

2022

FINANCIAL REPORT



CASE WESTERN RESERVE
UNIVERSITY EST. 1826

think beyond the possible

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Cover: Opened in August 2014, the Tinkham Veale University Center is a state-of-the-art facility that is distinguishable on two levels — physically for iconic architecture and philosophically for campus unification, bridging the east and west sides of the Case Western Reserve University campus. Tinkham Veale II, from whom the building gets its name, was a 1937 graduate of the Case Institute of Technology. He valued the education he received and lifelong friendships he forged on campus. He considered a university center to be an ideal space to draw together people and ideas. Called 'Tink' by his friends and family, the Tinkham Veale University Center adopted his nickname as well, and is commonly referred to as "The Tink."

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

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University (the “University”) welcomed new President Eric W. Kaler and had a record level of applicants during Fiscal Year 2022 (“FY22”). Net operating activity was \$84 million on a Generally Accepted Accounting Principles (“GAAP”) basis. Operating results yielded a \$14.4 million operating surplus on the modified cash basis.

FY22 FINANCIAL HIGHLIGHTS

Statement of Activities – (GAAP Basis)

The University’s management of its resources produced a net operating activity of \$84 million, or a 7.4% operating margin as reflected on the *Statement of Activities* (GAAP Basis).

Research grants, contracts and related cost recovery continued to grow to \$472 million, an increase of \$47 million or 11% over FY21. Student auxiliary services returned to normal levels of \$72 million, an increase of \$35 million following the COVID-19 pandemic. Operating investment returns declined to \$7 million amidst volatile economic markets. Overall, the net operating activity is \$84 million, or a 7.4% margin.

Statement of Operations – Modified Cash Basis

The FY22 operating surplus was \$14.4 million, a 23% increase over FY21. This surplus is higher than the FY22 operating budget, driven by revenue increases in tuition, research and student auxiliaries.

The FY22 operating budget maintained the FY21 cost improvements. The budget reflected a planned surplus of \$12.7 million and included a resumption of Retirement Plan A contributions.

Overall, the University’s financial results were better than expected, and \$7.5 million was able to be reserved for strategic investments.

During FY22 student auxiliary services revenue and activity have returned to 100% of normal, historic levels. Sponsored research activity increased and research-related revenue grew by 12%.

Other Financial Activity

The University issued \$350 million of Century Bonds in anticipation of a new research building. The Century Bonds have a credit rating of AA-/stable rating from S&P and an Aa3/stable rating from Moody’s. The balance sheet impact was dramatic, with total assets exceeding \$4 billion, and cash and cash equivalents reaching \$552 million. Pension liabilities declined to \$61 million, an improvement of \$26 million. Financial ratios continue to reflect the strength and stability of Ohio’s largest private research university.

The University maintains a sizable long term investment pool, primarily endowment funds (See *financial statement footnote 7 – Endowment and Similar Funds*). The valuation date of June 30 measures fair market value of the investments each year. At June 30, 2022, the fair market value was \$1.9 billion, including a negative annual return of (5.7)%. The 2021 return was 31.8%.

Both net operating activity and operating surplus have been positive for 15 years. See *Selected Financial Data* on page 7 for more information.

The FY23 operating budget includes an 8% salary pool increase to attract and retain faculty and staff. The FY23 budget reflects a planned surplus of \$13.4 million and the emphasis is on focused strategic investment and unrestricted expense management.

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

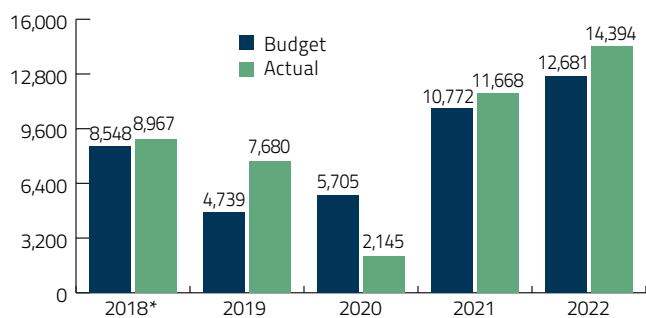
STATEMENT OF OPERATIONS *unaudited*

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 \$14.4 million in FY22, compared to a budgeted surplus of \$12.7 million and an \$11.7 million surplus in FY21. FY22 marked the fifteenth consecutive year of positive operating results.

UNIVERSITY SURPLUS/(DEFICIT)

in thousands of dollars



*2018 is Revised Budget

The FY22 operating results reflect increases in all revenue categories offset by corresponding increases in direct and indirect expenses.

MANAGEMENT CENTER OPERATING REVENUES

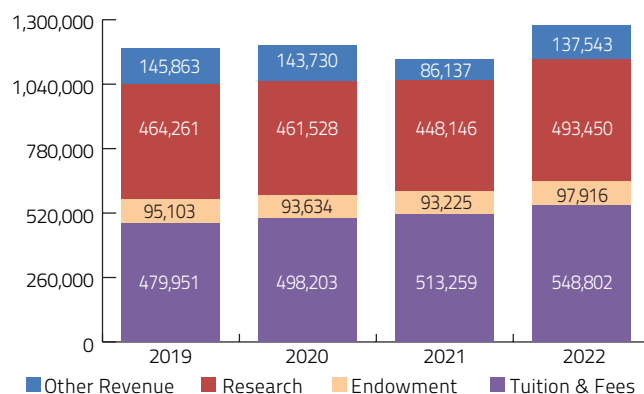
Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research, and Other Revenue. The University reported \$1.278 billion in total revenue, a \$137 million or 12% increase over FY21.

Gross tuition and fees revenue was \$549 million, a \$36 million or 7% increase over FY21. Gross undergraduate tuition was \$286 million, a \$24 million or 9% increase over FY21. The increase is the result of a 3.0% rate increase and 6.9% increase in undergraduate enrollment. Professional and graduate program gross tuition, along with summer programs and fees, of \$263 million, reflects an \$11 million increase over FY21.

Endowment revenue increased 5%. Research revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were \$493 million, a \$45 million or 10% increase over FY21.

OPERATING REVENUE

in thousands of dollars



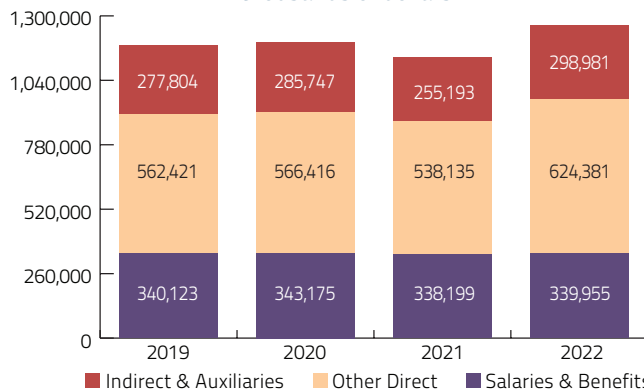
Other revenue was \$138 million, an increase of \$51 million or 60% over FY21. The increase was \$43 million in Auxiliaries, \$6 million in Other Income, and \$2 million in Organized Activities.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were \$1.263 billion, a \$132 million or 12% increase over FY21. Expenses are categorized as Salaries and Benefits, Other Direct, Indirect and Auxiliaries.

OPERATING EXPENSES

in thousands of dollars



Salaries and benefits were \$340 million, a \$1.7 million or 1% increase over FY21. Other direct expense was \$624 million, an \$86 million or 16% increase over FY21. Indirect expense and auxiliaries were \$299 million, a \$44 million or 17% increase over FY21.

STATEMENT OF ACTIVITIES AND OTHER SUPPORT

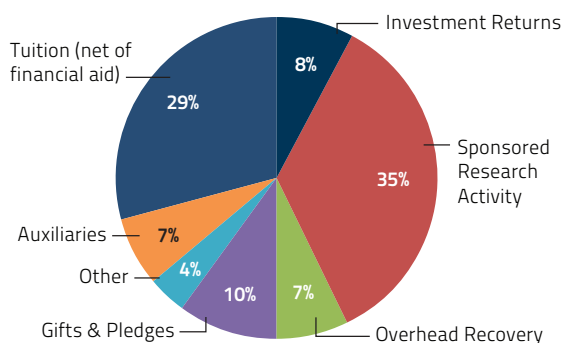
The *Statement of Activities* (GAAP Basis) includes results from the University's operating and non-operating activities which produced a \$141 million decrease in net assets. Net operating activity contributed \$84 million to net assets while net long-term investments activities reduced net assets by \$192 million. In FY21, operating activity contributed \$133 million to net assets.

OPERATING REVENUES AND OTHER SUPPORT

Total operating revenues and other support were \$1.132 billion, an increase of \$31 million or 3% over FY21. The components of the University's revenues are shown below and additional detail of operating revenue follows.

OPERATING REVENUES AND OTHER SUPPORT

\$1.132 billion



Statement of Activities data

Tuition income

Gross tuition income of \$572 million increased \$44 million or 8% over FY21, 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 FY22 was \$243 million, resulting in net tuition of \$329 million, or 29% of operating revenues.

The net tuition and fees income of \$329 million represents an \$11 million or 3% increase over FY21, with increased revenues generated primarily by an increase in tuition rates.

Investment returns

Investment returns included \$68 million in returns distributed from the long-term investment pool, \$7 million in returns on operating investments, and \$16 million in

distributions from funds held in trust by others ("FHBO") for endowment spending. Investment returns, which represent 8% of operating revenues, totaled \$91 million, or a 21% decrease from FY21.

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 \$392 million, including \$129 million in CCLCM awards. This amount reflects an increase of \$40 million, or 11% over FY21. The total represents 35% of overall University operating revenues.

Overhead cost recovery

Facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was \$80 million in FY22, a \$7 million or 9% increase over FY21. Overhead recovery represents 7% of operating revenues.

Gifts and pledges

Gifts and pledges income was \$115 million, a decrease of \$37 million or 24% from FY21. Gifts and pledges, which represent 10% of operating revenues, are recorded in the appropriate asset category when received.

Other revenue

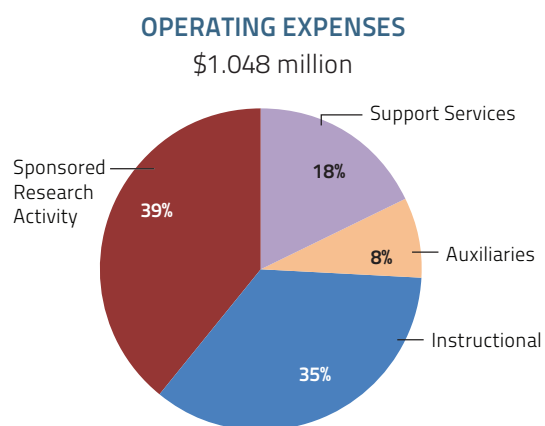
Other revenue of \$45 million decreased \$1 million or 3% from FY21. Other revenue represents 4% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

Auxiliaries

Auxiliaries revenue of \$80 million increased \$36 million or 83% over FY21 due to the return to normal levels of on-campus activity. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling \$72 million, or "Other," including Rental Properties and Parking, totaling \$8 million for FY22. Auxiliaries revenue represents 7% of operating revenues.

OPERATING EXPENSES

Total expenses of \$1.048 billion increased \$80 million or 8% over FY21. The components of the University's expenses are shown below and additional detail of operating expenses follows.



Statement of Activities data

Instructional costs of \$363 million represents 35% of operating expenses and increased by \$33 million or 10% over FY21. Included in direct instructional costs are faculty and staff salaries and benefits.

Sponsored research activity of \$413 million, represents 39% of operating expenses, increased \$40 million or 11% over FY21. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support services costs of \$184 million, represents 18% of operating expenses, including libraries, student services, and university services, decreased \$4 million or 2% from FY21. The decrease is primarily in university services.

Auxiliaries expenses of \$88 million represents 8% of operating expenses, increased \$11 million or 15% over FY21.

NON-OPERATING ACTIVITIES

Non-operating activities decreased net assets by \$225 million, compared to a \$546 million increase in FY21. The FY22 decrease includes negative mark-to-market valuation adjustments to long-term investments of \$399 million. Pension plan changes other than periodic benefit costs of \$33 million are \$8 million lower than FY21 and are primarily the result of decreases in plan assets and favorable movement in pension assumptions.

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 (5.67)% (2022) and 31.83% (2021). Additional detail on the investment pool is shown in *Footnote 7*.

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, 2022 and 2021 is shown in the table below:

<i>(in thousands)</i>	2022	2021
Endowment Pool:		
Donor-restricted	\$ 1,444,007	\$ 1,546,675
Donor-purpose restricted	330,582	353,552
Quasi-endowment	116,119	104,147
Funds held in trust	297,453	349,816
Total combined endowment	\$ 2,188,161	\$ 2,354,190
Change in market value	(7.05)%	27.20%

Activities and total investment return for the combined endowment for the years ended June 30, 2022 and 2021 are shown in the table below:

<i>(in thousands)</i>	2022	2021
Beginning combined endowment	\$ 2,354,190	\$ 1,850,806
Additions	76,287	41,851
Spending distribution	(84,094)	(81,428)
Operating support	(13,071)	(12,089)
(Depreciation) appreciation and investment income	(145,151)	555,050
Ending combined endowment	\$ 2,188,161	\$ 2,354,190
Combined endowment investment return	(6.69)%	31.50%

CHANGE IN NET ASSETS

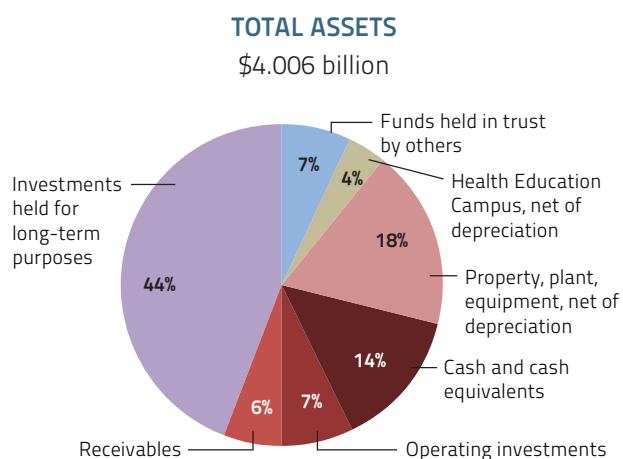
The combined net operating activity of \$84 million and net non-operating activity of \$(225) million resulted in a decrease in net assets of \$(141) million or 5% from FY21.

STATEMENTS OF FINANCIAL POSITION

The University's *Statements of Financial Position* reflect total assets of \$4.006 billion with a primarily sizable cash and investment balance of \$2.875 billion.

ASSETS

Total assets increased \$133 million or 3% over FY21. Total cash and investments of \$2.875 billion, including cash and cash equivalents, operating investments, investments held for long-term purposes and funds held in trust by others, combined total 72% of University assets. Property, plant, equipment and books represent an additional \$717 million or 18% of assets.



Statement of Financial Position data

Cash and cash equivalents

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

The University's cash position on June 30 was \$552 million, an increase of \$407 million over FY21 due to the Century Bond issuance. 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 \$261 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 decreased \$27 million or 9% from FY21.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had \$247 million in receivables, which represent 6% of assets. Receivables decreased \$22 million or 8% from FY21.

Investments, held for long-term purposes

Long-term investments of \$1.764 billion decreased \$151 million or 8% from FY21. 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 \$84 million on long-term investments in FY22.

Funds held in trust by others

Funds held in trust by others of \$297 million decreased \$52 million or 15% from FY21.

Health Education Campus

The University has shared interests in the Health Education Campus ("HEC") with the Cleveland Clinic Foundation. Occupancy began in spring 2019. The University's basis of \$146 million is a \$2 million or 2% decrease from FY21.

Property, plant, equipment, and books

Property, plant, equipment, and books, net of depreciation, constitute 18% of the University's assets, totaling \$717 million for FY22. Net plant assets decreased \$19 million or 3% from FY21.

LIABILITIES

Total liabilities of \$1.118 billion increased \$274 million or 32% from FY21. The increase is comprised of (*in thousands*):

Notes & bonds payable	\$325,314
Accrued pension liability	(25,771)
Other	(25,958)
Increase in liabilities	<u>\$273,585</u>

Retirement plans

The University provides defined benefit and defined cotribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 5.00% in FY22 is updated from 3.25% in FY21. The University's accrued pension liability decreased \$26 million from FY21, to a total accrued pension liability of \$61 million in FY22.

Debt

Total liability on notes and bonds payable, including the line of credit and unamortized bond premium and issuance costs, increased \$325 million from FY21 to \$816 million. The increase was primarily due to the issuance of the 2022C Century Bonds for \$350 million and was offset primarily by scheduled principal payments.

The University conducted four bond transactions in FY22. Three were partial refunding transactions totaling \$120 million and one new debt issuance for \$350 million. The new debt was issued for strategic purposes, including partial funding for a new research building and the creation of an internal bank to fund strategic initiatives.

The University's entire variable rate debt of \$35 million is synthetically fixed with three floating-to-fixed rate swaps. The University entered into a forward rate lock contract totaling \$115 million to finance a new 600-bed dormitory. This transaction settled in August 2022.

Moody's Investor Services upgraded their rating to Aa3 with a stable outlook. S&P Global Ratings affirmed its rating of AA- and stable outlook. After the new debt issuance in June 2022, both agencies affirmed their ratings and outlook.

NET ASSETS

In FY22, the University's total net assets decreased \$141 million or 5% from FY21 to \$2.89 billion due primarily to negative mark-to-market valuation adjustments to long-term investments. Net operating activity increased net assets by \$84 million. Net non-operating activity decreased net assets by \$225 million, including \$399 million of net depreciation in long-term investments.

CHANGE IN NET ASSETS

(in thousands)	2022	2021
Beginning net assets	\$ 3,028,531	\$ 2,349,400
Increase (decrease) in net assets	(140,541)	679,131
Ending net assets	\$ 2,887,990	\$ 3,028,531

Net assets without donor restrictions

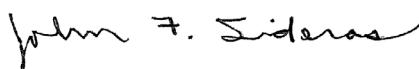
Net assets without donor restrictions increased \$31 million or 9% over FY21 to \$373 million. Net operating activity added \$65 million and net non-operating activity decreased net assets by \$34 million.

Net assets with donor restrictions

Net assets with donor restrictions decreased \$171 million or 6% from FY21 to \$2.515 billion, driven by \$345 million in negative valuation adjustments on restricted long-term investments and \$172 million in investment income. The University received \$72 million of new restricted gifts and pledges and released net assets from restriction of \$53 million in net operating activity. Non-operating activity decreased net assets with donor restrictions by \$21 million in assets released from restrictions.

PROSPECTIVE DISCUSSION

The University expects to maintain a positive operating position as reflected in its FY23 operating budget surplus of \$13 million. Senior leadership is focused on its three priorities of elevating academic excellence, growing the research enterprise and enhancing community engagement.



John F. Sideras, CPA

Executive Vice President and Chief Financial Officer

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

in thousands of dollars

	2022	2021	2020	2019
STATEMENT OF OPERATIONS HIGHLIGHTS – Management View				
Total revenue	\$ 1,277,711	\$ 1,140,767	\$ 1,197,095	\$ 1,185,178
Total expense	1,263,317	1,131,527	1,195,338	1,180,348
Operating margin	14,394	9,240	1,757	4,830
Retained surplus use	–	2,428	388	2,850
Surplus	\$ 14,394	\$ 11,668	\$ 2,145	\$ 7,680
STATEMENT OF ACTIVITIES HIGHLIGHTS – GAAP Basis				
Tuition and fees (net of student aid)	\$ 329,362	\$ 318,662	\$ 302,802	\$ 300,703
Investment, FHBO, and operational returns	91,484	115,658	97,822	97,893
Grants and contracts	391,690	351,668	364,688	365,693
Facilities and administrative cost recovery	79,994	73,334	76,856	78,765
Gifts and pledges	114,840	151,848	110,818	98,173
Other revenue	45,234	46,471	57,108	50,914
Auxiliary services	79,679	43,436	65,505	75,767
Total operating revenues and other support	1,132,283	1,101,077	1,075,599	1,067,908
Instructional expenses	363,047	330,401	358,200	341,555
Sponsored research activity	412,901	372,899	385,277	393,959
Support services	184,041	187,800	189,724	186,782
Auxiliary services	88,074	76,733	87,961	84,976
Total operating expense	1,048,063	967,833	1,021,162	1,007,272
Net operating activity	\$ 84,220	\$ 133,244	\$ 54,437	\$ 60,636
Long-term investment activities	(191,847)	575,295	(1,854)	77,014
Other non-operating activities	(32,914)	(29,408)	(101,763)	(92,510)
Net non-operating activities	\$ (224,761)	\$ 545,887	\$ (103,617)	\$ (15,496)
Change in net assets	\$ (140,541)	\$ 679,131	\$ (49,180)	\$ 45,140
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	\$ 551,939	\$ 145,314	\$ 108,276	\$ 80,586
Operating investments, at market	260,961	287,818	232,034	255,668
Receivables, net	247,213	269,636	244,883	268,206
Investments (held for long-term purposes)	1,764,237	1,915,558	1,535,878	1,511,280
Funds held in trust by others	297,453	349,816	280,247	298,189
Health Education Campus, net of depreciation	146,202	148,663	134,611	59,890
Property, plant, equipment, and books, net of depreciation	717,407	736,443	719,320	733,010
Prepaid expenses and other assets	20,619	19,739	19,582	10,564
Total assets	\$ 4,006,031	\$ 3,872,987	\$ 3,274,831	\$ 3,217,393
Total liabilities	\$ 1,118,041	\$ 844,456	\$ 925,431	\$ 818,813
Total net assets	\$ 2,887,990	\$ 3,028,531	\$ 2,349,400	\$ 2,398,580
OTHER FINANCIAL INFORMATION				
Net investments (including FHBO), at fair value	\$ 2,322,651	\$ 2,553,192	\$ 2,048,159	\$ 2,065,137
Investments payout in support of operations	\$ 84,094	\$ 81,428	\$ 86,212	\$ 83,634
Total gifts and pledges (attainment)	\$ 174,791	\$ 171,766	\$ 167,964	\$ 182,093
Total gifts – cash basis	\$ 138,783	\$ 136,288	\$ 135,426	\$ 112,557
STUDENTS				
Enrollment*				
Undergraduate	5,705	5,334	5,286	5,151
Post-Baccalaureate	5,760	5,458	5,790	5,921

*Enrollment for fall semester of fiscal year in FTEs



Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

Opinion

We have audited the accompanying financial statements of Case Western Reserve University (the “University”), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities for the year ended June 30, 2022 and of cash flows for the years ended June 30, 2022 and 2021, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, the changes in its net assets for the year ended June 30, 2022, and its cash flows for the years ended June 30, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the statement of financial position as of June 30, 2021, and the related statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated October 15, 2021, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University’s ability to continue as a going concern for one year after the date the financial statements are issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the University audit 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, no such opinion is expressed.
- Evaluate 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Discussion of Financial Results and Selected Financial Data, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Cleveland, OH
October 14, 2022

STATEMENTS OF FINANCIAL POSITION

<i>In thousands of dollars</i>	June 30	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 551,939	\$ 145,314
Operating investments	260,961	287,818
Accounts and loans receivable, net	93,487	99,375
Pledges receivable, net	153,726	170,261
Prepaid expenses and other assets	9,979	9,705
Right-of-use assets - operating leases	10,640	10,034
Investments, held for long-term purposes	1,764,237	1,915,558
Funds held in trust by others	297,453	349,816
Health Education Campus, net	146,202	148,663
Property, plant, equipment and books, net	717,407	736,443
TOTAL ASSETS	\$ 4,006,031	\$ 3,872,987
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 72,616	\$ 78,066
Deferred income and other liabilities	91,730	107,964
Operating lease obligations	10,640	10,034
Annuities payable	33,740	38,117
Refundable advances	13,868	11,704
Accrued pension liability	61,327	87,098
Notes and bonds payable	816,454	491,140
Refundable federal student loans	17,666	20,333
TOTAL LIABILITIES	\$ 1,118,041	\$ 844,456
NET ASSETS		
Without donor restrictions	\$ 373,485	\$ 342,619
With donor restrictions	2,514,505	2,685,912
TOTAL NET ASSETS	\$ 2,887,990	\$ 3,028,531
TOTAL LIABILITIES AND NET ASSETS	\$ 4,006,031	\$ 3,872,987

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

STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2021

<i>In thousands of dollars</i>	Without Donor Restrictions	With Donor Restrictions	For the year ended June 30	
			2022	2021
OPERATING REVENUES AND OTHER SUPPORT				
Student tuition and fees, net of student aid of \$242,564 and \$209,397, respectively	\$ 329,362		\$ 329,362	\$ 318,662
Investment returns distributed for operations	68,183		68,183	66,671
FHBO returns distributed	15,311	\$ 600	15,911	14,757
Investment returns on operating investments	7,390		7,390	34,230
Grants and contracts	262,193		262,193	255,520
CCLCM grants and contracts	129,497		129,497	96,148
Gifts and pledges	32,288	71,811	104,099	139,687
Contributed non-financial assets	10,741		10,741	12,161
State of Ohio appropriation	2,594		2,594	2,551
Facilities and administrative cost recovery	79,994		79,994	73,334
Organized activities	11,781		11,781	9,308
Other sources	30,833	26	30,859	34,612
Auxiliary services - students	72,017		72,017	37,421
Auxiliary services - other	7,662		7,662	6,015
Net assets released from restrictions	53,018	(53,018)	-	
TOTAL OPERATING REVENUES AND OTHER SUPPORT	\$ 1,112,864	\$ 19,419	\$ 1,132,283	\$ 1,101,077
OPERATING EXPENSES				
Instructional	\$ 363,047		\$ 363,047	\$ 330,401
Sponsored research and training	255,301		255,301	242,815
Other sponsored projects	28,103		28,103	33,936
CCLCM research and training	129,497		129,497	96,148
Libraries	20,609		20,609	20,683
Student services	33,290		33,290	29,999
University services	130,142		130,142	137,118
Auxiliary services - students	73,283		73,283	63,225
Auxiliary services - other	14,791		14,791	13,508
TOTAL OPERATING EXPENSES	\$ 1,048,063	\$ -	\$ 1,048,063	\$ 967,833
NET OPERATING ACTIVITY	\$ 64,801	\$ 19,419	\$ 84,220	\$ 133,244
NON-OPERATING ACTIVITIES				
Long-term investment activities				
Investment income	\$ 34,919	\$ 172,334	\$ 207,253	\$ 68,353
Net (depreciation) appreciation	(54,538)	(344,562)	(399,100)	506,942
Total long-term investment activities	(19,619)	(172,228)	(191,847)	575,295
Investment returns distributed for operations	(68,183)		(68,183)	(66,671)
Change in liabilities due under life-income agreements	8	2,071	2,079	(3,066)
Gain (loss) on disposal of plant assets	92		92	(416)
Pension plan changes other than periodic benefit costs	33,098		33,098	40,745
Net assets released from restrictions	20,669	(20,669)	-	
NET NON-OPERATING ACTIVITY	\$ (33,935)	\$ (190,826)	\$ (224,761)	\$ 545,887
CHANGE IN NET ASSETS				
Beginning net assets	342,619	2,685,912	3,028,531	2,349,400
ENDING NET ASSETS	\$ 373,485	\$ 2,514,505	\$ 2,887,990	\$ 3,028,531

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

STATEMENTS OF CASH FLOWS

<i>In thousands of dollars</i>	For the year ended June 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (140,541)	\$ 679,131
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation	68,057	67,579
Amortization of bond issuance costs	812	341
Amortization of bond premiums	(5,274)	(6,487)
Amortization of right-of-use assets - operating leases	2,255	2,209
Loss on debt refunding and defeasance	1,206	
Realized and unrealized net losses (gains) on investments	140,457	(534,644)
Realized and unrealized net losses (gains) on funds held in trust by others	52,363	(69,569)
(Decrease) increase to annuities payable resulting from actuarial adjustments	(2,079)	3,066
Gifts of property and equipment	(23)	(1,972)
(Gain) loss on disposal of plant assets	(92)	416
Contributions for long-term investment	(41,669)	(49,980)
Decrease (increase) in accounts and loans receivable, net	2,727	(10,486)
Decrease (increase) in pledges receivable, net	16,535	(17,060)
(Increase) decrease in prepaid expenses and other assets	(274)	828
(Decrease) increase in accounts payable and accrued expenses	(7,183)	16,228
(Decrease) increase in deferred income and other liabilities	(6,234)	1,351
Decrease in operating lease obligations	(2,255)	(2,209)
Increase in refundable advances	2,164	5,841
Decrease in accrued pension liability	(25,771)	(43,305)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 55,181	\$ 41,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	\$ 6,911	\$ 7,148
Issued	(3,750)	(4,355)
Increase in cash for long-term investment	(1,582)	(2,083)
Proceeds from the sale of investments	1,131,887	1,028,312
Purchase of investments	(1,094,166)	(929,132)
Increase in Health Education Campus	(11,751)	(26,144)
Proceeds from the sale of plant assets	274	107
Purchases of property, plant, equipment and books	(43,235)	(80,014)
NET CASH USED FOR INVESTING ACTIVITIES	\$ (15,412)	\$ (6,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in federal advances for student loans	\$ (2,667)	\$ (2,848)
Contributions for long-term investment	24,094	32,235
Proceeds from the sale of investments received as gifts	19,157	19,828
Proceeds from short-term debt		96,000
Repayment of short-term debt		(130,000)
Proceeds from notes and bonds payable	470,723	4,138
Repayment of notes and bonds payable	(142,153)	(15,759)
Increase to annuities payable resulting from new gifts	27	441
Decrease to annuities payable resulting from payments	(2,325)	(2,114)
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 366,856	\$ 1,921
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 406,625	\$ 37,038
Cash and cash equivalents, beginning of year	145,314	108,276
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 551,939	\$ 145,314
SUPPLEMENTAL DATA:		
Interest paid in cash	\$ 16,978	\$ 18,125
Construction-in-progress payments included in accounts payable	5,562	3,830
Noncash activity:		
Commencement of new operating lease obligation	3,840	3,194
Write-off of existing operating lease obligation	979	

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Case Western Reserve University (“the University”) is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The financial statements of the University as of June 30, 2022 and 2021, 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 17):

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 the performance obligations of the grant or contract funding have been met. Sponsored support for which restrictions are met in the same year are reflected in revenues without donor restrictions. Any payment received prior to qualifying expenses being incurred is recorded as a refundable advance. The University had refundable advances of \$13,868 (2022) and \$11,704 (2021). 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.

Leases

The University determines if an arrangement is a lease at inception. The University has both leases under which it is obligated as a lessee and leases for which it is a lessor. Operating leases as a lessee are included in *Right-of-use assets – operating leases* and *Operating lease obligations* in the statements of financial position. Right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term and discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date. The value

of an option to extend a lease is reflected to the extent it is reasonably certain management will exercise that option.

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 based on the University's proportional share of the net asset value of the total fund 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 income* in the statement of activities. 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 8). 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, 2022 and 2021.

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.

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. Occupancy of the HEC, which includes an academic building and separate dental

clinic, began in spring 2019 and the University's basis is determined on cash transfers toward the HEC project. Upon the completion of fundraising and final funding of the project, the parties are committed to joint ownership of the above described properties (Note 9).

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 3.13% and 1.94% for June 30, 2022 and 2021, 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 16).

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.

Comparative Information

The statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2021, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code ("IRC"). The University is classified as an organization that is not a private foundation under section 509(a) of the IRC, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2022 and 2021. 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, 2022 and 2021.

Revenue Recognition

The University appropriately reflects 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 income. The University's significant revenue sources, shown in disaggregated form, for the fiscal years ended June 30, 2022 and 2021 are as follows:

	2022	2021
STUDENT TUITION AND FEES		
Undergraduate tuition	\$ 303,759	\$ 276,845
Less: Student aid	(168,060)	(142,179)
	135,699	134,666
Graduate and professional tuition	255,916	242,614
Less: Student aid	(74,504)	(67,218)
	181,412	175,396
Fees	12,251	8,600
TOTAL NET STUDENT TUITION AND FEES	\$ 329,362	\$ 318,662
AUXILIARY SERVICES REVENUE		
Food Services	\$ 21,404	\$ 9,052
Housing and greek life	43,247	21,950
Health services	6,547	6,081
Parking	5,303	4,077
Other	3,178	2,276
TOTAL AUXILIARY SERVICES REVENUES	\$ 79,679	\$ 43,436

New Pronouncements

In June 2016, the FASB issued ASU 2016-13: "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. The University is evaluating the impact this will have on financial statements for the fiscal year ending June 30, 2024, 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, 2020, and has been adopted by the University in the current fiscal year and did not have a material effect on the financial statements.

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, and has been adopted by the University in the current fiscal year and did not have a material effect on the financial statements.

In March 2020, the FASB issued ASU 2020-04: "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The

standard provides temporary optional expedients and exceptions to U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Inter-Bank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The standard is effective March 12, 2020 through December 31, 2022. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2023.

In September 2020, the FASB issued ASU 2020-07: "Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets." The standard provides increased transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The standard is effective for fiscal years beginning after June 15, 2021, and has been adopted by the University in the current fiscal year and did not have a material effect on the financial statements.

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, 2022 and 2021, the University's financial assets and liquidity resources available for general expenditure within one year are as follows:

	2022	2021
Financial assets available within one year:		
Cash and cash equivalents	\$ 551,939	\$ 145,314
Operating investments	45,791	56,358
Accounts and notes receivable, net	54,720	57,770
Expected pledge payments available for operations	18,681	22,494
Other assets	978	694
Fiscal year 2023 and 2022 pooled endowment and similar funds spending allocation, respectively	73,700	68,700
TOTAL FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR	\$ 745,809	\$ 351,330
Liquidity resources:		
Committed lines of credit (Note 11)	125,000	200,000
TOTAL FINANCIAL ASSETS AND LIQUIDITY RESOURCES AVAILABLE WITHIN ONE YEAR	\$ 870,809	\$ 551,330

Additionally, the University has Board-designated funds of \$215,157 and \$230,450, including a liquidity reserve of \$99,038 and \$126,303, as of June 30, 2022 and 2021, respectively. Although the University does not intend to spend from these investment funds, other than amounts appropriated by the Board for fiscal year 2023, amounts from its Board-designated funds could be made available, if necessary.

In June 2022, the University issued Series 2022C taxable century bonds. The net proceeds of \$346,812 were included in cash equivalents as of June 30, 2022. The bonds were issued for strategic purposes including partial funding for a new interdisciplinary science and engineering building and the creation of an internal bank to fund various strategic initiatives.

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, 2022 and 2021 were as follows:

	2022	2021
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	\$ 52,432	\$ 54,276
Students	3,002	3,859
STUDENT LOANS, NET	38,053	41,240
ACCOUNTS AND LOANS RECEIVABLE, NET	\$ 93,487	\$ 99,375

Allowance for doubtful accounts:

Accounts receivable	\$ 7,443	\$ 6,546
Loans receivable	\$ 1,283	\$ 1,310

The student loans receivable is subject to significant restrictions and, accordingly, is not practicable to determine the fair value of such amounts.

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

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 2022 and 2021 was 5%.

Unconditional promises to give at June 30, 2022 and 2021 are expected to be realized in the following periods:

	2022	2021
Less than one year	\$ 87,296	\$ 60,763
Between one year and five years	83,227	124,217
More than five years	10,356	13,373
	180,879	198,353
Less: Discount	(5,967)	(7,012)
Less: Allowance	(21,186)	(21,080)
TOTAL PLEDGES RECEIVABLE, NET	\$ 153,726	\$ 170,261

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

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, 2022 is adequate to absorb credit losses inherent in the portfolio as of that date.

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, 2022 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2022 and 2021 had the following restrictions:

	2022	2021
Department programs and activities	\$ 63,582	\$ 74,230
Endowments for scholarships and department programs and activities	71,373	74,734
Building construction	18,771	21,297
TOTAL PLEDGES RECEIVABLE, NET	\$ 153,726	\$ 170,261

Uncollectible pledges totaling \$7,054 (2022) and \$13,488 (2021) were written off against the allowance for uncollectible pledges. The University had unsecured related party pledges of \$5,490 (2022) and \$5,918 (2021) and conditional pledge commitments totaling \$19,359 (2022) and \$19,403 (2021).

5. LEASING

The University is committed to minimum annual rent payments under several operating leases for educational and commercial space through fiscal year 2037. The components of lease expense are as follows:

LEASE COST	2022	2021
Operating lease expense	\$ 2,632	\$ 2,584
Short-term lease expense	595	548
Sublease income	(500)	(500)
TOTAL LEASE EXPENSE	\$ 2,727	\$ 2,632

OTHER INFORMATION:

Weighted-average remaining lease term in years – operating leases	9.8 years	7.2 years
Weighted-average discount rate – operating leases	3.01%	3.06%

Payments due include options to extend operating leases through fiscal year 2037 and are summarized below as of June 30, 2022:

Year	
2023	\$ 2,268
2024	1,054
2025	983
2026	998
2027	1,014
Thereafter	6,109
	<u>12,426</u>
Less: amounts representing interest	(1,786)
TOTAL OPERATING LEASE OBLIGATION	\$ 10,640

The University is the lessor in two leases for commercial space through fiscal year 2041. Future minimum rental revenue due is summarized below as of June 30, 2022:

Year	
2023	\$ 1,032
2024	1,032
2025	1,032
2026	1,032
2027	1,032
Thereafter	13,928
TOTAL	\$ 19,088

6. 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 7). The University's long-term investments at June 30, 2022 and 2021 were as follows:

	2022	2021
Equity securities	\$ 373,142	\$ 426,472
Fixed-income securities	88,886	138,914
Limited partnerships and Other		
Venture capital	26,200	23,211
Private equity	834,174	803,510
Real estate	53,780	44,698
Absolute return	622,869	711,728
Other	26,066	54,762
Equity real estate	81	81
TOTAL INVESTMENTS	\$ 2,025,198	\$ 2,203,376

	2022	2021
Operating investments	\$ 260,961	\$ 287,818
Investments, held for long-term purposes	1,764,237	1,915,558
TOTAL INVESTMENTS	\$ 2,025,198	\$ 2,203,376

7. 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 17).

The breakdown of these classifications are:

June 30, 2022	Without Donor Restrictions	With Donor Restrictions	Total
Endowments		\$ 1,444,007	\$ 1,444,007
Purpose-restricted funds functioning as endowments		330,582	330,582
Board-designated funds	\$ 116,119		116,119
TOTAL ENDOWMENT AND SIMILAR FUNDS	\$ 116,119	\$ 1,774,589	\$ 1,890,708

June 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Endowments		\$ 1,546,675	\$ 1,546,675
Purpose-restricted funds functioning as endowments		353,552	353,552
Board-designated funds	\$ 104,147		104,147
TOTAL ENDOWMENT AND SIMILAR FUNDS	\$ 104,147	\$ 1,900,227	\$ 2,004,374

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 (5.67)% (2022) and 31.83% (2021).

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 2022 and 2021 pooled endowment and similar funds spending allocation approved by the Investment Committee of the Board were \$68,700 and \$72,300, respectively. The approved spending rate for fiscal year 2022 and 2021 were 4.70% and 4.70% of beginning market value, respectively. The total amount allocated was \$69,274 and \$71,453, respectively.

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

For years where actual investment return exceeds actual approved spending, the difference remains in 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 2022 and 2021 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 \$9,564 in 2022 and \$9,000 in 2021.

Changes in endowment and similar funds net assets for fiscal year 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2020	\$ 79,097	\$ 1,491,462	\$ 1,570,559
Investment income	4,218	67,208	71,426
Realized and unrealized gains	19,919	367,290	387,209
TOTAL INVESTMENT RETURN	24,137	434,498	458,635
Contributions	3,235	38,616	41,851
Current year expenditures	(2,322)	(64,349)	(66,671)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2021	\$ 104,147	\$ 1,900,227	\$ 2,004,374
Investment income	10,451	168,599	179,050
Realized and unrealized losses	(17,516)	(283,304)	(300,820)
TOTAL INVESTMENT RETURN	(7,065)	(114,705)	(121,770)
Contributions	22,965	53,322	76,287
Current year expenditures	(3,928)	(64,255)	(68,183)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2022	\$ 116,119	\$ 1,774,589	\$ 1,890,708

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:

	2022	2021
Aggregate historical value	\$ 66,501	\$ 8,803
Aggregate fair value	61,514	7,596
AGGREGATE DEFICIENCY	\$ (4,987)	\$ (1,207)

8. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2022 and 2021 by the ASC 820 valuation hierarchy are as follows:

June 30, 2022	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	\$ 297,277	\$ 54		\$ 75,811	\$ 373,142
Fixed-income securities	58,255	30,631			88,886
Limited partnerships and Other					
Venture capital				26,200	26,200
Private equity				834,174	834,174
Real estate				53,780	53,780
Absolute return				622,869	622,869
Other			\$ 18,835	7,231	26,066
Equity real estate				81	81
TOTAL INVESTMENTS	\$ 355,532	\$ 30,685	\$ 18,916	\$ 1,620,065	\$ 2,025,198
FUNDS HELD IN TRUST BY OTHERS	\$ -	\$ -	\$ 297,453	\$ -	\$ 297,453
PENSION PLAN ASSETS					
Cash and cash equivalents	\$ 3,566				\$ 3,566
Equity securities	111,829				111,829
Fixed-income securities	38,770	\$ 2,042			40,812
Limited partnerships and Other					
Absolute return				\$ 26,299	26,299
Other				14,082	14,082
Equity real estate				12,606	12,606
TOTAL PENSION PLAN ASSETS (Note 12)	\$ 154,165	\$ 2,042	\$ -	\$ 52,987	\$ 209,194
ASSETS AT FAIR VALUE	\$ 509,697	\$ 32,727	\$ 316,369	\$ 1,673,052	\$ 2,531,845
Interest rate swaps payable (Note 15)	\$ -	\$ 6,112	\$ -	\$ -	\$ 6,112
LIABILITIES AT FAIR VALUE	\$ -	\$ 6,112	\$ -	\$ -	\$ 6,112

June 30, 2021	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	\$ 326,537	\$ 54		\$ 99,881	\$ 426,472
Fixed-income securities	120,828	18,086			138,914
Limited partnerships and Other					
Venture capital				23,211	23,211
Private equity				803,510	803,510
Real estate				44,698	44,698
Absolute return				711,728	711,728
Other			\$ 43,587	11,175	54,762
Equity real estate			81		81
TOTAL INVESTMENTS	\$ 447,365	\$ 18,140	\$ 43,668	\$ 1,694,203	\$ 2,203,376
FUNDS HELD IN TRUST BY OTHERS	\$ -	\$ -	\$ 349,816	\$ -	\$ 349,816
PENSION PLAN ASSETS					
Cash and cash equivalents	\$ 8,068				\$ 8,068
Equity securities	133,534				133,534
Fixed-income securities	43,017	\$ 5,233			48,250
Limited partnerships and Other					
Absolute return				\$ 23,310	23,310
Other				13,145	13,145
Equity real estate				10,245	10,245
TOTAL PENSION PLAN ASSETS (Note 12)	\$ 184,619	\$ 5,233	\$ -	\$ 46,700	\$ 236,552
ASSETS AT FAIR VALUE	\$ 631,984	\$ 23,373	\$ 393,484	\$ 1,740,903	\$ 2,789,744
Interest rate swaps payable (Note 15)	\$ -	\$ 13,337	\$ -	\$ -	\$ 13,337
LIABILITIES AT FAIR VALUE	\$ -	\$ 13,337	\$ -	\$ -	\$ 13,337

Level 3 Investment Information

Investments included in Level 3 consist primarily of the University's funds held in trust by others that are assets held and administered by outside trustees from which the University derives income or residual interest. The

University's interests are reported at estimated fair value, based on the value of the underlying assets, which approximates the present value of future income from these trusts.

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:

	Equity Real Estate	Other	Funds Held by Others	Total
June 30, 2020	\$ 81	\$ 37,729	\$ 280,247	\$ 318,057
Investment loss		(723)		(723)
Unrealized gains		6,502	69,569	76,071
Settlements		(71)		(71)
Transfers		150		150
June 30, 2021	\$ 81	\$ 43,587	\$ 349,816	\$ 393,484
Investment income		13,860		13,860
Unrealized losses		(13,838)	(52,363)	(66,201)
Settlements		(24,689)		(24,689)
Transfers		(85)		(85)
June 30, 2022	\$ 81	\$ 18,835	\$ 297,453	\$ 316,369

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 income or Net (depreciation) 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.

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	\$ 75,811	
Limited partnerships and Other				
Venture capital (b)	see below		26,200	\$ 72,155
Private equity (c)	see below		834,174	120,739
Real estate (d)	see below		53,780	66,023
Absolute return (e)	monthly, quarterly, annually	30–90 days	649,168	45,976
Other (f)	see below		21,313	
Equity real estate (g)	quarterly	30–90 days	12,606	
TOTAL			\$ 1,673,052	\$ 304,893

(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 82% 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 59% of the net asset value in this asset class is accessible within one year or less and 81% within three years. Over the course of the last twenty four months less liquid, private credit funds with 5-10 year hold periods have been added to the portfolio for diversification purposes. The private credit funds have reduced the liquidity in the absolute return asset class, but portfolio liquidity is 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 with 5-10 year hold periods.

(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. 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.

9. HEALTH EDUCATION CAMPUS

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 \$509,000 as of June 30, 2022. The University and CCF have entered into an agreement with a perpetual term to provide for the 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 the Cleveland Clinic Lerner College of Medicine ("CCLCM"), the

School of Dental Medicine and the Frances Payne Bolton School of Nursing. Occupancy occurred in spring 2019. CCF provided interim funding of the construction costs, while the University and CCF collaborate on fundraising to cover the capital costs of the HEC. As the total costs of the HEC, were not raised by 2020, the University has agreed to provide up to \$50,000 over the five-year period beginning in 2021, of which \$20,000 was paid as of June 30, 2022. Components of the HEC are as follows:

	2022	2021
Cash transferred to CCF and gift in kind	\$ 127,506	\$ 115,755
Less: Accumulated depreciation	(11,304)	(7,092)
	\$ 116,202	\$ 108,663
University obligation	30,000	40,000
TOTAL HEALTH EDUCATION CAMPUS, NET	\$ 146,202	\$ 148,663

The University has pledges receivable for the HEC project of \$14,128 (2022) and \$15,883 (2021).

As the University occupies approximately 83% of the HEC, but has only transferred cash and gifts for approximately

25% of the total estimated HEC project costs, the University has free use of a portion of the HEC. The University recorded contribution revenue for the free use of space and the corresponding expense of \$10,718 (2022) and \$10,189 (2021) in the statement of activities.

10. 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:

	2022	2021
Land and land improvements	\$ 77,257	\$ 76,870
Building and building improvements	1,409,965	1,405,220
Equipment and software	361,554	343,116
Library books	47,272	47,349
Construction-in-progress	130,188	113,969
	2,026,236	1,986,524
Less: Accumulated depreciation	(1,308,829)	(1,250,081)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	\$ 717,407	\$ 736,443

The above assets include \$552,738 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 \$24,242 as of June 30, 2022.

Depreciation expense included in the statement of activities was \$68,057 (2022) and \$67,579 (2021).

11. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate(s)	Maturity	2022	2021
OHEFC revenue notes and bonds ¹ :					
Fixed-rate bonds:	Series 2006	5.25%	2022-2027	\$ 18,055	\$ 28,965
	Series 2012A	5.00%	2022-2024	6,735	9,860
	Series 2013A	5.00%	2022-2024	12,935	17,935
	Series 2015A	5.00%	2022-2030	17,775	19,725
	Series 2016	4.00-5.00%	2022-2041	114,680	161,770
	Series 2018	4.00-5.00%	2022-2031	85,030	87,380
	Series 2019B	5.00%	2032-2041	30,550	30,550
	Series 2019C	1.63%	2027-2035	35,815	35,815
	Series 2021A	4.00%	2026-2045	28,455	
Variable-rate bonds:	Series 2019A	0.54-0.50% ²	2022		68,160
	Series 2021B	0.28-1.14% ³	2027	35,000	
Taxable Notes Payable:	Series 2022A	2.58%	2037	56,040	
Taxable Bonds Payable:	Series 2022C	5.41%	2122	350,000	
Compass Group USA, Inc.		-n/a-	2022-2030	5,576	6,134
TOTAL LIABILITY				\$ 796,646	\$ 466,294
Line of credit					
Unamortized bond premium				26,050	28,464
Unamortized bond issuance cost				(6,242)	(3,618)
TOTAL NOTES AND BONDS PAYABLE				\$ 816,454	\$ 491,140

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

²The OHEFC Series 2019A beginning and ending rate – the weighted average is 0.52%.

³The OHEFC Series 2021B beginning and ending rate - the weighted average is 0.36%.

In October 2021, the University entered into a taxable note agreement with New York Life ("NY Life"). The NY Life 2022A notes were issued to refinance a portion of the OHEFC non-taxable 2013A (\$5,369) and 2016 (\$49,731) bonds. Deferred financing fees of \$940 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the notes issued were \$56,040. The earliest redemption date for the notes is December 2029.

In December 2021, the OHEFC Series 2021A (fixed rate) and 2021B (variable rate) bonds were issued to refinance the balance of the OHEFC Series 2019A bonds in the amount of \$33,460 and \$34,700, respectively. Deferred financing fees of \$271 (2021A) and \$300 (2021B) were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bonds were \$33,731 (2021A) and \$35,000 (2021B). The earliest optional

redemption date for the 2021A bonds is December 2031 and the 2021B bonds have a mandatory tender in December 2026.

In June 2022, the University issued the Series 2022C taxable century bonds in the amount of \$346,812. The Series 2022C century bonds were issued to finance the acquisition, construction, renovation and equipping of various facilities and finance the construction of a new interdisciplinary science and engineering building. Deferred financing fees of \$3,188 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bonds issued were \$350,000. The 2022C century bonds are subject to a bullet maturity in December 2121 and an optional make-whole redemption prior to December 2121.

The University has committed revolving lines of credit with two financial institutions in the amount of \$150,000 to finance working capital. The \$25,000 line was renewed

in January 2022 and is subject to review and renewal in January 2023. The \$75,000 line was renewed in March 2022 and is subject to review and renewal in March 2024. The remaining \$50,000 was renewed in March 2022 and is subject to review and renewal in September 2023. The amount outstanding was \$0 (2022) and \$0 (2021).

The University has one uncommitted line of credit with a financial institution in the amount of \$50,000 to provide short-term liquidity to the investment pool. The line was renewed in January 2022 and is subject to review and renewal in January 2024. The line was not utilized during the fiscal year.

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

Year	Total Scheduled Principal Payments
2023	\$ 18,753
2024	20,718
2025	16,248
2026	15,998
2027	15,828
Thereafter	709,101
TOTAL	\$ 796,646

12. 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:

	2022	2021
Funded status at June 30 of prior fiscal year	\$ (87,098)	\$ (130,403)
Service cost	(8,532)	(9,218)
Interest cost	(10,550)	(10,415)
Expected return on assets	16,525	15,620
Actuarial gain	24,910	31,065
Employer contributions	3,418	16,253
FUNDED STATUS AT JUNE 30	\$ (61,327)	\$ (87,098)

Accumulated benefit obligation \$ 270,265 \$ 322,419

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

	2022	2021
Net periodic benefit cost	\$ 10,745	\$ 13,693
Employer contributions	3,418	16,253
Benefits paid	11,301	12,262

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

2023	\$ 8,527
2024	9,591
2025	10,382
2026	10,990
2027	12,065

Amounts expected to be paid between 2028 and 2032 total \$72,588. The University's estimated employer contribution for the defined benefit plan in fiscal 2023 will depend on the results of the July 1, 2022 actuarial valuation and is estimated to be \$0.

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

	2022	2021
BENEFIT OBLIGATION		
Discount rate	5.00%	3.25%
Rate of compensation increase	2.25%	2.25%
Measurement date	6/30/22	6/30/21
Census date	7/1/21	7/1/20
NET PERIODIC BENEFIT COST		
Discount rate	3.25%	3.20%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	2.25%	2.25%

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

The investment objective for the defined benefit plan is to maximize total return with tolerance for slightly above average risk, in order to meet the obligations that the University has to its plan beneficiaries. To accomplish this objective, the University has established a broadly-

diversified target asset allocation strategy that includes equity investments (57%), fixed income (17%), absolute return strategies (combination of fixed income and equity securities) (11%), private credit (6%), real estate (5%), and cash (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:

	2022	2021
Equity securities	54%	56%
Fixed income securities	25%	25%
Real estate	5%	4%
Other	16%	15%
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:

	2022	2021
Benefit obligation at June 30	\$ 270,521	\$ 323,650
Fair value of plan assets at June 30	209,194	236,552
NET LIABILITY	\$ (61,327)	\$ (87,098)
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Accumulated actuarial losses	65,394	98,492
AMOUNT RECOGNIZED AS REDUCTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 65,394	\$ 98,492

Components of the net periodic benefit cost and other changes in plan assets that are recognized in the statement of activities are as follows:

	2022	2021
Change in actuarial gain	\$ (33,098)	\$ (40,745)
TOTAL GAIN RECOGNIZED, NET ASSETS WITHOUT DONOR RESTRICTIONS	(33,098)	(40,745)
Service cost	8,532	9,218
Interest cost	10,550	10,415
Expected return on assets	(16,525)	(15,620)
Net loss amortization	8,188	9,680
Net periodic benefit cost	10,745	13,693
TOTAL GAIN RECOGNIZED, STATEMENT OF ACTIVITIES	\$ (22,353)	\$ (27,052)

Benefit plan costs for the defined contribution plan are \$24,620 (2022) and \$13,764 (2021).

13. 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, 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 \$129,497 (2022) and \$96,148 (2021).

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 was dissolved, there will be continued collaboration in education and research.

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 \$500 per occurrence. The University believes its reserves for self-insured risks and the deductible portion of insured risks are sufficient.

14. RELATED PARTY TRANSACTIONS

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase steam, chilled water, and other utilities for several University buildings. The amounts purchased were \$19,995 (2022) and \$20,818 (2021). No obligation associated with this agreement is recorded in the accompanying financial statements.

In October 2017, the Medical Center Company approved an additional energy efficiency grant in the amount of \$1,084,

of which \$1,084 was used. 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 \$0 (2022) and 151 (2021).

In February 2022, the Medical Center Company approved an additional energy efficiency grant in the amount of \$723 of which \$0 was used. The payback terms related to this project are 36 months beginning January 2023. The obligation related to this project recorded in *Deferred income and other liabilities* is \$0 (2022).

15. 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 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 three agreements in effect at June 30, 2022, 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, 2022, with comparative fair values for June 30, 2021. 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	2022	2021
					Level 2 Fair Market Value	
\$ 3,320	4.34%	Aug. 12, 2004	Oct. 1, 2022	LIBOR	\$ (31)	\$ (217)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR		(657)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(100)	(686)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(5,981)	(11,777)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					\$ (6,112)	\$ (13,337)

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

\$20,000. The University had placed \$0 (2022 and 2021) into such a fund.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was \$2,603 (2022) and \$2,718 (2021).

16. 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, 2022 and 2021:

June 30, 2022	Instructional	Sponsored projects	Libraries	Student services	University services	Auxiliaries	Total operating expenses
Salaries and wages	\$ 196,817	\$ 154,591	\$ 5,369	\$ 16,449	\$ 52,310	\$ 10,598	\$ 436,134
Fringe benefits	58,375	36,319	1,700	5,062	16,941	3,266	121,663
Other operating expense	70,656	189,512	3,505	9,123	43,501	35,506	351,803
Allocations							
Depreciation	15,667	15,133	6,220	1,316	7,250	22,471	68,057
Interest	1,337	3,152	294	145	1,535	9,375	15,838
Plant operations and maintenance	20,195	14,194	3,521	1,195	8,605	6,858	54,568
TOTAL	\$ 363,047	\$ 412,901	\$ 20,609	\$ 33,290	\$ 130,142	\$ 88,074	\$ 1,048,063

June 30, 2021	Instructional	Sponsored projects	Libraries	Student services	University services	Auxiliaries	Total operating expenses
Salaries and wages	\$ 189,270	\$ 144,453	\$ 5,601	\$ 16,112	\$ 51,217	\$ 11,271	\$ 417,924
Fringe benefits	52,418	34,735	1,656	4,621	15,087	3,223	111,740
Other operating expense	55,679	163,883	3,653	7,017	50,812	26,312	307,356
Allocations							
Depreciation	14,154	14,536	6,488	1,162	10,924	20,315	67,579
Interest	1,423	3,485	304	146	1,625	9,909	16,892
Plant operations and maintenance	17,457	11,807	2,981	941	7,453	5,703	46,342
TOTAL	\$ 330,401	\$ 372,899	\$ 20,683	\$ 29,999	\$ 137,118	\$ 76,733	\$ 967,833

17. NET ASSETS

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

	2022	2021
Without donor restrictions:		
Board-designated:		
Quasi-endowments	\$ 116,119	\$ 104,147
Liquidity reserve	99,038	126,303
TOTAL BOARD-DESIGNATED	215,157	230,450
Unrestricted	158,328	112,169
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 373,485	\$ 342,619
With donor restrictions:		
Endowments	\$ 1,444,007	\$ 1,546,675
Split-interest agreements	17,319	19,129
Other for purpose or time:		
Purpose-restricted funds functioning as endowments	330,582	353,552
Pledges receivable	142,267	145,384
Funds held in trust by others	302,259	354,022
Student loan funds	40,105	37,275
Purpose-restricted funds	237,966	229,875
	1,053,179	1,120,108
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 2,514,505	\$ 2,685,912

18. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 14, 2022, the date on which the financial statements were issued.

In August 2022, the University issued 2022B notes for a total amount of \$115,915 with NY Life for the construction of a new dormitory.



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