2016

FINANCIAL REPORT

CASE WESTERN RESERVE UNIVERSITY
EST. 1826
think beyond the possible℠

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Cover: The Wyant Gateway brings visitors from the Veale Convocation, Recreation and Athletic Center (not shown, located to the right of the image) to the Wyant Collaboration Floor in the Richey Mixon Building, home to the Larry Sears and Sally Zlotnick Sears think[box], seven stories and 50,000 square feet of space dedicated to innovation. James C. Wyant (CIT '65) is chair of the university Board of Trustees. The late Joseph B. "J.B." Richey II (CIT '62) served as a university trustee and collaborated with his longtime friend and colleague Mal Mixon to support the think[box] project. Larry Sears is an alumnus and trustee and his wife Sally Zlotnick Sears holds two degrees from the university.

This document may also be found at:
case.edu/finance

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University continued to grow a solid financial resource base during Fiscal Year 2016 ("FY16"). The University's fund-raising campaign set new all-time record levels of attainment, undergraduate enrollment efforts exceeded the University's goal, and the University's net operating activities continued to remain positive.

The FY16 financial plan continued to focus on maintaining momentum in core operating results, funding strategic capital projects by philanthropy, and achieving desired undergraduate enrollment. The results were a $106 million or 10.3% operating margin (GAAP basis), another record year in attainment of $174 million in new gifts and pledges, and undergraduate enrollment that contributed to a net tuition revenue increase of $22 million.

Following are additional comments related to the University's operations and financial results, with *Selected Financial Data* shown on page 7.

FY16 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

The University's management of resources produced a net operating income on a GAAP basis of $106 million, a 10.3% operating margin. The *Statement of Operations* (management view) reflects a surplus of $10.1 million compared to a budgeted surplus of $4.3 million. Both net operating activity (GAAP basis) and operating surpluses (management view) have been positive for the last nine consecutive years.

Record-breaking Attainment Level

Due to the generosity of Case Western Reserve University's donors, the University saw another record year in attainment of $174 million in FY16. The total represents a 4% increase over FY15 attainment. Attainment has increased in each of the last eight years. In FY16, the University received gifts from nearly 17,000 donors, totaling $158 million as reported on a cash basis. Realized gifts and pledges of $132 million are reported in the financial statements on an accrual basis.

Exceeded Undergraduate Enrollment

The University began the 2015-2016 academic year welcoming 1,259 first-year undergraduate students, a number that met the University's goal. Total undergraduate enrollment reached a record of 5,053 undergraduate full-time equivalents (FTEs) for the fall semester. Total student tuition revenue, including undergraduate, professional and graduate programs, grew to $426 million, or by $32 million over the prior year. Student aid increased $10 million or 6% over FY15, and overall net tuition increased $22 million over FY15. The total undergraduate discount rate decreased from 50.0% to 49.5% in FY16.

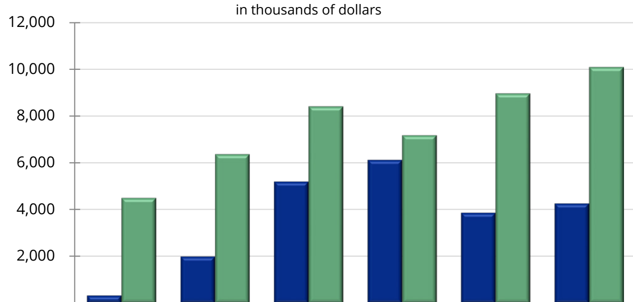
Higher undergraduate enrollment drove auxiliaries revenue to increase by $5 million. A new 290-bed undergraduate residence hall was opened at the beginning of the fall semester to meet the higher undergraduate enrollment.

STATEMENT OF OPERATIONS

The University manages its daily operations using a *Statement of Operations* (management view) that is prepared on a modified-cash basis and presented by natural account class; it is unaudited. The *Statement of Operations* measures and reports the organization's management center-based activities. It excludes non-operating transactions, depreciation expense, differs in its treatment of capital, and excludes most restricted funds transactions (e.g. restricted gift revenue).

The University produced a total surplus of $10.1 million in FY16, compared to a budgeted surplus of $4.3 million and a $9.0 million surplus in FY15. FY16 marked the ninth consecutive year of positive operating results.

UNIVERSITY SURPLUS/(DEFICIT)
in thousands of dollars



	2011	2012	2013	2014	2015	2016
Budget	332	2,000	5,200	6,127	3,868	4,269
Actual	4,499	6,375	8,412	7,179	8,964	10,096

The FY16 operating results reflect increasing net tuition revenue from increasing numbers of students and strong auxiliary revenues correlated to increased undergraduate enrollment.

MANAGEMENT CENTER OPERATING REVENUES

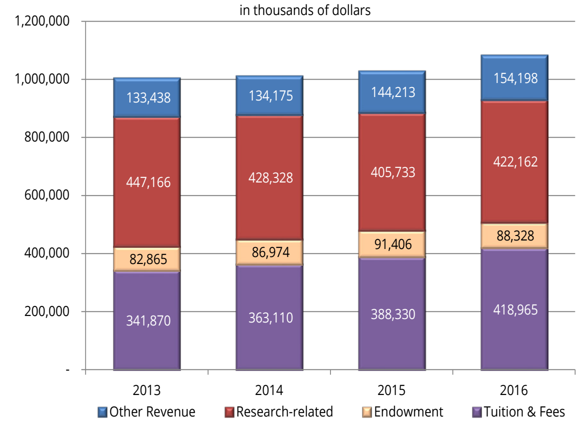
Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research-related, and Other Revenue. The University reported $1,084 million in total revenue, a $54 million or 5% increase over FY15.

Gross tuition and fees revenue was $419 million, a $31 million or 8% increase over FY15. Gross undergraduate tuition was $208 million, a $16 million or 9% increase over FY15. The increase is a direct reflection of the 3.25% rate increase and an addition of 240 average undergraduate FTEs over FY15. Professional and graduate program gross tuition, along with summer programs and fees, was $211 million, a $14 million or 7% increase over FY15.

Endowment revenue used by operations was $88 million, a $3 million or 3% decrease from FY15.

Research-related revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $422 million, a $16 million or 4% increase over FY15.

OPERATING REVENUE
in thousands of dollars

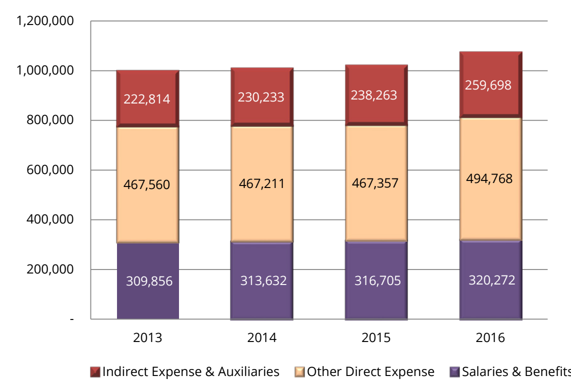


Other revenue was $154 million, a $10 million or 7% increase over FY15, with a $4 million or 7% increase in other income and a $4 million or 6% increase in auxiliary services revenue, related to rate increases and a growth in the undergraduate student population.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1,075 million, a $52 million or 5% increase over FY15. Functional expenses are categorized as Salaries and Benefits, Other Direct, and Indirect Expense and Auxiliaries.

OPERATING EXPENSES
in thousands of dollars



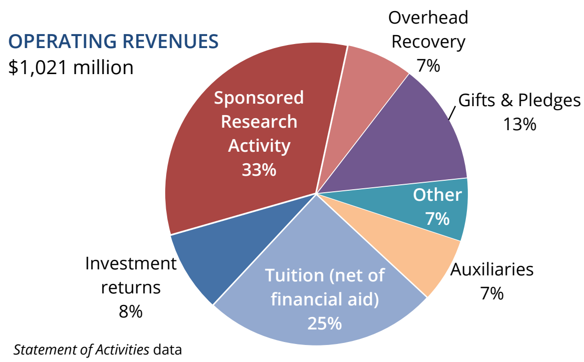
Salaries and benefits were $320 million, a $4 million or 1% increase over FY15. Other direct expense was $495 million, a $27 million or 6% increase over FY15. Indirect expense and auxiliaries were $260 million, a $21 million or 9% increase over FY15, which were driven by the undergraduate student population growth as reflected in the student-related segments.

CONSOLIDATED STATEMENT OF ACTIVITIES

The *Statement of Activities* (GAAP basis) includes consolidated results from the University's operating and non-operating activities which produced a positive change in net assets. In FY16, operating activity contributed $106 million to net assets.

OPERATING REVENUES

Total operating revenues were $1,021 million, an increase of $91 million or 10% over FY15. The components of the University's revenues are shown below and additional detail of operating revenue follows.



Statement of Activities data

Tuition income

Gross tuition income of $426 million increased $32 million or 8% over FY15, and includes fees and undergraduate, graduate, summer, and professional tuition. Gross tuition income is offset in part by financial aid awarded; the financial aid offset for FY16 was $171 million, resulting in net tuition of $256 million, or 25% of operating revenues.

The net tuition and fees income of $256 million represents a $22 million or 9% increase over FY15, with increased revenues generated by an increase in tuition rates and from higher student enrollment.

Investment returns

Investment returns included $66 million in returns distributed from the long-term investment pool, $6 million in returns on operating investments, and $16 million in distributions from funds held by others (FHBO) for endowment spending. Investment returns, which represent 8% of operating revenues, totaled $88 million, a decrease of $7 million or 8% from FY15.

Grants and contracts

Grants and contracts revenue includes awards to Case Western Reserve University and also its affiliates, most notably the Cleveland Clinic Lerner College of Medicine ("CCLCM").

Grants and contracts received for research and training purposes totaled $335 million, including $92 million in CCLCM awards. This amount reflects an increase of $20 million or 6% over FY15. The total represents 33% of overall University operating revenues. This increase corresponds with an increase in research operating expenses.

Overhead cost recovery

Facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $72 million in FY16, a $2 million or 2% increase over FY15. Overhead recovery constituted 7% of operating revenues.

Gifts and pledges

Gifts and pledges income was $132 million, an increase of $44 million or 50% over FY15. Gifts and pledges, which represent 13% of operating revenues, are recorded in the appropriate asset category when received.

Other revenue

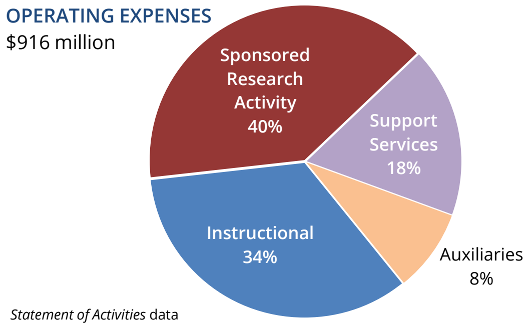
Other revenue of $69 million increased $6 million or 9% over FY15. Other revenue represents 7% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

Auxiliaries

Auxiliaries revenue of $70 million increased $5 million or 7% over FY15. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $60 million, or "Other," including Rental Properties and Parking, totaling $10 million for FY16. Auxiliaries revenue represents 7% of operating revenues.

OPERATING EXPENSES

Total expenses of $916 million increased $41 million or 5% over FY15. The components of the University's expenses are shown below and additional detail of operating expenses follows.



Instructional costs of $312 million, which comprise 34% of operating expenses, increased by $6 million or 2% over FY15. Included in direct instructional costs are faculty and staff salaries and benefits.

Sponsored research activity of $363 million, represents 40% of operating expenses, increased $15 million or 4% over FY15. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support services costs of $162 million, or 18% of operating expenses, including libraries, student services, and university services, increased $16 million or 11% over FY15. The increase is primarily in university services due to an increase in benefit expenses.

Auxiliaries expenses of $79 million, which constitute 8% of operating expenses, increased $4 million or 6% over FY15. Most of the increase came from student-focused auxiliaries due to increased volume in student housing and food services.

NON-OPERATING ACTIVITIES

Non-operating activities decreased net assets by $200 million, a $166 million decrease from FY15. Most of the decrease is due to long-term investment activities.

Long-term investment activities

Long-term investment activities realized $6 million in investment returns and $98 million in unrealized depreciation. Investment income decreased $54 million from FY15 and net depreciation decreased $88 million from FY15.

Other non-operating activities

Other non-operating activities (changes in liabilities due under life-income agreements, pension plan changes other than periodic benefit costs, and loss on disposal of plant assets) resulted in a $43 million loss in net assets, or a decrease of $26 million from FY15.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University's investment pool consist of a group of funds, including the endowment funds, funds functioning as endowments (also referred to as *quasi-endowment*), Board-designated funds, and operating funds, that are invested in a broadly diversified portfolio. The total investment return for the investment pool, net of external manager fees, approximated -3.45% (2016) and 4.77% (2015). Additional detail on the investment pool is shown in *Footnote 5*.

The University's combined endowment, the purpose of which is to generate revenue in perpetuity, is comprised of funds invested and managed by the University, that includes endowment funds and quasi-endowments (referred to as the *endowment pool*) and funds invested and managed outside the University (referred to as *funds held in trust*). The University's combined endowment at June 30, 2016 and 2015 is shown in the table below:

(in thousands)	**2016**	**2015**
Endowment Pool:		
Donor-restricted	$ 1,035,811	$ 1,107,222
Donor-purpose restricted	269,484	287,188
Quasi-endowment	44,809	44,764
Funds held in trust (FHBO)	312,635	336,825
Total combined endowment	**$ 1,662,739**	**$ 1,775,999**
Change in market value	**-6.38%**	**0.99%**

Activities and total investment return for the combined endowment for the years ending June 30, 2016 and 2015 are shown in the table below:

(in thousands)	**2016**	**2015**
Beginning combined endowment	$ 1,775,999	$ 1,758,569
Additions	30,819	38,282
Spending distribution	(81,675)	(83,246)
Campaign support	(6,000)	(5,900)
Operating support	(3,317)	(2,481)
Other	(217)	(271)
Appreciation (depreciation) and investment income	(52,870)	71,046
Ending combined endowment	**$ 1,662,739**	**$ 1,775,999**
Combined endowment investment return	**-3.2%**	**4.6%**

CHANGE IN NET ASSETS

The combined net operating activity of $106 million and net negative non-operating activity of $200 million resulted in a decrease in net assets of $95 million or 4% from FY15.

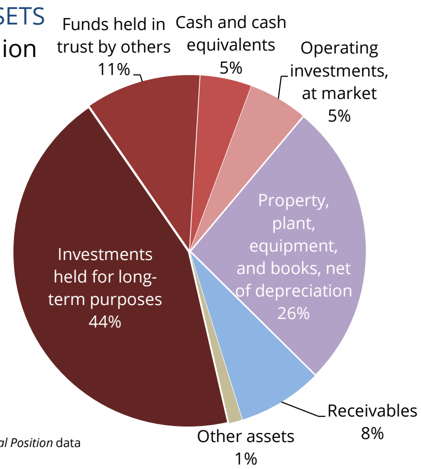
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The University's *Statement of Financial Position* reflect total assets of $2.952 billion with a primarily sizable cash and investment balance of $1.911 billion.

ASSETS

Total cash and investments of $1.911 billion, including cash and cash equivalents, operating investments, long-term investments, and funds held by others, combined total 65% of University assets. Property, plant, equipment and books represent an additional $776 million or 26% of assets. Total assets decreased $70 million or 2% from FY15.

TOTAL ASSETS
$2.952 billion



Statement of Financial Position data

Cash and cash equivalents

The University actively manages its cash and cash equivalents to maintain targeted levels of working capital in highly liquid assets to meet daily operating requirements. Working capital and board designated funds in excess of the liquidity target is retained in operating investments to produce a higher investment return.

The University's cash position on June 30 was $139 million, a decrease of $4 million or 3% from FY15. Cash equivalents include all highly liquid investments with original purchase maturity of 90 or fewer days, and appropriated endowment income which may be spent on demand.

Operating investments, at market

The University's operations were supported by $160 million of operational investments in addition to cash and cash equivalents. These investments generally have a maturity of greater than 90 days but may be liquidated on demand. Operating investments increased $12 million or 8% over FY15.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had $229 million in receivables, which represent 8% of assets. Receivables increased $25 million or 12% over FY15.

Investments held for long-term purposes

Long-term investments of $1.298 billion decreased $119 million or 8% from FY15. Because a majority of the University's long-term investments are endowments or similar funds, the Board of Trustees' annually-approved endowment spending allocation and support for certain development-related activities had an impact of approximately $71 million on long-term investments in FY16.

Funds held by others

Funds held in trust by others of $313 million decreased $24 million or 7% from FY15.

Property, plant, equipment, and library books

Property, plant, equipment, and library books, net of depreciation, constitute 26% of the University's assets, totaling $776 million for FY16. Net plant assets increased $10 million or 1% over FY15.

LIABILITIES

Total liabilities of $874 million increased $25 million or 3% over FY15.

Retirement plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 3.9% in FY16 decreased from FY15. The University's accrued pension liability increased $46 million over FY15, to a total accrued pension liability of $114 million in FY16.

Debt

Total liability on notes and bonds payable decreased $7 million or 1% from FY15. The decrease was due to scheduled principal repayments of notes and bonds.

NET ASSETS

In FY16, the University's total net assets decreased $95 million or 4% from FY15 to $2.078 billion.

CHANGE IN NET ASSETS

(in thousands)	**2016**	**2015**
Beginning net assets	$ 2,172,590	$ 2,150,684
(Decrease) increase in net assets	(94,662)	21,906
Ending net assets	**$ 2,077,928**	**$ 2,172,590**

Unrestricted net assets

Unrestricted net assets decreased $49 million or 24% from FY15 to $153 million. Net operating activity added $12 million and net non-operating activity reduced net assets by $61 million.

Temporarily restricted net assets

Temporarily restricted net assets decreased $54 million or 6% from FY15 to $916 million. The University received $91 million of new temporarily restricted gifts and pledges and $30 million in net assets released from restrictions in net operating activity. Non-operating activity reduced temporarily restricted net assets by $57 million in long-term investment activities and $58 million in assets released from restrictions.

Permanently restricted net assets

Permanently restricted net assets increased $8 million or 1% over FY15 to $1.009 billion. The University received $22 million of new permanently restricted gifts and pledges and $9 million in net assets released from restriction in net operating activity. Non-operating activity decreased permanently restricted net assets by $23 million.

PROSPECTIVE DISCUSSION

The University expects to improve its positive operating position as reflected in its FY17 operating budget surplus of $5 million. The incoming Class of 2020 is at the targeted size with matched quality and diversity. Favorable market conditions led to discussions regarding the University's debt portfolio and strategies. Lastly, senior leadership is continuously engaged in improving operating performance using a disciplined approach.

John F. Sideras

John F. Sideras, CPA
Senior Vice President and Chief Financial Officer

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

in thousands of dollars	2016	2015	2014	2013
STATEMENT OF OPERATIONS HIGHLIGHTS - Management View				
Total revenue	$ 1,083,653	$ 1,029,682	$ 1,012,587	$ 1,005,339
Total expense	1,074,738	1,022,325	1,011,076	1,000,230
Operating margin	8,915	7,357	1,511	5,109
Retained surplus use	1,181	1,607	5,668	3,303
Surplus	**$ 10,096**	**$ 8,964**	**$ 7,179**	**$ 8,412**
STATEMENTS OF ACTIVITIES HIGHLIGHTS - GAAP Basis				
Tuition and fees (net of student aid)	$ 255,613	$ 233,564	$ 218,482	$ 209,258
Investment, FHBO, and operational returns	88,011	95,288	98,559	88,141
Grants and contracts	335,208	315,316	332,228	344,170
Facilities and administrative cost recovery	72,272	70,611	72,495	76,196
Gifts and pledges	131,513	87,542	85,237	77,498
Other revenue	68,608	63,034	57,272	54,662
Auxiliary services	70,031	65,287	62,019	58,250
Total operating revenue	1,021,256	930,642	926,292	908,175
Instructional expenses	311,880	305,429	290,341	287,539
Sponsored research activity	363,077	348,381	360,848	374,422
Support services	162,105	146,278	140,628	138,000
Auxiliary services	78,582	74,216	69,621	66,003
Total operating expense	915,644	874,304	861,438	865,964
Net operating activity	**$ 105,612**	**$ 56,338**	**$ 64,854**	**$ 42,211**
Long-term investment activities	(91,469)	50,567	224,314	109,288
Other non-operating activities	(108,805)	(84,999)	(74,392)	(40,240)
Net non-operating activities	**$ (200,274)**	**$ (34,432)**	**$ 149,922**	**$ 69,048**
Change in net assets	**$ (94,662)**	**$ 21,906**	**$ 214,776**	**$ 111,259**
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 139,344	$ 143,096	$ 180,828	$ 151,100
Operating investments, at market	160,195	148,105	128,699	112,618
Receivables	229,157	203,933	204,542	194,157
Investments (held for long-term purposes)	1,298,508	1,417,187	1,384,953	1,266,661
Funds held in trust by others	312,635	336,825	340,275	305,682
Property, plant, equipment, and books, net of depreciation	776,317	766,094	735,649	724,547
Prepaid expenses and other assets	35,972	6,634	6,769	7,448
Total assets	**$ 2,952,128**	**$ 3,021,874**	**$ 2,981,715**	**$ 2,762,213**
Total liabilities	**$ 874,200**	**$ 849,284**	**$ 831,031**	**$ 826,305**
Total net assets	**$ 2,077,928**	**$ 2,172,590**	**$ 2,150,684**	**$ 1,935,908**
OTHER FINANCIAL INFORMATION				
Net investments (including FHBO), at fair value	$ 1,771,338	$ 1,902,117	$ 1,853,927	$ 1,684,961
Investments payout in support of operations	$ 81,675	$ 83,434	$ 78,166	$ 74,499
Total gifts and pledges (attainment)	$ 174,136	$ 166,914	$ 151,639	$ 145,908
Total gifts - cash basis	$ 158,454	$ 133,423	$ 124,857	$ 94,529
STUDENTS				
Enrollment *				
Undergraduate	5,053	4,814	4,572	4,302
Graduate	5,534	5,316	5,049	4,957

*Enrollment for fall semester of fiscal year in FTEs

Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying consolidated financial statements of Case Western Reserve University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities for the year ended June 30, 2016 and of cash flows for the years ended June 30, 2016 and 2015.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Case Western Reserve University as of June 30, 2016 and 2015, and the changes in their net assets for the year ended June 30, 2016 and their cash flows for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated October 3, 2015, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 8, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of dollars	For the year ended June 30 2016	2015
ASSETS		
Cash and cash equivalents	$ 139,344	$ 143,096
Operating investments	160,195	148,105
Accounts and loans receivable, net	114,603	106,343
Pledges receivable, net	114,554	97,590
Prepaid expenses and other assets	35,972	6,634
Investments, held for long-term purposes	1,298,508	1,417,187
Funds held in trust by others	312,635	336,825
Property, plant, equipment and books, net	776,317	766,094
TOTAL ASSETS	**$ 2,952,128**	**$ 3,021,874**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 55,464	$ 70,585
Deferred income and other liabilities	56,042	55,165
Annuities payable	39,322	40,323
Refundable advances	4,755	2,930
Accrued pension liability	113,516	67,955
Notes and bonds payable	576,290	583,319
Refundable federal student loans	28,811	29,007
TOTAL LIABILITIES	**$ 874,200**	**$ 849,284**
NET ASSETS		
Unrestricted	$ 152,657	$ 201,953
Temporarily restricted	916,185	969,913
Permanently restricted	1,009,086	1,000,724
TOTAL NET ASSETS	**$ 2,077,928**	**$ 2,172,590**
TOTAL LIABILITIES AND NET ASSETS	**$ 2,952,128**	**$ 3,021,874**

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

CONSOLIDATED STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2015

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2016	For the year ended June 30 2015
OPERATING REVENUES					
Student tuition and fees	$ 426,432			$ 426,432	$ 394,365
Less: Student aid	(170,819)			(170,819)	(160,801)
	255,613			255,613	233,564
Investment returns distributed for operations	65,616			65,616	67,885
FHBO returns distributed	15,098	$ 961		16,059	15,549
Investment returns on operating investments	6,336			6,336	11,854
Grants and contracts	243,096			243,096	234,124
CCLCM grants and contracts	92,112			92,112	81,192
Gifts and pledges	18,020	91,065	$ 22,428	131,513	87,542
State of Ohio appropriation	2,727			2,727	2,770
Facilities and administrative cost recovery	72,272			72,272	70,611
Organized activities	13,069			13,069	13,228
Other sources	52,538		274	52,812	47,036
Auxiliary services - students	60,237			60,237	54,203
Auxiliary services - other	9,794			9,794	11,084
Net assets released from restrictions	21,123	(29,783)	8,660	-	-
TOTAL OPERATING REVENUES	**$ 927,651**	**$ 62,243**	**$ 31,362**	**$ 1,021,256**	**$ 930,642**
OPERATING EXPENSES					
Instructional	311,880			311,880	305,429
Sponsored research and training	246,051			246,051	242,118
Other sponsored projects	24,914			24,914	25,071
CCLCM research and training	92,112			92,112	81,192
Libraries	21,876			21,876	21,926
Student services	29,477			29,477	26,049
University services	110,752			110,752	98,303
Auxiliary services - students	62,945			62,945	59,338
Auxiliary services - other	15,637			15,637	14,878
TOTAL OPERATING EXPENSES	**$ 915,644**	**$ -**	**$ -**	**$ 915,644**	**$ 874,304**
NET OPERATING ACTIVITY	**$ 12,007**	**$ 62,243**	**$ 31,362**	**$ 105,612**	**$ 56,338**
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment (loss) income	$ (1,326)	$ 4,665	$ 2,888	$ 6,227	$ 59,957
Net depreciation	(9,754)	(62,142)	(25,800)	(97,696)	(9,390)
Total long-term investment activities	(11,080)	(57,477)	(22,912)	(91,469)	50,567
Investment returns distributed for operations	(65,616)			(65,616)	(67,885)
Change in liabilities due under life-income agreements			(88)	(88)	(2,248)
Loss on disposal of plant assets	(621)			(621)	(311)
Pension plan changes other than periodic benefit costs	(42,480)			(42,480)	(14,555)
Net assets released from restrictions	58,494	(58,494)		-	-
NET NON-OPERATING ACTIVITY	**$ (61,303)**	**$ (115,971)**	**$ (23,000)**	**$ (200,274)**	**$ (34,432)**
CHANGE IN NET ASSETS	**$ (49,296)**	**$ (53,728)**	**$ 8,362**	**$ (94,662)**	**$ 21,906**
Beginning Net Assets	201,953	969,913	1,000,724	2,172,590	2,150,684
ENDING NET ASSETS	**$ 152,657**	**$ 916,185**	**$ 1,009,086**	**$ 2,077,928**	**$ 2,172,590**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (94,662)	$ 21,906
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	69,146	64,240
Amortization of bond issuance costs	315	194
Amortization of bond premiums	(2,775)	(2,499)
Realized and unrealized net losses (gains) on investments	56,892	(65,861)
Increase to annuities payable resulting from actuarial adjustments	88	2,248
Gifts of property and equipment	(157)	(250)
Loss on disposal of plant assets	621	311
Contributions restricted for long-term investment	(16,215)	(26,355)
(Increase) decrease in accounts and loans receivable, net	(7,452)	3,335
Increase in pledges receivable, net	(16,964)	(1,027)
Increase in prepaid expenses and other assets	(29,654)	(59)
Decrease in funds held in trust by others	24,189	3,451
(Decrease) increase in accounts payable and accrued expenses	(10,150)	6,887
Increase in deferred income and other liabilities	877	593
Increase in annuities payable	2,194	-
Increase (decrease) in refundable advances	1,826	(1,969)
Increase in accrued pension liability	45,561	12,114
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 23,680**	**$ 17,259**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 7,710	$ 6,842
Issued	(8,520)	(8,541)
Increase in donor-restricted cash for long-term investment	(25,148)	-
Proceeds from the sale of investments	1,669,323	2,287,530
Purchase of investments	(1,619,626)	(2,273,309)
Proceeds from the sale of plant assets	341	814
Purchases of property, plant, equipment and books	(85,144)	(91,444)
NET CASH USED FOR INVESTING ACTIVITIES	**$ (61,064)**	**$ (78,108)**
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in federal advances for student loans	$ (195)	$ 2,922
Contributions restricted for long-term investment	36,597	20,957
Proceeds from the sale of investments received as gifts	4,766	5,398
Proceeds from short-term debt	92,000	60,000
Repayment of short-term debt	(79,000)	(80,000)
Proceeds from commercial paper	-	5,000
Repayment of commercial paper	(829)	(15,061)
Proceeds from notes and bonds payable	75,480	56,887
Repayment of notes and bonds payable	(91,905)	(29,956)
Increase to annuities payable resulting from new gifts	273	847
Decrease to annuities payable resulting from payments	(3,555)	(3,877)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**$ 33,632**	**$ 23,117**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**$ (3,752)**	**$ (37,732)**
Cash and cash equivalents, beginning of year	143,096	180,828
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 139,344**	**$ 143,096**
SUPPLEMENTAL DATA:		
Interest paid in cash	**$ 12,608**	**$ 12,578**
Construction-in-progress payments included in accounts payable	**4,143**	**9,114**

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

Basis of Presentation

Case Western Reserve University ("the University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2016, and for the year then ended, as well as summarized information for the year ended June 30, 2015, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

Triangle Residential LP was a limited partnership formed in 2005 that owned and operated two apartment buildings and a parking garage located in the Ford-Euclid-Mayfield Road area through March 31, 2015. The University was the sole limited partner. The general partner was Triangle Residential LLC, also a wholly-owned subsidiary of the University, formed in 2005. All material transactions between the University and its subsidiaries have been eliminated.

Effective March 31, 2015, Triangle Residential LP assigned to the University all of its right, title, and interest in all of its contracts and leases. All right, title, and interest in all tangible and intangible personal property were also assigned to the University by Triangle Residential LP. In addition, the Ground Lease between Triangle Residential LP and the University was terminated effective March 31, 2015. All transactions, assets, and liabilities related to the operation of the two apartment buildings and the parking garage are included in the accounts of the University beginning April 1, 2015.

Net Asset Categories

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

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

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

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

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

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

Accounting Standards Codification ("ASC") 958, "Not for Profit Entities," provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and expanded disclosures about an organization's endowment (both donor-restricted and board-designated funds). The University's Board of Trustees ("the Board") has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of initial gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated and expended by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Contributions

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

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

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

In September 2015, the Board approved the commencement of the construction phase of the Health Education Campus, a joint project with Cleveland Clinic Foundation. At this time, it is expected that the project will be funded by gifts and private grants (Note 3).

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

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

Cash and Cash Equivalents

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

Operating Investments

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

Prepaid Expenses and Other Assets

Within other assets, the University had cash of $25,148 restricted by donors for investment in property and equipment as of June 30, 2016.

Investments

Investments are made within guidelines authorized by the Board. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts.

Ownership of marketable securities is recognized as of the trade date. Endowment returns are calculated net of internal and external investment management expenses.

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

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

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

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

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

Level 2 — Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.

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

Collections

The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, their value is not reflected in the University's consolidated financial statements.

Funds Held in Trust by Others

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2016 and 2015.

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

Fixed Assets

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

Expenditures for construction-in-progress are capitalized as incurred and depreciated over the estimated life of the asset when placed into service. All identifiable direct costs including other costs incurred to ready the asset for its intended use are included in the cost of the project. The University capitalizes interest on borrowings to finance facilities, net of any investment income earned through the temporary investment of project borrowings, during construction until the project has been substantially completed.

Split-Interest Agreements

The University has split-interest agreements consisting primarily of pooled income funds, charitable gift annuities and charitable remainder unitrusts and annuities. Contributions are recognized at the date the trusts and annuities are established, net of a liability for the present value of the estimated future cash outflows to beneficiaries, using a discount rate of 1.9% and 2.7% for June 30, 2016 and 2015, respectively. These assets are invested and payments are made to donors and beneficiaries in accordance with the respective agreements.

Allocation of Certain Expenses

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

Retirement Plans

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

Use of Estimates

Financial statements using U.S. GAAP rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

Comparative Information

The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University’s consolidated financial statements for the year ending June 30, 2015, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code (“IRC”). The University is classified as an organization that is not a private foundation under section 509 (a) of the IRC, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2016 and 2015. ASC 740, “Income Taxes,” prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification and disclosure requirements for uncertain tax provisions. The University has no financial reporting requirements associated with ASC 740 for the years ended June 30, 2016 and 2015.

New Pronouncements

In May 2014, the FASB issued Accounting Standard Update (“ASU”) 2014-09: “Revenue from Contracts with

Customers (Topic 606)" at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2020, the first year in which the standard is effective.

In April 2015, the FASB issued ASU 2015-03: "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015. The University does not currently expect that the new standard will have a material impact on the consolidated financial statements for fiscal year ending June 30, 2017, the first year in which the standard is effective.

In May 2015, the FASB issued the disclosure changes required by ASU 2015-07: "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Investments that are measured using net asset value will no longer be categorized in the fair-value hierarchy. This standard is intended to reduce the diversity in practice that currently exists with respect to the categorization of these investments. The standard is effective for fiscal years beginning after December 15, 2016, although early adoption is permitted. The University implemented the standard in the current fiscal year and accordingly applied the new guidance retrospectively to the fiscal year ended June 30, 2015. As a result, investments totaling $212,214 and $852,341 categorized in fiscal year 2015 as Level 2 and Level 3, respectively, were recategorized as investments measured as Net Asset Value ("NAV") totaling $1,064,555 for fiscal year 2015.

In January 2016, the FASB issued ASU 2016-01: "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other clarifications, this standard requires certain equity investments to be measured at fair value, simplifies the impairment assessment of equity investments, and eliminates the requirement to disclose the fair value of financial instruments measured at amortized costs for non-public business entities. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2019, the first year in which the standard is effective.

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)," which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. This standard requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2021, the first year in which the standard is effective.

In August 2016, the FASB issued ASU 2016-14: "Presentation of Financial Statements of Not-for-Proft Entities," which simplifies and improves how a not-for-profit entity classifies net assets and presents and discloses information related to liquidity, financial performance, and cash flows in financial statements. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2019, the first year in which the standard is effective.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2016 and 2015 were as follows:

	2016	2015
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	$ 58,252	$ 50,594
Students	2,722	2,160
STUDENT LOANS, NET	53,629	53,589
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 114,603**	**$ 106,343**

	2016	2015
Allowance for doubtful accounts:		
Accounts receivable	$ 4,838	$ 3,703
Loans receivable	$ 2,649	$ 2,134

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

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

Management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2016 is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. The discount rate utilized for fiscal 2016 and 2015 was 5%.

Unconditional promises to give at June 30, 2016 and 2015 are expected to be realized in the following periods:

	2016	2015
In one year or less	$ 31,278	$ 26,295
Between one year and five years	86,030	74,520
More than five years	15,334	10,459
	132,642	111,274
Less: Discount	(9,498)	(7,840)
Less: Allowance	(8,590)	(5,844)
TOTAL PLEDGES RECEIVABLE, NET	**$ 114,554**	**$ 97,590**

Management follows a similar approach as described in Note 2 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts to be prudent and reasonable. Management believes that the allowance for doubtful accounts at June 30, 2016 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2016 and 2015 had the following restrictions:

	2016	2015
Department programs and activities	$ 27,369	$ 27,032
Endowments for scholarships and department programs and activities	25,967	24,460
Building construction	61,218	46,098
TOTAL PLEDGES RECEIVABLE, NET	**$ 114,554**	**$ 97,590**

Uncollectible pledges totaling $2,136 (2016) and $3,940 (2015) were written off against the allowance for uncollectible pledges. The University had conditional pledge commitments totaling $13,471 (2016) and $43,725 (2015). The approval by the Board for the commencement of the construction phase of the Health Education Campus in fiscal year 2016, released the conditions for multiple pledge commitments and resulted in increased pledges receivable related to building construction.

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4. LONG-TERM INVESTMENTS

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

The University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (Note 5). The University's long-term investments at June 30, 2016 and 2015 were as follows:

	2016	2015
Cash and cash equivalents	$ 42,268	$ 39,049
Domestic stocks	32,551	45,384
International securities	18,463	23,079
Global securities	194,583	110,681
Bonds		
Government and municipal	6,876	6,922
Corporate	14,163	8,167
Mutual funds	327,099	414,750
Derivatives	30,211	38,325
Limited partnerships and Other		
Venture capital	110,302	105,390
Private equity	214,432	238,595
Real estate	94,416	101,885
Hedge funds	324,399	385,232
Other	48,797	47,753
Equity real estate	143	80
TOTAL INVESTMENTS	**$ 1,458,703**	**$ 1,565,292**

	2016	2015
Operating investments	$ 160,195	$ 148,105
Investments, held for long-term purposes	1,298,508	1,417,187
TOTAL INVESTMENTS	**$ 1,458,703**	**$ 1,565,292**

Investment returns shown on the statement of activities are netted against investment management fees of $10,317 (2016) and $9,811 (2015). The investments were held for the following purposes:

	2016	2015
Endowment	$ 1,035,811	$ 1,107,222
Donor-restricted funds	287,757	297,129
University investments	80,845	100,164
Annuities	45,041	50,896
Funds held for the benefit of others	9,249	9,881
TOTAL INVESTMENTS	**$ 1,458,703**	**$ 1,565,292**

University investments include unspent bond proceeds of $2,551 (2016) and $24,506 (2015) (Note 8).

Endowment Funds

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

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

- The original value of initial gifts donated to the permanent endowment
- The original value of subsequent gifts to the permanent endowment
- For those endowment funds with donor-specified reinvestment provisions, accumulations to the permanent endowment made in accordance with the gift instrument at the time the accumulation is added to the fund

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

Similar Funds

The University has designated certain funds to function as endowments and has co-invested as such. Donor purpose-restricted funds were not given to the University with the understanding that the gift amount would be maintained in perpetuity; these funds are classified in temporarily restricted net assets. All other Board-designated funds are classified in unrestricted net assets. Even though the Board has elected to treat these funds in the same fashion as an endowment fund, at its option, the Board may elect to change that treatment and spend these funds in accordance with the intentions of the donor, if any, without the constraints of the University endowment spending formula.

The breakdown of these classifications are:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Donor-restricted endowment funds	$ (22,120)	$ 451,667	$ 606,264	$ 1,035,811	$ 1,107,222
Donor purpose-restricted funds		269,484		269,484	287,188
Board-designated funds	44,809			44,809	44,764
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 22,689**	**$ 721,151**	**$ 606,264**	**$ 1,350,104**	**$ 1,439,174**

Investment Pool

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

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

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The pool is accounted for on a dollarized method of accounting similar to a money market fund and accounted for on an account basis. The total investment return for the pooled investments, net of external manager fees, approximated (3.45)% (2016) and 4.77% (2015).

Spending Policy

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

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

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves the operating budget for the following year. The fiscal 2016 and 2015 pooled endowment and similar funds spending allocation approximated 4.75% and 4.88%, respectively, of beginning market value. The total amount allocated was $65,952 and $65,578, respectively.

While the policy provides guidance for the level of spending permitted (allocation), the actual spending will vary from the spending allocation based on the timing of actual expenditures. Funds are transferred from the investment pool to the University's operating account after they have been spent in accordance with the endowment and similar funds requirements. The actual movement of cash and investments between the investment pool and operating accounts occurs on a periodic basis as determined by the University and its processes to maintain the proper balance between liquidity and the remaining invested.

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Both fiscal years 2016 and 2015 pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution totaled $6,000 in 2016 and $5,900 in 2015.

Changes in endowment and similar funds net assets for fiscal year 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Endowment and similar funds net assets, beginning of year	$ 36,876	$ 813,885	$ 588,413	$ 1,439,174	$ 1,380,515
Add: Beginning balance, unrestricted Board-designated				-	37,720
Investment income	310	7,064		7,374	45,559
Realized and unrealized (losses) gains	(1,637)	(59,853)		(61,490)	4,922
TOTAL INVESTMENT RETURN	(1,327)	(52,789)		(54,116)	50,481
Contributions	4,709	8,102	18,008	30,819	38,813
Current year withdrawals			(157)	(157)	(470)
Current year expenditures	(3,337)	(62,279)		(65,616)	(67,885)
Reclassification of deficits in donor-designated funds	(14,232)	14,232		-	-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR	**$ 22,689**	**$ 721,151**	**$ 606,264**	**$ 1,350,104**	**$ 1,439,174**

Occasionally, the fair market value of assets associated with individual donor-restricted endowment funds falls below the value of the original gift amounts. When deficits exist in these funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $22,120 (2016) and $7,888 (2015). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments and additions, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, $451,667 (2016) and $526,697 (2015) represented the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

6. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2016 and 2015 by the ASC 820 valuation hierarchy are as follows:

June 30, 2016	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Cash and cash equivalents	$ 12,679	$ 29,589			$ 42,268
Domestic stocks	1,511	980		$ 30,060	32,551
International securities		4,752		13,711	18,463
Global securities	54,583	3,180		136,820	194,583
Bonds					
Government and municipal		6,876			6,876
Corporate		14,163			14,163
Mutual funds	321,695	5,404			327,099
Derivatives		30,211			30,211
Limited partnerships and Other					
Venture capital			$ 14,852	95,450	110,302
Private equity			3,820	210,612	214,432
Real estate				94,416	94,416
Hedge funds		6,164		318,235	324,399
Other		42	48,755		48,797
Equity real estate			143		143
TOTAL INVESTMENTS	**$ 390,468**	**$ 101,361**	**$ 67,570**	**$ 899,304**	**$ 1,458,703**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 312,635**	**$ -**	**$ 312,635**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 99				$ 99
Mutual funds	45,225	$ 9,341			54,566
Limited partnerships and Other					
Hedge funds				$ 76,861	76,861
Equity real estate				8,272	8,272
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 45,324**	**$ 9,341**	**$ -**	**$ 85,133**	**$ 139,798**
ASSETS AT FAIR VALUE	**$ 435,792**	**$ 110,702**	**$ 380,205**	**$ 984,437**	**$ 1,911,136**
Interest rate swaps payable	$ -	$ 22,555	$ -	$ -	$ 22,555
LIABILITIES AT FAIR VALUE	**$ -**	**$ 22,555**	**$ -**	**$ -**	**$ 22,555**

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June 30, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Cash and cash equivalents	$ 34,988	$ 4,061			$ 39,049
Domestic stocks	1,627	980		$ 42,777	45,384
International securities		5,005		18,074	23,079
Global securities				110,681	110,681
Bonds					
Government and municipal		6,922			6,922
Corporate		8,167			8,167
Mutual funds	409,311	5,439			414,750
Derivatives		38,325			38,325
Limited partnerships and Other					
Venture capital			$ 15,637	89,753	105,390
Private equity			4,127	234,468	238,595
Real estate				101,885	101,885
Hedge funds		6,464		378,768	385,232
Other		42	47,711		47,753
Equity real estate			80		80
TOTAL INVESTMENTS	**$ 445,926**	**$ 75,405**	**$ 67,555**	**$ 976,406**	**$ 1,565,292**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 336,825**	**$ -**	**$ 336,825**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 4,070				$ 4,070
Mutual funds	54,513	$ 8,432			62,945
Limited partnerships and Other					
Hedge funds				$ 80,415	80,415
Equity real estate				7,734	7,734
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 58,583**	**$ 8,432**	**$ -**	**$ 88,149**	**$ 155,164**
ASSETS AT FAIR VALUE	**$ 504,509**	**$ 83,837**	**$ 404,380**	**$ 1,064,555**	**$ 2,057,281**
Interest rate swaps payable	$ -	$ 20,600	$ -	$ -	$ 20,600
LIABILITIES AT FAIR VALUE	**$ -**	**$ 20,600**	**$ -**	**$ -**	**$ 20,600**

Level 3 Investment Information

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

- The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner based on appraisals or other estimates that require varying degrees of judgment.
- If no public market consideration exists, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, or other estimates requiring varying degrees of judgment. The University regularly reviews, evaluates and performs significant due diligence around these investments to ensure that the values provided by the investment managers are appropriate measures of fair value. The University agrees with the valuations and assumptions used in determining the fair value of these investments.

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

	Venture Capital	Private Equity	Equity Real Estate	Other & Funds Held by Others	Total
June 30, 2014	$ 15,236	$ 4,116	$ 80	$ 385,453	$ 404,885
Investment income	12	3		628	643
Unrealized gains (losses)	620	161		(221)	560
Purchases	606	157		20	783
Settlements	(837)	(310)		(1,344)	(2,491)
June 30, 2015	**$ 15,637**	**$ 4,127**	**$ 80**	**$ 384,536**	**$ 404,380**
Investment (loss) income	(1)			811	810
Unrealized (losses) gains	(191)	(50)		(22,197)	(22,438)
Purchases	203	53	63		319
Settlements	(796)	(310)		(1,760)	(2,866)
June 30, 2016	**$ 14,852**	**$ 3,820**	**$ 143**	**$ 361,390**	**$ 380,205**

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

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

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The University is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported net asset value ("NAV") without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with U.S. GAAP. The University's investments in domestic stocks, international securities, global securities, venture capital, private equity, real estate, and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

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

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

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

Category	Redemption Frequency	Redemption Notice Period	Fair Value	Unfunded Commitments
Domestic stocks (a)	monthly, quarterly, annually	30 - 90 days	$ 30,060	
International securities (b)	monthly, quarterly	30 - 90 days	13,711	
Global securities (c)	monthly, quarterly	30 - 90 days	136,820	
Limited partnerships and Other				
Venture capital (d)			95,450	$ 33,941
Private equity (e)			210,612	91,018
Real estate (f)			94,416	47,507
Hedge funds (g)	monthly, quarterly, annually	30 - 90 days	395,096	994
Equity real estate (h)			8,272	
TOTAL			**$ 984,437**	**$ 173,460**

(a) ***Domestic stocks*** include funds invested in equity securities domiciled in the United States. Fund liquidity is daily, monthly, quarterly, semi-annual, annual, and up to a maximum period of three years. Approximately 96% of the net asset value is accessible within one year or less, with all funds accessible within three years.

(b) ***International securities*** include funds invested in equity securities domiciled in countries outside of the United States including developed and emerging markets. Approximately 100% of the net asset value is accessible within one year or less.

(c) ***Global securities*** include funds invested in equity securities domiciled in both Domestic stocks and International securities. Investments in this asset class have a mandate for global securities worldwide. Approximately 100% of the net asset value is accessible within one year or less.

(d) ***Venture capital*** includes several private equity funds that invest primarily in technology, health care or clean technology industries. While the portfolio is U.S. centric, there are small allocations to companies in foreign markets. The funds typically provide money and resources to entrepreneurs to finance a start-up company or product, with the hope that the company experiences exceptional growth and therefore would produce a successful investment. The funds invest at different stages of a company's growth, some very early and others at a later stage where the company may already produce revenues. The valuations for these investments have been estimated using the managers' fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

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

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

(g) ***Hedge funds*** include hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top down macroeconomic analysis or bottom up company or theme specific analysis; managers may shift portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the hedge fund category from monthly, quarterly, annually, and up to a maximum period of three years. Approximately 96% of the net asset value in this class is accessible within one year or less, with all funds accessible within three years.

(h) ***Equity real estate*** includes liquid real estate securities and indices domiciled in both the United States and countries outside of the United States including developed and emerging markets.

Derivative Information

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

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

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

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

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

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

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

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

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

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

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

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

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

Tail risk – a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

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

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

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

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

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

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

Options: Options or Option Structures are non-standardized agreements whereby one party makes or receives one payment at the time of initial transaction to/from a counterparty and may make or receive a second payment to/from the counterparty at the expiration date of the agreement based on an individual option or a combination of individual options. Trading Medium: OTC. Transacted via ISDA/CSA agreement between counterparties. Options are subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Options/Option Structures allow investors to customize the risk/return profile of existing portfolios. For example: Investors who are underweight equities and have a moderately positive outlook can obtain enhanced equity exposure by capping returns with or without a leveraged payoff. More bearish investors can opt for downside protection to reduce risk. Collateral between the counterparties is exchanged daily based on the mark to market performance of the Option or Option Structure. At maturity the Option or Option Structure is cash settled. Prior to maturity, Options/Option Structures may trade above or below their intrinsic value due to various factors such as time, volatility, interest rates, skew, delta, gamma, etc. The value eventually converges to intrinsic value at maturity. Used for beta replacement strategies, alpha strategies or hedging strategies.

Swaptions: Swaptions are a specific type of Option which gives the buyer the right, but not the obligation, to enter into a specified swap agreement with the counterparty on a specified future day.

Forward contracts: A forward contract is an agreement to buy or sell an asset at a certain future time for a certain price. A forward contract is traded in the OTC market – usually between two financial institutions or a financial institution and a client. One party assumes a long position and agrees to buy the underlying asset on a certain date for a certain price. The other party assumes a short position and agrees to sell the underlying asset on a certain date for a certain price. The price in a forward contract is known as the delivery price. Forward contracts are commonly used to hedge foreign currency risk. Payoff for a long position on a forward contract is St – K where K is the delivery price and St is the spot price at maturity of the contract. Similarly the payoff on a short position in a forward contract is K – St. Settlement of forward contracts can be made with delivery of the underlying or cash settlement. Since the contract is OTC, margin and collateral are determined by individual agreements and sometimes fall under the agreement.

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

Location	Derivative Type	Notional Amount	2016 Level 1 Fair Value	2016 Level 2 Fair Value	2016 Level 3 Fair Value
Investments, held for long-term purposes					
	Total return swaps	$ 267,392		$ 26,965	
	Options (over-the-counter)	5,344		(419)	
	Futures contracts	18,300		3,403	
	Forward contracts			6	
	Interest rate hedges			195	
	Yield curve hedges	457,318		61	
TOTAL DERIVATIVES, 2016			**$ -**	**$ 30,211**	**$ -**

Location	Derivative Type	Notional Amount	2015 Level 1 Fair Value	2015 Level 2 Fair Value	2015 Level 3 Fair Value
Investments, held for long-term purposes					
	Total return swaps	$ 288,601		$ 33,519	
	Options (over-the-counter)			(230)	
	Futures contracts	20,234		4,872	
	Forward contracts			(5)	
	Interest rate hedges			216	
	Yield curve hedges	332,069		(47)	
TOTAL DERIVATIVES, 2015			**$ -**	**$ 38,325**	**$ -**

The following table provides detailed information on the effect the derivatives had on the overall performance of the investment portfolio which is reflected in the consolidated statement of activities:

Location	Derivative Type	2016	2015
Net effect on investment (loss) income			
	Total return swaps	$ (7,838)	$ 14,020
	Options (over-the-counter)		7,519
	Futures contracts	(1,260)	
	Interest rate hedges	(1,172)	152
	Yield curve hedges	(54)	208
		$ (10,324)	**$ 21,899**
Net depreciation			
	Total return swaps	(7,063)	1,291
	Options (over-the-counter)	344	
	Futures contracts	256	(959)
	Interest rate hedges	(3,614)	(267)
	Yield curve hedges	(902)	248
		$ (10,979)	**$ 313**
NET EFFECT OF DERIVATIVES		**$ (21,303)**	**$ 22,212**

7. PROPERTY, PLANT, EQUIPMENT AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 10 to 30 years for land improvements, 10 to 50 years for building and building improvements, 5 to 15 years for equipment, and 10 years for books. Components of property, plant, equipment and books are as follows:

	2016	2015
Land and land improvements	$ 59,573	$ 56,099
Building and building improvements	1,306,922	1,222,821
Equipment and software	297,112	275,034
Library books	42,817	40,566
Construction-in-progress	48,467	86,361
	1,754,891	**1,680,881**
Less: Accumulated depreciation	(978,574)	(914,787)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$ 776,317**	**$ 766,094**

The above assets include $505,829 leased from the Ohio Higher Educational Facility Commission ("OHEFC"). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in *Notes and bonds payable* on the consolidated statements of financial position.

Capitalized interest added to construction-in-progress was $522 (2016) and $430 (2015). The expected cost to complete construction-in-progress is approximately $36,219.

Depreciation expense included in the consolidated statement of activities is $69,146 (2016) and $64,240 (2015).

8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate(s)	Maturity (Calendar Year)	2016	2015
OHEFC revenue notes and bonds:	Series 1990	6.50%	2016-2020	$ 9,630	$ 11,650
	Series 1994	6.25%	2016-2018	12,995	16,500
	Series 2001A	0.03%	2016		10,605
	Series 2002A	0.03%	2016		64,875
	Series 2006	4.00 - 5.25%	2016-2044	76,735	78,330
	Series 2008A	0.10%	2030-2044	60,000	60,000
	Series 2008C	4.00 - 5.25%	2016-2033	44,640	47,805
	Series 2012A	2.00 - 5.00%	2016-2023	25,820	26,680
	Series 2013A	3.00 - 5.00%	2016-2023	36,130	39,180
	Series 2014A	0.65%	2030-2044	67,500	67,500
	Series 2015A	2.00 - 5.38%	2016-2034	50,400	51,630
	Series 2015B	0.52%	2016-2030	74,780	
OHEFC commercial paper		0.09 - 0.17%	2030	68,110	68,939
Compass Group USA, Inc.		-n/a-	2016-2019	863	1,162
TOTAL LIABILITY				**$ 527,603**	**$ 544,856**
Line of credit				33,000	20,000
Unamortized bond premium				15,687	18,463
TOTAL NOTES AND BONDS PAYABLE				**$ 576,290**	**$ 583,319**

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The fair market value of the University's notes and bonds payable is approximately $588,334 (2016) and $594,067 (2015) and is considered Level 2 financial instruments as defined by the ASC 820 valuation hierarchy. These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

In February 2015, the OHEFC Series 2015A bonds were issued to finance the construction of the new residence hall in the amount of $37,240 and to refinance the Housing and Urban Development Part A and Part B loans ("HUD") in the amount of $7,919, with the remaining proceeds in the amount of $6,471 funding capital projects. The total amount of the bond issue was $51,630. Deferred financing fees of $707 were paid and the unamortized balance is included in *Prepaid expenses and other assets.* In addition, the remaining balance of the HUD loans was paid off in March 2015.

In July 2015, the OHEFC Series 2015B bonds were issued to refinance the balance of the OHEFC Series 2001A bonds in the amount of $10,605 and the OHEFC Series 2002A bonds in the amount of $64,875. The total amount of the bond issue was $75,480. The financing fees of $172 were not included in the refinancing and were expensed.

The amount outstanding under the OHEFC tax-exempt commercial paper program to provide construction funds for several approved capital projects was $68,110 (2016) and $68,939 (2015), with maturities not exceeding 270 days from the issuance date. In August 2014, $5,000 was drawn to provide bridge financing for the new residence hall. Principal was paid down in the amount of $829 (2016) and $15,061 (2015). All commercial paper issued under the terms of the program must mature no later than February 1, 2030. The annualized interest cost and credit facility expense for this program was 0.73% (2016) and 0.63% (2015).

The University has revolving lines of credit with two financial institutions in the amount of $70,000 to finance working capital. The $30,000 line is subject to annual review and renewal, and the $40,000 line is subject to renewal in December 2017. The amount outstanding was $33,000 (2016) and $20,000 (2015).

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

Year	Scheduled Principal Payments	Outstanding VRDOs and Commercial Paper	Total Maximum Principal Payments
2017	$ 15,385	$ 20,000	$ 35,385
2018	31,095	20,000	51,095
2019	16,243	80,000	96,243
2020	16,540		16,540
2021	16,640	8,110	24,750
Thereafter	431,700	(128,110)	303,590
TOTAL	**$ 527,603**	**$ -**	**$ 527,603**

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

Interest expense, including those amounts for interest rate swap agreements (Note 12), was $19,609 (2016) and $18,637 (2015).

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2016.

9. RETIREMENT PLANS

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

	2016	2015
Benefit obligation at June 30	$ 253,314	$ 223,119
Fair value of plan assets at June 30	139,798	155,164
FUNDED STATUS AT JUNE 30	**$ (113,516)**	**$ (67,955)**
Accumulated benefit obligation	**$ 251,841**	**$ 221,975**

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

	2016	2015
Net periodic benefit cost	$ 9,852	$ 8,004
Employer contributions	6,770	10,445
Benefits paid	14,336	5,632

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

2017	$ 5,637
2018	6,126
2019	6,649
2020	7,308
2021	7,632

Amounts expected to be paid between 2022 and 2026 total $50,976. The University's estimated employer contribution for the defined benefit plan in fiscal 2017 will depend on the results of the July 1, 2016 actuarial valuation and is estimated to be $16,689.

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

	2016	2015
BENEFIT OBLIGATION		
Discount rate	3.90%	4.75%
Rate of compensation increase	2.25%	2.25%
Measurement date	6/30/16	6/30/15
Census date	7/1/15	7/1/14
NET PERIODIC BENEFIT COST		
Discount rate	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	2.25%	2.25%

The expected long-term rate of return for the defined benefit plan was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. 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 compared to past periods.

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

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

	2016	2015
Equity securities	28%	31%
Fixed income securities	11%	12%
Real estate	6%	5%
Other	55%	52%
TOTAL ASSET ALLOCATION	**100%**	**100%**

32 | NOTES TO THE FINANCIAL STATEMENTS - in thousands of dollars

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

	2016	2015
NET LIABILITY	**$ (113,516)**	**$ (67,955)**
UNRESTRICTED NET ASSETS		
Actuarial losses	120,798	78,318
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	**$ 120,798**	**$ 78,318**

The estimated amortization of prior year service costs expected in fiscal 2017 totals $6,641. Components of the net periodic benefit cost and other changes in plan assets that are recognized in the consolidated statement of activities are as follows:

	2016	2015
Change in actuarial losses	$ 42,480	$ 14,555
TOTAL LOSS RECOGNIZED, UNRESTRICTED NET ASSETS	**42,480**	**14,555**
Service cost	8,511	6,840
Interest cost	10,855	9,901
Expected return on assets	(13,903)	(12,821)
Net loss amortization	4,389	4,084
Net periodic benefit cost	**9,852**	**8,004**
TOTAL LOSS RECOGNIZED, STATEMENT OF ACTIVITIES	**$ 52,332**	**$ 22,559**

During fiscal 2015, the Board approved a change to the defined benefit plan with an effective date of June 30, 2015. The University elected to close the plan to new entrants. Employees hired prior to July 1, 2015 may enter and continue to participate in the defined benefit plan.

During fiscal 2016, the Board approved of certain de-risking efforts by the University related to the defined benefit plan in which certain eligible participants, who are non-current employees, were offered lump-sum payouts. The payouts to the eligible participants of $9,055, who elected to receive this lump-sum value, were completed by June 30, 2016.

Benefit plan costs for the defined contribution plans are $21,024 (2016) and $20,364 (2015).

10. COMMITMENTS AND CONTINGENCIES

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

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation ("CCF") to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine ("CCLCM"). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the School of Medicine. Expenditures for research conducted under this joint agreement totaled $92,112 (2016) and $81,192 (2015).

In April 2006, the Boards of University Hospitals Health System and the University approved an affiliation agreement between the School of Medicine and University Hospitals of Cleveland ("UHC"). This agreement created the Case Medical Center, a virtual entity that encompasses certain teaching, research, and clinical activities of the School of Medicine and UHC. In September 2016, the affiliation agreement was renewed with the exception of the Case Medical Center designation. Even though the virtual entity will be dissolved, there will be continued collaboration in education and research.

During 2013, the University entered into a joint purchase agreement with the Cleveland Museum of Art to purchase real property from the Cleveland Institute of Art. The University's commitment was $4,600 with $505 placed as an earnest deposit as of June 30, 2015. In September 2015, the University paid the remainder of its commitment. The investment in the property is shown on the consolidated statements of financial position in *Prepaid expenses and other assets* as of June 30, 2016.

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

11. RELATED PARTY TRANSACTIONS

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 steam, chilled water, and other utilities for several University buildings. The amounts purchased were $19,599 (2016) and $19,382 (2015). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

In July 2012, the University received an energy efficiency grant from the Medical Center Company in the amount of $998. The grant required a capital contribution of $267 from the University and payback of a portion of projected energy cost savings. Payback terms are 36 months beginning January 2014. The obligation recorded in *Deferred income and other liabilities* is $252 (2016) and $543 (2015).

In August 2015, the Medical Center Company approved an additional energy efficiency grant in the amount of $829. The project costs incurred totaled $86 as of June 30, 2016. The payback terms related to this project are 36 months beginning March 2016. The obligation related to this project recorded in *Deferred income and other liabilities* is $76 (2016).

12. DERIVATIVES

The University uses floating-to-fixed interest rate swap agreements of various durations to manage both its funding cost and the interest rate risk associated with variable rate debt. Under these swap agreements, the University pays a fixed rate and receives from its counterparty a variable rate payment, each calculated by reference to specified notional principal amounts during the agreement period. Operations are charged the variable rate interest on the corresponding bonds; the difference between the fixed and variable interest amounts under the swap agreements is recorded in non-operating activities as *Investment (loss) income*.

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

Under one agreement in effect at June 30, 2016, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association ("SIFMA") index, and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month LIBOR.

The following table provides detailed information on the interest rate swaps at June 30, 2016, with comparative fair values for June 30, 2015. Information related to the interest rate swap agreements and the liability recognized in the consolidated statements of financial position in *Deferred income and other liabilities* are as follows:

Notional Amount	Interest Rate	Commencement	Termination Date	Basis	2016	2015
					Level 2 Fair Market Value	
$ 18,875	4.34%	Aug. 12, 2004	Oct.1, 2022	LIBOR	$ (1,565)	$ (1,541)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	(3,248)	(2,943)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(2,637)	(2,202)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(13,375)	(9,029)
100,000	3.37%	Jan. 3, 2012	Jan. 1, 2017	SIFMA	(1,730)	(4,885)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (22,555)**	**$ (20,600)**

Changes in the fair value of derivative instruments are recorded in non-operating activities as *Investment (loss) income.* The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000.

The University had placed $5,231 (2016) and $2,144 (2015) into such a fund, which is shown in *Cash and cash equivalents* on the consolidated statements of financial position.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $6,086 (2016) and $6,220 (2015).

13. RESTRICTED NET ASSETS

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

	Temporarily Restricted	Permanently Restricted	2016	2015
Endowment				
True Endowment	$ 451,667	$ 606,264	$ 1,057,931	$ 1,115,110
Funds functioning as endowment (FFE)	269,484		269,484	287,188
Total True endowment and FFE	721,151	606,264	1,327,415	1,402,298
Funds held in trust by others		312,635	312,635	336,825
TOTAL UNIVERSITY ENDOWMENT	**$ 721,151**	**$ 918,899**	**$ 1,640,050**	**$ 1,739,123**
Other net assets				
Pledges receivable	73,575	30,898	104,473	90,377
Funds held in trust by others, unused income	6,268		6,268	5,307
Student loan funds		36,629	36,629	36,201
Split-interest agreements		16,112	16,112	15,630
Purpose restricted gifts	115,191	6,548	121,739	83,999
TOTAL NET ASSETS	**$ 916,185**	**$ 1,009,086**	**$ 1,925,271**	**$ 1,970,637**

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 8, 2016, the date on which the consolidated financial statements were issued.