2019

FINANCIAL REPORT

Roger Mastroianni

CASE WESTERN RESERVE UNIVERSITY EST. 1826

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Cover: The Health Education Campus of Case Western Reserve and Cleveland Clinic opened this spring as part of the two institutions' commitment to preparing students to lead in this new era of team-based health care. The 477,000-square-foot Samson Pavilion (shown here) features state-of-the-art technology and simulation spaces, and also is expressly designed for students from our nursing, dental and medical schools (including the Cleveland Clinic Lerner College of Medicine) to learn, study and dine together. As a result, they will graduate knowing not only the different expertise and skills of their colleagues in other professions, but also how best to work together in the best interest of patients.

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

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University (the "University") continued to produce positive financial results during Fiscal Year 2019 ("FY19"), reflecting over a decade of solid financial performances.

The University's FY19 financial plan continued to focus on maintaining momentum in core operating results, strengthening the balance sheet, and generating new funding for strategic capital projects by philanthropy. The results were a $61 million or 5.7% operating margin on a Generally Accepted Accounting Principles ("GAAP") basis; an increase in total net assets of $45 million; and another successful year in attainment with $182 million in new gifts and pledges.

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

FY19 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

The University's management of resources produced a net operating activity of $61 million or a 5.7% operating margin reflected on the *Statement of Activities* GAAP Basis. Likewise, the *Statement of Operations* (unaudited, management view) reports a positive operating indicator, an operating surplus, of $8 million, which is also positive compared against the FY19 operating budget. Both net operating activity and operating surplus have been positive for over a decade. See *Selected Financial Data* on page 7 for more information.

Strengthened Financial Position - Balance Sheet

The University's *Statements of Financial Position*, the balance sheet, reflects a year of positive growth as indicated by an increase in total assets of $58 million combined with an increase of total liabilities of $13 million yielding an increase in total net assets of $45 million. Working capital initiatives, continued flow of new capital pledges, and refinanced long-term debt, offset by an increase in the accrued pension liability, all contributed to a stronger balance sheet.

Attainment Level and Capital Campaign

The generosity of university donors once again produced a successful year in attainment of $182 million in FY19. In FY19, the University received gifts from 17,000 donors, totaling $113 million as reported on a cash and equivalent support basis. Realized gifts and pledges of $98 million are reported in the *Statement of Activities* (GAAP basis).

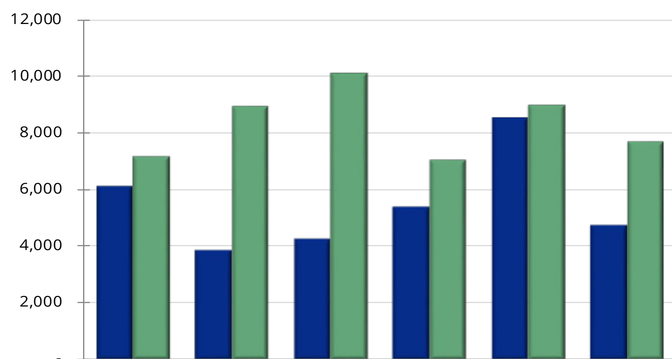
The University's Forward Thinking capital campaign concluded with a total of $1.82 billion in pledges and gifts - far exceeding the updated goal of $1.5 billion set in 2014. Campaign support came from 60,000 donors, including 34,000 who gave to the university for the first time. Increasing scholarship support was a leading priority of the campaign and nearly $254 million was raised. Strategic capital projects was also a focus and garnered $393 million in contributions.

STATEMENT OF OPERATIONS *unaudited*

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 $7.7 million in FY19, compared to a budgeted surplus of $4.7 million and a $9.0 million surplus in FY18. FY19 marked the twelfth consecutive year of positive operating results.

UNIVERSITY SURPLUS/(DEFICIT)
in thousands of dollars



	2014	2015	2016	2017	2018 *	2019
Budget	6,127	3,868	4,269	5,401	8,548	4,739
Actual	7,179	8,964	10,096	7,052	8,967	7,680

***2018 is Revised Budget**

The FY19 operating results reflect increasing research and training revenue along with increased tuition revenues.

MANAGEMENT CENTER OPERATING REVENUES

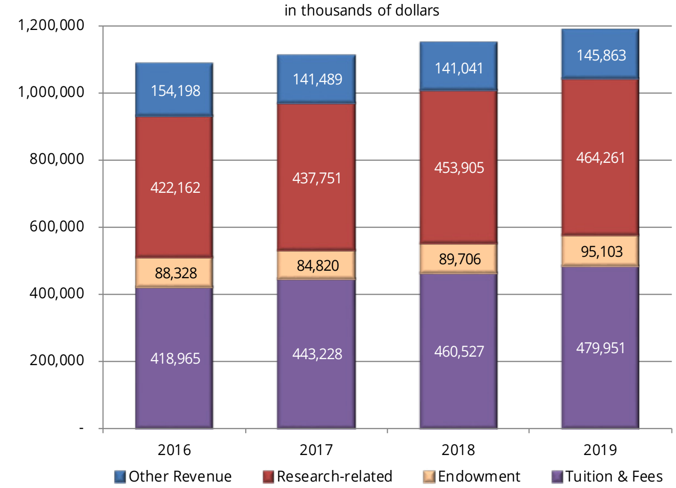
Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research-related, and Other Revenue. The University reported $1.185 billion in total revenue, a $40 million or 3% increase over FY18.

Gross tuition and fees revenue was $480 million, a $19 million or 4% increase over FY18. Gross undergraduate tuition was $233 million, a $13 million or 6% increase over FY18. The increase is the result of a 3.25% rate increase and a 6% increase in undergraduate enrollment. Professional and graduate program gross tuition, along with summer programs and fees, was $247 million, a $6 million or 3% increase over FY18.

Endowment revenue used by operations was $95 million, a $5 million or 6% increase over FY18.

Research-related revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $464 million, a $10 million or 2% increase over FY18.

OPERATING REVENUE
in thousands of dollars

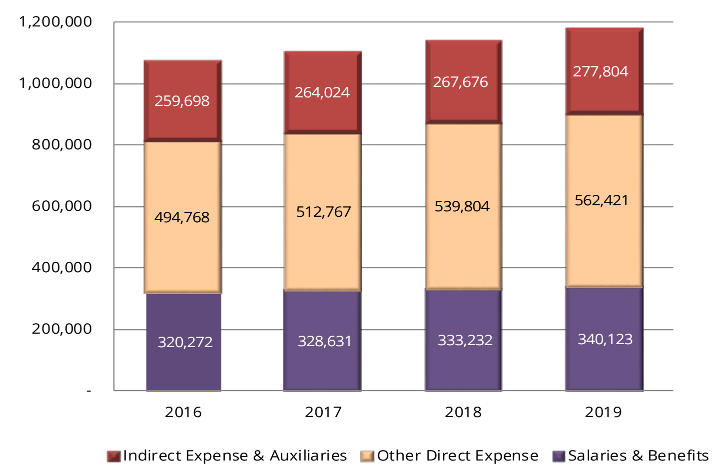


Other revenue was $146 million, an increase of $5 million or 3% over FY18.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1.180 billion, a $40 million or 3% increase over FY18. Expenses are categorized as Salaries and Benefits, Other Direct, Indirect Expense and Auxiliaries.

OPERATING EXPENSES
in thousands of dollars



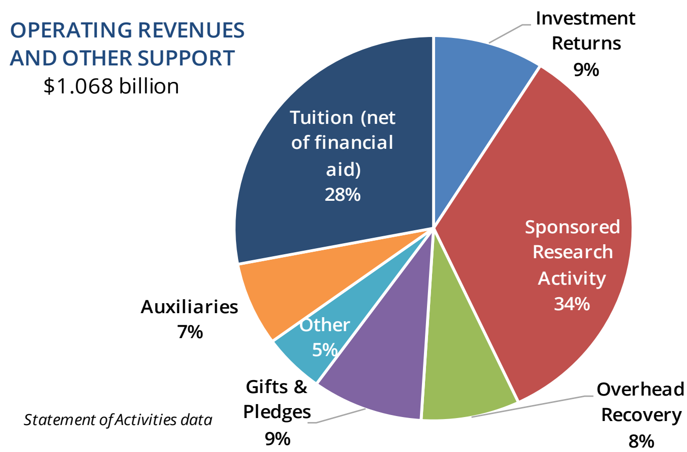
Salaries and benefits were $340 million, a $7 million or 2% increase over FY18. Other direct expense was $562 million, a $23 million or 4% increase over FY18. Indirect expense and auxiliaries were $278 million, a $10 million or 4% increase over FY18.

STATEMENT OF ACTIVITIES AND OTHER SUPPORT

The *Statement of Activities* (GAAP Basis) includes results from the University's operating and non-operating activities which produced a positive change in net assets. In FY19, operating activity contributed $61 million to net assets.

OPERATING REVENUES AND OTHER SUPPORT

Total operating revenues and other support were $1.068 billion, an increase of $52 million or 5% over FY18. The components of the University's revenues are shown below and additional detail of operating revenue follows.



Statement of Activities data

Tuition income

Gross tuition income of $491 million increased $20 million or 4% over FY18, 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 FY19 was $190 million, resulting in net tuition of $301 million, or 28% of operating revenues.

The net tuition and fees income of $301 million represents a $11 million or 4% increase over FY18, with increased revenues generated by an increase in tuition rates and from higher student enrollment.

Investment returns

Investment returns included $69 million in returns distributed from the long-term investment pool, $14 million in returns on operating investments, and $15 million in distributions from funds held in trust by others ("FHBO") for endowment spending. Investment returns, which represent 9% of operating revenues, totaled $98 million, a less than 1% change from FY18.

Grants and contracts

Grants and contracts revenue includes awards to the 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 $366 million, including $102 million in CCLCM awards. This amount reflects an increase of $5 million or 1% over FY18. The total represents 34% of overall University operating revenues. This increase corresponds with an increase in research operating expenses.

Overhead cost recovery

Facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $79 million in FY19, a $2 million or 3% increase over FY18. Overhead recovery represents 8% of operating revenues.

Gifts and pledges

Gifts and pledges income was $98 million, an increase of $28 million or 39% over FY18. Gifts and pledges, which represent 9% of operating revenues, are recorded in the appropriate asset category when received.

Other revenue

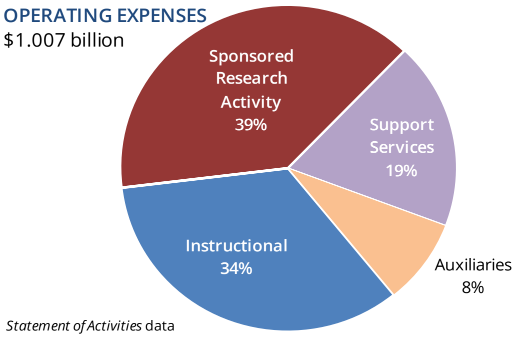
Other revenue of $51 million increased $2 million or 5% over FY18. Other revenue represents 5% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

Auxiliaries

Auxiliaries revenue of $76 million increased $3 million or 4% over FY18. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $66 million, or "Other," including Rental Properties and Parking, totaling $10 million for FY19. Auxiliaries revenue represents 7% of operating revenues.

OPERATING EXPENSES

Total expenses of $1.007 billion increased $25 million or 3% over FY18. The components of the University's expenses are shown below and additional detail of operating expenses follows.



Statement of Activities data

Instructional costs of $342 million, represents 34% of operating expenses, increased by $10 million or 3% over FY18. Included in direct instructional costs are faculty and staff salaries and benefits.

Sponsored research activity of $394 million, represents 39% of operating expenses, increased $8 million or 2% over FY18. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support services costs of $187 million, represents 19% of operating expenses, including libraries, student services, and university services, increased $6 million or 3% over FY18. The increase is primarily in university services due to an increase in benefit expenses.

Auxiliaries expenses of $85 million, represents 8% of operating expenses, increased $2 million or 2% over FY18.

NON-OPERATING ACTIVITIES

Non-operating activities decreased net assets by $16 million, a $91 million decrease from FY18. The decrease is due to financial market fluctuations, less investment income and pension plan changes other than periodic benefit costs. Long-term investment activities (investment income and net appreciation) resulted in a $77 million increase in net assets. Other non-operating activities (investment returns distributed for operations, change in liabilities due under life-income agreements, pension plan changes other than periodic benefit costs, and loss on disposal of plant assets) resulted in a $93 million decrease in net assets.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University's investment pool consist of a group of funds, including the endowment funds, funds functioning as endowments (also referred to as *quasi-endowment*), Board-designated funds, and operating funds, that are invested in a broadly diversified portfolio. The total investment return for the investment pool, net of external manager fees, approximated 6.04% (2019) and 9.15% (2018). Additional detail on the investment pool is shown in *Footnote 6*.

The University's combined endowment, the purpose of which is to generate revenue in perpetuity, is comprised of funds invested and managed by the University, that includes endowment funds and quasi-endowments (referred to as the *endowment pool*) and funds invested and managed outside the University (referred to as *funds held in trust*). The University's combined endowment at June 30, 2019 and 2018 is shown in the table below:

(in thousands)	2019	2018
Endowment Pool:		
Donor-restricted	$ 1,198,275	$ 1,173,633
Donor-purpose restricted	292,772	291,863
Quasi-endowment	77,264	73,806
Funds held in trust	298,189	303,597
Total combined endowment	**$ 1,866,500**	**$ 1,842,899**
Change in market value	**1.28%**	**4.95%**

Activities and total investment return for the combined endowment for the years ending June 30, 2019 and 2018 are shown in the table below:

(in thousands)	2019	2018
Beginning combined endowment	$ 1,842,899	$ 1,755,941
Additions	22,438	27,459
Spending distribution	(83,634)	(81,345)
Campaign support	(6,000)	(6,000)
Operating support	(2,800)	(3,239)
Other	(264)	(199)
Appreciation and investment income	93,861	150,282
Ending combined endowment	**$ 1,866,500**	**$ 1,842,899**
Combined endowment investment return	**5.86%**	**9.24%**

CHANGE IN NET ASSETS

The combined net operating activity of $61 million and net non-operating activity of $(16) million resulted in an increase in net assets of $45 million or 2% over FY18.

STATEMENTS OF FINANCIAL POSITION

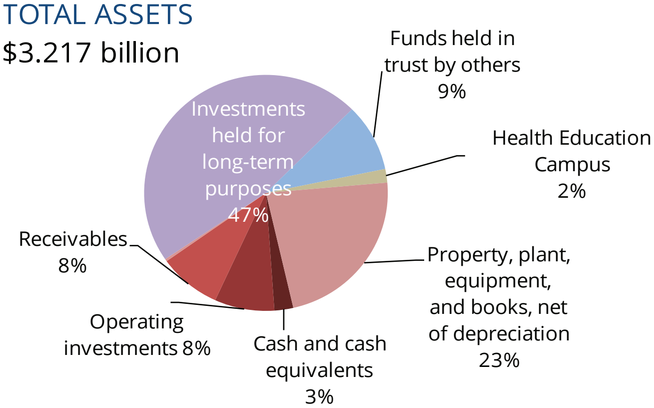
The University's *Statements of Financial Position* reflect total assets of $3.217 billion with a primarily sizable cash and investment balance of $2.146 billion.

ASSETS

Total cash and investments of $2.146 billion, including cash and cash equivalents, operating investments, investments, held for long-term purposes and funds held in trust by others, combined total 67% of University assets. Property, plant, equipment and books represent an additional $733 million or 23% of assets. Total assets increased $58 million or 2% over FY18.

TOTAL ASSETS

$3.217 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 requirments. Working capital and Board designated-funds in excess of the liquidity target are retained in operating investments to produce a higher investment return.

The University's cash position on June 30 was $81 million, a decrease of $25 million or 24% from FY18. 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

The University's operations were supported by $256 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 $17 million or 7% over FY18.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had $268 million in receivables, which represent 8% of assets. Receivables increased $21 million or 8% over FY18.

Investments, held for long-term purposes

Long-term investments of $1.511 billion increased $48 million or 3% over FY18. 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 FY19.

Funds held in trust by others

Funds held in trust by others of $298 million decreased $5 million or 2% from FY18. It was determined that the community foundation holding certain funds held in trust by others has ultimate variance power and therefore right to ownership of the assets. As a result, the University removed a number of funds held in trust by others with a market value of $43 million as of June 30, 2017, affecting the beginning value of these assets for the fiscal year ended June 30, 2018.

Property, plant, equipment, and books

Property, plant, equipment, and books, net of depreciation, constitute 23% of the University's assets, totaling $733 million for FY19. Net plant assets decreased $9 million or 1% from FY18.

LIABILITIES

Total liabilities of $819 million increased $13 million or 2% over FY18.

Retirement plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 3.90% in FY19 decreased from FY18. The University's accrued pension liability increased $14 million over FY18, to a total accrued pension liability of $104 million in FY19.

Debt

Total liability on notes and bonds payable, including the line of credit and unamortized bond premium and issuance costs, decreased $19 million from FY18 due to scheduled principal payments of $14 million and scheduled bond premium amortization of $5 million.

The University restructured a portion of its debt portfolio in FY19 to refinance the 2014A bank direct placement bonds ($68 million) with 2019A Series floating rate notes. The refinanced bonds had a mandatory call date of April 1, 2019, and the restructuring smooths out the debt service in later years. The University's variable rate debt of $68 million is synthetically fixed with four floating-to-fixed rate swaps totaling $73 million. The restructuring, along with scheduled principal payments and premium amortization, reduced the University's total long-term indebtedness to $447 million in FY19 from $461 million in FY18.

Moody's Investor Services long-term rating of A1 was affirmed, while they upgraded the outlook from stable to positive. S&P Global Ratings affirmed the rating of AA- and stable outlook.

NET ASSETS

In August 2016, the FASB issued ASU 2016-14: "Presentation of Financial Statements of Not-for-Profit Entities," which simplifies and improves how a not-for-profit entity classifies net assets, among other changes. Net assets are now presented as "without donor restrictions" and "with donor restrictions." The University adopted the new standard in FY19.

In FY19, the University's total net assets increased $45 million or 2% over FY18 to $2.399 billion. The FY18 beginning net assets balance was adjusted for retrospective application of new accounting principle ($16 million) and an adjustment for funds held in trust by others ($43 million).

CHANGE IN NET ASSETS

(in thousands)	**2019**	**2018**
Beginning net assets	$ 2,353,440	$ 2,243,311
Increase in net assets	45,140	110,129
Ending net assets	**$ 2,398,580**	**$ 2,353,440**

Net assets without donor restrictions

Net assets without donor restrictions increased $17 million or 7% from FY18 to $258 million. Net operating activity added $33 million and net non-operating activity decreased net assets by $16 million.

Net assets with donor restrictions

Net assets with donor restrictions increased $28 million or 1% over FY18 to $2.140 billion. The University received $75 million of new restricted gifts and pledges and $48 million in net assets released from restrictions in net operating activity. Non-operating activity increased net assets with donor restrictions by $70 million from long-term investment activities and decreased net assets with donor restrictions by $67 million in assets released from restrictions.

PROSPECTIVE DISCUSSION

The University expects to maintain a positive operating position as reflected in its FY20 operating budget surplus of $6 million. The incoming Class of 2023 is at the targeted size with matched quality and diversity. Lastly, senior leadership is continuously engaged in improving operating performance and strengthening the University's financial position using a disciplined approach.

John F. Sideras

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

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

in thousands of dollars	2019	2018	2017	2016
STATEMENT OF OPERATIONS HIGHLIGHTS - Management View				
Total revenue	$ 1,185,178	$ 1,145,179	$ 1,107,288	$ 1,083,653
Total expense	1,180,348	1,140,712	1,105,422	1,074,738
Operating margin	4,830	4,467	1,866	8,915
Retained surplus use	2,850	4,500	5,186	1,181
Surplus	**$ 7,680**	**$ 8,967**	**$ 7,052**	**$ 10,096**
STATEMENT OF ACTIVITIES HIGHLIGHTS - GAAP Basis				
Tuition and fees (net of student aid)	$ 300,703	$ 289,278	$ 278,258	$ 255,613
Investment, FHBO, and operational returns	97,893	97,584	97,537	88,011
Grants and contracts	365,693	361,177	350,171	335,208
Facilities and administrative cost recovery	78,765	76,642	74,557	72,272
Gifts and pledges	98,173	70,449	95,779	131,513
Other revenue	50,914	48,523	53,933	68,608
Auxiliary services	75,767	72,645	72,381	70,031
Total operating revenues and other support	1,067,908	1,016,298	1,022,616	1,021,256
Instructional expenses	341,555	331,878	322,242	311,880
Sponsored research activity	393,959	386,071	374,671	363,077
Support services	186,782	180,568	176,230	162,105
Auxiliary services	84,976	83,370	85,311	78,582
Total operating expense	1,007,272	981,887	958,454	915,644
Net operating activity	**$ 60,636**	**$ 34,411**	**$ 64,162**	**$ 105,612**
Long-term investment activities	77,014	136,238	190,376	(91,469)
Other non-operating activities	(92,510)	(60,520)	(46,306)	(108,805)
Net non-operating activities	**$ (15,496)**	**$ 75,718**	**$ 144,070**	**$ (200,274)**
Change in net assets	**$ 45,140**	**$ 110,129**	**$ 208,232**	**$ (94,662)**
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 80,586	$ 105,409	$ 143,589	$ 139,344
Operating investments, at market	255,668	238,988	187,904	160,195
Receivables	268,206	247,359	252,142	229,157
Investments (held for long-term purposes)	1,511,280	1,463,671	1,395,449	1,298,508
Funds held in trust by others	298,189	303,597	337,553	312,635
Health Education Campus	59,890	46,120		
Property, plant, equipment, and books, net of depreciation	733,010	742,416	757,082	776,317
Prepaid expenses and other assets	10,564	11,946	35,013	32,700
Total assets	**$ 3,217,393**	**$ 3,159,506**	**$ 3,108,732**	**$ 2,948,856**
Total liabilities	**$ 818,813**	**$ 806,066**	**$ 822,572**	**$ 870,928**
Total net assets	**$ 2,398,580**	**$ 2,353,440**	**$ 2,286,160**	**$ 2,077,928**
OTHER FINANCIAL INFORMATION				
Net investments (including FHBO), at fair value	$ 2,065,137	$ 2,006,256	$ 1,920,906	$ 1,771,338
Investments payout in support of operations	$ 83,634	$ 81,345	$ 77,861	$ 81,675
Total gifts and pledges (attainment)	$ 182,093	$ 207,973	$ 181,187	$ 174,136
Total gifts - cash basis	$ 112,557	$ 113,178	$ 113,983	$ 158,454
STUDENTS				
Enrollment *				
Undergraduate	5,151	5,035	5,044	5,053
Post-Baccalaureate	5,921	5,882	5,776	5,534

*Enrollment for fall semester of fiscal year in FTEs

Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying financial statements of Case Western Reserve University, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Case Western Reserve University as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University changed the manner in which it accounts for net assets and reports certain aspects of the financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Cleveland, Ohio
October 19, 2019

STATEMENTS OF FINANCIAL POSITION

	June 30	
In thousands of dollars	2019	2018
ASSETS		
Cash and cash equivalents	$ 80,586	$ 105,409
Operating investments	255,668	238,988
Accounts and loans receivable, net	103,950	100,558
Pledges receivable, net	164,256	146,801
Prepaid expenses and other assets	10,564	11,946
Investments, held for long-term purposes	1,511,280	1,463,671
Funds held in trust by others	298,189	303,597
Health Education Campus	59,890	46,120
Property, plant, equipment and books, net	733,010	742,416
TOTAL ASSETS	**$ 3,217,393**	**$ 3,159,506**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 63,800	$ 63,221
Deferred income and other liabilities	67,942	52,311
Annuities payable	36,421	35,141
Refundable advances	7,710	7,528
Accrued pension liability	104,192	89,893
Notes and bonds payable	512,650	531,244
Refundable federal student loans	26,098	26,728
TOTAL LIABILITIES	**$ 818,813**	**$ 806,066**
NET ASSETS		
Without donor restrictions	$ 258,483	$ 241,668
With donor restrictions	2,140,097	2,111,772
TOTAL NET ASSETS	**$ 2,398,580**	**$ 2,353,440**
TOTAL LIABILITIES AND NET ASSETS	**$ 3,217,393**	**$ 3,159,506**

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

STATEMENT OF ACTIVITIES

In thousands of dollars	Without Donor Restrictions	With Donor Restrictions	For the year ended June 30, 2019
OPERATING REVENUES AND OTHER SUPPORT			
Student tuition and fees, net of student aid of $190,262	$ 300,703		$ 300,703
Investment returns distributed for operations	68,687		68,687
FHBO returns distributed	14,755	$ 192	14,947
Investment returns on operating investments	14,259		14,259
Grants and contracts	264,081		264,081
CCLCM grants and contracts	101,612		101,612
Gifts and pledges	23,027	75,146	98,173
State of Ohio appropriation	2,555		2,555
Facilities and administrative cost recovery	78,765		78,765
Organized activities	11,997		11,997
Other sources	36,047	315	36,362
Auxiliary services - students	66,224		66,224
Auxiliary services - other	9,543		9,543
Net assets released from restrictions	47,588	(47,588)	-
TOTAL OPERATING REVENUES AND OTHER SUPPORT	**$ 1,039,843**	**$ 28,065**	**$ 1,067,908**
OPERATING EXPENSES			
Instructional	341,555		341,555
Sponsored research and training	268,347		268,347
Other sponsored projects	24,000		24,000
CCLCM research and training	101,612		101,612
Libraries	23,816		23,816
Student services	34,748		34,748
University services	128,218		128,218
Auxiliary services - students	70,241		70,241
Auxiliary services - other	14,735		14,735
TOTAL OPERATING EXPENSES	**$ 1,007,272**	**$ -**	**$ 1,007,272**
NET OPERATING ACTIVITY	**$ 32,571**	**$ 28,065**	**$ 60,636**
NON-OPERATING ACTIVITIES			
Long-term investment activities			
Investment (loss) income	$ (89)	$ 26,780	$ 26,691
Net appreciation	6,894	43,429	50,323
Total long-term investment activities	6,805	70,209	77,014
Investment returns distributed for operations	(68,687)		(68,687)
Change in liabilities due under life-income agreements	(4)	(2,859)	(2,863)
Loss on disposal of plant assets	(3,500)		(3,500)
Pension plan changes other than periodic benefit costs	(17,460)		(17,460)
Net assets released from restrictions	67,090	(67,090)	-
NET NON-OPERATING ACTIVITY	**$ (15,756)**	**$ 260**	**$ (15,496)**
CHANGE IN NET ASSETS	**$ 16,815**	**$ 28,325**	**$ 45,140**
Beginning net assets	241,668	2,111,772	2,353,440
ENDING NET ASSETS	**$ 258,483**	**$ 2,140,097**	**$ 2,398,580**

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

STATEMENT OF ACTIVITIES

In thousands of dollars	Without Donor Restrictions	With Donor Restrictions	For the year Ended June 30, 2018
OPERATING REVENUES AND OTHER SUPPORT			
Student tuition and fees	$ 470,870		$ 470,870
Less: Student aid	(181,592)		(181,592)
	289,278		289,278
Investment returns distributed for operations	67,157		67,157
FHBO returns distributed	13,922	$ 266	14,188
Investment returns on operating investments	16,239		16,239
Grants and contracts	261,210		261,210
CCLCM grants and contracts	99,967		99,967
Gifts and pledges	21,311	49,138	70,449
State of Ohio appropriation	2,575		2,575
Facilities and administrative cost recovery	76,642		76,642
Organized activities	12,659		12,659
Other sources	33,125	164	33,289
Auxiliary services - students	62,795		62,795
Auxiliary services - other	9,850		9,850
Net assets released from restrictions	47,482	(47,482)	-
TOTAL OPERATING REVENUES AND OTHER SUPPORT	**$ 1,014,212**	**$ 2,086**	**$ 1,016,298**
OPERATING EXPENSES			
Instructional	331,878		331,878
Sponsored research and training	261,605		261,605
Other sponsored projects	24,499		24,499
CCLCM research and training	99,967		99,967
Libraries	22,815		22,815
Student services	33,120		33,120
University services	124,633		124,633
Auxiliary services - students	70,412		70,412
Auxiliary services - other	12,958		12,958
TOTAL OPERATING EXPENSES	**$ 981,887**	**$ -**	**$ 981,887**
NET OPERATING ACTIVITY	**$ 32,325**	**$ 2,086**	**$ 34,411**
NON-OPERATING ACTIVITIES			
Long-term investment activities			
Investment income	$ 7,043	$ 61,757	$ 68,800
Net appreciation	10,059	57,379	67,438
Total long-term investment activities	17,102	119,136	136,238
Investment returns distributed for operations	(67,157)		(67,157)
Change in liabilities due under life-income agreements	(19)	(3,539)	(3,558)
Loss on disposal of plant assets	(1,827)		(1,827)
Pension plan changes other than periodic benefit costs	12,022		12,022
Net assets released from restrictions	27,579	(27,579)	-
NET NON-OPERATING ACTIVITY	**$ (12,300)**	**$ 88,018**	**$ 75,718**
CHANGE IN NET ASSETS	**$ 20,025**	**$ 90,104**	**$ 110,129**
Beginning net assets, as originally reported	205,826	2,080,334	2,286,160
Adjustment for retrospective application of new accounting principle	15,817	(15,817)	-
Adjustment for funds held in trust by others		(42,849)	(42,849)
Beginning net assets, as adjusted	221,643	2,021,668	2,243,311
ENDING NET ASSETS	**$ 241,668**	**$ 2,111,772**	**$ 2,353,440**

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

STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 45,140	$ 110,129
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	65,981	67,880
Amortization of bond issuance costs	279	235
Amortization of bond premiums	(5,142)	(4,132)
Realized and unrealized net gains on investments	(98,345)	(138,577)
Increase to annuities payable resulting from actuarial adjustments	2,863	3,558
Gifts of property and equipment	(45)	(123)
Loss on disposal of plant assets	3,500	1,827
Contributions restricted for long-term investment	(27,413)	(18,163)
Increase in accounts and loans receivable, net	(6,982)	(11,323)
Increase in pledges receivable, net	(17,455)	(1,624)
Decrease (increase) in prepaid expenses and other assets	1,382	(6,886)
Decrease (increase) in funds held in trust by others	5,408	(8,893)
Increase in accounts payable and accrued expenses	2,169	4,294
Increase (decrease) in deferred income and other liabilities	15,631	(7,402)
Increase in refundable advances	182	1,400
Increase (decrease) in accrued pension liability	14,299	(11,924)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**$ 1,452**	**$ (19,724)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 7,787	$ 7,683
Issued	(4,197)	(6,120)
(Increase) decrease in donor-restricted cash for long-term investment	(4,054)	22,978
Proceeds from the sale of investments	1,068,467	1,477,316
Purchase of investments	(1,034,411)	(1,458,045)
Increase in Health Education Campus	(13,770)	
Proceeds from the sale of plant assets	645	560
Purchases of property, plant, equipment and books	(62,265)	(57,817)
NET CASH USED FOR INVESTING ACTIVITIES	**$ (41,798)**	**$ (13,445)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in federal advances for student loans	$ (630)	$ (1,496)
Contributions restricted for long-term investment	24,763	10,077
Distributions restricted for long-term investment		(22,978)
Proceeds from the sale of investments received as gifts	6,704	8,086
Proceeds from short-term debt	205,500	213,000
Repayment of short-term debt	(204,500)	(191,000)
Repayment of commercial paper		(30,000)
Proceeds from notes and bonds payable	67,636	102,682
Repayment of notes and bonds payable	(82,367)	(90,725)
Increase to annuities payable resulting from new gifts	558	114
Decrease to annuities payable resulting from payments	(2,141)	(2,771)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	**$ 15,523**	**$ (5,011)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**$ (24,823)**	**$ (38,180)**
Cash and cash equivalents, beginning of year	105,409	143,589
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 80,586**	**$ 105,409**
SUPPLEMENTAL DATA:		
Interest paid in cash	$ 19,167	$ 17,126
Construction-in-progress payments included in accounts payable	2,910	4,498

The accompanying notes are an integral part of the 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 financial statements of the University as of June 30, 2019 and 2018, and for the years then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, the accompanying financial statements have been prepared on the accrual basis of accounting.

Net Asset Categories

Standards for external financial reporting by not-for-profit organizations require that resources be classified for reporting purposes into two net asset categories according to donor-imposed restrictions (Note 15):

Without Donor Restrictions are those net assets not subject to donor-imposed restrictions. All revenues, gains and losses that are not restricted by donors are included in this classification. All operating expenses are reported as decreases in net assets without donor restrictions.

Contributions not subject to donor-imposed restrictions and donor-restricted contributions that are received and either spent, or deemed spent, for the restricted purpose within the same year are reported as increases to net assets without donor restrictions.

Net assets without donor restrictions include certain funds that are Board-designated as functioning as endowment and a liquidity reserve.

With Donor Restrictions are those net assets subject to donor-imposed time or purpose restrictions that are expected to be met and those subject to donor-imposed perpetual restrictions. These net assets include donor-restricted endowment, unconditional pledges, certain funds restricted for capital projects, split-interest agreements, and interests in perpetual trusts held by others.

For donor-imposed time or purpose restrictions, the University meets such donor restrictions through the passage of time, the appropriation of endowment earnings, placing gift-funded capital projects into service, and/or the University incurring expenses. When such restrictions are met, the related net assets are reported as *Net assets released from restrictions* in the statement of activities.

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 net assets without donor restrictions or with donor restrictions depending upon the donor's intent.

Contributions restricted for the acquisition of land, buildings and equipment are reported as revenues with donor restrictions. These contributions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. 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 4).

Grants and Contracts (Government and Private)

Government and private grant contracts are reviewed to determine whether they constitute an exchange transaction or a contribution, and whether conditions are present that would affect the timing of revenue recognition. Those determined to be contributions without conditions will have revenue recognized in the period the grant or contract is entered into and those determined to have conditions will have revenue recognized once the condition has been met. Those determined to be exchange transactions will have revenue recognized when barriers to the grant or contract funding have been overcome as qualifying expenses are incurred. Any payment received before barriers to funding have been overcome is recorded as a refundable advance. Once recognition is allowed, projects funded by grants and contracts that incur expenses prior to payment receipts 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 less when purchased as cash and cash equivalents, except those amounts managed by investment managers as part of the investment pool that do not belong to operations, or unspent bond proceeds, which are classified as investments. The University maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

Operating Investments

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

Investments

Investments are made within guidelines authorized by the University's Board of Trustees ("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 Accounting Standards Codification ("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 including the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

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

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis (Note 7). 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 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, 2019 and 2018.

Income received from funds held in trust by others is classified as net assets with donor restrictions until those amounts are appropriated and expended by the University. Income appropriated within the same year earned/received is classified as without donor restrictions. Unrealized changes in the fair value of investments are shown as net unrealized appreciation or depreciation in net assets with donor restrictions.

Certain reclassifications and revisions have been made to the prior year's financial statements to enhance comparability with the current year's financial statements and to correct the reporting of funds held in trust by others. The University derecognized a number of funds held in trust by others with a market value of $42,849 as of June 30, 2017, affecting the beginning value of net assets with donor restrictions for the fiscal year ended June 30, 2018. It was determined that the community foundation holding the funds has ultimate variance power and therefore right to ownership of the assets. As a result, certain line items have been revised in the statements of financial position, statement of activities, statements of cash flows and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation. The impact of these changes are not considered material to the financial statements.

Health Education Campus

The University currently has shared interests in the Health Education Campus ("HEC") with the Cleveland Clinic Foundation ("CCF"). Commencing in fiscal year 2014, the University and CCF began a joint effort to raise funds for the construction of the HEC project estimated to be approximately $515,000 (Note 11). The University has pledges receivable of $40,645 for the HEC project as of June 30, 2019. Occupancy of the HEC, which includes an academic building and separate dental clinic, began in spring 2019 and the University's basis, determined on cash transfers toward the HEC project, was $59,890 (2019) and $46,120 (2018), respectively. Upon the completion of fundraising and final funding of the project, the parties are committed to joint ownership of the above described properties.

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

Split-Interest Agreements

The University has split-interest agreements consisting primarily of pooled income funds, charitable gift annuities and charitable remainder unitrusts and annuities. Contributions are recognized at the date the trusts and annuities are established, net of a liability for the present value of the estimated future cash outflows to beneficiaries, using a discount rate of 2.4% and 2.9% for June 30, 2019 and 2018, respectively. These assets are invested and payments are made to donors and beneficiaries in accordance with the respective agreements.

Allocation of Certain Expenses

The statement of activities presents expenses by function. Some expenses — such as depreciation, amortization, and expenses related to the operation of the physical plant — are allocated by square footage. Interest expense is allocated to the functions that derive the greatest benefit from the facilities financed (Note 14).

Retirement Plans

The University accounts for its defined benefit postretirement plan in accordance with ASC 715, "Compensation - Retirement Benefits." The University recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statements of financial position in the year in which the change occurs, with an offsetting impact to net assets without donor restriction.

Use of Estimates

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

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code ("IRC"). The University is classified as an organization that is not a private foundation under section 509(a) of the IRC, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2019 and 2018. 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, 2019 and 2018.

Revenue Recognition

During the year ended June 30, 2019, the University implemented Accounting Standard Update ("ASU") 2014-09: "Revenue from Contracts with Customers (Topic 606)," which allows users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The University applied the modified retrospective method for implementation, applying the guidance to all contracts at the date of initial application resulting in no material changes to the presentation of financial statement line items. This standard, which was the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards, is effective for fiscal years beginning after December 15, 2017, and has been adopted by the University in the current fiscal year. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Significant judgments, such as the timing of satisfaction of performance obligation and associated transaction prices, may be required in the recognition of revenue, and certain economic factors, such as varying student class sizes, may affect revenue recognized in future years. Student tuition and fees are recorded as revenues during the year the related academic services are provided and are displayed net of student aid on the statement of activities. Student tuition and fees received in advance of services provided are recorded as deferred revenue. The University's significant revenue sources, shown in disaggregated form, for the fiscal years ended June 30, 2019 and 2018 are as follows:

	2019	2018
STUDENT TUITION AND FEES		
Undergraduate tuition	$ 241,295	$ 227,427
Less: Student aid	(124,157)	(117,358)
	117,138	110,069
Graduate and professional tuition	242,020	236,677
Less: Student aid	(66,105)	(64,234)
	175,915	172,443
Fees	7,650	6,766
TOTAL NET STUDENT TUITION AND FEES	**$ 300,703**	**$ 289,278**
AUXILIARY SERVICES REVENUE		
Food services	$ 18,198	$ 16,432
Housing and greek life	41,035	39,912
Health services	5,914	5,791
Parking	5,990	6,410
Other	4,630	4,100
TOTAL AUXILIARY SERVICES REVENUES	**$ 75,767**	**$ 72,645**

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

New Pronouncements

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)," which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. This standard requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2020, the first year in which the standard is effective.

In August 2016, the FASB issued ASU 2016-14: "Presentation of Financial Statements of Not-for-Profit Entities," which simplifies and improves how a not-for-profit entity classifies net assets and presents and discloses information related to liquidity, financial performance, and cash flows in financial statements. The standard is effective for the fiscal years beginning after December 15, 2017, and has been adopted by the University in the current fiscal year.

In August 2016, the FASB issued ASU 2016-15: "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which attempts to eliminate the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This includes debt prepayment or debt extinguishment costs, certain contingent consideration payments and proceeds from the settlement of insurance claims, among others. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2020, the first year in which the standard is effective.

In November 2016, the FASB issued ASU 2016-18: "Statement of Cash Flows (Topic 230): Restricted Cash," which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2020, the first year in which the standard is effective.

In March 2017, the FASB issued ASU 2017-07: "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, among other improvements to benefit cost presentation. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2020, the first year in which the standard is effective.

In March 2017, the FASB issued ASU 2017-08: "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2021, the first year in which the standard is effective.

In August 2017, the FASB issued ASU 2017-12: "Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2021, the first year in which the standard is effective.

In June 2018, the FASB issued ASU 2018-08: "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made," which will assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions as well as determining whether a contribution is conditional. The standard is effective for fiscal years beginning after June 15, 2018, and has been adopted by the University in the current fiscal year.

In August 2018, the FASB issued ASU 2018-13: "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which modifies the disclosure requirements on fair value measurements in Topic 820, including disclosure related to Level 3 investments. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2021, the first year in which the standard is effective.

In August 2018, the FASB issued ASU 2018-14: "Compensation - Defined Benefit Plans (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including disclosures related to plan cost and timing. The standard is effective for fiscal years ending after December 15, 2021. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2022, the first year in which the standard is effective.

In March 2019, the FASB issued ASU 2019-03: "Not-for-Profit Entities (Topic 958): Updating the Definition of Collections," which modifies the definition of the term collections and requires that a collection-holding entity disclose its policy for the use of proceeds from when collected items are deaccessioned. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2021, the first year in which the standard is effective.

2. LIQUIDITY

The University manages its financial assets and liquidity resources in order to provide cash for payment of general expenditures, such as operating expenses, construction costs, and obligations related to debt. Financial assets classified below as available for general expenditure within one year are those that are considered both convertible to cash and free of donor-imposed and/or contractual restrictions that would limit or prevent the use of such cash to fund general expenditures.

As of June 30, 2019, the University's financial assets and liquidity resources available for general expenditure within one year are as follows:

		2019
FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR:		
Cash and cash equivalents	$	80,586
Operating investments		56,193
Accounts and notes receivable, net		55,949
Expected pledge payments available for operations		11,453
Other assets		857
Fiscal year 2020 pooled endowment and similar funds spending allocation		67,100
Total		272,138
LIQUIDITY RESOURCES:		
Committed lines of credit		100,000
Less: current borrowings under lines of credit		(37,000)
Total		63,000
TOTAL FINANCIAL ASSETS AND LIQUIDITY RESOURCES AVAILABLE WITHIN ONE YEAR	**$**	**335,138**

Additionally, the University has Board-designated funds of $199,474, including a liquidity reserve of $122,210, as of June 30, 2019. Although the University does not intend to spend from these investment funds, other than amounts appropriated by the Board for fiscal year 2020, amounts from its Board-designated funds could be made available if necessary.

In addition to the financial assets above, a significant portion of the University's annual expenditures will be funded by current year operating revenues including tuition, grant and contract income and auxiliary services income. The University's cash flows have seasonal variations during the year primarily attributable to student billings and the concentration of contributions received at calendar and fiscal year ends. As part of the University's liquidity management, the University invests cash in excess of daily requirements in various short-term investment instruments.

Under the University's cash management policies, cash received from endowment spending related to either funds functioning as endowment or donor-restricted endowments is available for general expenditure. Endowment spending distributed from donor-restricted endowments is reflected in the University's net assets with donor restrictions until the expenditures actually are incurred; such expenditures are funded by available liquidity resources at the time they are paid.

3. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2019 and 2018 were as follows:

	2019	2018
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	$ 54,929	$ 47,943
Students	1,677	2,096
STUDENT LOANS, NET	47,344	50,519
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 103,950**	**$ 100,558**

ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Accounts receivable	$ 5,941	$ 4,945
Loans receivable	$ 1,632	$ 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, 2019 is adequate to absorb credit losses inherent in the portfolio as of that date.

4. PLEDGES RECEIVABLE

Unconditional promises to give are included in the 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 2019 and 2018 was 5%.

Unconditional promises to give at June 30, 2019 and 2018 are expected to be realized in the following periods:

	2019	2018
Less than one year	$ 51,719	$ 49,046
Between one year and five years	124,822	103,958
More than five years	17,237	17,696
	193,778	170,700
Less: Discount	(10,782)	(10,994)
Less: Allowance	(18,740)	(12,905)
TOTAL PLEDGES RECEIVABLE, NET	**$ 164,256**	**$ 146,801**

Management follows a similar approach as described in Note 3 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts to be prudent and reasonable. Management believes that the allowance for doubtful accounts at June 30, 2019 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2019 and 2018 had the following restrictions:

	2019	2018
Department programs and activities	$ 50,594	$ 44,748
Endowments for scholarships and department programs and activities	62,282	39,946
Building construction	51,380	62,107
TOTAL PLEDGES RECEIVABLE, NET	**$ 164,256**	**$ 146,801**

Uncollectible pledges totaling $5,203 (2019) and $6,141 (2018) were written off against the allowance for uncollectible pledges. The University had conditional pledge commitments totaling $17,616 (2019) and $19,321 (2018).

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5. LONG-TERM INVESTMENTS

The University holds long-term investments for endowment funds with donor restrictions, 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 6). The University's long-term investments at June 30, 2019 and 2018 were as follows:

	2019	2018
Equity securities	$ 428,165	$ 508,910
Fixed-income securities	175,299	287,611
Derivatives		94,816
Limited partnerships and Other		
Venture capital	30,432	115,416
Private equity	542,334	255,038
Real estate	39,040	69,090
Absolute return	480,811	335,300
Other	70,786	36,397
Equity real estate	81	81
TOTAL INVESTMENTS	**$ 1,766,948**	**$ 1,702,659**

	2019	2018
Operating investments	$ 255,668	$ 238,988
Investments, held for long-term purposes	1,511,280	1,463,671
TOTAL INVESTMENTS	**$ 1,766,948**	**$ 1,702,659**

6. ENDOWMENT AND SIMILAR FUNDS

Endowment Funds

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

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

- 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

Similar Funds

The Board has designated certain funds to function as endowments and has co-invested as such. Donor purpose-restricted funds were not given to the University with the understanding that the gift amount would be maintained in perpetuity; these funds are classified as net assets with donor restrictions. Even though the Board has elected to treat these funds in the same fashion as an endowment fund, at its option, the Board may elect to change that treatment and spend these funds in accordance with the intentions of the donor, if any, without the constraints of the University endowment spending formula. All other Board-designated funds are classified as net assets without donor restrictions and include quasi-endowments and a liquidity reserve (Note 15).

The breakdown of these classifications are:

June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowments		$ 1,198,275	$ 1,198,275
Purpose-restricted funds functioning as endowments		292,772	292,772
Board-designated funds	$ 77,264		77,264
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 77,264**	**$ 1,491,047**	**$ 1,568,311**

June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowments		$ 1,173,633	$ 1,173,633
Purpose-restricted funds functioning as endowments		291,863	291,863
Board-designated funds	$ 73,806		73,806
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 73,806**	**$ 1,465,496**	**$ 1,539,302**

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 6.04% (2019) and 9.15% (2018).

Spending Policy

The Board has approved an endowment spending policy for pooled investments based on a rolling ten-year average methodology. This approach takes into consideration the long-term effect of total return, spending, university support and inflation. The objective of this 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.

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 year 2019 and 2018 pooled endowment and similar funds spending allocation approved by the Investment Committee of the Board were $61,900 and $58,900, respectively. The approved spending rate for fiscal year 2019 and 2018 were 4.60% and 4.75% of beginning market value, respectively. The total amount allocated was $62,732 and $59,422, 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.

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For years where actual investment return exceeds actual approved spending, the difference remains in net assets with donor restrictions; 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 2019 and 2018 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 supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution totaled $6,000 in 2019 and $6,000 in 2018.

Changes in endowment and similar funds net assets for fiscal year 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2017	**$ 59,220**	**$ 1,402,017**	**$ 1,461,237**
Investment income	2,966	59,546	62,512
Realized and unrealized gains	3,635	51,815	55,450
TOTAL INVESTMENT RETURN	6,601	111,361	117,962
Contributions	10,465	16,994	27,459
Current year withdrawals		(199)	(199)
Current year expenditures	(2,480)	(64,677)	(67,157)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2018	**$ 73,806**	**$ 1,465,496**	**$ 1,539,302**
Investment income	1,574	24,375	25,949
Realized and unrealized gains	2,346	47,227	49,573
TOTAL INVESTMENT RETURN	3,920	71,602	75,522
Contributions	2,355	20,083	22,438
Current year withdrawals		(264)	(264)
Current year expenditures	(2,817)	(65,870)	(68,687)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2019	**$ 77,264**	**$ 1,491,047**	**$ 1,568,311**

Occasionally, the fair market value of assets associated with individual donor-restricted endowment funds falls below the value of the original gift amounts. These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments and additions, and authorized appropriation that was deemed prudent. The aggregate deficiencies in fair value relative to historical cost for underwater endowments as of June 30 were as follows:

	2019	2018
Aggregate historical value	$ 98,319	$ 100,719
Aggregate fair value	89,999	92,327
AGGREGATE DEFICIENCY	**$ (8,320)**	**$ (8,392)**

Financial instruments carried at fair market value as of June 30, 2019 and 2018 by the ASC 820 valuation hierarchy are as follows:

June 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Equity securities	$ 157,924	$ 54		$ 270,187	$ 428,165
Fixed-income securities	44,066	131,233			175,299
Limited partnerships and Other					
Venture capital				30,432	30,432
Private equity			$ 34,439	507,895	542,334
Real estate				39,040	39,040
Absolute return				480,811	480,811
Other			37,161	33,625	70,786
Equity real estate			81		81
TOTAL INVESTMENTS	**$ 201,990**	**$ 131,287**	**$ 71,681**	**$ 1,361,990**	**$ 1,766,948**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 298,189**	**$ -**	**$ 298,189**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 6,161				$ 6,161
Equity securities	83,453				83,453
Fixed-income securities	34,130	$ 2,826			36,956
Limited partnerships and Other					
Absolute return				$ 32,827	32,827
Other				11,400	11,400
Equity real estate				9,506	9,506
TOTAL PENSION PLAN ASSETS (Note 10)	**$ 123,744**	**$ 2,826**	**$ -**	**$ 53,733**	**$ 180,303**
ASSETS AT FAIR VALUE	**$ 325,734**	**$ 134,113**	**$ 369,870**	**$ 1,415,723**	**$ 2,245,440**
Interest rate swaps payable (Note 13)	$ -	$ 13,602	$ -	$ -	$ 13,602
LIABILITIES AT FAIR VALUE	**$ -**	**$ 13,602**	**$ -**	**$ -**	**$ 13,602**

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June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Equity securities	$ 43,323	$ 45,099		$ 420,488	$ 508,910
Fixed-income securities	159,933	127,678			287,611
Derivatives		94,816			94,816
Limited partnerships and Other					
Venture capital			$ 16,745	98,671	115,416
Private equity			4,332	250,706	255,038
Real estate				69,090	69,090
Absolute return		6,286		329,014	335,300
Other		42	36,355		36,397
Equity real estate			81		81
TOTAL INVESTMENTS	**$ 203,256**	**$ 273,921**	**$ 57,513**	**$ 1,167,969**	**$ 1,702,659**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 303,597**	**$ -**	**$ 303,597**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 4,394				$ 4,394
Equity securities	70,951				70,951
Fixed-income securities	23,525	$ 8,947			32,472
Limited partnerships and Other					
Absolute Return				$ 42,854	42,854
Other				8,540	8,540
Equity real estate				9,031	9,031
TOTAL PENSION PLAN ASSETS (Note 10)	**$ 98,870**	**$ 8,947**	**$ -**	**$ 60,425**	**$ 168,242**
ASSETS AT FAIR VALUE	**$ 302,126**	**$ 282,868**	**$ 361,110**	**$ 1,228,394**	**$ 2,174,498**
Interest rate swaps payable (Note 13)	$ -	$ 10,671	$ -	$ -	$ 10,671
LIABILITIES AT FAIR VALUE	**$ -**	**$ 10,671**	**$ -**	**$ -**	**$ 10,671**

Level 3 Investment Information

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

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

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

	Venture Capital	Private Equity	Equity Real Estate	Other & Funds Held by Others	Total
June 30, 2017	$ 15,952	$ 4,127	$ 81	$ 331,098	$ 351,258
Investment loss	(3)	(1)		(12)	(16)
Unrealized gains	1,524	395		9,219	11,138
Purchases	82	21			103
Settlements	(810)	(210)		(353)	(1,373)
June 30, 2018	**$ 16,745**	**$ 4,332**	**$ 81**	**$ 339,952**	**$ 361,110**
Investment income				621	621
Unrealized (losses) gains	(22)	2,807		(5,522)	(2,737)
Settlements		(1,647)		(869)	(2,516)
Transfers	(16,723)	28,947		1,168	13,392
June 30, 2019	**$ -**	**$ 34,439**	**$ 81**	**$ 335,350**	**$ 369,870**

The net realized and unrealized gains and losses in the table above are included in the University's statement of activities in one of two financial statement lines: *Investment (loss) income* or *Net appreciation.*

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.

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

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

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

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

Category	Redemption Frequency	Redemption Notice Period	Fair Value	Unfunded Commitments
Equity securities (a)	monthly, quarterly, annually	30 - 90 days	$ 270,187	
Limited partnerships and Other				
Venture capital (b)			30,432	$ 36,721
Private equity (c)			507,895	138,493
Real estate (d)			39,040	47,867
Absolute return (e)	monthly, quarterly, annually	30 - 90 days	513,638	36,650
Other (f)			45,025	
Equity real estate (g)			9,506	
TOTAL			**$ 1,415,723**	**$ 259,731**

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

(b) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(c) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(d) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 5-7 years.

(e) ***Absolute return*** includes 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 macro-economic 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 absolute return category from monthly, quarterly, annually, and up to a maximum of three years for traditional hedge fund vehicles and 5-10 years for private credit vehicles. Approximately 92% of the net asset value in this asset class is accessible within one year or less and 94% within three years. Over the course of the last twelve months less liquid, private credit funds with 5-10 year hold periods have been added to the portfolio for diversification purposes. This has marginally reduced liquidity in the absolute return asset class but as the private credit funds begin to call more capital portfolio liquidity will be further reduced but still maintained at manageable levels.

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

(g) ***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.

The valuations for the venture capital, private equity and real estate 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, and portfolio companies, are sold at the market.

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.

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. While the University's portfolio did not include any derivative instruments as of June 30, 2019 in the comparative year ending June 30, 2018 the derivative instruments used included total return swaps and over-the-counter options.

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.

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.

The following table provides detailed information on the derivatives included in the investment portfolio as of June 30, 2018 and where they are located in the statements of financial position:

			2018		
Location	Derivative Type	Notional Amount	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments, held for long-term purposes					
	Total return swaps	$ 100,721		$ 94,736	
	Options (over-the-counter)			80	
TOTAL DERIVATIVES, 2018			**$ -**	**$ 94,816**	**$ -**

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 statement of activities:

Location	Derivative Type	2019	2018
Investment income			
	Total return swaps	$ 13,227	$ 39,072
		$ 13,227	**$ 39,072**
Net appreciation			
	Total return swaps		2,596
		$ -	**$ 2,596**
NET EFFECT OF DERIVATIVES		**$ 13,227**	**$ 41,668**

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8. PROPERTY, PLANT, EQUIPMENT AND BOOKS

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

	2019	2018
Land and land improvements	$ 73,750	$ 72,483
Building and building improvements	1,370,484	1,355,525
Equipment and software	316,242	304,173
Library books	47,575	46,645
Construction-in-progress	58,562	42,453
	1,866,613	1,821,279
Less: Accumulated depreciation	(1,133,603)	(1,078,863)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$ 733,010**	**$ 742,416**

The above assets include $571,015 leased from the Ohio Higher Educational Facility Commission ("OHEFC"). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in *Notes and bonds payable* on the statements of financial position.

The expected cost to complete construction-in-progress was $33,113.

Depreciation expense included in the statement of activities was $65,981 (2019) and $67,880 (2018).

9. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate(s)	Maturity	2019	2018
OHEFC revenue notes and bonds[1]:					
Fixed-rate bonds:	Series 1990	6.50%	2019-2021	$ 4,365	$ 6,300
	Series 1994	6.25%	2019		4,745
	Series 2006	4.00 - 5.25%	2019-2027	40,340	40,525
	Series 2012A	4.00 - 5.00%	2019-2024	15,670	18,880
	Series 2013A	4.00 - 5.00%	2020-2024	20,435	20,435
	Series 2015A	4.00 - 5.38%	2019-2035	45,375	47,095
	Series 2016	3.00 - 5.00%	2019-2041	163,640	166,450
	Series 2018	3.00 - 5.00%	2019-2031	88,780	88,780
Variable-rate bonds:	Series 2014A	1.77 - 2.11%[2]	2019		67,500
	Series 2019A	2.16 - 2.16%[2]	2022-2044	68,160	
Compass Group USA, Inc.		-n/a-	2019		263
TOTAL LIABILITY				**$ 446,765**	**$ 460,973**
Line of credit				37,000	36,000
Unamortized bond premium				32,563	37,705
Unamortized bond issuance cost				(3,678)	(3,434)
TOTAL NOTES AND BONDS PAYABLE				**$ 512,650**	**$ 531,244**

[1]Terms of the respective bonds are disclosed in the year of issuance.

[2]The OHEFC Series 2014A and 2019A beginning and ending rate - the weighted average is 1.65% and 2.17%, respectively.

In May 2018, the OHEFC Series 2018 bonds were issued to refinance the balance of the OHEFC Series 2015B bonds in the amount of $72,630 and OHEFC tax-exempt Commercial Paper in the amount $30,000. Deferred financing fees of $724 were paid and the unamortized balance is a reduction to *Notes and bonds payable.* The total amount of the bond issue was $103,354.

In May 2018, we paid down the outstanding $30,000 of the OHEFC tax-exempt commercial paper program, which provided construction funds for several approved capital projects. The program was concurrently terminated.

In April 2019, the OHEFC Series 2019A bonds were issued to refinance the balance of the OHEFC Series 2014A bonds in the amount of $67,623. Deferred financing fees of $537 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bond issued was $68,160. The earliest optional redemption date for the bond is October 2021.

The University has revolving lines of credit with two financial institutions in the amount of $100,000 to finance working capital. The $25,000 line is subject to review and renewal in September 2019, and the $75,000 in March 2020. The amount outstanding was $37,000 (2019) and $36,000 (2018).

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

Year		Total Scheduled Principal Payments
2020	$	52,595
2021		15,375
2022		18,335
2023		45,925
2024		44,520
Thereafter		307,015
TOTAL	**$**	**483,765**

10. 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:

		2019		2018
Funded status at June 30 of prior fiscal year	$	(89,893)	$	(101,817)
Service cost		(9,192)		(10,424)
Interest cost		(11,370)		(10,682)
Expected return on assets		13,169		12,868
Actuarial (loss) gain		(22,742)		5,939
Employer contributions		15,836		14,223
FUNDED STATUS AT JUNE 30	**$**	**(104,192)**	**$**	**(89,893)**

Accumulated benefit obligation	$	283,289	$	256,998

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

		2019		2018
Net periodic benefit cost	$	12,675	$	14,321
Employer contributions		15,836		14,223
Benefits paid		6,575		6,998

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

2020	$	7,154
2021		7,636
2022		8,430
2023		9,022
2024		10,012

Amounts expected to be paid between 2025 and 2029 total $62,259. The University's estimated employer contribution for the defined benefit plan in fiscal 2020 will depend on the results of the July 1, 2019 actuarial valuation and is estimated to be $14,724.

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

	2019	2018
BENEFIT OBLIGATION		
Discount rate	3.90%	4.35%
Rate of compensation increase	2.25%	2.25%
Measurement date	6/30/19	6/30/18
Census date	7/1/18	7/1/17
NET PERIODIC BENEFIT COST		
Discount rate	4.35%	4.10%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	2.25%	2.25%

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The expected long-term rate of return for the defined benefit plan was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. Management estimated the rate by which the plan assets would outperform the market in the future based on historical experience adjusted for changes in asset allocation and expectations compared to past periods.

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

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

	2019	2018
Equity securities	46%	42%
Fixed income securities	24%	22%
Real estate	5%	5%
Other	25%	31%
TOTAL ASSET ALLOCATION	**100%**	**100%**

The amounts recognized in the University's statements of financial position and in net assets without donor restrictions related to the defined benefit plan are as follows:

	2019	2018
Benefit obligation at June 30	$ 284,495	$ 258,135
Fair value of plan assets at June 30	180,303	168,242
NET LIABILITY	**$ (104,192)**	**$ (89,893)**
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Accumulated actuarial losses	110,136	92,676
AMOUNT RECOGNIZED AS REDUCTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS	**$ 110,136**	**$ 92,676**

The estimated amortization of net loss expected in fiscal 2020 totals $6,704. Components of the net periodic benefit cost and other changes in plan assets that are recognized in the statement of activities are as follows:

	2019	2018
Change in actuarial loss (gains)	$ 17,460	$ (12,022)
TOTAL LOSS (GAIN) RECOGNIZED, NET ASSETS WITHOUT DONOR RESTRICTIONS	**17,460**	**(12,022)**
Service cost	9,192	10,424
Interest cost	11,370	10,682
Expected return on assets	(13,169)	(12,868)
Net loss amortization	5,282	6,083
Net periodic benefit cost	**12,675**	**14,321**
TOTAL LOSS RECOGNIZED, STATEMENT OF ACTIVITIES	**$ 30,135**	**$ 2,299**

Benefit plan costs for the defined contribution plan are $23,908 (2019) and $22,884 (2018).

11. 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 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 $101,612 (2019) and $99,967 (2018).

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

The University and CCF have entered into an agreement with a perpetual term to provide for the development, operation and joint use of the HEC, which includes an academic building and a separate dental clinic. The HEC provides a unified educational space for programs of the School of Medicine, including CCLCM, the School of

Dental Medicine and the Frances Payne Bolton School of Nursing. Occupancy occurred in spring of 2019. CCF is providing interim funding of construction costs as needed, while the University and CCF are collaborating on fundraising to cover the capital costs of the HEC. In the event that amounts raised by 2020 do not cover the total costs of the HEC, the University has agreed to provide up to $50,000 over a five-year period beginning in 2021.

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.

12. RELATED PARTY TRANSACTIONS

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase steam, chilled water, and other utilities for several University buildings. The amounts purchased were $22,026 (2019) and $22,624 (2018). No obligation associated with this agreement is recorded in the accompanying financial statements.

In August 2015, the Medical Center Company approved an energy efficiency grant in the amount of $829, of which $255 was used. The payback terms related to this project are 36 months beginning March 2016. The obligation related to this project recorded in *Deferred income and other liabilities* is $80 (2019) and $155 (2018).

In October 2017, the Medical Center Company approved an additional energy efficiency grant in the amount of $1,084. The project costs incurred totaled $0 (2019) and $1,084 (2018). The payback terms related to this project are 36 months beginning December 2018. The obligation related to this project recorded in *Deferred income and other liabilities* is $873 (2019) and $1,084 (2018).

13. DERIVATIVES

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

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an independent swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy. Under four agreements in effect at June 30, 2019, 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, 2019, with comparative fair values for June 30, 2018. Information related to the interest rate swap agreements and the liability recognized in the statements of financial position in *Deferred income and other liabilities* are as follows:

Notional Amount	Interest Rate	Commencement	Termination Date	Basis	2019	2018
					Level 2 Fair Market Value	
$ 7,510	4.34%	Aug. 12, 2004	Oct. 1, 2022	LIBOR	$ (543)	$ (589)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	(1,437)	(1,441)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(1,180)	(1,035)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(10,442)	(7,606)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (13,602)**	**$ (10,671)**

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as *Investment (loss) income.* The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000. The University had placed $0 (2019 and 2018) into such a fund.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $1,700 (2019) and $2,157 (2018).

14. NATURAL AND FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are reported in the statement of activities by functional categories and include allocations of depreciation expense, interest on indebtedness and plant operation and maintenance costs.

Operating expenses by nature and function are summarized as follows for the years ended June 30, 2019 and 2018:

June 30, 2019	Instructional	Sponsored projects	Libraries	Student services	University services	Auxiliaries	Total operating expenses
Salaries and wages	$ 189,624	$ 140,358	$ 6,259	$ 16,546	$ 51,912	$ 11,442	$ 416,141
Fringe benefits	57,877	36,742	1,863	5,109	16,687	3,586	121,864
Other operating expense	73,798	184,339	4,892	10,567	43,059	29,277	345,932
Allocations							
Depreciation	10,639	15,970	7,277	1,397	7,309	23,388	65,980
Interest	1,670	4,303	371	163	1,878	11,113	19,498
Plant operations and maintenance	7,947	12,247	3,154	966	7,373	6,170	37,857
TOTAL	**$ 341,555**	**$ 393,959**	**$ 23,816**	**$ 34,748**	**$ 128,218**	**$ 84,976**	**$ 1,007,272**

June 30, 2018	Instructional	Sponsored projects	Libraries	Student services	University services	Auxiliaries	Total operating expenses
Salaries and wages	$ 186,953	$ 139,719	$ 6,221	$ 14,736	$ 49,325	$ 11,642	$ 408,596
Fringe benefits	56,238	34,574	1,834	4,556	15,634	3,516	116,352
Other operating expense	69,893	177,941	4,222	11,183	42,487	30,379	336,105
Allocations							
Depreciation	9,772	17,572	7,178	1,391	8,175	23,792	67,880
Interest	1,618	4,843	370	115	1,821	8,359	17,126
Plant operations and maintenance	7,404	11,422	2,990	1,139	7,191	5,682	35,828
TOTAL	**$ 331,878**	**$ 386,071**	**$ 22,815**	**$ 33,120**	**$ 124,633**	**$ 83,370**	**$ 981,887**

15. NET ASSETS

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

	2019	2018
WITHOUT DONOR RESTRICTIONS		
Board-designated:		
Quasi-endowments	$ 77,264	$ 73,806
Liquidity reserve	122,210	115,787
TOTAL BOARD-DESIGNATED	199,474	189,593
Unrestricted	59,009	52,075
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	**$ 258,483**	**$ 241,668**
WITH DONOR RESTRICTIONS		
Endowments	$ 1,198,275	$ 1,173,633
Purpose-restricted funds functioning as endowments	292,772	291,863
Pledges receivable	114,819	135,412
Funds held in trust by others	300,947	306,164
Student loan funds	37,700	37,316
Split-interest agreements	15,596	12,132
Purpose-restricted gifts	179,988	155,252
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 2,140,097**	**$ 2,111,772**

16. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 19, 2019, the date on which the financial statements were issued.

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