



CASE WESTERN RESERVE UNIVERSITY

Report On Federal Awards In Accordance
With OMB Circular A-133 For the Year Ended
June 30, 2006

Entity Identification
Number 1-341018992-A1

CASE WESTERN RESERVE UNIVERSITY
REPORT ON FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133

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FINANCIAL

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Report of Independent Auditors
on Financial Statements and Supplementary Schedule
of Expenditures of Federal Awards

To the Board of Trustees,
Case Western Reserve University:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Case Western Reserve University and its affiliated entities (the University) at June 30, 2006, and the consolidated changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2005 financial statements, and in our report dated October 12, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of the 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, 2006. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 20, 2006

CASE WESTERN RESERVE UNIVERSITY
Balance Sheet
June 30, 2006 and 2005
(in thousands)

	<u>June 30, 2006</u>	<u>Restated June 30, 2005</u>
Assets		
Cash and temporary investments	\$ 111,907	\$ 61,954
Accounts and loans receivable, net	130,229	127,340
Securities pledged under lending agreements	91,812	50,578
Pledges receivable, net	67,272	63,237
Prepaid expenses and other assets	15,116	15,948
Intangible assets	2,028	2,493
Investments	1,395,630	1,419,948
Property, plant, equipment and books, net	822,029	770,906
Funds held in trust by others	295,404	281,778
Total assets	<u>\$ 2,931,427</u>	<u>\$ 2,794,182</u>
Liabilities		
Accounts payable and accrued expenses	\$ 55,788	\$ 68,212
Deferred income and deposits	27,825	25,973
Payable under securities lending agreements	93,874	52,530
Annuities payable	51,685	49,995
Refundable advances	8,423	7,785
Minimum pension liability	7,509	24,811
Bonds and notes payable	619,263	594,234
Refundable federal student loans	17,271	18,395
Total liabilities	<u>881,638</u>	<u>841,935</u>
Net Assets		
Unrestricted	1,202,264	1,127,435
Temporarily restricted	46,921	40,284
Permanently restricted	800,604	784,528
Total net assets	<u>2,049,789</u>	<u>1,952,247</u>
Total liabilities and net assets	<u>\$ 2,931,427</u>	<u>\$ 2,794,182</u>

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

CASE WESTERN RESERVE UNIVERSITY

Statement of Activities

For the Year Ended June 30, 2006

(with summarized financial information for the year ended June 30, 2005)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2006	Year Ended June 30, 2005
Operating revenues					
Student tuition and fees	\$ 228,752			\$ 228,752	\$ 203,062
Less: Student aid	(89,661)			(89,661)	(77,066)
	<u>139,091</u>			<u>139,091</u>	<u>125,996</u>
Endowment income	74,874		\$ 335	75,209	81,070
Grants and contracts	253,769			253,769	253,438
CCLCM grants and contracts	86,075			86,075	68,382
Gifts and pledges	21,473	18,508	2,927	42,908	55,373
State of Ohio appropriation	3,900			3,900	3,962
Facilities and administrative cost recovery	67,045			67,045	66,612
Organized activities	9,019			9,019	8,677
Other sources	30,853		414	31,267	13,296
Auxiliary services	31,554			31,554	25,884
Net assets released from restrictions	12,142	(11,871)	(271)	-	-
Total operating revenues	<u>729,795</u>	<u>6,637</u>	<u>3,405</u>	<u>739,837</u>	<u>702,690</u>
Operating expenses					
Instructional	242,435			242,435	208,740
Sponsored research and training	232,730			232,730	226,766
Other sponsored projects	33,651			33,651	42,102
CCLCM grants and contracts	86,075			86,075	68,382
Libraries	20,708			20,708	19,796
Student services	20,719			20,719	20,695
University services	84,975			84,975	94,100
Auxiliary enterprises - students	32,878			32,878	23,947
Auxiliary enterprises - other	25,864			25,864	15,403
Total operating expenses	<u>780,035</u>	<u>-</u>	<u>-</u>	<u>780,035</u>	<u>719,931</u>
Net operating (deficit) revenues	<u>(50,240)</u>	<u>6,637</u>	<u>3,405</u>	<u>(40,198)</u>	<u>(17,241)</u>
Non-operating revenues and expenses					
Investment and other income (loss)	113,296		12,248	125,544	37,964
Net appreciation in the fair market value of investments	3,420		710	4130	52,500
Actuarial adjustment to annuities payable			(287)	(287)	1,492
(Loss) gain on disposal of plant assets	(797)			(797)	778
Disposal of interest in subsidiary				-	(398)
Adjustment for minimum pension liability	16,837			16,837	(14,739)
Non-operating revenues, net	<u>132,756</u>	<u>-</u>	<u>12,671</u>	<u>145,427</u>	<u>77,597</u>
Increase in net assets before effect of accounting change	82,516	6,637	16,076	105,229	60,356
Cumulative effect of change in accounting principle	(7,687)			(7,687)	-
Increase in net assets	74,829	6,637	16,076	97,542	60,356
Beginning net assets (restated)	1,127,435	40,284	784,528	1,952,247	1,891,891
Ending net assets	<u>\$ 1,202,264</u>	<u>\$ 46,921</u>	<u>\$ 800,604</u>	<u>\$ 2,049,789</u>	<u>\$ 1,952,247</u>

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

CASE WESTERN RESERVE UNIVERSITY
Statement of Cash Flows
For the Years Ended June 30, 2006 and 2005
(in thousands)

	Year Ended June 30, 2006	Year Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 97,542	\$ 60,356
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Cumulative effect - change in accounting principle	7,687	-
Depreciation	55,984	40,675
Net unrealized appreciation in the fair market value of investments	(4,130)	(52,500)
Realized gains on investments	(79,932)	(36,368)
Increase (decrease) to annuities payable resulting from actuarial adjustments	287	(1,492)
Gifts of property and equipment	(40)	(516)
Loss (gain) on disposal of plant assets	797	(778)
Contributions restricted for long-term investment	(8,277)	(24,763)
Increase in accounts and notes receivable, net	(4,120)	(4,017)
(Increase) decrease in contributions receivable, net	(4,035)	1,965
Decrease (increase) in prepaid expenses and other assets	832	(2,633)
Decrease in intangible pension assets	465	467
Increase in funds held in trust by others	(13,626)	(9,146)
(Decrease) Increase in accounts payable and accrued expenses	(11,679)	10,174
Increase in deferred income and deposits	(5,071)	3,159
(Decrease) increase in refundable advances	638	(2,106)
(Decrease) increase) in minimum pension liability	(17,302)	14,272
Net cash (used for) provided by operating activities	<u>16,020</u>	<u>(3,251)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans collected	8,509	6,568
Student loans issued	(7,278)	(8,282)
Proceeds from the sale of investments	2,561,991	2,185,394
Purchase of investments	(2,453,611)	(2,116,463)
Proceeds from the sale of buildings and land	4,809	6,890
Purchase of property, plant, equipment and books	(114,182)	(153,583)
Net cash provided by (used for) investing activities	<u>238</u>	<u>(79,476)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in federal advances for student loans	(1,124)	(904)
(Increase) decrease in securities pledged under lending agreements	(41,234)	21,341
Increase (decrease) in payables under securities lending agreements	41,344	(21,509)
Contributions restricted for long-term investment	8,277	24,763
Proceeds from bond issues and long-term debt	68,176	30,000
Repayment of debt	(43,147)	(5,683)
Withdrawals from (payments on) annuities payable	782	(3,269)
Increase to annuities payable resulting from new gifts	621	27,319
Net cash provided by financing activities	<u>33,695</u>	<u>72,058</u>
Net increase (decrease) in cash and cash equivalents	49,953	(10,669)
Cash and cash equivalents, beginning of year	61,954	72,623
Cash and cash equivalents, end of year	<u>\$ 111,907</u>	<u>\$ 61,954</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES		
Construction in progress payments included in accounts payable	\$ 3,553	\$ 186
Effect of FIN 47 included in deferred income and other liabilities	8,600	-
Effect of FIN 47 included in purchases of property, plant and equipment	2,062	-

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

Part 2 – Summary of Significant Accounting Policies and Terms

This part explains the accounting practices the University uses in its financial statements.

Basis of Accounting Presentation

The consolidated financial statements use the accrual basis of accounting. These statements include the accounts of the University, Triangle Residential LP and Triangle Residential LLC.

Triangle Residential LP is a limited partnership formed in 2005 that owns and operates two apartment buildings, a parking garage and a commercial structure located in the Ford-Euclid-Mayfield Road area. The University is the sole limited partner. The general partner is Triangle Residential LLC, a wholly owned subsidiary of the University, also formed in 2005. The University, through Triangle Residential LP, plans to operate the properties pending finalization of plans to develop a university arts and retail district in the area.

Net Asset Categories

The consolidated financial statements present information about the University's financial position and activities using three categories of net assets:

- **Unrestricted net assets** have no donor-imposed restrictions. They are available for any purpose consistent with the University's mission.
- **Temporarily restricted net assets** are subject to specific donor-imposed restrictions that must be met by University actions or through the passage of time.
- **Permanently restricted net assets** are subject to donor-imposed restrictions that the University must honor in perpetuity. Usually, donors allow part or all of the income to be used for a designated purpose.

Cash and Temporary Investments

Investments with a maturity of three months or less when purchased are reported as temporary investments (i.e., cash equivalents) unless they are part of long-term investment pools.

Investments	Investments are stated at fair market value. The fair value of all debt and equity securities with readily determinable fair value 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 market value of investments are shown as net unrealized appreciation or depreciation.
Contributions	Contributions (including unconditional pledges) are recognized as either temporarily restricted or permanently restricted net assets when donors' commitments are received. Conditional pledges become revenue when the conditions are substantially met. Gifts whose restrictions are met in the same fiscal year in which they are received are reported with unrestricted contribution revenues.
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 contract. Any government revenue received before it is expended is recorded as a refundable advance. Expenses incurred for government grants before revenue is received are recorded as receivables.
Collections	The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. Therefore, their value is not reflected in the University's 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 market value as of June 30, 2006, which approximates the present value of the future income flows from these funds.
Allocation of Certain Expenses	The 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.
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 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 financial statements for the year ending June 30, 2005, from which it was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.

Income Taxes

The University is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Part 3 – Notes

These notes clarify and amplify data in the financial statements. Unless otherwise indicated, all dollar values are listed in thousands as of June 30.

**NOTE A
Accounts and
Loans
Receivable**

Accounts and loans receivable are as follows:

	2006	2005
Accounts receivable, net:		
Grants, contracts and others	\$ 80,132	\$ 75,513
Students	7,464	7,962
Students loans, net	<u>42,633</u>	<u>43,865</u>
	<u>130,229</u>	<u>127,340</u>
Allowances for doubtful accounts:		
Accounts receivable	\$ 10,867	\$ 5,881
Loans receivable	\$ 1,938	\$ 1,745

**NOTE B
Pledges
Receivable**

Unconditional pledges are expected to be realized in the following periods:

	2006	2005
In one year or less	\$ 31,363	\$ 24,298
Between one year and five years	32,566	36,341
More than five years	15,532	15,120
	<u>79,461</u>	<u>75,759</u>
Less: Discount	(5,459)	(6,127)
Less: Allowance	(6,730)	(6,395)
	<u>\$ 67,272</u>	<u>\$ 63,237</u>

Pledges receivable have been made for the following purposes:

	2006	2005
Department programs and activities	\$ 26,346	\$ 20,096
Endowments for scholarships and department programs and activities	18,386	18,442
Building construction	22,540	24,699
	<u>\$ 67,272</u>	<u>\$ 63,237</u>

Uncollectible pledges totaling \$2,728 (2006) and \$11,951 (2005) are included in University Services expense.

NOTE C
Investments

Investments (except funds held in trust by others) are as follows:

	2006	
	Fair Market Value	Cost
Short-term investments	\$ 61,591	\$ 61,591
Domestic stocks	182,199	146,590
International securities	226,383	175,284
Bonds		
- U.S. Government	54,445	55,064
- U.S. Corporate	140,195	142,536
Mutual funds	118,435	112,077
Limited partnerships and other	574,548	485,396
Equity real estate	37,834	35,042
Total	<u>\$ 1,395,630</u>	<u>\$ 1,213,580</u>

	2005	
	Fair Market Value	Cost
Short-term investments	\$ 57,575	\$ 57,575
Domestic stocks	219,983	166,749
International securities	225,977	179,668
Bonds		
- U.S. Government	124,085	125,297
- U.S. Corporate	126,722	123,847
Mutual funds	124,673	114,854
Limited partnerships and other	503,220	439,286
Equity real estate	37,713	34,750
Total	<u>\$ 1,419,948</u>	<u>\$ 1,242,026</u>

Included in the University's cash and investments are **unexpended bond proceeds**. These funds are temporarily held by trustees under the bond indenture for future capital expenditures. The proceeds are invested in cash, U.S government and corporate bonds and mutual funds. The fair value of these assets totaled \$96,410 (2006) and \$144,530 (2005).

NOTE C
Investments
(continued)

The University's **spending policy** determines the amount of endowment income to be used as operating revenue and distributed for spending during the year. Distributions in excess or deficit of amounts actually earned are transferred to or from the endowment pool, honoring any donor restrictions. The fiscal 2006 endowment and similar funds distribution of \$2.00 per unit totaled \$59,271, of which \$46,022 was accumulated realized gains. For fiscal 2005, the distribution of \$1.98 per unit totaled \$57,682, of which \$44,248 was accumulated realized gains.

Certain endowment and similar fund assets are pooled for efficient investment purposes. The unit market value for each pool is used to account for **pooled transactions**. The unit market values are \$41.41 (2006) and \$39.80 (2005).

As a result of **market declines**, the fair market values of certain donor-restricted endowments fell below the level required by donor stipulations or law by \$374 (2006) and \$322 (2005). These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency.

Investments in stocks, bonds, mutual funds, and other investments are exposed to a variety of uncertainties, including interest rate, market fluctuation, and credit risks. Due to the **level of risk** associated with certain investments, the value of these investments could change. Such changes could materially affect the amounts reported in the financial statements.

Investment strategies employed by outside managers incorporate the use of financial instruments with off-balance sheet risk. These financial instruments include international investment funds with underlying equity interests as well as forward and futures contracts that are subject to foreign currency translation gains and losses. Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the financial position of the University; however, there can be no assurances.

The University is obligated under certain limited partnerships and similar agreements to provide future funding for further investment. The University had **unfunded commitments** of approximately \$218,629 (2006) and \$196,787 (2005) that are likely to be called in the future.

The University has a **securities lending** agency agreement for the purpose of lending securities held or beneficially owned by the University. Under this agreement, the University's agent receives collateral in the form of cash or U.S. government securities in exchange for loaning securities to approved borrowers. The agent invests these funds on behalf of the University until the securities are returned. The amount of collateral required for securities traded principally in the United States is equal to 102% of the market value of the securities borrowed. For securities traded principally outside the United States, the amount of collateral required is 105%. The fair value of securities on loan is \$91,812 (2006) and \$50,578 (2005). The fair value of collateral received is \$93,874 (2006) and \$52,530 (2005). Cash collateral is reflected in the cash and temporary investments balance.

NOTE D
Property,
Plant,
Equipment,
and Books

Property, plant, equipment, and library books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 28 years for buildings, 5 to 12 years for equipment, and 10 years for books.

Components of property, plant, equipment, and books are as follows:

	2006	2005
Land and land improvements	\$ 38,838	\$ 36,539
Building and building improvements	963,362	766,646
Equipment and software	192,673	141,421
Library books	29,770	29,688
Construction-in-progress	60,093	207,289
	<u>1,284,736</u>	<u>1,181,583</u>
Less: accumulated depreciation	<u>(462,707)</u>	<u>(410,677)</u>
	<u>\$ 822,029</u>	<u>\$ 770,906</u>

The above assets include \$429,525 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. Also included in the University's financial statements is the obligation for related bonds issued by the OHEFC.

NOTE E
Bonds and
Notes Payable

Bonds and notes payable are as follows:

	Interest	Maturity	2006	2005
Ohio Higher Education Facilities Commission revenue bonds and notes:				
Series 1988	7.85 - 7.90%	2009-2013	\$ 21,464	\$ 19,868
Series 1990	6.50 - 7.15%	2006-2020	12,066	12,128
Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
Series 1997	4.70 - 6.00%	2006-2018	10,120	12,795
Series 1997	5.00 - 5.50%	2006-2017	17,700	20,030
Series 1997	4.90 - 6.25%	2009-2014	8,920	8,920
Series 2001	Variable	2006-2022	17,520	18,755
Series 2002	Variable	2023-2031	64,875	64,875
Series 2002	5.00 - 5.50%	2019-2022	35,125	35,125
Series 2004	2.00 - 5.00%	2006-2034	105,960	107,950
Series 2004	Variable	2008-2044	177,826	177,825
United States government housing bonds:				
Series 1966	3.00 - 3.50%	2006-2016	1,275	1,415
Series 1971	3.00%	2006-2016	1,235	1,335
Ohio Board of Regents note	n/a	2006	-	213
Ohio Higher Education Facilities Commission commercial paper	Various	Various	63,000	63,000
National City Bank commercial note	LIBOR + .25%		13,417	-
Key Bank line of credit	LIBOR + .30%	2007	30,000	30,000
Compass Group USA note	n/a	2006 - 2014	1,200	-
Department of Housing and Urban Development mortgages:				
HUD - Part A	4.96%	2006 - 2014	13,079	-
HUD - Part B	5.33%	2006 - 2014	4,481	-
			<u>\$ 619,263</u>	<u>\$ 594,234</u>

The housing bonds are collateralized by securities and pledges of net revenues from the University's student housing and dining facilities.

The Ohio Higher Education Facility Commission (OHEFC) authorized a tax-exempt commercial paper program in February 2000 to provide construction funds for several approved capital projects and to refinance earlier projects. The program authorizes the University to issue up to \$63,000 for as long as 30 years. The amount outstanding under this program as of June 30 is \$63,000, with maturities not exceeding 270 days from the issuance date. Interest rates for this program averaged 2.95% (2006) and 1.71% (2005).

NOTE E
Bonds and
Notes Payable
(continued)

In August 2005, the University opened a \$33,000 commercial note with a financial institution to provide bridge funding for the acquisition, improvement and development of the Triangle properties until a mortgage note could be secured. In May 2006, the terms of this note were amended and restated. The balance due at June 30 was \$13,417 (2006).

In January 2006, the University borrowed \$17,637 from the Department of Housing and Urban Development (HUD). The proceeds from this loan were used to refund the portion of the commercial note used to acquire the Triangle properties. The HUD loan is in two parts. Part A is in the amount of \$13,137 at a fixed annual interest rate of 4.96%. Part B is in the amount of \$4,500 at a fixed annual interest rate of 5.33%.

Principal payment requirements for bonds, notes, and capital lease obligations for the next five years, excluding commercial paper, are approximately as follows:

2007	\$ 39,311
2008	\$ 22,717
2009	\$ 8,356
2010	\$ 6,421
2011	\$ 6,598

Interest payments for fiscal year 2006, including payments for variable rate debt, were \$20,595. Interest paid under interest rate swap agreements during fiscal 2006 totaled \$253. See Note J.

Certain borrowing agreements require the University to maintain reserves as additional collateral against its borrowings. These agreements also require that the University comply with certain covenants. The University is in compliance with these provisions.

NOTE F
Fair Value of
Investments

The University's financial instruments consist principally of cash, temporary investments, accounts and pledges receivable, loans receivable, and long-term investments, as well as obligations under bonds and notes payable. Cash and temporary investments, pledges receivable, investments and other assets are recorded at approximate fair value.

Loans receivable are amounts due from students primarily under federally sponsored programs. Since notes receivable under federal student loan programs are not saleable and can be assigned only to the U.S. government or its designee, it is not practical to determine their fair value.

The fair value of the University's bonds and notes payable is approximately \$567,784 (2006) and \$580,539 (2005). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

NOTE G
Retirement
Plans

The University has both defined benefit and defined contribution pension plans for its employees. The funded status of the University's **defined benefit plan** is as follows:

	2006	2005
Benefit obligation at June 30	\$ 83,265	\$ 91,584
Fair value of plan assets at June 30	71,399	61,291
Funded status	<u>\$ (11,866)</u>	<u>\$ (30,293)</u>
Accrued benefit expenses recognized in the balance sheet	2,988	4,896
Accumulated benefit obligation	81,896	90,999

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

	2006	2005
Equity securities	65.00%	67.00%
Fixed income securities	16.00%	17.00%
Real estate	17.00%	16.00%
Other	2.00%	0.00%
Total	<u>100.00%</u>	<u>100.00%</u>

The **investment objective** for the defined benefit plan is to maximize total return with tolerance for slightly above average risk. To accomplish this objective, the University has established a broadly-diversified asset allocation strategy that includes equity-oriented investments (approximately 64% weight), real estate (approximately 16%), and fixed-income investments (approximately 20%). The weightings of the investments relative to each other in the total portfolio fluctuate as market conditions vary; they are adjusted as necessary to remain within acceptable ranges.

It is management's intent to give the investment managers flexibility within the overall guidelines with respect to investment decisions and their timing. However, certain investments require specific review and approval by management. Management is also informed of significant modifications of any previously approved investment or anticipated use of derivatives to execute investment strategies.

The **expected long-term rate of return** 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, which 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.

NOTE G
Retirement
Plans
(continued)

The University is required to recognize an additional minimum pension liability. Net amounts recognized in the University's balance sheet are as follows:

	2006	2005
Accrued benefit liability	\$ (10,497)	\$ (29,707)
Intangible asset	2,028	2,493
Accumulated non-operating income	5,481	22,318
Net amount recognized	<u>\$ (2,988)</u>	<u>\$ (4,896)</u>

Current pension-related charges to non-operating income are as follows:

	2006	2005
Accumulated non-operating income, beginning of year	\$ 22,318	\$ 7,579
Accumulated non-operating income, end of year	<u>5,481</u>	<u>22,318</u>
Current (credit) charge to non-operating income	<u>\$ (16,837)</u>	<u>\$ 14,739</u>

The weighted-average assumptions used to determine the University's obligation under the defined benefit plan at June 30 are as follows:

	2006	2005
Discount rate	6.50%	5.25%
Rate of compensation increase	4.50%	4.50%
Census date	7/1/2005	7/1/2004

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

2007 -	\$ 2,484
2008 -	\$ 3,369
2009 -	\$ 4,068
2010 -	\$ 3,838
2011 -	\$ 4,084

Amounts expected to be paid between 2012 and 2016 total \$27,321. The University's **estimated contribution** for the defined benefit plan in fiscal 2007 is \$12,063. This amount may decrease based on the results of the July 1, 2006 actuarial valuation.

Benefit plan costs for the defined benefit and defined contribution plans are as follows:

	2006	2005
NOTE G		
Retirement		
Plans		
<i>(continued)</i>		
Defined benefit plan		
Benefit cost	\$ 5,712	4,064
Employer contributions	7,621	10,183
Benefit paid	2,837	2,150
Defined contribution plan		
Employer contributions	19,444	18,550

The weighted-average assumptions used to determine net periodic benefit cost for the defined benefit plan are as follows:

	2006	2005
Discount rate	5.25%	6.25%
Expected return on plan assets	9.00%	8.50%
Rate of compensation increase	4.50%	4.50%

NOTE H
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 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 will significantly strengthen the historical relationship between the entities through the creation of the Case Medical Center, a virtually entity that will encompass certain teaching, research and clinical activities of the School of Medicine and UHC.

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 \$86,075 (2006) and \$68,382 (2005).

The University is self-insured for 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.

**NOTE I
Related Party
Transaction
(Utilities)**

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 amount purchased during fiscal 2006 was \$14,860. No obligation associated with this agreement is recorded in the accompanying financial statements.

**NOTE J
Derivatives
and Other
Financial
Instruments**

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the University and its counterparty agree to exchange the difference between the fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Operations are charged the variable rate interest; 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.

Information related to the long-term interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing where applicable and the asset (liability) recognized in the balance sheet are as follows:

Date of Agreement	OHEFC Borrowing	Notional Amount	Effective Rate	Maturity Date	2006		2005	
February 2001	Series 2001	\$ 17,520	4.34%	2022	\$ (363)		\$ (1,745)	
May 2002	Series 2002	15,000	4.43%	2022	(744)		(2,366)	
September 2002	Series 2002	15,000	3.60%	2022	580		(871)	
October 2003	Series 2004	35,000	3.81%	2034	794		(3,577)	
March 2004	Series 2004	60,000	2.46%	2009	2,115		1,216	
March 2004	Series 2004	20,000	1.92%	2007	285		333	
March 2004	Series 2004	20,000	1.92%	2007	283		335	
June 2005	n/a	75,000	4.05%	2037	-		(674)	

The University selected the combination of variable rate bond issues and long-term interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transaction. Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income.

**NOTE K
Recently
Issued
Accounting
Pronounce-
ments**

In 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for the University as of and for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, of the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon initial application of FIN 47, the University recognized \$7,687 as the cumulative effect of a change in accounting principle in the statement of operations. As of June 30, 2006, \$8,600 of conditional asset retirement obligations is included within other liabilities in the balance sheet. Property, plant and equipment at June 30, 2006 include asset retirement cost at inception for non-fully depreciated assets of \$2,062.

**CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Research and Development and Research Training Cluster - University			
Research and Development - University			
Department of Agriculture			
Pass Through Programs			
Agricultural Research_Basic and Applied Research	10.001		197
Grants for Agricultural Research_Competitive Research	10.206		191,658
University of Wisconsin - Madison	10.206		45,650
			<hr/> 237,308
Department of Agriculture Subtotal			<hr/> 237,505
 Department of Commerce			
Direct Programs			
Research and Evaluation Program	11.522		59,103
Pass Through Programs			
Integrated Fuel Cell Technology	11		50,885
Ohio Aerospace Institute	11.612	R-300-100187-40101	59,312
Glennan Microsystems Initiative, Incorporated	11.609	1015	181,108
			<hr/> 291,305
Department of Commerce Subtotal			<hr/> 350,408
 Department of Defense			
Direct Programs			
Other Department of Defense Programs	12		613,957
Basic and Applied Scientific Research	12.300		918,119
Military Medical Research and Development	12.420		624,986
Basic Scientific Research	12.431		4,879,680
Department of Defense Research	12.800		833,112
Research & Technology Development	12.910		194,136
Pass Through Programs			
Advanced Technology Institute	12	2005-611	55,008
BioRobots LLC	12	FA865104C0234	4,999
California Institute of Technology	12	6A-1051558	95,046
Dayton Area Graduate Studies Institute	12	SN-2A-05	56,780
Foster-Miller Incorporated	12		37,269
Infoscitex	12	1137-151	41,214
Makel Engineering Incorporated	12	FA910104C0004	(1,844)
Ohio Aerospace Institute	12	OAI	17,281
Orbital Research Incorporated	12	FA8651-05-C-0110	32,487
Timken Company	12	Timken	596,491
Timken Company	12	F33615-03-D-2353	54,892
University of California, Berkeley	12	4714-10417	393,404
University of Dayton	12	RSC04007	7,071
Utility Development Incorporated	12	FA9550-04-C-0054	169,120
			<hr/> 1,559,218
Honeywell	12.300	DAAD19-01-2-0010	(1,014)
Princeton University	12.300	N00014-00-1-0438	(17,913)
Sierra Lobo, Incorporated	12.300	SLI-0902-003	(8,360)

**CASE WESTERN RESERVE UNIVERSITY
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for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
University of California, Berkeley	12.300	KK3115	22,223
University of Texas at Austin	12.300	UTA04-546	(8,806)
University of Washington	12.300	429159	120,159
			<u>106,289</u>
University of Michigan	12.420	F010101	2,735
University of California, Berkeley	12.431	5A3627	67,308
Advanced Technology Institute	12.800	20010764	(13)
Oregon State University	12.910	RF020A-B	221,324
Boeing Company	12.910	Z10715	11,511
			<u>232,835</u>
Department of Defense Subtotal			<u>10,032,362</u>
Department of the Interior Geological Survey			
Direct Programs			
U.S. Geological Survey Research and Data Acquisition	15.808		13,857
			<u>13,857</u>
Department of the Interior Geological Survey Subtotal			<u>13,857</u>
National Institute of Justice			
Direct Programs			
National Institute of Justice	16		96,376
Pass Through Programs			
Bellefaire Jewish Children's Bureau	16	2001-JN-FX-0090	(497)
			<u>95,879</u>
National Institute of Justice Subtotal			<u>95,879</u>
Department of Transportation			
Pass Through Programs			
National Research Council	20	NCHRP-112	68,720
Ohio Department of Transportation	20.205	20591	32,458
			<u>101,178</u>
Department of Transportation Subtotal			<u>101,178</u>
National Aeronautics and Space Administration			
Direct Programs			
NASA General	43		357,315
Aerospace Education Services Program	43.001		127,724
Technology Transfer	43.002		3,120,794
Pass Through Programs			
Ohio State University Research Foundation	43	745432	518,610
Jet Propulsion Laboratory	43.002	1239487	36,032
Jet Propulsion Laboratory	43.002	1266548	42,536
Makel Engineering Incorporated	43.002	PO-R04180	(1,698)
Makel Engineering Incorporated	43.002	PO-R06015	14,812
National Space Biomedical Research Institute	43.002	NA00208	5,184
National Space Biomedical Research Institute	43.002	NPF00206	50,586

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<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Space Telescope Science Institute	43.002	HST-GO-10407.01-A	13,963
T/J Technologies	43.002	NNC05CB14C	39,699
Universities Space Research Association	43.002	04520-01	525,761
Universities Space Research Association	43.002	04520-02	1,358,908
Virginia Commonwealth University	43.002	529302/P62225Z	24,564
Flight Landata, Incorporated	43.002		49,741
			<hr/> 2,160,087
National Aeronautics and Space Administration Subtotal			<hr/> 6,284,531
 National Endowment for the Arts			
Direct Programs			
Promotion of the Humanities-Collaborative Research	45.161		10,127
			<hr/> 10,127
 National Science Foundation			
Direct Programs			
NSF General	47		38,882
Engineering Grants	47.041		1,300,988
Mathematical & Physical Sciences	47.049		3,255,959
Geosciences	47.050		21,065
Computer and Information Science & Engineering	47.070		1,325,124
Biological Sciences	47.074		1,132,052
Social, Behavioral and Economic Sciences	47.075		425,327
Education and Human Resources	47.076		93
Polar Programs	47.078		101,324
Pass Through Programs			
Faraday Technology, Incorporated	47	DMI0450179	49,204
John Carroll University	47	DUE-0309771	17,776
			<hr/> 66,980
University of Illinois	47.041	2005-05374-03	107,189
University of California, Berkeley	47.049	KK4123	31,191
University of California, Berkeley	47.049	SA2700-21235PG	270,944
Columbia University	47.049	82507	205,648
			<hr/> 507,782
Southern California Earthquake Center	47.050	083263	8,270
University of California, Berkeley	47.070	SA4180-10020PG	124,709
University of California, Davis	47.070	SA4182-23640PG	31,462
			<hr/> 156,172
University of Oregon	47.076	204991C	28,651
University of California, Berkeley	47.078	SA3862-22394PG	827
University of Chicago	47.078	23132-B	295,140
			<hr/> 295,967
National Science Foundation Subtotal			<hr/> 8,771,825
 Department of Veteran Affairs			
Direct Programs			
Other Department of Veteran's Affairs Programs	64		363,389

**CASE WESTERN RESERVE UNIVERSITY
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for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Department of Veteran Affairs Subtotal			363,389
Environmental Protection Agency			
Direct Programs			
Other EPA Programs	66		160,534
Environmental Education Grants	66.500		129,076
Environmental Protection Agency Subtotal			289,610
Department of Energy			
Direct Programs			
Department of Energy	81		2,696,443
Used Energy-Related Laboratory Equipment Grants	81.022		235,118
Office of Energy Research Financial Assistance Program	81.049		106,940
Conservation Research and Development	81.086		(41,260)
Pass Through Programs			
3M Company	81	0001105039	304,872
3M Company	81	0000945522	22
Advanced Technology Institute	81	20050521	24,497
Advanced Technology Institute	81	ATI	188,939
Ballard Power Systems Incorporated	81	DEFC3603GC13107	48,206
Battelle Memorial Institute	81	4000017402	3,842
Brookhaven National Laboratory	81	82506	23,157
De Nora North America, Incorporated	81		7,642
DuPont Fuel Cells	81	DE-FC04-02AL67606	53,882
Faraday Technology, Incorporated	81	EFC-H1-01-1A	8,032
Aoww Electrodes, Incorporated	81	3565 08	(614)
Lawrence Livermore National Laboratories	81	8529229	6,406
Lawrence Livermore National Laboratories	81	8529216	11,940
Los Alamos National Laboratories	81	07026-001-04 3F	25,024
Los Alamos National Laboratories	81	21204-001-05	351,001
Makel Engineering Incorporated	81	PO-R05148	15,787
National Renewable Energy Lab	81	XDJ-3-30630-33	40,306
Ohio University	81	UT 12784	58,251
Swagelok Company	81		355,585
T/J Technologies	81	DEFG0204ER84088	(3,237)
University of South Carolina	81	04-0955	80,593
			1,604,133
University of Michigan	81.049	F007537	73,242
Stanford University	81.057	DE-FG02-05ER64136	146,067
Department of Energy Subtotal			5,020,683
Department of Education			
Direct Programs			
Special Education Research and Innovation to Improve	84.324		197,061
Department of Education Subtotal			197,061

**CASE WESTERN RESERVE UNIVERSITY
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for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Department of Health & Human Services			
Direct Programs			
Other DHHS Programs	93		322,711
Food and Drug Administration- Research	93.103		170,794
Maternal & Child Health Federal Consolidated Programs	93.110		548,853
Biological Response to Environmental Health Hazards	93.113		398,706
Applied Toxicological Research and Testing	93.114		16,562
Biometry and Risk Estimation Health Risks	93.115		481,385
Project Grant & Cooperative Agreements for TB Control Programs	93.116		5,213,827
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		8,886
Oral Diseases & Disorder Research	93.121		3,109,751
Grants to Increase Organ Donations	93.134		358,093
Human Genome Research	93.172		1,473,893
Research Related to Deafness & Communications Disorders	93.173		1,750,387
Research and Training in Alternative Medicine	93.213		500,987
Research on Healthcare Costs, Quality and Outcomes	93.226		616,012
National Center on Sleep Disorders Research	93.233		1,347,378
Mental Health Research Grants	93.242		5,553,470
Alcohol Research Programs	93.273		1,646,334
Drug Abuse Research Programs	93.279		2,075,233
Mental Health Research Career/Scientist Development Award	93.281		414,556
Centers for Disease Control and Prevention	93.283		3,099,853
Biomedical Imaging Research	93.286		5,051,772
National Heart and Lung Research	93.287		26,579
Clinical Research	93.333		4,640,473
Nursing Research	93.361		1,261,513
Biomedical Technology	93.371		1,114,432
Research Infrastructure	93.389		1,596,378
National Center for Research Resources	93.390		178,920
Cancer Cause & Prevention Research	93.393		2,746,537
Cancer Detection and Diagnosis Research	93.394		1,928,583
Cancer Treatment Research	93.395		6,035,018
Cancer Biology Research	93.396		2,269,632
Cancer Centers Support Grants	93.397		5,817,174
Cancer Research Manpower	93.398		1,516,232
Cancer Control	93.399		2,103,101
Job Opportunities and Basic Skills Training	93.561		53,151
Cell Biology and Biophysics Research	93.821		4,568,096
Heart & Vascular Diseases Research	93.837		6,916,543
Lung Diseases Research	93.838		12,001,000
Blood Diseases & Resources Research	93.839		2,734,311
Arthritis, Musculoskeletal, & Skin Diseases Research	93.846		4,416,119
Diabetes, Endocrinology & Metabolism Research	93.847		14,439,386
Digestive Diseases & Nutrition Research	93.848		2,910,860
Kidney Disease, Urology & Hematology Research	93.849		5,163,467
Clinical Research Related to Neurological Disorders	93.853		5,875,343
Biological Basis Research in Neurosciences	93.854		4,052,966
Allergy, Immunology & Transplantation Research	93.855		2,077,527
Microbiology & Infectious Diseases Research	93.856		15,609,395
Pharmacology, Physiology, and Biological Chemistry Research	93.859		2,621,093
Genetics and Developmental Biology Research	93.862		3,322,888
Population Research	93.864		1,377,983

**CASE WESTERN RESERVE UNIVERSITY
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for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Centers for Research for Mothers and Children	93.865		8,191,129
Aging Research	93.866		8,054,175
Vision Research	93.867		8,033,606
Medical Library Assistance	93.879		8,086
Project Grants for Non-Acute Care Intermediate and Long-Term Care Facilities for Patients with AIDS	93.887		380,747
Center for Medical Rehabilitation Research	93.929		713,951
Senior International Fellowships	93.989		199,156
Pass Through Programs			
Alliance of Community Health Plans	93	200-95-0953-049	(93)
Arteriocyte, Incorporated	93		81,547
Biochem Analysis Incorporated	93		29,772
Boston University	93	CA091958	8,324
Catholic Healthcare Partners	93	CHP	11,239
Cleveland Clinic Lerner College of Medic	93	EB002718	4,040
Department of Education	93	H324M030192	183,333
Johns Hopkins University	93	8308-80100-3	32,651
Organix Incorporated	93	DK065322	(1,224)
Tristan Technologies, Incorporated	93	DK066736	(118)
University of Minnesota	93	A1056270	26,047
Wayne State University	93	WSU03035-A4	157,845
			<hr/> 533,363
Seattle Institute of Cardiac Research	93.103	HL067972	13,200
Children's Hospital Research Foundation	93.116	CHMC030	57,475
New Ortho Polymers	93.121	DE016782	33,405
Cleveland Clinic Foundation	93.134	974188820602	93,996
University of Pittsburgh	93.134	108079-1	2,574
			<hr/> 96,571
Boston University	93.172	6203-5	121,640
University of Pittsburgh	93.172	108079-1	26,294
			<hr/> 147,934
Howard University	93.173	HG002677	3,547
Georgia Institute of Technology	93.213	E-17-6C9-G3	9,414
Cleveland Clinic Foundation	93.226	CCF - HS015076	30,428
NIH-National Center for Complementary an	93.226	AT003111	28,534
OASH-Office Assistant Secretary of Health	93.226	HS013152	631,612
			<hr/> 690,574
Indiana University	93.233	290-02-0008	514
Stanford University	93.233	PY-2343-26447-A	4,889
			<hr/> 5,403
CME Development Group	93.242	MH073197	17,683
Duke University	93.242	GCID#100528	28,457
East Tennessee State University	93.242	5-30230-1	76,682
University of Arizona	93.242	V976131	20,930
University of Mississippi	93.242	MH063187	3,863
University of Mississippi	93.242	MH067996	43,967
University of Wisconsin - Madison	93.242	K043444	87,148
Virginia Commonwealth University	93.242	524890/PO P583964	40,107
Washington University	93.242	WU-06-76	163,604
			<hr/> 482,441
Duke University	93.271	118685 SITE 14	15,710
Yale University School of Medicine	93.279	DKP1079151	18,720
Research Foundation of State University	93.281	247230	24,306

**CASE WESTERN RESERVE UNIVERSITY
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for the year ended June 30, 2006

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Association of American Medical Colleges	93.283	U36/CCU319276	259,516
Hemophilia Foundation of Michigan	93.283	U27/CCU513182-08	7,764
			<hr/> 267,280
Association of American Medical Colleges	93.286	MM-0122-02/02	40,021
University of Connecticut Health Center	93.371	469305	28,860
Massachusetts Institute of Technology	93.389	5710001819	31,498
Massachusetts General Hospital	93.390	GM075946	36,630
Ohio State University Research Foundation	93.390	60003197	9,253
			<hr/> 45,883
National Childhood Cancer Foundation	93.393	14286	23,457
University of California, Irvine	93.393	CA088164	(2)
University of Cincinnati	93.393	P021-040-K106-1119	14
			<hr/> 23,470
American College of Radiology	93.394	CA021661	344
Ohio State University Research Foundation	93.394	60005370	53,127
			<hr/> 53,471
Attenoun, L.L.C.	93.395	CA-110224-01	28,383
Cleveland Clinic Lerner College of Medicine	93.395	CA083267	88,169
HHS-Health & Human Services- General	93.395	N01-AI-05410	147,486
Ohio State University Research Foundation	93.395	60005370	7,500
SAIC-Frederick, Incorporated	93.395	24XS011	16
SAIC-Frederick, Incorporated	93.395	23XS037A	268
SAIC-Frederick, Incorporated	93.395	22XS124A	7,228
University of California, Irvine	93.395	2005-1674	14,938
Virginia Commonwealth University	93.395	520368/PO P638976	116
Washington University	93.395	WU-06-51	849
Wayne State University	93.395	WSU05014	103,031
			<hr/> 397,984
Aventis Pharmaceuticals	93.396	GIA #11189	4,920
National Surgical Adjuvant Breast & Bowe	93.399	PIND-IRE-01	377
National Surgical Adjuvant Breast & Bowe	93.399	PFED19-IRE-01	22,391
National Surgical Adjuvant Breast & Bowe	93.399	TFED32-#728	65,373
Oncology Nursing Society	93.399	CA093426	30,619
Southwest Oncology Group	93.399	CA037429	6,287
University of South Carolina	93.399	06-1262	13,223
			<hr/> 138,271
Exsar Incorporatedoration	93.821	GM064318	109,057
Structural Genomix Inc	93.821	SGX Pharmaceuticals	65,672
			<hr/> 174,729
Florida State University	93.823	G15367	115,685
Biomec, Incorporated	93.837	HL065815	5,662
Biomec, Incorporated	93.837	HL65815-02	34,729
Burnham Institute	93.837	CA071932	414,619
Cleveland Clinic Lerner College of Medicine	93.837	HL077107	61,354
Cleveland Clinic Lerner College of Medicine	93.837	095330511101	6,942
Cleveland Medical Devices, Incorporated	93.837		39,807
Constella Group Incorporated	93.837	328310003	3,997
Emory University	93.837	HL063666	18,204
HHS-Health & Human Services- General	93.837	HL069894	9,585
ICON Interventional Systems, Incorporated	93.837	HL0807610	33,438
Interventional Imaging, Incorporated	93.837	HL082076	44,307
St. Lukes's Roosevelt Institute for Health	93.837	HL062509	13,200
University of Michigan	93.837	HL007853	21,983

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University of Pittsburgh	93.837	110146-2	177,508
Volcano Incorporated	93.837	HL069094	75,936
Wayne State University	93.837	WSU 03066-A2	42,045
			<hr/> 1,003,316
Arterlocyte, Incorporated	93.838	HL080856	79,326
Northern California Institute for Resear	93.838	2 FRAM 767-01	83,781
Synaptic Pharmaceutical Incorporated	93.838	SYNAPSE	14,735
University of North Carolina	93.838	5-51638	312,866
University of Pennsylvania	93.838	00481-05-05	(1,199)
			<hr/> 489,509
Children's Hospital of Philadelphia	93.839	HL062514	8,412
Cleveland Clinic Lerner College of Medicine	93.839	HL081011	19,752
Medical College of Georgia	93.839	05-10745C1	(29,165)
Medical College of Georgia	93.839	MCG-STOP II-000967-0	11,778
ViaCell Incorporated	93.839	HL074555	(7,614)
			<hr/> 3,162
Aastrom Biosciences, Incorporated	93.846	DK074201	29,074
Cleveland Clinic Lerner College of Medicine	93.846	NS-043486	20,739
Dartmouth College	93.846	530128.5725	(38)
Drexel University	93.846	232222-3850	87,111
HHS-Health & Human Services- General	93.846	N01-AR-9-2235	5,695
Indiana University	93.846	AR053237	34,163
Medical College of Georgia	93.846	05-10745C1	14,605
Oklahoma Medical Research Foundation	93.846	AR042460	(4,212)
University of Utah	93.846	9809032F	24,835
			<hr/> 211,972
Social & Scientific	93.847	#A5041.02-CWRU	(18,181)
Children's Hospital and Regional Medical	93.847	HR.7659.109004.007	(13,952)
Cincinnati Children's Hospital	93.847		10,562
Duke University	93.847	Apple Site 16	10,535
George Washington University	93.847	T2K0506	646,886
Mount Sinai School of Medicine of the Ne	93.847	0255-6301-4609	54,982
University of Medicine & Dentistry-New Jersey	93.847	DK055369	(1)
			<hr/> 690,831
Vanderbilt University	93.848	VUMC31179-R	58,708
Cleveland Clinic Lerner College of Medicine	93.849	DK070905	21,776
Columbia University	93.849	DK057209	412,317
Emory University	93.849	5-23911-G1	40,231
University of California, San Francisco	93.849	000985	4,080
University of Pennsylvania	93.849	5-44131	27,982
			<hr/> 506,386
Children's Hospital and Regional Medical	93.853	CHMC 380	74,828
Children's Hospital Research Foundation	93.853	CHMC #345	73,957
Children's Mercy Hospital	93.853	04-0032	5,509
University of Alabama, Birmingham	93.853	NS042685	28,596
University of Chicago	93.853	24469	29,939
University of Medicine & Dentistry-New Jersey	93.853	NS-0440976-01A2	819
University of South Florida	93.853	6112-162-LO-C	76,506
University of Washington	93.853	WU-05-70	74,051
Washington University	93.853	WU-04-142	252
Washington University	93.853	WU-06-35	8,782
Yale University School of Medicine	93.853	A06113	12,556
			<hr/> 385,795

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University of Alaska, Anchorage	93.854	UAF 01-0017	163,854
University of Cincinnati	93.854	NS039160	11,268
University of Florida	93.854	UF04024	505
Wayne State University	93.854	WSU 99025	(302)
			<hr/> 175,325
Cleveland Medical Devices, Incorporated	93.855	NS041118	1,168
Rush Presbyterian - St. Luke's Medical Center	93.855	AI055793	11,513
Washington University	93.855	WU-06-209	17,576
Washington University	93.855	WU-06-211	84,891
Washington University	93.855	WU-06-203	501,606
			<hr/> 616,754
Cleveland Clinic Lerner College of Medicine	93.856	075360150601	338,161
Family Health International	93.856	N01-HD-0-3310-502-2	912,961
INQ Therapeutics	93.856		3,856
Rush Presbyterian - St. Luke's Medical Center	93.856	AI055793	809,508
Social & Scientific Systems, Incorporated	93.856	AACTG.49.5208.01	65,500
Social & Scientific Systems, Incorporated	93.856	#204IC003	344,082
Social & Scientific Systems, Incorporated	93.856		3,037
SynVax, Incorporated	93.856	AI058439	32,286
University of Alabama, Birmingham	93.856	BAMSG STUDY 4-01	66,414
University of California, Irvine	93.856	35725C	18,920
University of California, San Francisco	93.856	38445C	19,068
University of Minnesota	93.856	AI032596	25,112
University of Minnesota	93.856	SILCAAT	16,387
University of Washington	93.856	986628	2,926
University of Washington	93.856	860515	75,200
University of Washington	93.856	986628	103,405
University of Wisconsin - Madison	93.856	J033342	634,885
Washington University	93.856	WU-05-53	65,203
Washington University	93.856	WU-05-44	300,000
			<hr/> 3,836,910
University of California, Irvine	93.858	114 VN	25,854
Mayo Foundation- Rochester	93.859	GM061388	179,030
Tephia Incorporated	93.862	GM064863	5,196
Cleveland Clinic Lerner College of Medicine	93.865	HD049662	31,576
Northwestern University	93.865	0600 370 E361 910	89,803
Pennsylvania State University	93.865	2253-CWRU-DHHS-8075	118,641
Pennsylvania State University	93.865	2620-CWRU-DHHS-6167	127,176
University of Pittsburgh	93.865	006178	5
			<hr/> 367,200
Boston University	93.866	GC159610NGC	191,983
Boston University	93.866	MC-431538-DJW	72,652
Rainforest Nutritionals, Incorporated	93.866	AG024773	713
University of Alabama, Birmingham	93.866	ATN045A	28,500
University of California, San Diego	93.866	ADC-023	22,012
University of Virginia	93.866	GC10857-117544	(4,128)
University of Washington	93.866	119571	27,033
			<hr/> 338,765
University of California, San Diego	93.867	ADC-023	248
Duke University	93.867	02-SC-NIH-1053	554
Jaeb Center for Health Research	93.867	EY012358	124,704
University of California, Irvine	93.867	10205850-003	60,819
University of Southern California	93.867	H31502	116,169
			<hr/>

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			302,494
Jaeb Center for Health Research	93.879	DRCR - SITE 4051	1,883
Cleveland Clinic Lerner College of Medicine	93.887	LM008154-03	18,863
NeuroControl Incorporated	93.939	HD045103	15,338
Family Health International	93.959	N01-AI-35173-323	3
Stanford University	93.989	3601-A	<u>12,032</u>
Department of Health & Human Services Subtotal			<u>191,814,454</u>
Total Research and Development - University Only			<u>223,582,869</u>
Research Training Grants- University			
Department of Commerce			
Direct Programs			
Measurement and Engineering Research and Standards	11.609		<u>6,975</u>
Department of Commerce Subtotal			<u>6,975</u>
Department of Defense			
Direct Programs			
Other Department of Defense Training Programs	12		19,310
Military Medical Research and Development	12.420		101,299
Basic Scientific Research	12.431		331
Basic, Applied and Advanced Research in Science and Engineering	12.630		<u>49,788</u>
Department of Defense Subtotal			<u>170,728</u>
Department of Housing and Urban Development			
Direct Programs			
Other Department of Housing and Urban Development	12		<u>279,204</u>
Department of Housing and Urban Development Subtotal			<u>279,204</u>
Department of State			
Other Department of State Programs	20		1,497
Pass Through Programs			
National Research Council	20.205		<u>(127)</u>
Department of State Subtotal			<u>1,370</u>
National Aeronautics and Space Administration			
Direct Programs			
Technology Transfer	43.002		<u>150,488</u>
National Aeronautics and Space Administration Subtotal			<u>150,488</u>

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National Science Foundation			
Direct Programs			
Education and Human Resources	47.076		388,387
Pass Through Programs			
City of Cleveland Board of Education	47	47-076	318,819
Ohio State University Research Foundation	47.076	745923	26,447
			<hr/>
National Science Foundation Subtotal			733,653
Department of Energy			
Pass Through Programs			
University of Pittsburgh	81	400960-12	(1,212)
			<hr/>
Department of Energy subtotal			(1,212)
Department of Education			
Direct Programs			
Graduate Assistance In Areas of National Need	84.200		609,784
Special Education Personnel Preparation to Improve Services	84.325		300,929
Pass Through Programs			
Children's Hospital Medical Center of Arkansas	84.324	H324RO10014	13,459
			<hr/>
Department of Education Subtotal			924,172
Department of Health & Human Services			
Direct Programs			
Maternal and Child Health Federal Consolidated Programs	93.106		119,458
Acquired Immune Deficiency Syndrome (AIDS) Activity	93.110		119,713
Nurse Anesthetist Traineeships	93.118		27,029
Grants for Faculty Training Projects in Geriatric Medicine and Dentistry	93.124		30,100
Biological Research Related to Deafness and Communicative Disorders	93.156		420,301
Nursing Workforce Diversity	93.173		30,537
National Research Service Awards Health Services Research	93.178		(3)
Consolidated Knowledge Development and Application Program	93.225		231,576
National Center on Sleep Disorders Research	93.230		22,325
Advanced Education Nursing Grant Program	93.233		129,431
Alcohol National Research Service Awards for Research Training	93.247		376,910
Mental Health National Research Service Awards for Research Training	93.272		39,209
Centers for Disease Control and Prevention Investigations	93.282		239,749
Professional Nurse Traineeship	93.286		57,986
Basic Nurse Education and Practice Grants	93.358		107,182
Nursing Research	93.359		304,746
Cancer Treatment Research	93.361		108,710
Cancer Biology Research	93.395		461,217
Cancer Research Manpower	93.396		328,288
Cancer Control	93.398		667,873
Refugee and Entrant Assistance Voluntary Agency Programs	93.399		614,154
	93.567		109,274

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Biophysics and Physiological Sciences	93.821		1,699,639
Heart and Vascular Diseases Research	93.837		800,209
Lung Diseases Research	93.838		996,734
Blood Diseases and Resources Research	93.839		216,383
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		288,440
Diabetes, Endocrinology and Metabolism Research	93.847		658,449
Digestive Diseases and Nutrition Research	93.848		275,178
Kidney Diseases, Neurology, Hematology Research	93.849		267,285
Extramural Research Programs in the Neurosciences	93.853		62,741
Allergy, Immunology, and Transplantation Research	93.855		17,465
Microbiology and Infectious Diseases Research	93.856		198,812
Pharmacology, Physiology, and Biological Chemistry Research	93.859		218,827
Genetics and Developmental Biology Research	93.862		291,228
Center for Research for Mothers and Children	93.865		1,444,472
Aging Research	93.866		354,161
Vision Research	93.867		205,766
Minority Access to Research Careers	93.880		8,396
Grants for Residency Training in General International	93.884		847,205
Resource and Manpower Development in the Environmental	93.894		31,099
Center for Medical Rehabilitation Research	93.929		278,092
Fogarty International Research Collaboration Award	93.934		302,825
Grants for Geriatric Education Centers	93.969		313,507
Grants for Establishment of Departments of Family Medicine	93.984		8,297
Senior International Fellowships	93.989		1,629,536
Pass through programs			
Tulane University Medical Center	93.000	TUL-166	15,141
Wayne State University	93.145	WSU01152	323
Department of Health & Human Services Subtotal			15,975,975
			<hr/>
Total Research Training Grants			18,241,353
			<hr/>
Sub Total Research and Development and Research Training Cluster			241,824,222
			<hr/>

Research and Development - Cleveland Clinic Lerner College of Medicine (see Footnote 1)

Department of Health & Human Services

Direct Programs

Oral Diseases & Disorder Research	93.121		513,031
Research Related to Deafness and Communication Disorders	93.173		187,032
Research and Training in Alternative Medicine	93.213		(24,636)
Alcohol Research Programs	93.273		277,973
Centers for Disease Control and Prevention	93.283		177,272
Biomedical Imaging Research	93.286		508,183
Research Infrastructure	93.389		3,846,479
Academic Research Enhancement Award	93.391		141,681
Cancer Cause & Prevention Research	93.393		3,300,103
Cancer Treatment Research	93.395		4,416,361
Cancer Biology Research	93.396		5,615,042
Cancer Research Manpower	93.398		64,360
Cell Biology and Biophysics Research	93.821		446,336
Heart & Vascular Diseases Research	93.837		20,726,871

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Lung Diseases Research	93.838		3,011,099
Blood Diseases & Resources Research	93.839		5,520,510
Arthritis, Musculoskeletal, & Skin Diseases Research	93.846		4,838,588
Diabetes, Endocrinology and Metabolism Research	93.847		20,049
Digestive Diseases & Nutrition Research	93.848		1,973,162
Kidney Disease, Urology & Hematology Research	93.849		5,202,421
Clinical Research Related to Neurological Disorders	93.853		5,655,004
Biological Basis Research in Neurosciences	93.854		461,411
Allergy, Immunology & Transplantation Research	93.855		4,119,226
Microbiology and Infectious Diseases Research	93.856		415,381
Pharmacology, Physiology, and Biological Chemistry Research	93.859		3,031,955
Genetics and Developmental Biology Research	93.862		1,518,114
Population Research	93.864		383,228
Centers for Research for Mothers and Children	93.865		312,444
Aging Research	93.866		970,830
Vision Research	93.867		1,702,736
Residency Training and Advanced Education in the General Practice of Dentistry	93.879		219,472
Senior International Fellowships	93.989		22,783
Center for Medical Rehabilitation Research	93.929		354,362
Other HHS Programs	93		2,034,381
Pass Through Programs			
Immune Tolerance Network	93	AI 15416-02	247,247
Immune Tolerance Network	93	AI 15416-1	89,109
Nanoprobes, Incorporated	93	1 R43 CA111182	57,785
NDI Medical	93	1 R43 AG 22292	260
Progenics	93	2 R44 CA091746	(8,764)
University of California at San Francisco	93	AI 15416	132,480
University of California at San Francisco	93	N01 AI 15416	209,900
University Of California	93	AI 15416-01	416,236
University Of Texas	93	CM 05126	(13,292)
University Of Texas	93	N01 CN 095040	204,624
			<hr/> 1,335,585
Johns Hopkins University	93.103	AR 92240	219,570
Biomec Incorporated	93.173	DC 04741-03	(18,926)
Massachusetts Eye And Ear	93.173	U01 DC006296-01	161,019
Washington University	93.173	U01 DC004681-02	14,692
			156,785
University Of Michigan	93.286	EB 002285-01	54,120
Boston University	93.389	5 U54 R019497	216,800
University Of California	93.393	CA 88164-04	479,427
CBL	93.395	1 R41 CA110400	(27,933)
CTRC Research	93.395	CA 04919-46	(99,070)
Gynecology Oncology Group	93.395	CA 27469	82,215
Massachusetts General Hospital	93.395	CA 84203-4	14,652
Nanoprobes, Incorporated	93.395	1 R01 CA93871	79,192
Southwest Oncology Group-Cancer Therapy And Research Foundation	93.395	5 U10 CA32102	2,000
			<hr/> 51,056
University Of Pittsburgh	93.396	CA 57840-10	1
Southwest Oncology Group-Cancer Therapy And Research Foundation	93.399	CA 37429-19	169,930
University Of Colorado	93.399	2 R01 CA068099	8,875
Washington University	93.399	CA 068124-09	87,173
			<hr/> 265,978

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Cornell University	93.837	5 PD1 HL046403	75,645
Foster Miller	93.837	1 R44 HL075894	56,848
PMI Industries	93.837	HL079687-01	2,798
Saint Elizabeth Medical Center	93.837	5 P01 HL66957	79,165
University Of Pittsburgh	93.837	HL 075038	78,978
Volcano Incorporated	93.837	HL64686	51,039
Volcano Incorporated	93.837	HL69094	137,534
Washington University	93.837	1 R01 HL074283	167,319
			<hr/> 649,326
Children's Hospital	93.846	AR 049735	56,047
Johns Hopkins Univ	93.846	1 R01 AR051874	13,147
University Of Alabama	93.846	AR 47799-01	10,549
			<hr/> 79,743
University Of Pennsylvania	93.848	5 R01 DK059961	59,344
New England Medical Center	93.849	DK 53869-05	133,772
Duke University	93.853	NS 40894	104,307
Georgia Tech	93.853	7 R01 NS043486	69,753
Mayo Foundation	93.853	NS 42759	7,379
			<hr/> 181,439
Ohio State University	93.855	AI 56318	(2,174)
Washington University	93.856	5 U54 AI57160	19,410
Foster Miller	93.865	HL 72610-01	5,877
NDI Medical	93.866	1 R43 AG 21851	260
Emory University	93.867	1 U10 EY013272	8,221
University Of Southern California	93.867	7 R01 EY013516	184,783
University Of Wisconsin	93.867	EY 14351	9,345
			<hr/> 202,349
Fox Chase Cancer Center	99	CN 95037	3,207
			<hr/>
Department of Health & Human Services Subtotal			<hr/> 86,075,119
Total Research and Development - Cleveland Clinic Lerner College of Medicine			<hr/> 86,075,119
Total Research and Development and Research Training Cluster			<hr/> 327,899,341
Student Financial Aid			
Department of Education			
Direct Programs-Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		1,086,188
Federal Work Study Program	84.033		1,949,215
Federal Perkins Loan Program	84.038		275,000
Federal Pell Grant Program	84.063		1,593,456
			<hr/> 4,903,859
Department of Health & Human Services			
Direct Programs-Department of health and Human Services			
HRSA-Bureau of Health Professions	93.925		7,840
			<hr/>
Total Department of Education-SFA Cluster			<hr/> 4,911,699

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TRIO			
Department of Education			
Direct Programs			
TRIO Talent Search	84.044		270,973
TRIO Upward Bound	84.047		419,893
Department of Education Subtotal			690,866
Total TRIO			690,866
 Other Federal Assistance			
<u>Discretionary and Special Programs</u>			
 Department of Defense			
Basic Scientific Research			
	12.431		10,000
Department of Defense Subtotal			10,000
 Department of Housing and Urban Development			
Direct Programs			
Community Development Block Grants/Economic Development	14.246		23,231
Lead Hazard Reduction Demonstration Grant Program	14.905		151,604
			174,835
 National Aeronautics and Space Administration			
Pass through programs			
Stark State College of Technology	43		22,927
National Aeronautics and Space Administration Subtotal			22,927
 National Science Foundation			
Direct Programs			
Engineering Grants	47.041		5,624
Education and Human Resources	47.076		25,305
Social, Behavioral, and Economic Sciences	47		836,721
National Science Foundation Subtotal			867,650
 Department of Veteran Affairs			
Direct Programs			
Other Department of Veteran's Affairs Programs	64		50,970
Department of Veteran Affairs Subtotal			50,970
 Department of Energy			

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Direct Programs			
Other Department of Energy Programs	81		38,856
Department of Energy Subtotal			38,856
Department of Education			
Direct Programs			
National Institute of Handicapped Research	84.133		52,858
Department of Education Subtotal			52,858
Department of Health & Human Services			
Direct Programs			
Rural Telemedicine Grants	93.211		466,030
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		343,315
Discovery and Applied Research	93.286		(2,920)
Cancer Biology Research	93.396		1,336
Arthritis, Musculoskeletal, & Skin Diseases Research	93.846		10,000
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		14,625
Allergy, Immunology & Transplantation Research	93.855		6,317
Aging Research	93.866		30,000
Residency Training and Advanced Education in the General Practice of Dentistry	93.879		4,247
	93.888		16,108
Pass Through Programs			
Booz Allen Hamilton, Incorporated	93.393	79950CSB10	45,761
National Youth Sports Incorporated	93.570	04-1028	(682)
National Youth Sports Incorporated	93.570	05-1021	92,502
National Youth Sports Incorporated	93.570	05-1028	19,377
			111,197
Department of Health & Human Services Subtotal			1,046,016
Corporation for National Service			
Corporation for National Service	94.006	03AFH-OM0020007	69,892
Corporation for National Service Subtotal			69,892
Total Other Federal Assistance			2,334,004
TOTAL EXPENDITURES OF FEDERAL AWARDS			335,835,909

CASE WESTERN RESERVE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years.

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.

The CCLCM operates under an affiliation agreement between the University and the Cleveland Clinic Foundation ("CCF"). The parties have agreed that CCF has administrative responsibility for the CCLCM grants. CCLCM awards are on pages 29-31; however, because the CCF is responsible for the day to day operations, those awards are not included in the scope of the A-133 report. Ernst & Young LLP conducted the audit of CCF's compliance with all the requirements described in the U.S. OMB Circular Compliance Supplement that are applicable to the CCLCM grants. Accordingly, the CCLCM grants are excluded from the scope of the PwC audit. The most recent report of Ernst & Young LLP on compliance and internal controls over compliance of CCF as of December 31, 2005, which is dated September 15, 2006, contains an adverse opinion with regard to compliance and a material weakness with regard to internal control over compliance.

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. Under the research and development program, a total of \$20,771,974 was passed through to subgranted organizations from the University and \$3,118,833 from the CCLCM for the year ended June 30, 2006. No funds were passed through under other programs.

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. The programs for which CFDA Numbers were not available or identified are reported with the federal agency's 2-digit prefix when known.

CASE WESTERN RESERVE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

3. Indirect Costs:

The University recovers indirect costs by means of final indirect 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, 2005 to June 30, 2006 for on-campus research and for the CCLCM is 54.5% 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 base rates for off-campus research at University Hospitals of Cleveland and Cleveland MetroHealth Medical Center for the same period is also 54.5%. The base rate for all other off-campus research for the same period is 26%. The negotiated predetermined indirect cost rates were finalized based on an agreement dated June 1, 2005.

4. Loan Advances:

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins, Nursing, Health Profession Student and Disadvantaged Students Loan Programs for the year ended June 30, 2006:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 3,088,249	\$ 15,947,124
Nursing Student Loan Program	93.364	\$ 201,380	\$ 493,028
Health Professional Student Loan Program/PCL	93.342	\$ 502,500	\$ 2,590,482
Loan for Disadvantaged Students	93.342	\$ -	\$ 126,945

The Perkins Loan administrative cost allowance totalled \$275,000 for the year ended June 30, 2006.

5. Federal Family Education Loan Program:

During the year ended June 30, 2006, the University received the following loan amounts under the Federal Family Education Loan Program (FFELP) (which includes Stafford Loans, unsubsidized Stafford Loans, and Parents Plus Loans for Undergraduate Students):

CASE WESTERN RESERVE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

5. Federal Family Education Loan Program, Continued:

	CFDA Numbers	Amounts
Federal Family Education Loan Program	84.032	\$ 53,911,961

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

During the year ended June 30, 2006, the University made principal and interest payments of \$317,404 and \$454,495 respectively on HUD mortgage bonds. HUD mortgage bonds payable at June 30, 2006 amounted to \$20,070,000. See note E to the financial statements for further information concerning the components of these loans.

**REPORTS ON COMPLIANCE AND ON THE
INTERNAL CONTROL STRUCTURE**

**Report of Independent Auditors 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 the consolidated financial statements of Case Western Reserve University and its affiliated entities (the University) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, non-compliance 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*.

We noted certain other matters that we reported to management of the University in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

October 20, 2006

**Report of Independent Auditors on Compliance
with Requirements Applicable to 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:

In connection with the coordinated audit of Case Western Reserve University (the "University") as provided for in the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, PricewaterhouseCoopers LLP and Ernst & Young LLP each performed specific audit requirements and provided the respective audit reports. Responsibilities under the coordinated audit approach were assigned as follows:

1. PricewaterhouseCoopers LLP ("PwC") conducted the audit of the University's compliance and internal controls over compliance with all of the requirements described in the U.S. OMB Circular Compliance Supplement that are applicable to its major federal programs, except the requirements applicable to The Cleveland Clinic Lerner College of Medicine ("CCLCM") research and development grants from the Department of Health & Human Services and other agencies (the "CCLCM grants") as indicated on pages 29-31.
2. The CCLCM operates under an affiliation agreement between the University and the Cleveland Clinic Foundation ("CCF"). The parties have agreed that CCF has administrative responsibility for the CCLCM grants. Ernst & Young LLP conducted the audit of CCF's compliance with all the requirements described in the U.S. OMB Circular Compliance Supplement that are applicable to the CCLCM grants. Accordingly, the CCLCM grants are excluded from the scope of the PwC audit. The most recent report of Ernst & Young LLP on compliance and internal controls over compliance of CCF as of December 31, 2005, which is dated September 15, 2006, contains an adverse opinion with regard to compliance and a material weakness with regard to internal control over compliance.

Compliance

As part of the aforementioned coordinated audit, we have audited the compliance of the University and its affiliated entities with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs (except for the CCLCM grants) for the year ended June 30, 2006. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned

Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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 non-compliance 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 the 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. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements, 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 06-1 and 06-2.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on the major federal programs that are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

March 28, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified?	___	yes	X	no
Reportable condition(s) identified that are not considered to be material weaknesses?	___	yes	X	reported
Noncompliance material to financial statements noted?	___	yes	X	no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	___	yes	X	no
Reportable condition(s) identified that are not considered to be material weaknesses?	___	yes	X	reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

X yes ___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
*Various	*Research and Development and Research Training
14	HUD Series 1966 (footnote 6)
14	HUD Series 1971 (footnote 6)
14	HUD Part A (footnote 6)
14	HUD Part B (footnote 6)

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

X yes ___ no

*Excludes the CCLCM amounts included on pages 29-31 totalling \$86,075,118

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2006

Section II - Financial Statement Findings

No current year findings:

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2006

Section III - Federal Award Findings and Questioned Costs

Finding #06-1: Cost Transfers

Information on the federal program/Condition/Context

The University has a cost transfer policy in place for fiscal year ending June 30, 2006 which states that all transfers to sponsored projects should be made within 120 days from the end of the month in which the charges were initially posted. Fifty-five cost transfers were tested and three transfers totalling \$18,276 were found to have occurred outside the 120 day time period. The three cost transfers occurring within 122-203 days from the end of the month in which the charges were initially posted are noted below:

CFDA #	Amount	Grant #	Days	Award Year
93.283	\$ 4,039	RES501202	203	09/30/2005-09/29/2006
93.333	1,787	RES500436	122	04/01/2005-09/29/2006
47	12,450	SPC500998	199	09/01/2005-08/31/2006
	\$ 18,276			

Criteria or specific requirement

The National Institute of Health Grant Policy Manual dated December 1, 2003 states that cost transfers must be made within 90 days of when the error was discovered.

Cause/Effect

Named transfers were not in compliance with either the University's internal controls or the National Institute of Health Grant Policy Manual. The cost transfers that did not occur within the required time period were a result of limited personnel to perform reconciliations of accounts and post related adjusting entries on a timely basis. As a result, the University was not in compliance with its policy or federal agency policy.

Recommendation

The University should review its cost transfer policy and processes in place and make improvements as needed in order to improve compliance with its policies and federal requirements.

Views of responsible officials and planned corrective actions

The Controller's Office has substantially revised the University's policy for cost transfers effective for fiscal year ending June 30, 2007. This new policy underscores the need for cost

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2006

Views of responsible officials and planned corrective actions, Continued

transfers to be posted on a timely basis and provides information regarding procedures and tools available to reduce the volume of cost transfers. The policy has been posted on the University's web-site and distributed to all responsible personnel. Responsible Person: Paul Frey, Associate Controller. Deadline: December 31, 2006.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2006

Section III - Federal Award Findings and Questioned Costs

Finding #06-2: Inventory of Equipment Not Performed

Information on the federal program/Condition/Context

The University last completed a physical inventory of equipment in 2004.

Criteria or specific requirement

OMB Circular A-110, paragraph 34(f)(3) requires physical inventories of equipment purchased with federal funds to be performed at least once in a two year cycle. In addition, OMB Circular A-21, Section J 14 G requires that an inventory be taken at least once during a two year period of all equipment for which depreciation is included in the indirect cost calculations.

Cause/Effect

The University did not have the resources available to complete the inventory of equipment. The effect is that the records of equipment may be inaccurate and may not meet applicable compliance criteria.

Recommendation

Perform a physical inventory of equipment as soon as possible and reconcile the inventory counts to the general ledger.

Views of responsible officials and planned corrective actions

The Controller's Office has hired new personnel responsible for the equipment inventory. The first inventory forms were distributed in February 2007 and a physical inventory of the majority of equipment was completed on March 28, 2007. Such count resulted in an adjustment that was not material to the equipment purchased with federal funds. Responsible Person: Paul Frey, Associate Controller, Deadline: March 28, 2007.

CASE WESTERN RESERVE UNIVERSITY
PRIOR YEAR FINDINGS
Summary of Status of Prior Year Findings
for the year ended June 30, 2006

Finding #05-1: Annual Certification of Cost Share Amounts Not Performed

Audit Finding

The annual cost sharing certification required for a National Science Foundation grant, CFDA Number 47.076, Award Number DGE-9972747 for the year ended July 31, 2005, in which the total amount of cost sharing exceeded \$500,000 for the entire grant period, was not completed timely. The certification was filed in January 2006 after PricewaterhouseCoopers LLP brought it to the attention of management.

Status

The University implemented an additional control to verify that the annual certification of cost share amounts is done correctly. This was not noted in the current year as a finding again.