CASE WESTERN RESERVE UNIVERSITY EST. 1826

2014 FINANCIAL REPORT

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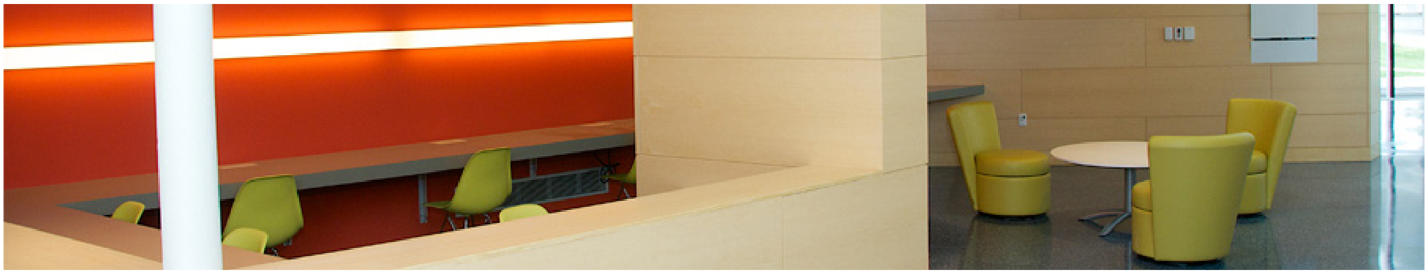
Front Cover: The Tinkham Veale University Center is the newest addition to the campus of Case Western Reserve University. Opened in August 2014, the 82,000-square-foot facility is distinguishable on two levels — physically for iconic architecture and philosophically for campus unification.

Physically, three wings hug the ground creating what architect Perkins + Will dubbed a landscraper (not a skyscraper). The panoramic glass façade and sloping green roof makes "The Tink" feel like a bridge, not a barrier, between the east and west sides of campus.

Philosophically, the Tink pulses with people and ideas from around the university. Designed to foster a culture of inclusion, it draws student, faculty, staff and the community to what they need in its variety of office spaces and common areas.

The Tink is the new heart of campus. It's the first time CWRU has had a large-scale, purpose-built hub; one that captures the spirit of its branding anthem – "think beyond the possible."



DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University continued to grow a solid financial resource base during Fiscal Year 2014 ("FY14"). In an increasingly competitive environment, the University's fundraising campaign drove record levels of attainment, undergraduate enrollment efforts resulted in the most academically accomplished entering class, and the University's net operating activities remain positive. In addition, investment returns produced strong non-operating financial benefits and financial market activity resulted in more favorable interest rate swaps.

The FY14 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 $65 million or 7.0% operating margin (GAAP basis), another all-time record in attainment of $152 million in new pledges, and undergraduate enrollment that contributed to a net tuition revenue increase of $9 million.

Capital expenditures continue to adhere to a disciplined planning process that leverages philanthropic support for strategic projects. The Tinkham Veale University Center, opened in August 2014, is a $50 million capital project funded entirely by gifts. Financial market activity resulted in non-operating gains of $217 million as investment returns grew by 16.1%. Undergraduate enrollment growth has consumed all available student housing. The University will issue its first new housing-related debt in a decade and the new debt will be supported by incremental revenue from the increased undergraduate enrollment.

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

FY14 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

The University's management of resources produced a net operating income on a GAAP basis of $65 million, a 7.0% operating margin. A proactive management plan was reflected in a balanced budget in 2014, including a budgeted operating surplus of $6.1 million.

The *Statement of Operations* (management view) surplus of $7.2 million reflects a one-time reduction of healthcare liabilities of $2.9 million. The operating surplus, exclusive of the one-time adjustment, is $4.2 million. Both net operating activity (GAAP basis) and operating surpluses (management view) have been positive for seven years.

Record-breaking Attainment Level

In 2014, the University again benefitted from the generosity of its donors. Case Western Reserve University set another all-time record for attainment of $152 million in FY14. The total represents a 4% increase over the previous record amount of $146 million achieved in FY13. Attainment has increased in each of the last six years. In FY14, the University received gifts from nearly 18,000 donors, totaling $125 million as reported on a cash basis. Realized gifts and pledges of over $85 million are reported in the financial statements on an accrual basis.

Targeted Undergraduate Enrollment

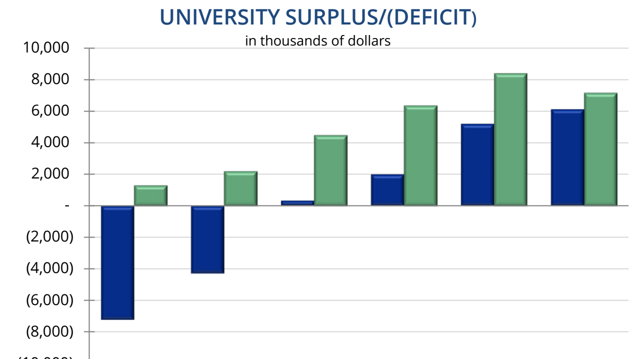
The University began the 2013-2014 academic year by welcoming 1,252 students, which is at targeted size and the most highly qualified entering undergraduate class. Undergraduate tuition revenue, combined with other increases in professional and graduate programs, grew student tuition and fees to $369 million, or by $22 million from the prior year. Student aid increased $13 million or 9% over FY13, and overall net tuition increased $9 million over FY13. The total undergraduate discount rate increased from 49.3% to 50.2% in FY14.

Higher undergraduate enrollment caused auxiliaries revenue to increase by $5 million. The University has now utilized all of its available student housing due to higher undergraduate enrollment. A new undergraduate residence hall is underway and will be supported by incremental revenue. The new student housing is expected to be available for the 2015-2016 academic year.

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 $7.2 million in FY14, compared to a budgeted surplus of $6.1 million and a $8.4 million surplus in FY13. FY14 marked the seventh consecutive year of positive operating results.



	2009	2010	2011	2012	2013	2014
Budget	(7,226)	(4,278)	332	2,000	5,200	6,127
Actual	1,336	2,226	4,499	6,375	8,412	7,179

The FY14 operating results reflect increasing net tuition revenue from increasing numbers of undergraduates, strong auxiliary revenues correlated to increased undergraduate enrollment, and a one-time reduction of healthcare liabilities.

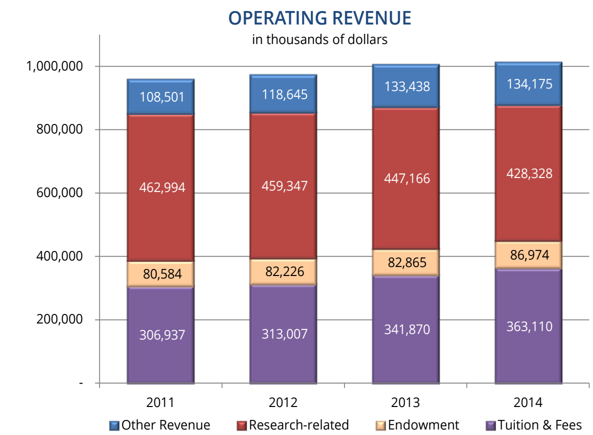
MANAGEMENT CENTER OPERATING REVENUES

Operating revenues are classified in four categories: Tuition, Endowment, Research-related, and Other Revenue. The University reported $1,013 million in total revenue, a $7 million or 1% increase from FY13.

Tuition and fees revenue was $363 million, a $21 million or 6% increase from FY13. Gross undergraduate tuition was $176 million, a $15 million or 10% increase over FY13. The increase is a direct reflection of the 3.25% rate increase and an addition of 256 undergraduate full-time equivalents over FY13. Professional and graduate program gross tuition, along with Summer programs and fees, was $187 million, a $6 million or 3% increase over FY13.

Endowment revenue used by operations was $87 million, a $4 million or 5% increase over FY13.

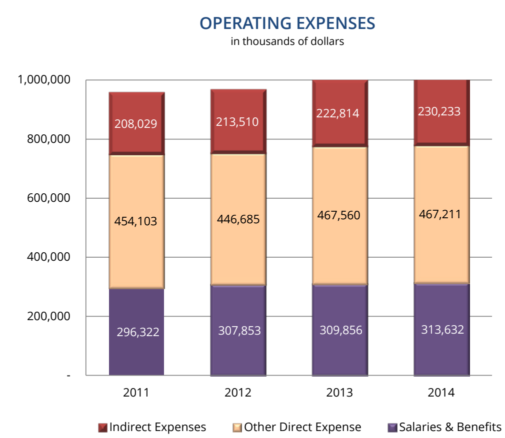
Research-related revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $428 million, a $19 million or 4% decrease from FY13. The decrease reflects the conclusion of the American Recovery and Reinvestment Act (ARRA) federal stimulus funds.



Other Revenue was $134 million, a $1 million or 1% increase over FY13, with a $4 million or 6% increase in auxiliary services revenue, related to rate increases and a 6% growth in the undergraduate student population. This was partially offset by a decrease in other income of $3 million over FY13.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1,011 million, a $11 million or 1% increase from FY13. Functional expenses are categorized as Salaries and Benefits, Other Direct, and Indirect Expenses.



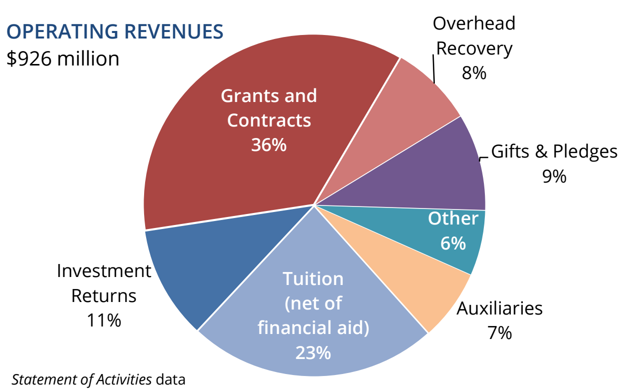
Salaries and Benefits were $314 million, a $4 million or 1% increase from FY13. **Other Direct Expense** was $467 million, which held constant as compared to FY13. **Indirect Expenses** were $230 million, a $7 million or 3% increase from FY13, which were driven by the undergraduate student population growth as reflected in the financial aid and student-related auxiliary 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 FY14, operating activity contributed $65 million to net assets.

OPERATING REVENUES

Total operating revenues were $926 million, an $18 million or 2% increase from FY13. The components of the University's revenues are shown below; additional detail of operating revenue follows.



Statement of Activities data

Tuition Income

Gross tuition income of $369 million increased $22 million or 6% over FY13, 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 FY14 was $150 million, resulting in net tuition of $218 million, or 23% of operating revenues.

The net tuition and fees income of $218 million represents a $9 million or 4% increase over FY13, with increased revenues generated by an increase in tuition rates and from higher undergraduate enrollment.

Investment Returns

Investment Returns included $63 million in returns distributed from the long-term investment pool, $20 million in returns on operating investments, and $15 million in distributions from funds held by others (FHBO) for endowment spending. Investment returns, which represent 11% of operating revenues, totaled $99 million, an increase of $10 million or 12% from FY13.

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 $332 million, including $83 million in CCLCM awards. This amount reflects a decrease of $12 million or 3% from FY13. The total represents 36% of overall University operating revenues. The decline corresponds with a drop in research operating expenses and the conclusion of the American Recovery and Reinvestment Act (ARRA) federal stimulus funds.

Overhead cost recovery

The Facilities and Administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $72 million in FY14, a $4 million or 5% decrease from FY13. Overhead recovery constituted 8% of operating revenue.

Gifts & Pledges

Gifts & Pledges income was $85 million, an increase of $8 million or 10% from FY13. Gifts & Pledges, which represent 9% of operating revenues, are recorded in the appropriate asset category when received.

Auxiliaries

Auxiliaries revenue of $62 million increased $4 million or 6% over FY13. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $50 million, or "Other," including Rental Properties and Parking, totaling $12 million for FY14. Auxiliaries revenue represents 7% of operating revenues.

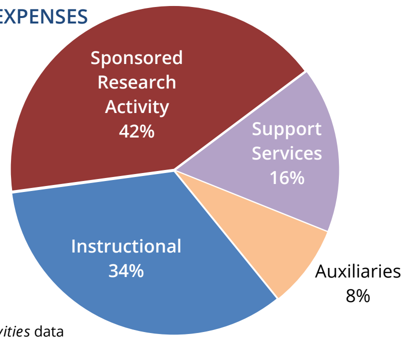
Other revenue

Other revenue of $57 million increased $3 million or 5% from FY13. Other revenue represents 6% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

OPERATING EXPENSES

Total expenses of $861 million decreased $5 million or 1% over FY13. The components of the University's expenses are shown below; additional detail of operating expenses follows.

OPERATING EXPENSES
$861 million



Statement of Activities data

Instructional costs of $290 million, which comprise 34% of operating expenses, increased by $3 million or 1% over FY13. Included in direct instructional costs are faculty and staff salaries and benefits, including a merit increase pool for faculty and staff of 2% over FY13.

Sponsored Research Activity of $361 million, represents 42% of operating expenses, decreased $14 million or 4% from FY13. Sponsored research activity includes Sponsored research and training, Other sponsored projects, and CCLCM research and training expenses.

Support Services costs of $141 million, or 16% of operating expenses, including Library, Student Services, and University Services, increased $3 million or 2% over FY13.

Auxiliaries expenses of $70 million, which constitute 8% of operating expenses, increased $4 million or 5% over FY13. Most of the increase came from student-focused auxiliaries because of increased volume in student housing and food services.

NON-OPERATING ACTIVITIES

Non-operating activities added $150 million to net assets, largely because of positive investment returns.

Long-term Investment Activities

Long-term investment activities realized $59 million in investment returns and $165 million in unrealized appreciation on $1.9 billion in investment assets. Investment income increased $30 million over FY13, and investment appreciation increased $85 million over FY13.

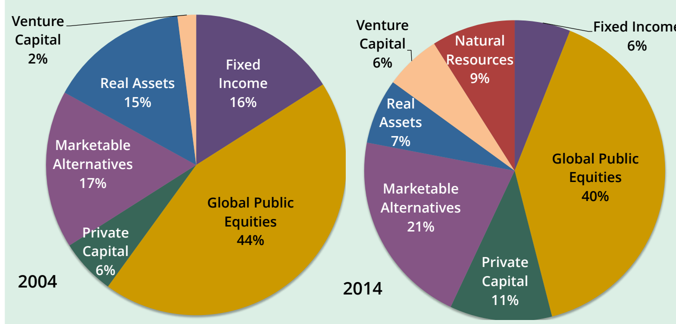
Other Non-Operating Activities

Other non-operating activities includes Changes in liabilities due under life-income agreements, Pension plan changes other than periodic benefit costs, and Loss on disposal of plant assets. These other non-operating activities resulted in a $11 million loss in net assets, or a decrease of $31 million over FY13.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University diligently stewards its endowment assets with an investment program that seeks to grow portfolio value in favorable markets and protect portfolio value in volatile markets. Its pooled endowment investment policy focuses more on consistency of investment outcome than on maximizing investment return at any cost. To that end, the University sets an allocation of assets and risk diversified across global public equity and fixed income markets, private capital markets, natural resources, hedge funds, real estate and other real assets that are sensitive to inflation. The overriding goal is to build a portfolio that does consistently well on both an absolute and a relative basis in a variety of economic and inflationary environments.

Compared to ten years ago at the end of FY2004, the pool's investment asset allocation had changed. The pool's allocation of assets showed decrease holdings in fixed income and real assets, increase holdings in marketable alternatives, and the addition of natural resources in the pool's investment asset allocation.



Liquidity policy and spending distribution policy are overlaid onto asset allocation policy to support daily operational needs and the annual financial planning cycle. But like the University itself, the endowment's investment horizon is in essence perpetual and the ultimate goal of stewardship is to assure that the endowment is able to provide equitable intergenerational support for both today's and tomorrow's students.

CHANGE IN NET ASSETS

The combined net operating activity of $65 million and net non-operating activity of $150 million resulted in an increase in net assets of $215 million or 11% from FY13.

CHANGE IN NET ASSETS

(in thousands)	2014	2013
Beginning net assets	$ 1,935,908	$ 1,824,649
Increase in net assets	214,776	111,259
Ending net assets	**$ 2,150,684**	**$ 1,935,908**

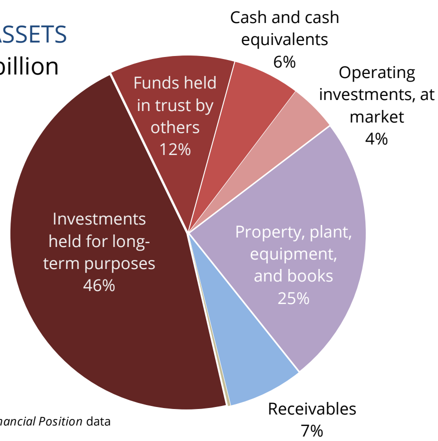
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The University's *Statements of Financial Position* reflect total assets of $2.982 billion, primarily a sizable cash and investment balance of $2.035 billion, the cash portion of which increased liquidity over FY13.

ASSETS

Total cash and investments of $2.035 billion, including cash and cash equivalents, operating investments, long-term investments, and funds held by others, combined total 68% of University assets. Property, plant, equipment and books represent an additional $736 million or 25% of assets. Total assets increased $220 million or 8% over FY13.

TOTAL ASSETS
$2.982 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 $181 million, an increase of $30 million or 20% over FY13. 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 $129 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 $16 million or 14% over FY13.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had$205 million in receivables, which represent 7% of assets. Receivables increased $10 million or 5% from FY13.

Investments held for long-term purposes

Long-term investments of $1.385 billion increased $118 million or 9% from FY13. 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 $69 million on long-term investments in FY14.

Funds Held By Others

Funds held in trust by others of $340 million increased $35 million or 11% from FY13.

Property, Plant, Equipment, and Books

Property, plant, equipment, and library books, net of depreciation, constitute 25% of the University's assets, totaling $736 million for FY14. Net plant assets increased $11 million or 2% from FY13.

LIABILITIES

Total liabilities of $831 million increased $5 million or 1% over FY13.

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 decreased from 5.25% to 4.75% in FY14. This decrease caused the University's accrued pension liability position to increase by $15 million from FY13, to a total accrued pension liability of $56 million in FY14.

Debt

Total liability on notes and bonds payable decreased $13 million or 2% over FY13, largely due to a principal repayment of commercial paper.

NET ASSETS

In FY14, the University's total net assets increased $215 million or 11% over FY13 to $2.151 billion.

Unrestricted Net Assets

Unrestricted net assets increased $18 million or 11% from FY13 to $183 million. Net operating activity added $34 million and net non-operating activity caused a $16 million decrease in net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets increased $144 million or 17% from FY13 to $989 million. The University received $46 million of new temporarily restricted gifts and pledges and recognized $165 million in investment appreciation. Temporarily restricted net assets were offset by $67 million in assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets increased $53 million or 6% from FY13 to $979 million. The increase was due to the receipt of $13 million in new gifts and pledges, and $43 million in investment appreciation, which were partially offset by a change in liabilities due under life-income agreements of $4 million.

PROSPECTIVE DISCUSSION

The University expects to maintain its positive operating position as reflected in its FY15 operating budget surplus of $4 million. The new undergraduate student housing is well underway and will open in time for the arrival of students for the fall semester 2015. New debt issued for the new undergraduate student housing will be supported by incremental revenues. Finally, senior leadership is committed to continuous operating performance improvements, thereby strengthening the University's financial position.

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	2014	2013	2012	2011
STATEMENTS OF OPERATIONS HIGHLIGHTS - Management View				
Total Revenue	$ 1,012,587	$ 1,005,339	$ 973,225	$ 959,016
Total Expense	1,011,076	1,000,230	968,048	958,454
Operating Margin	1,511	5,109	5,177	562
Retained Surplus Use	5,668	3,303	1,198	3,937
Surplus	**$ 7,179**	**$ 8,412**	**$ 6,375**	**$ 4,499**
STATEMENTS OF ACTIVITIES HIGHLIGHTS - GAAP Basis				
Tuition and Fees (net of student aid)	$ 218,482	$ 209,258	$ 199,709	$ 188,078
Investment, FHBO, and operational returns	98,559	88,141	84,165	105,188
Grants and Contracts	332,228	344,170	358,849	369,007
Facilities and Administrative cost recovery	72,495	76,196	79,607	79,742
Gifts and Pledges	85,237	77,498	62,165	77,878
Other Revenue	57,272	54,662	55,205	50,446
Auxiliary Services	62,019	58,250	51,002	49,449
Total Operating Revenue	926,292	908,175	890,702	919,788
Instructional Expenses	290,341	287,539	269,966	261,461
Sponsored Research Activity	360,848	374,422	389,979	394,955
Support Services	140,628	138,000	135,463	134,580
Auxiliary Services	69,621	66,003	58,971	62,414
Total Operating Expense	861,438	865,964	854,379	853,410
Net Operating Activity	**$ 64,854**	**$ 42,211**	**$ 36,323**	**$ 66,378**
Long-term Investment Activities	224,314	109,288	(60,933)	233,577
Other non-operating activity	(74,392)	(40,240)	(124,282)	(51,572)
Net Non-Operating activity	**$ 149,922**	**$ 69,048**	**$ (185,215)**	**$ 182,005**
Change in Net Assets	**$ 214,776**	**$ 111,259**	**$ (148,892)**	**$ 248,383**
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 180,828	$ 151,100	$ 133,905	$ 105,900
Operating investments, at market	128,699	112,618	87,304	77,914
Receivables	204,542	194,157	171,807	183,870
Investments (held for long-term purposes)	1,384,953	1,266,661	1,229,017	1,321,428
Funds held in trust by others	340,275	305,682	285,756	297,768
Property, plant, equipment, and books, net of depreciation	735,649	724,547	730,637	745,260
Prepaid expenses and other assets	6,769	7,448	6,979	8,424
Total Assets	**$ 2,981,715**	**$ 2,762,213**	**$ 2,645,405**	**$ 2,740,564**
Total Liabilities	**$ 831,031**	**$ 826,305**	**$ 820,756**	**$ 767,023**
Total Net Assets	**$ 2,150,684**	**$ 1,935,908**	**$ 1,824,649**	**$ 1,973,541**
OTHER FINANCIAL INFORMATION				
Net Investments (including FHBO), at fair value	$ 1,853,927	$ 1,684,961	$ 1,602,077	$ 1,697,110
Investments payout in support of operations	$ 78,166	$ 74,499	$ 74,159	$ 72,536
Total gifts and pledges (attainment)	$ 151,639	$ 145,908	$ 138,362	$ 126,211
Total gifts - cash basis	$ 124,857	$ 94,529	$ 91,763	$ 86,189
STUDENTS				
Enrollment*				
Undergraduate	4,572	4,302	3,935	4,132
Graduate	5,049	4,957	4,879	4,806

* Enrollment for fall semester of fiscal year in FTEs

REPORT OF INDEPENDENT AUDITORS

Independent Auditor's Report

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying consolidated financial statements of Case Western Reserve University ("University"), which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities and of cash flows for the year then ended.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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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 at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited Case Western Reserve University's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 11, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of dollars	For the year ended June 30 2014		For the year ended June 30 2013	
ASSETS				
Cash and cash equivalents	$	180,828	$	151,100
Operating investments, at market		128,699		112,618
Accounts and loans receivable, net		107,979		100,734
Pledges receivable, net		96,563		93,423
Prepaid expenses and other assets		6,769		7,448
Investments, held for long-term purposes		1,384,953		1,266,661
Funds held in trust by others		340,275		305,682
Property, plant, equipment and books, net		735,649		724,547
TOTAL ASSETS	**$**	**2,981,715**	**$**	**2,762,213**
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	$	59,582	$	57,116
Deferred income and other liabilities		54,572		53,605
Annuities payable		41,105		41,550
Refundable advances		4,898		7,541
Accrued pension liability		55,841		40,778
Notes and bonds payable		588,948		601,980
Refundable federal student loans		26,085		23,735
TOTAL LIABILITIES	**$**	**831,031**	**$**	**826,305**
NET ASSETS				
Unrestricted	**$**	**182,867**	**$**	**164,526**
Temporarily restricted		**988,939**		**845,028**
Permanently restricted		**978,878**		**926,354**
TOTAL NET ASSETS	**$**	**2,150,684**	**$**	**1,935,908**
TOTAL LIABILITIES AND NET ASSETS	**$**	**2,981,715**	**$**	**2,762,213**

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, 2013

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2014	2013
OPERATING REVENUES					
Student tuition and fees	$ 368,739			$ 368,739	$ 346,792
Less: Student aid	(150,257)			(150,257)	(137,534)
	218,482			218,482	209,258
Investment returns distributed for operations	63,309			63,309	60,568
FHBO returns distributed	14,857			14,857	13,931
Investment returns on operating investments	20,393			20,393	13,642
Grants and contracts	249,232			249,232	252,854
CCLCM grants and contracts	82,996			82,996	91,316
Gifts and pledges	25,904	$ 46,073	$ 13,260	85,237	77,498
State of Ohio appropriation	2,773			2,773	2,758
Facilities and administrative cost recovery	72,495			72,495	76,196
Organized activities	12,907			12,907	13,542
Other sources	41,012		580	41,592	38,362
Auxiliary services - students	50,122			50,122	45,330
Auxiliary services - other	11,897			11,897	12,920
Net assets released from restrictions	29,204	(28,717)	(487)	-	-
TOTAL OPERATING REVENUES	**$ 895,583**	**$ 17,356**	**$ 13,353**	**$ 926,292**	**$ 908,175**
OPERATING EXPENSES					
Instructional	290,341			290,341	287,539
Sponsored research and training	248,959			248,959	257,272
Other sponsored projects	28,893			28,893	25,834
CCLCM research and training	82,996			82,996	91,316
Libraries	22,549			22,549	22,466
Student services	24,063			24,063	23,304
University services	94,016			94,016	92,230
Auxiliary services - students	55,021			55,021	50,342
Auxiliary services - other	14,600			14,600	15,661
TOTAL OPERATING EXPENSES	**$ 861,438**	**$ -**	**$ -**	**$ 861,438**	**$ 865,964**
NET OPERATING ACTIVITY	**$ 34,145**	**$ 17,356**	**$ 13,353**	**$ 64,854**	**$ 42,211**
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment (loss) income	$ (1,211)	$ 54,442	$ 6,030	$ 59,261	$ 28,965
Net appreciation	17,020	110,791	37,242	165,053	80,323
Total long-term investment activities	15,809	165,233	43,272	224,314	109,288
Long-term investment income and gains distributed for operations	(63,309)			(63,309)	(60,568)
Change in liabilities due under life-income agreements			(3,633)	(3,633)	(3,492)
Loss on disposal of plant assets	(438)			(438)	(3,144)
Pension plan changes other than periodic benefit costs	(7,012)			(7,012)	26,964
Net assets released from restrictions	39,146	(38,678)	(468)	-	-
NET NON-OPERATING ACTIVITY	**$ (15,804)**	**$ 126,555**	**$ 39,171**	**$ 149,922**	**$ 69,048**
CHANGE IN NET ASSETS	**$ 18,341**	**$ 143,911**	**$ 52,524**	**$ 214,776**	**$ 111,259**
Beginning Net Assets	164,526	845,028	926,354	1,935,908	1,824,649
ENDING NET ASSETS	**$ 182,867**	**$ 988,939**	**$ 978,878**	**$ 2,150,684**	**$ 1,935,908**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

In thousands of dollars	For the year ended June 30 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 214,776	$ 111,259
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	61,383	62,169
Amortization of bond issuance costs	585	125
Amortization of bond premiums	(3,095)	(1,504)
Increase in capital appreciation notes	124	602
Realized and unrealized net gains on investments	(212,331)	(105,098)
Increase to annuities payable resulting from actuarial adjustments	3,633	3,492
Gifts of property and equipment	(2,284)	(59)
Loss on disposal of plant assets	438	3,144
Contributions restricted for long-term investment	(9,885)	(14,685)
(Increase) decrease in accounts and loans receivable, net	(5,940)	1,974
Increase in pledges receivable, net	(3,140)	(24,297)
Decrease (increase) in prepaid expenses and other assets	94	(593)
Increase in funds held in trust by others	(34,593)	(18,475)
Increase (decrease) in accounts payable and accrued expenses	658	(10,356)
Increase (decrease) in deferred income and other liabilities	967	(7,515)
(Decrease) increase in refundable advances	(2,643)	2,093
Increase (decrease) in accrued pension liability	15,063	(22,514)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**$ 23,810**	**$ (20,238)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 6,606	$ 6,859
Issued	(7,911)	(6,886)
Proceeds from the sale of investments	2,865,863	2,009,310
Purchase of investments	(2,787,905)	(1,968,622)
Proceeds from the sale of plant assets	265	316
Purchases of property, plant, equipment and books	(69,095)	(58,383)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**$ 7,823**	**$ (17,406)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in federal advances for student loans	$ 2,350	$ 646
Contributions restricted for long-term investment	3,143	11,733
Proceeds from the sale of investments received as gifts	6,742	2,952
Proceeds from short-term debt	60,000	45,000
Repayment of short-term debt	(45,000)	(20,000)
Proceeds from commercial paper	-	27,000
Repayment of commercial paper	(11,000)	-
Proceeds from notes and bonds payable	114,985	7,256
Repayment of notes and bonds payable	(129,046)	(16,352)
Increase to annuities payable resulting from new gifts	373	291
Decrease to annuities payable resulting from payments	(4,452)	(3,687)
NET CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	**$ (1,905)**	**$ 54,839**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**$ 29,728**	**$ 17,195**
Cash and cash equivalents, beginning of year	151,100	133,905
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 180,828**	**$ 151,100**
SUPPLEMENTAL DATA:		
Interest paid in cash	**$ 13,282**	**$ 14,657**
Construction in progress payments included in accounts payable	**4,998**	**3,190**

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, 2014, and for the year then ended, as well as summarized information for the year ended June 30, 2013, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

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

Net Asset Categories

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

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

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

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

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

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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 958, "Not for Profit Entities," in August 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and expanded disclosures about an organization's endowment (both donor-restricted and board-designated funds). The University's Board of Trustees ("the Board") has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of 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).

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

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

Cash and Cash Equivalents

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

Operating Investments, at Market

Operating investments include all other current investments with original maturities greater than 90 days that are used to support operations. These investments 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.

Investments

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

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

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

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

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

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

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

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

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

Collections

The University’s collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. 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, 2014 and 2013, which approximates the present value of the future income flows from these funds.

Income received from funds held in trust by others is classified as temporarily restricted net assets until those amounts are appropriated and expended by the University. Income appropriated within the same year 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 statement of activities.

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

Asset Retirement Obligations

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

Allocation of Certain Expenses

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

Retirement Plans

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

Use of Estimates

Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

Comparative Information

The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ending June 30, 2013, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2014 and 2013. 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, 2014 and 2013.

New Pronouncements

In fiscal 2014 the University adopted the provisions of AU 2012-05 – Statement of Cash Flows for Not-for-Profit entities regarding donated securities and retroactively applied the provisions to prior years. The effect of the changes were not material.

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2014 and 2013 were as follows:

		2014		2013
ACCOUNTS RECEIVABLE, NET				
Grants, contracts and others	$	52,825	$	46,273
Students		2,814		2,961
STUDENT LOANS, NET		52,340		51,500
ACCOUNTS AND LOANS RECEIVABLE, NET	**$**	**107,979**	**$**	**100,734**
Allowances for doubtful accounts:				
Accounts receivable	$	3,915	$	3,690
Loans receivable	$	2,107	$	2,067

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, 2014 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 2014 is 5%.

Unconditional promises to give at June 30, 2014 and 2013, are expected to be realized in the following periods:

		2014		2013
In one year or less	$	16,781	$	14,190
Between one year and five years		76,820		76,374
More than five years		19,026		17,485
		112,627		108,049
Less: Discount		(8,278)		(8,278)
Less: Allowance		(7,786)		(6,348)
TOTAL PLEDGES RECEIVABLE, NET	**$**	**96,563**	**$**	**93,423**

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 doubtbul accounts at June 30, 2014 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2014 and 2013 had the following restrictions:

		2014		2013
Department programs and activities	$	39,313	$	42,522
Endowments for scholarships and department programs and activities		25,248		21,584
Building construction		32,002		29,317
TOTAL PLEDGES RECEIVABLE, NET	**$**	**96,563**	**$**	**93,423**

Uncollectible pledges totaling $3,169 (2014) and $1,122 (2013) were written off against the allowance for uncollectible pledges. The University had conditional pledge commitments totaling $34,940 at June 30, 2014.

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, 2014 and 2013 were as follows:

	2014	2013
Cash and cash equivalents	$ 14,935	$ 88,581
Domestic stocks	76,055	54,307
International securities	40,150	37,069
Global securities	117,511	47,706
Bonds		
Government and municipal	6,885	17,079
Corporate	23,549	17,399
Mutual funds	261,786	142,592
Derivatives	5,109	8,318
Limited partnerships and other		
Venture capital	100,350	86,323
Private equity	287,838	262,553
Real estate	102,119	94,825
Hedge funds	432,033	481,585
Other	45,252	40,862
Equity real estate	80	80
TOTAL INVESTMENTS	**$ 1,513,652**	**$ 1,379,279**

	2014	2013
Operating investments, at market	$ 128,699	$ 112,618
Investments, held for long term purposes	1,384,953	1,266,661
TOTAL INVESTMENTS	**$ 1,513,652**	**$ 1,379,279**

Investment returns shown on the statement of activites are netted against investment management fees of $14,781 (2014) and $14,419 (2013). The investments were held for the following purposes:

	2014	2013
Endowment	$ 1,089,658	$ 989,475
Donor restricted funds	305,687	272,331
University investments	55,142	58,039
Annuities	53,459	51,177
Funds held for the benefit of others	9,706	8,257
TOTAL INVESTMENTS	**$ 1,513,652**	**$ 1,379,279**

18 | NOTES TO THE FINANCIAL STATEMENTS – in thousands of dollars

Endowment Funds

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

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

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

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

Similar Funds

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

The breakdown of these classifcations are:

		Temporarily	Permanently	Total	
	Unrestricted	Restricted	Restricted	2014	2013
Donor restricted endowment funds	$ (9,156)	$ 538,245	$ 560,569	$ 1,089,658	$ 989,475
Donor purpose restricted funds		290,857		290,857	266,604
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ (9,156)**	**$ 829,102**	**$ 560,569**	**$ 1,380,515**	**$ 1,256,079**

Investment Pool

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

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

The pool is accounted for on a dollarized method of accounting similar to a money market fund and accounted for on an account basis. The total investment return for the pooled investments, net of external manager fees, approximated 15.96% (2014) and 7.52% (2013).

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 2014 and 2013 pooled endowment and similar funds spending allocation approximated 5.04% and 5.27% respectively of beginning market value. The total amount allocated was $62,216 and $64,443, 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 2014 and 2013 pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled $6,500 in 2014 and $7,200 in 2013.

Changes in endowment and similar funds net assets for fiscal year 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Endowment and similar funds net assets, beginning of year	$ (18,154)	$ 727,868	$ 546,365	$ 1,256,079	$ 1,223,893
Investment income		53,982		53,982	16,246
Realized and unrealized gains		117,589		117,589	63,936
TOTAL INVESTMENT RETURN		171,571		171,571	80,182
Contributions		1,970	14,243	16,213	18,123
Current year withdrawals			(39)	(39)	(5,924)
Current year expenditures		(63,309)		(63,309)	(60,195)
Reclassification of deficits in donor-designated funds	8,998	(8,998)		-	-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR	**$ (9,156)**	**$ 829,102**	**$ 560,569**	**$ 1,380,515**	**$ 1,256,079**

20 | NOTES TO THE FINANCIAL STATEMENTS – in thousands of dollars

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 $9,156 (2014) and $18,154 (2013). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, $538,245 (2014) and $461,264 (2013) 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, 2014 and 2013 by the ASC 820 valuation hierarchy are as follows:

June 30, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 10,578	$ 4,357		$ 14,935
Domestic stocks	19,575	980	$ 55,500	76,055
International securities		4,856	35,294	40,150
Global securities		35,725	81,786	117,511
Bonds				
Government and municipal		6,885		6,885
Corporate		6,130	17,419	23,549
Mutual funds	257,727	4,059		261,786
Derivatives		5,109		5,109
Limited partnerships and other				
Venture capital			100,350	100,350
Private equity			287,838	287,838
Real estate			102,119	102,119
Hedge funds		97,350	334,683	432,033
Other		74	45,178	45,252
Equity real estate			80	80
TOTAL INVESTMENTS	**$ 287,880**	**$ 165,525**	**$ 1,060,247**	**$ 1,513,652**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 340,275**	**$ 340,275**
PENSION PLAN ASSETS				
Cash & cash equivalents	$ 276			$ 276
Mutual funds	55,085	$ 8,602		63,687
Limited partnerships and Other				
Hedge funds		77,684		77,684
Equity real estate			$ 6,983	6,983
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 55,361**	**$ 86,286**	**$ 6,983**	**$ 148,630**
ASSETS AT FAIR VALUE	**$ 343,241**	**$ 251,811**	**$ 1,407,505**	**$ 2,002,557**
Interest rate swaps payable	$ -	$ 22,817	$ -	$ 22,817
LIABILITIES AT FAIR VALUE	**$ -**	**$ 22,817**	**$ -**	**$ 22,817**

June 30, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 60,193	$ 28,388		$ 88,581
Domestic stocks	1,388	18,736	$ 34,183	54,307
International securities	10	13,334	23,725	37,069
Global securities			47,706	47,706
Bonds				
Government and municipal		17,079		17,079
Corporate		17,399		17,399
Mutual funds	140,012	2,580		142,592
Derivatives		8,318		8,318
Limited partnerships and other				
Venture capital			86,323	86,323
Private equity			262,553	262,553
Real estate			94,701	94,701
Hedge funds		78,328	403,257	481,585
Other	111	74	40,677	40,862
Equity real estate	124		80	204
TOTAL INVESTMENTS	**$ 201,838**	**$ 184,236**	**$ 993,205**	**$ 1,379,279**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 305,682**	**$ 305,682**
PENSION PLAN ASSETS				
Cash & cash equivalents	$ 6,859			$ 6,859
Mutual funds	49,529			49,529
Limited partnerships and Other				
Hedge funds		$ 66,362	$ 5,832	72,194
Other			490	490
Equity real estate			6,292	6,292
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 56,388**	**$ 66,362**	**$ 12,614**	**$ 135,364**
ASSETS AT FAIR VALUE	**$ 258,226**	**$ 250,598**	**$ 1,311,501**	**$ 1,820,325**
Interest rate swaps payable	$ -	$ 25,058	$ -	$ 25,058
LIABILITIES AT FAIR VALUE	**$ -**	**$ 25,058**	**$ -**	**$ 25,058**

Level 3 Investment Information

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

- The value of certain alternative investments represents the ownership interest in the net asset value of the respective partnership.
- The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner

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based on appraisals or other estimates that require varying degrees of judgment.

- If no public market consideration, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, or other estimates requiring varying degrees of judgment. The University regularly reviews, evaluates and performs significant due diligence around these investments to ensure that the values provided by the investment managers are appropriate measures of fair value. The University agrees with the valuations and assumptions used in determining the fair value of these investments.

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

	Domestic Stocks & Corporate Bonds	Int'l & Global Securities	Venture Capital	Private Equity	Hedge Funds	Real Estate - Equity & LP	Other & Funds Held by Others	Total
July 1, 2012	$ 29,756	$ 11,408	$ 78,331	$ 267,556	$ 337,971	$ 106,219	$ 334,123	**$ 1,165,364**
Investment income	7		6,296	21,829	(3,520)	(4,426)	108	**20,294**
Unrealized gains (losses)	5,202	(172)	1,579	3,713	38,568	19,772	18,849	**87,511**
Purchases	753		21,414	25,184	53,457	14,665	52,526	**167,999**
Settlements	(1,535)		(13,733)	(66,061)	(21,403)	(17,664)	(9,271)	**(129,667)**
Reclassifications		60,195	(7,564)	10,332	4,016	(17,493)	(49,486)	**-**
June 30, 2013	**$ 34,183**	**$ 71,431**	**$ 86,323**	**$ 262,553**	**$ 409,089**	**$ 101,073**	**$ 346,849**	**$ 1,311,501**
Investment income	(1,536)	4,179	5,666	12,934	18,451	(996)	385	**39,083**
Unrealized gains (losses)	13,889	10,559	12,593	32,748	15,620	13,524	39,623	**138,556**
Purchases		55,000	9,834	28,605	35,210	22,655		**151,304**
Settlements	(20,000)		(14,066)	(49,002)	(101,683)	(27,074)	(1,404)	**(213,229)**
Transfers in (out)	46,383	(24,089)			(42,004)			**(19,710)**
June 30, 2014	**$ 72,919**	**$ 117,080**	**$ 100,350**	**$ 287,838**	**$ 334,683**	**$ 109,182**	**$ 385,453**	**$ 1,407,505**

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 appreciation.* In the case of pension assets, net realized and unrealized gains and losses are recognized in the financial statement line *Pension plan changes other than periodic benefit costs*.

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

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

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

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University's investments. Furthermore, investments which can be redeemed at NAV by the University on the measurement date or within 90 days are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

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

Category	Redemption Frequency	Redemption Notice Period	Fair Value	Unfunded Commitments
Domestic stocks (a)	monthly, quarterly, annually	30 - 90 days	$ 55,500	
International securities (b)	monthly, quarterly	30 - 90 days	35,294	
Global securities (c)	monthly, quarterly	30 - 90 days	81,786	
Corporate bonds (d)	monthly, quarterly	30 - 90 days	17,419	
Limited partnerships and other				
Venture capital (e)			100,350	$ 34,983
Private equity (f)			287,838	79,164
Real estate (g)			102,119	34,060
Hedge funds (h)	monthly, quarterly, annually	30 - 90 days	334,683	994
Other (i)			45,178	
Equity real estate (j)			80	
TOTAL			**$ 1,060,247**	**$ 149,201**

(a) Domestic stocks include equity securities domiciled in the United States. Fund liquidity is daily, monthly, quarterly, semi-annual, annual, and up to a maximum period of three years. Approximately 52% of domestic equity exposure is accessible within one year or less, with all funds accessible within three years.

(b) International securities include equity securities domiciled in countries outside of the United States including developed and emerging markets. Approximately 93% of the net asset value is accessible within one year or less, with all funds accessible within three years.

(c) Global securities includes equity securities domiciled in both Domestic stocks and International securities. Investments in this asset class have a mandate for global securities worldwide. Approximately 91% of the net asset value is accessible within one year or less, with all funds accessible within three years.

(d) Corporate bonds include funds that invest in interests in Senior Loans of US or non-US business entities. 1/3 of the fund may be liquidated every 30 days.

(e) 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.

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(f) 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.

(g) 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.

(h) Hedge funds include hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top down macroeconomic analysis or bottom up company or theme specific analysis; managers may shift portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the hedge fund category from monthly, quarterly, annually, and up to a maximum period of three years. Approximately 81% of the net asset value in this class is accessible within one year or less, with all funds accessible within three years.

(i) Other includes various investments that do not fall within the other categories listed. Examples would include investments in timber and other liquid multi-asset strategy investments.

(j) 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 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 relationship.
Concentration – the risk of being too concentrated in one particular security, manager, strategy, sector or asset class, thus being vulnerable to poor performance stemming from lack of diversification.
Absolute return risk – the ability to generate positive absolute returns, not just in favorable markets, but also in uncertain and negative phases measured over a business cycle.
Currency risk – the risk that currency fluctuations or trends reduce the value of investments in non-U.S. markets.
Commodity risk – refers to the uncertainties of future market values and the size of future income caused by fluctuation in the prices of commodities (energy, agricultural, precious and industrial metals) due to demand/supply imbalances.
Leverage – the risk that significant volatility or losses will be generated by the use of debt designed to magnify returns.
Counterparty risk – the risk that one party to a transaction does not make complete or timely payment of margin, swap cash flow, bond proceeds, or other similar payments.
Credit risk – the possibility that a bond issuer will default by failing to pay interest or repay principal in a timely manner.
Tail risk – a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.
Liquidity risk – the inability to sell or trade securities at fair market value within a short period of time; also, the risk that sufficient cash is not maintained, or cannot be accessed, to meet short-term obligations.
Inflation risk – the risk that rising prices significantly erode the effective purchasing power of the portfolio, as measured by the University's cost inflation.
Shortfall risk – the risk that investment returns will be lower than expected, causing a failure to accomplish investment or financial objectives.

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

Futures: An Equity Index Future is a standardized obligation to buy or sell a market index, at a certain date in the future (settlement date), at a specified price (futures price). Equity Index Futures are typically cash-settled. Trading Medium: Exchange A single clearing house (e.g., Options Clearing Corporation, for the Chicago Board Options Exchange) is the counterparty to both parties involved in the contract. Futures trade a premium or discount to the cash index level based on the following theoretical formula: 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 to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side. Used primarily as a manager replacement strategy.

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

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

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

			2014		
Location	Derivative Type	Notional Amount	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments					
	Total return swaps	$ 253,031		$ 5,290	
	Options (over-the-counter)	6,796		(117)	
	Yield curve hedges	146,358		(64)	
TOTAL DERIVATIVES, 2014			**$ -**	**$ 5,109**	**$ -**

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

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	2014	2013
Net effect on investment income			
	Options (over the counter)	$ (3,649)	$ (1,982)
	Total return swaps	22,544	(1,158)
	Forward contracts		(20)
	Interest rate hedges		(160)
		18,895	**(3,320)**
Unrealized gains (losses)			
	Options (over the counter)	7,952	(1,507)
	Total return swaps	10,086	(2,411)
	Yield curve hedges	(61)	1,435
		17,977	**(2,483)**
NET EFFECT OF DERIVATIVES		**$ 36,872**	**$ (5,803)**

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7. PROPERTY, PLANT, EQUIPMENT, AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 40 years for buildings, 5 to 12 years for equipment, and 10 years for books. Components of property, plant, equipment and books are as follows:

		2014		2013
Land and land improvements	$	52,180	$	42,678
Building and building improvements		1,165,187		1,152,290
Equipment and software		264,005		254,136
Library books		38,917		37,911
Construction-in-progress		73,543		47,554
		1,593,832		**1,534,569**
Less: accumulated depreciation		(858,183)		(810,022)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$**	**735,649**	**$**	**724,547**

The above assets include $452,038 leased from the Ohio Higher Education Facility Commission (“OHEFC”). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in Notes and bonds payable on the consolidated statements of financial position.

Capitalized interest added to construction in progress was $38 (2014) and $9 (2013) The expected cost to complete construction in progress is approximately $44,664.

Depreciation expense included in the consolidated statement of activities is $61,383 (2014) and $62,169 (2013).

8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate	Maturity	2014	2013
OHEFC revenue notes and bonds:	Series 1988	7.90%	2014		$ 6,406
	Series 1990	6.50%	2015-2020	$ 11,650	11,650
	Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
	Series 1997	6.25%	2014	1,855	3,555
	Series 2001	0.05%	2014-2022	11,200	11,730
	Series 2002A	0.05%	2023-2031	64,875	64,875
	Series 2004A	4.25 - 5.00%	2024-2034		49,455
	Series 2006	3.75 - 5.25%	2014-2044	79,860	81,200
	Series 2008A	0.06%	2030-2044	60,000	60,000
	Series 2008B	0.03%	2044		67,500
	Series 2008C	4.00 - 5.25%	2014-2033	50,490	50,490
	Series 2012A	2.00 - 5.00%	2014-2023	27,520	28,345
	Series 2013A	0.13%	2014-2023	42,120	
	Series 2014A	4.50%	2014-2044	67,500	
U.S. Government housing bonds	Series 1966	3.00%	2014		405
OHEFC commercial paper		.17 - .20%	2030	79,000	90,000
Compass Group USA, Inc.		-n/a-	2014-2019	1,462	1,950
Housing and Urban Development loan:	Part A	4.96%	2014-2041	11,679	11,885
	Part B	5.33%	2014-2041	4,032	4,100
TOTAL LIABILITY				**$ 533,243**	**$ 563,546**
Line of Credit				40,000	25,000
Unamortized Bond Premium				15,705	13,434
TOTAL NOTES AND BONDS PAYABLE				**$ 588,948**	**$ 601,980**

The fair market value of the University's notes and bonds payable is approximately $610,163 (2014) and $610,607 (2013) 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 November 2012, the OHEFC Series 2012A bonds were issued to defease and refinance a portion of the OHEFC Series 2004A bonds and OHEFC capital lease. The amount defeased for OHEFC Series 2004A bonds was $26,215 and the amount refinanced for the OHEFC capital lease was $4,852. Deferred financing fees of $397 were paid and the unamortized balance is included in prepaid expenses and other assets.

In December 2013, the OHEFC Series 2013A bonds were issued to refinance the balance of the OHEFC Series 2004A bonds. The amount refinanced for the OHEFC Series 2004A bonds was $42,120 and included an additional equity contribution of $2,445. Deferred financing fees of $475 were paid and the unamoritized balance is included in prepaid expenses and other assets.

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In March 2014, the OHEFC Series 2014A bonds were issued to refinance the OHEFC Series 2008B bonds. The amount for the refinanced for the OHEFC Series 2008B bonds was $67,500. The financing fees of $182 were not included in the refinancing and were expensed.

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

In February 2013, $27,000 was drawn to provide bridge financing for the construction of the Tinkham Veale University Center. Deferred financing fees of $226 were paid and the unamortized balance is included in prepaid expenses and other assets. Unspent funds related to the financing in the amount of $11,250 were reported as operating investments in the consolidated statement of financial position at June 30, 2013. There were no unspent funds at June 30, 2014. In May 2014, $11,000 of principal was paid down and was available for financing of future projects. The amount outstanding under the commercial paper program was $79,000 (2014) and $90,000 (2013), with maturities not exceeding 270 days from the issuance date. All commercial paper issued under the terms of the program must mature no later than February 1, 2030. The annualized interest cost and credit facility expense for this program was 0.67% (2014) and 0.65% (2013).

The University has revolving lines of credit with two financial institutions in the amount of $60,000 to finance working capital. Both lines are subject to review and renewal annually. The amount outstanding was $40,000 (2014) and $25,000 (2013).

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

Year	Scheduled Principal Payments	Outstanding VRDO's	Total Maximum Principal Payments
2015	$ 14,533	$ 96,075	$ 110,608
2016	15,458	80,000	95,458
2017	13,754	20,000	33,754
2018	29,465	30,000	59,465
2019	14,645	-	14,645
Thereafter	445,388	(226,075)	219,313
TOTAL	**$ 533,243**	**$ -**	**$ 533,243**

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

Interest expense, including those amounts for interest rate swap agreements (Note 12), was $20,125 (2014) and $20,949 (2013).

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2014.

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:

	2014	2013
Benefit obligation at June 30	$ 204,471	$ 176,142
Fair value of plan assets at June 30	148,630	135,364
FUNDED STATUS AT JUNE 30	**$ (55,841)**	**$ (40,778)**
Accumulated benefit obligation	**$ 203,742**	**$ 175,260**

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

	2014	2013
Net periodic benefit cost	$ 8,051	$ 11,105
Employer contributions		6,655
Benefits paid	4,665	3,932

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

2015	$ 4,721
2016	5,219
2017	5,466
2018	6,032
2019	6,576

Amounts expected to be paid between 2020 and 2024 total $43,265. The University's estimated employer contribution for the defined benefit plan in fiscal 2015 will depend on the results of the July 1, 2014 actuarial valuation and is estimated to be $23,495.

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

	2014	2013
BENEFIT OBLIGATION		
Discount rate	4.75%	5.25%
Rate of compensation increase	2.25%	4.25%
Measurement date	6/30/14	6/30/13
Census date	7/1/13	7/1/12
NET PERIODIC BENEFIT COST		
Discount rate	5.25%	4.50%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.25%	4.25%

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

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

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

	2014	2013
Equity securities	33.00%	36.00%
Fixed income securities	10.00%	11.00%
Real estate	5.00%	5.00%
Other	52.00%	48.00%
TOTAL ASSET ALLOCATION	**100.00%**	**100.00%**

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

	2014	2013
STATEMENT OF FINANCIAL POSITION		
NET LIABILITY	$ (55,841)	$ (40,778)
UNRESTRICTED NET ASSETS		
Actuarial losses	63,763	56,751
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	**$ 63,763**	**$ 56,751**

The estimated amortization of prior year service costs expected in fiscal 2015 totals $4,073. 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:

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		2014		2013
Change in actuarial losses (gains)	$	7,012	$	(26,804)
Amortization of prior service cost				(160)
TOTAL LOSS (GAIN) RECOGNIZED, UNRESTRICTED NET ASSETS		**7,012**		**(26,964)**
Net periodic benefit cost		8,051		11,105
TOTAL LOSS (GAIN) RECOGNIZED, STATEMENT OF ACTIVITIES	**$**	**15,063**	**$**	**(15,859)**

Benefit plan costs for the defined contribution plan are $20,225 (2014) and $19,834 (2013).

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 $82,996 (2014) and $91,316 (2013).

In April 2006, the Boards of University Hospitals Health System and the University approved a new affiliation agreement between the School of Medicine and University Hospitals of Cleveland ("UHC"). This agreement significantly strengthened the historical relationship between the entities through the creation of the Case Medical Center, a virtual entity that encompasses certain teaching, research and clinical activities of the School of Medicine and UHC.

During 2013, the University entered into a joint purchase agreement with the Cleveland Museum of Art to purchase real property from the Cleveland Institute of Art. The University's commitment is $4,600 with $505 placed as an earnest deposit and is shown on the consolidated statement of financial position in prepaid expenses and other assets. The remaining $4,095 is due at closing, which is anticipated to be in fiscal 2016.

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

11. RELATED PARTY TRANSACTION

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University buildings. The amounts purchased were $20,118 (2014) and $20,508 (2013). 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 other liabilities is $772 (2014) and $137 (2013).

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

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

At June 30, 2014, the University has five interest rate swap agreements. Net payments or receipts under the swap agreements are recorded as adjustments to investment and other income and the incremental expense is disclosed below.

Under one agreement in effect at June 30, 2014, 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, 2014, with comparative fair values for June 30, 2013. The number of swaps is reported based on notional amount. Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the consolidated statements of financial position in deferred income and other liabilities are as follows:

Notional Amount	Interest Rate	Commencement	Termination Date	Basis	2014 Level 2 Fair Market Value	2013 Level 2 Fair Market Value
$ 18,875	4.34%	Aug. 12, 2004	Oct.1, 2022	LIBOR	$ (1,778)	$ (1,980)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	(3,174)	(3,306)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(2,300)	(2,310)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(8,074)	(7,952)
100,000	3.37%	Jan. 3, 2012	Jan. 1, 2017	SIFMA	(7,491)	(9,510)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (22,817)**	**$ (25,058)**

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

The University had placed $3,703 (2014) and $5,435 (2013) 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 $6,224 (2014) and $6,182 (2013).

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13. RESTRICTED NET ASSETS

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

	Temporarily Restricted	Permanently Restricted	2014	2013
Endowment				
True Endowment	$ 538,245	$ 560,569	$ 1,098,814	$ 1,007,629
Funds functioning as endowment (FFE)	290,857		290,857	266,604
Total True endowment and FFE	829,102	560,569	1,389,671	1,274,233
Funds held in trust by others		340,275	340,275	305,682
TOTAL UNIVERSITY ENDOWMENT	**$ 829,102**	**$ 900,844**	**$ 1,729,946**	**$ 1,579,915**
Other net assets				
Pledges receivable	69,661	21,270	90,931	90,454
Funds held in trust by others, unused income	4,853		4,853	5,057
Student loan funds		35,333	35,333	34,460
Split interest agreements		16,911	16,911	16,229
Purpose restricted gifts	85,323	4,520	89,843	45,267
TOTAL NET ASSETS	**$ 988,939**	**$ 978,878**	**$ 1,967,817**	**$ 1,771,382**

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 11, 2014, the date on which the consolidated financial statements were issued. No material items were noted which require disclosure.