excluded from revenue as of June 30, 2013 as the conditions required to release the pledge had already been met.
- 2) A new pledge for \$4.95 million was improperly included in revenue as of June 30, 2013, however, the supporting donor documentation includes specific conditions that have not yet been met by the University.
- 3) Several pledges recorded in July and August 2013 totaling \$2.0 million were improperly excluded from revenue in the year ended June 30, 2013 based upon review of the donor documentation.

Cause

While the University has policies and procedures governing the tracking and recording of pledges and contributions, opportunities exist for the University to improve the internal controls over the accounting for pledges and contributions.

Effect

Accounting for pledges and contributions is complex and requires a detailed understanding of the applicable accounting and reporting guidance. Without appropriately qualified personnel and monitoring controls over pledges and contributions received, there is an increased risk of misuse of funds or misstatements in financial reporting.

Recommendation

The University should perform the following to improve the control structure surrounding the pledges and contributions process:

- Establish a formal reporting mechanism between the development office and finance to ensure the accuracy, cut-off and completeness of the reporting of pledges and contributions received including the existence of any donor-imposed restrictions
- Require training for all employees on the relevant accounting and reporting guidance (including any significant updates) on a periodic basis,
- Establish and monitor reporting activities related to the existence of all pledges including conditional and unconditional

Views of responsible officials and planned corrective actions

Management's response is reported in the "Management's Corrective Action Plan" and considered as part of this report.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

Finding #2013-2: TRIO Earmarking

TRIO Cluster

CFDA #: 84.047

Program: Upward Bound Program

Award Year: FY2013

Information on the federal program/Condition/Context

In our testing of classification of students for earmarking requirements, we identified 1 of 15 participants that was inaccurately classified as a low-income individual.

Criteria or specific requirement

Not less than two-thirds of the project's participants must be low-income individuals who are potential first-generation college students. The remaining participants must be either low-income individuals or potential first-generation college students (34 CFR sections 645.21 and 645.6).

Questioned Costs

\$0

Cause/Effect

The misclassification was caused by clerical errors in recording the classifications of the students in the listing. The University had original, signed documents in hardcopy files that were organized to support the classification of each student. The error occurred in the translation of the information from the hardcopy paperwork into the University's electronic listing. As a result of the exception noted above, the University reviewed all of the participants in the program to ensure proper classification. Of the program's 134 student participants, 13 were found to be classified inaccurately in the listing. The classification error, however, did not affect the earmarking requirement. Before the errors were corrected, the University's earmarking percentage was 78% which met the minimum requirement of two-thirds. After the errors were corrected, the University's earmarking percentage was 79% which also met the minimum requirement.

Recommendation

We recommend that the University exercise more diligence to ensure the proper review of data entry of participant information is performed.

Views of responsible officials and planned corrective actions

Management's response is reported in the "Management's Corrective Action Plan" and considered as part of this report.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

Finding #2013-3: Equipment and Real Property Management

Research and Development Cluster

- 93.859 National Institutes of Health
- 12.431 Department of Defense

Award Year: FY2013

Information on the federal program/Condition/Context

The following items were identified during the equipment and real property management compliance procedures:

- 1 of 25 existence testing selections of assets identified as acquired under federal awards was included in the University's records, but was no longer physically present at the University.
- For 1 of 6 dispositions of federal equipment selected for testing the item was included in the disposal listing, but was not actually disposed.

Criteria or specific requirement

Per OMB Circular A-110 (2 CFR section 215.34), a control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

Questioned Costs

\$0

Cause/Effect

In one case, a piece of equipment was moved to another University, while in the other case a piece of equipment was moved to a different location on the University's campus. The University did not accurately record the transactions in their system for either movement of the equipment. Subsequently, when the University performed physical inventory count procedures, the personnel performing the count did not identify that the piece of equipment moved to another University was missing. The personnel performing the count also properly identified that a piece of equipment was not located where it was recorded as being located, but the personnel failed to fully investigate the missing item to determine if that item had been moved to another location on the University's campus before it was recorded as disposed.

Non-compliance with federal equipment and real property management requirements may lead to loss, damage, or theft of the equipment.

Recommendation

We recommend an enhancement to the equipment and real property tracking process to ensure that all assets that were acquired utilizing federal funds are appropriately safeguarded to prevent loss, damage or theft of the equipment. We also recommend that the University review its physical inventory count process to ensure that all pieces of equipment are counted at least once every two years and also to ensure

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

that pieces of equipment that cannot be located are fully investigated before they are disposed of in the system.

Views of responsible officials and planned corrective actions

Management's response is reported in the "Management's Corrective Action Plan" and considered as part of this report.

Finding #2013-4: Subrecipient Monitoring

Research and Development Cluster

- 93.847, NIH - Diabetes, Digestive, and Kidney Diseases Extramural Research
- 93.242, NIH - Mental Health Research Grants

Award Year: FY2013

Information on the federal program/Condition/Context

In our testing of subrecipient monitoring, we identified 2 of 31 subrecipients where the University did not follow its procedure of investigating incomplete responses or responses from subrecipients that indicated findings in their A-133 Compliance reports.

Criteria or specific requirement

As required by OMB Circular A-110, Subpart C. Reports and Record, section 51 (a), the University is responsible for managing and monitoring each project, program, subaward, function or activity supported by the award.

Questioned Costs

\$0

Cause/Effect

For two of the University's subrecipients, the University obtained annual certifications from the subrecipients certifying A-133 compliance that was either incomplete or that indicated there were findings in the subrecipient's most recent A-133 report. Management was not able to provide sufficient evidence that appropriate follow-up procedures were performed on these exceptions. The University informed us that they have reason to believe the review was performed but that the paperwork could not be located to prove the review actually happened.

Recommendation

We recommend that the University review its processes around subrecipient monitoring to ensure that documentation is obtained to make appropriate determination as to the subrecipient's compliance with OMB Circular A-133 requirements.

Views of responsible officials and planned corrective actions

Management's response is reported in the "Management's Corrective Action Plan" and considered as part of this report.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

Summary of Prior Year Findings and Questioned Costs

Finding #2012-1: Unallowable Cost

Research and Development Cluster

Award Contract Number: DMR-0423914

Sponsoring Agency: National Science Foundation

CFDA #: 47.049

Award #: CON500535

Award Year: FY2012

Audit Finding

During the audit team's testing of cost transfers, they identified 1 out of the 60 cost transfers that included an unallowable cost that was charged to a National Science Foundation grant. OMB Circular A-21, *Cost Principles for Educational Institutions*, defines allowable costs as those that are considered reasonable and necessary for the operation of the institution or the performance of the sponsored agreement.

An employee's moving expenses for \$5,919.89 were inadvertently charged via a cost transfer to a Federal R&D project during the start-up phase of the project. The cost had previously been charged to a departmental speedtype along with several charges related to the Federal R&D project in advance of the establishment of the Federal R&D project. When the Federal R&D project was established, the costs that were transferred included these unallowable costs.

Status

No issues were identified in 2013.

Management's Corrective Action Plan

Finding #2013-1: Accounting for Pledges and Contributions

Management's Response:

The University agrees with this recommendation. Over the past 18 months, the Development office and the Finance division has worked extensively to enhance the reporting and transparency of the pledge and contribution process. In that time we have established monthly meetings to review significant pledges and contributions, discuss the overall cash and attainment activity and segregate and account for all restricted funds. We will continue to strengthen that relationship by performing the following by December 31, 2013:

- We will institute a more thorough cutoff process for subsequent fiscal year ends reopening the books 45 days after year end as we do for our accounts payable and investments.
- The Controller's office will begin reviewing all pledges over a predetermined threshold to ensure that they are accounted for within the general ledger in an appropriate fashion.
- The Controller's office will formalize training regarding GAAP guidance for pledges and contributions to deliver to the Development department. Incorporated into that training will be the difference between GAAP guidance and CASE guidance.
- On a quarterly basis, the Controller's office will review the list of conditional pledges to determine whether it appears that the conditions have been met. We will work with the Development office to make a final determination.

Responsible area: Controller's Office

Finding #2013-2: TRIO Earmarking

Management's Response:

The personnel responsible for the manual entry of data and related processes have received additional training on the importance of accurate classification of students and input into the electronic "Blumen" system. A double check system has been implemented charging the Administrative Assistant with completing the initial classifications and final approval being completed by the Director of TRIO Programs. The misclassification of the students statuses were corrected immediately prior to October 1, 2013. Additionally, ongoing training will be completed on an annual basis.

Responsible area: Director, TRIO Programs

Anticipated completion date: June 30, 2014

Finding #2013-3: Equipment

Management's Response:

Over the past year, the Controller's Office has developed a process for transfers of equipment. Department administrators are instructed to complete an Equipment Change in Status Form, which covers any changes to equipment, including transfers out of the University. The form has been available on the Controller's intranet site since March 2013. We will again communicate the requirement of the form to departments. Additionally, the University switched from foil tags to RFID tags, which will allow physical inventory to be completed on a perpetual basis by the Controller's Office on a go-forward basis. Each building containing equipment is scheduled to have a physical inventory completed at least once every two years and all new equipment is tagged with the new RFID tag, if applicable, as soon as reasonably possible after receipt of the equipment. Discrepancies are communicated to department administrators and resolution is requested no later than the next quarter-end. The reporting of dispositions and location movements is highly dependent on the department administrators.

The magnitude of the transition to RFID tags was great given the number of equipment located at the University. A small amount of adjustments are expected as the rolling two-year inventories are completed. The new physical inventory process is more extensive than a university-wide inventory every two years.

Responsible area: Controller's Office

Anticipated completion date: June 30, 2014

Finding #2013-4: Subrecipient Monitoring

Management's Response:

The University will revisit the processes performed at the School level to verify compliance with A133 subrecipient monitoring requirements. Processes will be reviewed and updated as necessary. In addition, training sessions will be provided for appropriate individuals to ensure they have up to date knowledge of the process.

Responsible area: Assistant Vice President for Research

Anticipated completion date: June 30, 2014

Signed: 

Patricia L. Kost
University Interim Controller