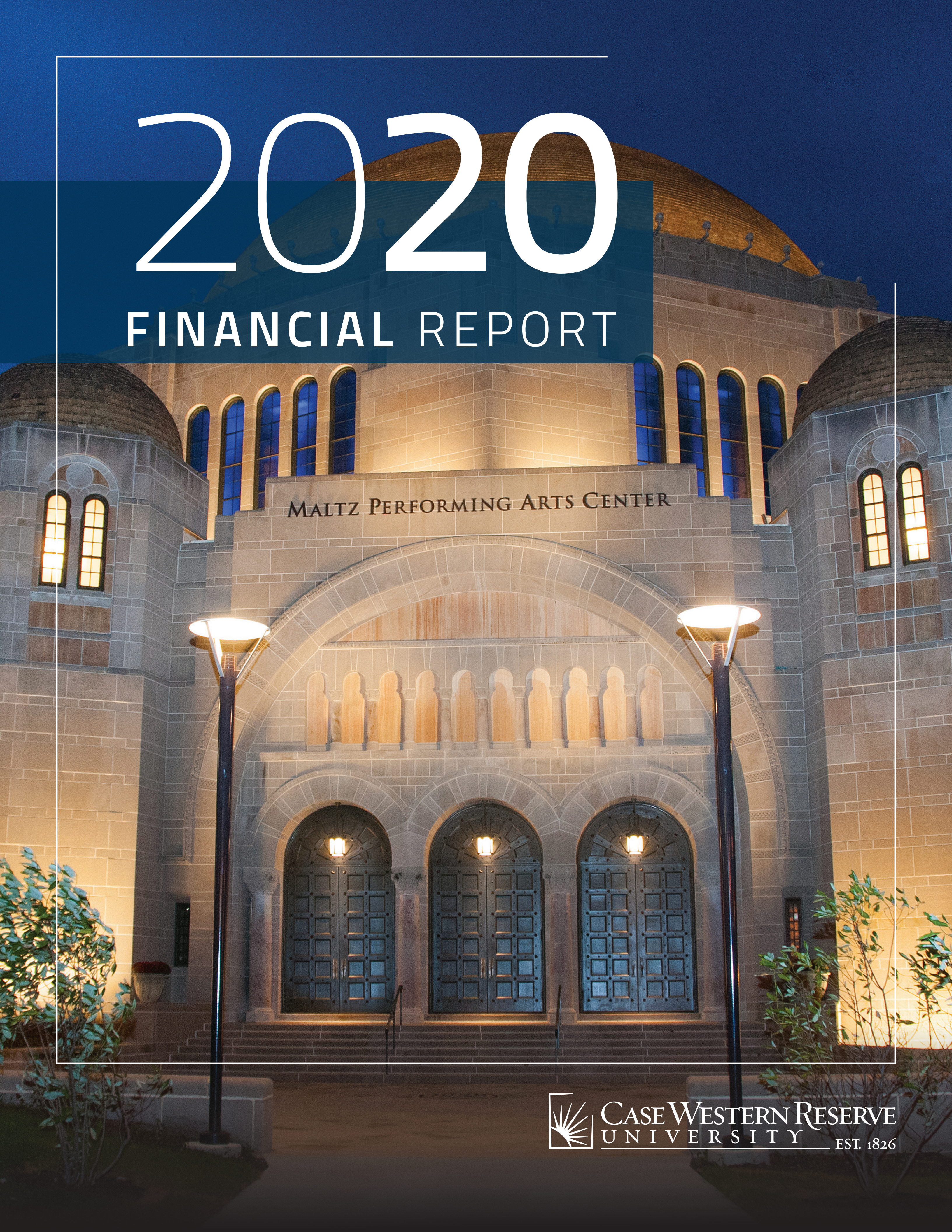
2020 FINANCIAL REPORT



CASE WESTERN RESERVE UNIVERSITY EST. 1826

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Cover: The Milton and Tamar Maltz Performing Arts Center at The Temple - Tifereth Israel will soon realize a soaring triumph for Case Western Reserve's performing arts programs, offering fully functional learning, rehearsal and performance spaces for students for the first time. Once completed, the proscenium-style and black box theaters; a grand atrium and foyer with a cafe, offices, rehearsal studios, practice rooms, costume and scene shops will spure creative education, showcase the talent of our students and achieve community outreach. The Maltz Performing Arts Center attracts local and national talent as well as the exchange of thought-provoking ideas and performances.

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

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University (the "University") faced unprecedented challenges brought on by the COVID-19 pandemic during Fiscal Year 2020 ("FY20"). The University responded swiftly to protect the health and safety of the students, faculty and staff and to minimize the financial impact upon the university. This prompt and decisive action permitted the University to recover most of the estimated $20 million of COVID-19 costs incurred in the spring of 2020 and achieve a positive financial position. These efforts mitigated the majority of the pandemic's financial impact, resulting in an operating surplus and securing gains on the balance sheet. A summary of the estimated COVID-19 impact follows (*in thousands)*:

COVID-19 Estimated Impact	$	(20,000)
Mitigating Actions:		
Decrease in Salaries		6,303
Auxiliaries Expense Decrease		4,755
Estimated Travel Savings		2,162
CARES Act Reimbursement		2,257
Other Unrestricted Exp Improvements		1,615
Net Impact	$	(2,908)

The focus of the University's initial FY20 financial plan was to maintain positive core operating results, continue strengthening the balance sheet, and build on the momentum of its philanthropic efforts. In March 2020, the pandemic began to directly impact operations. Beginning March 19, 2020, classes were moved to a remote teaching format. Most all student housing was vacated, resulting in approximately $10 million in refunds. The University's emergency plan was activated, and Administration's *Policy and Operations Groups* began remediation efforts. Those efforts offset 85% of the $20 million pandemic financial impact. Concurrently, financial planning efforts were directed toward scenario analysis under multiple assumptions.

The FY20 financial results were a net operating activity of $54 million or a 5.1% operating margin on a Generally Accepted Accounting Principles ("GAAP") basis; a surplus operating budget of $2 million; and another successful year in attainment with $168 million in new gifts and pledges.

The FY21 operating budget incorporates $77 million of cost improvements, or 10% of direct expenses. The FY21 budget reflects a planned surplus of $11 million and a contingency reserve of $28 million.

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

FY20 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

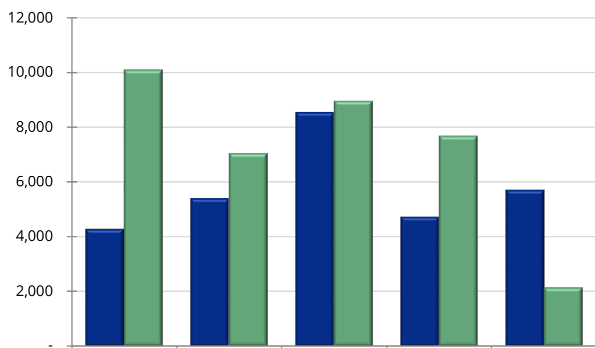
The University's management of its resources produced a net operating activity of $54 million or a 5.1% operating margin reflected on the *Statement of Activities* GAAP Basis. Likewise, the *Statement of Operations* (unaudited, management view) reports a positive operating indicator, an operating surplus, of $2 million. This surplus is lower than the FY20 operating budget, primarily due to the financial impact of the pandemic. Both net operating activity and operating surplus have been positive for well over a decade. See *Selected Financial Data* on page 7 for more information.

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 $2.1 million in FY20, compared to a budgeted surplus of $5.7 million and a $7.7 million surplus in FY19. FY20 marked the thirteenth consecutive year of positive operating results.

UNIVERSITY SURPLUS/(DEFICIT)
in thousands of dollars



	2016	2017	2018 *	2019	2020
Budget	4,269	5,401	8,548	4,739	5,705
Actual	10,096	7,052	8,967	7,680	2,145

*2018 is Revised Budget

The FY20 operating results reflect increasing tuition revenues offset by slightly decreased research and training revenues.

MANAGEMENT CENTER OPERATING REVENUES

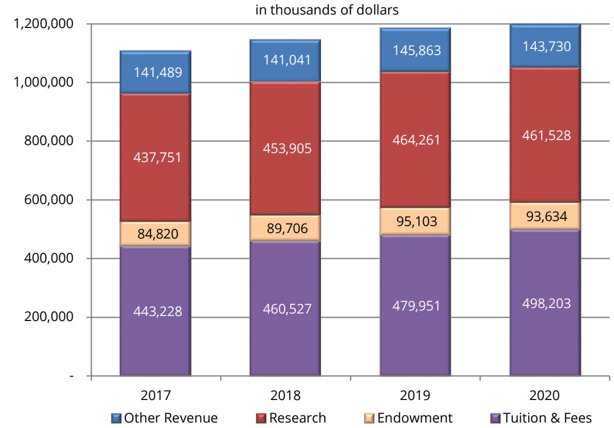
Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research, and Other Revenue. The University reported $1.197 billion in total revenue, a $12 million or 1% increase over FY19.

Gross tuition and fees revenue was $498 million, an $18 million or 4% increase over FY19. Gross undergraduate tuition was $250 million, a $17 million or 7% increase over FY19. The increase is the result of a 3.8% rate increase and a 3% increase in undergraduate enrollment. Professional and graduate program gross tuition, along with summer programs and fees, was essentially flat at $248 million, a $1 million increase over FY19.

Endowment revenue used by operations was $94 million, a $1 million or 2% decrease from FY19.

Research revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $462 million, a $3 million decrease from FY19.

OPERATING REVENUE
in thousands of dollars

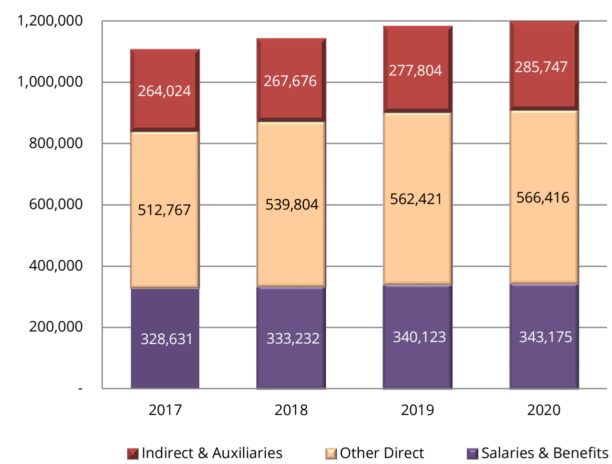


Other revenue was $144 million, a decrease of $2 million or 1% from FY19.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1.195 billion, a $15 million or 1% increase over FY19. Expenses are categorized as Salaries and Benefits, Other Direct, Indirect and Auxiliaries.

OPERATING EXPENSES
in thousands of dollars



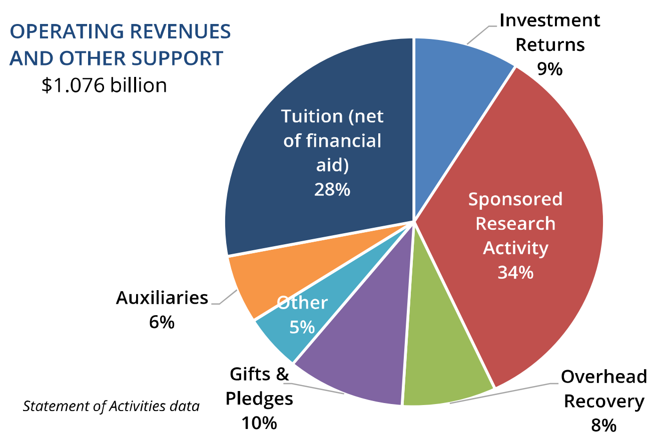
Salaries and benefits were $343 million, a $3 million or 1% increase over FY19. Other direct expense was $566 million, a $4 million or 1% increase over FY19. Indirect expense and auxiliaries were $286 million, an $8 million or 3% increase over FY19.

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 $49 million reduction in net assets due primarily to net depreciation in long-term investments and pension plan changes other than periodic benefit costs. In FY20, operating activity contributed $54 million to net assets.

OPERATING REVENUES AND OTHER SUPPORT

Total operating revenues and other support were $1.076 billion, an increase of $8 million or 1% over FY19. The components of the University's revenues are shown below and additional detail of operating revenue follows.



Statement of Activities data

Tuition income

Gross tuition income of $510 million increased $19 million or 4% over FY19, 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 FY20 was $207 million, resulting in net tuition of $303 million, or 28% of operating revenues.

The net tuition and fees income of $303 million represents a $2 million or 1% increase over FY19, with increased revenues generated by an increase in tuition rates and from higher undergraduate student enrollment.

Investment returns

Investment returns included $70 million in returns distributed from the long-term investment pool, $12 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 9% of operating revenues, totaled $98 million, or no change from FY19.

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 $365 million, including $101 million in CCLCM awards. This amount reflects a decrease of $1 million, a less than 1% change from FY19. Grants and contracts revenue was flat as research and training activity ramped down during the pandemic. The total represents 34% of overall University operating revenues.

Overhead cost recovery

Facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $77 million in FY20, a $2 million or 2% decrease from FY19. Overhead recovery represents 8% of operating revenues.

Gifts and pledges

Gifts and pledges income was $111 million, an increase of $13 million or 13% over FY19. Gifts and pledges, which represent 10% of operating revenues, are recorded in the appropriate asset category when received.

Other revenue

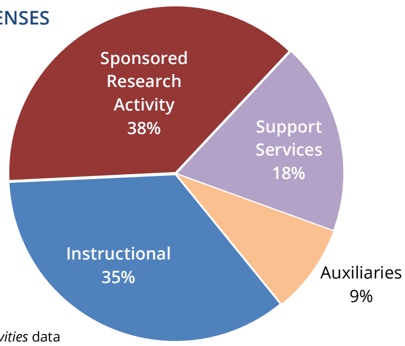
Other revenue of $57 million increased $6 million or 12% over FY19. Other revenue represents 5% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

Auxiliaries

Auxiliaries revenue of $66 million decreased $10 million or 14% from FY19 due to student housing and dining refunds as the University pivoted to remote instruction during the pandemic. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $58 million, or "Other," including Rental Properties and Parking, totaling $8 million for FY20. Auxiliaries revenue represents 6% of operating revenues.

OPERATING EXPENSES

Total expenses of $1.021 billion increased $14 million or 1% over FY19. The components of the University's expenses are shown below and additional detail of operating expenses follows.



Statement of Activities data

Instructional costs of $358 million, represents 35% of operating expenses, increased by $17 million or 5% over FY19. Included in direct instructional costs are faculty and staff salaries and benefits.

Sponsored research activity of $385 million, represents 38% of operating expenses, decreased $9 million or 2% from FY19. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support services costs of $190 million, represents 18% of operating expenses, including libraries, student services, and university services, increased $3 million or 2% over FY19. The increase is primarily in university services.

Auxiliaries expenses of $88 million represents 9% of operating expenses, increased $3 million or 4% over FY19.

NON-OPERATING ACTIVITIES

Non-operating activities decreased net assets by $103 million, compared to a $16 million decrease in FY19. The FY20 decrease includes negative mark-to-market valuation adjustments to long term investments of $39 million. Pension plan changes other than periodic benefit costs of $29 million are $12 million higher than FY19 and are primarily the result of a change in the discount rate.

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 1.30% (2020) and 6.04% (2019). 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, 2020 and 2019 is shown in the table below:

(in thousands)	2020	2019
Endowment Pool:		
Donor-restricted	$ 1,207,487	$ 1,198,275
Donor-purpose restricted	283,975	292,772
Quasi-endowment	79,097	77,264
Funds held in trust	280,247	298,189
Total combined endowment	**$ 1,850,806**	**$ 1,866,500**
Change in market value	**(0.84)%**	**1.28%**

Activities and total investment return for the combined endowment for the years ended June 30, 2020 and 2019 are shown in the table below:

(in thousands)	2020	2019
Beginning combined endowment	$ 1,866,500	$ 1,842,899
Additions	55,218	22,438
Spending distribution	(86,212)	(83,634)
Campaign support	(6,000)	(6,000)
Operating support	(3,171)	(2,800)
Other		(264)
Appreciation and investment income	24,471	93,861
Ending combined endowment	**$ 1,850,806**	**$ 1,866,500**
Combined endowment investment return	**1.17%**	**5.86%**

CHANGE IN NET ASSETS

The combined net operating activity of $54 million and net non-operating activity of $(103) million resulted in a decrease in net assets of $49 million or 2% from FY19.

STATEMENTS OF FINANCIAL POSITION

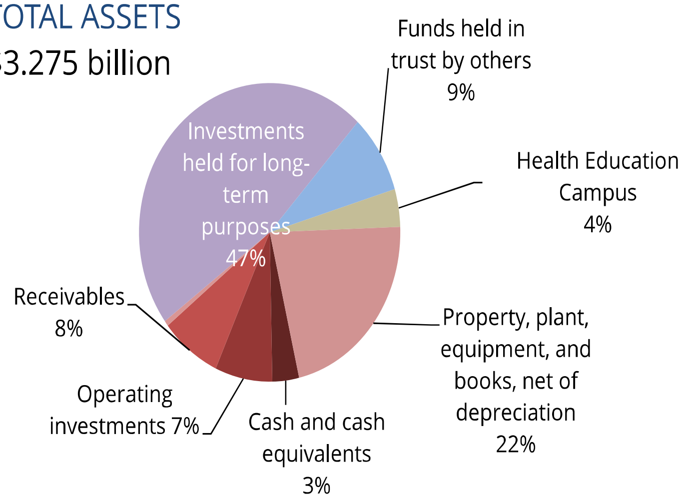
The University's *Statements of Financial Position* reflect total assets of $3.275 billion with a primarily sizable cash and investment balance of $2.156 billion.

ASSETS

Total assets increased $57 million or 2% over FY19. Total cash and investments of $2.156 billion, including cash and cash equivalents, operating investments, investments held for long-term purposes and funds held in trust by others, combined total 66% of University assets. Property, plant, equipment and books represent an additional $719 million or 22% of assets.

TOTAL ASSETS

$3.275 billion



Statement of Financial Position data

Cash and cash equivalents

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

The University's cash position on June 30 was $108 million, an increase of $28 million or 34% over FY19. 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 $232 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 $24 million or 9% from FY19.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had $245 million in receivables, which represent 8% of assets. Receivables decreased $23 million or 9% from FY19.

Investments, held for long-term purposes

Long-term investments of $1.536 billion increased $25 million or 2% from FY19. 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 $73 million on long-term investments in FY20.

Funds held in trust by others

Funds held in trust by others of $280 million decreased $18 million or 6% from FY19.

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 $135 million is a $75 million increase over FY19.

Property, plant, equipment, and books

Property, plant, equipment, and books, net of depreciation, constitute 22% of the University's assets, totaling $719 million for FY20. Net plant assets decreased $14 million or 2% from FY19.

LIABILITIES

Total liabilities of $925 million increased $107 million or 13% over FY19. The increase is comprised of (*in thousands)*:

Health Education Campus contingent liability	$ 50,000
Notes & bonds payable net of scheduled pymts	30,257
Accrued pension liability	26,211
Other	150
Increase in liabilities	$106,618

Retirement plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 3.20% in FY20 decreased from 3.90% in FY19. As a result, the University's accrued pension liability increased $26 million over FY19, to a total accrued pension liability of $130 million in FY20.

Debt

Total liability on notes and bonds payable, including the line of credit and unamortized bond premium and issuance costs, increased $30 million over FY19 to $543 million. The increase is primarily due to issuances of two new bonds totaling $66 million offset by scheduled principal payments of $16 million and a partial refunding of $22 million.

The University secured financing of $51 million for two new capital projects with two fixed rate bond issues. The projects include a renovation of the Fribley Commons dining facility for $16 million and bridge financing for the Maltz Performing Arts Center Phase II for $35 million. A portion of the 2019B Series bonds also refunded a portion of the 2015A Series bonds for $22 million.

The University's entire variable rate debt of $68 million is synthetically fixed with four floating-to-fixed rate swaps.

During the year, Moody's Investor Services affirmed its long-term rating of A1 and positive outlook, and S&P Global Ratings also affirmed its rating of AA- and stable outlook.

NET ASSETS

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

In FY20, the University's total net assets decreased $49 million or 2% from FY19 to $2.349 billion due primarily to negative mark-to-market valuation adjustments to long-term investments. Net operating activity increased net assets by $54 million. Net non-operating activity, decreased net assets by $103 million, including $39 million of net depreciation in long-term investments.

CHANGE IN NET ASSETS

(in thousands)	2020	2019
Beginning net assets	$ 2,398,580	$ 2,353,440
(Decrease) Increase in net assets	(49,180)	45,140
Ending net assets	**$ 2,349,400**	**$ 2,398,580**

Net assets without donor restrictions

Net assets without donor restrictions decreased $34 million or 13% from FY19 to $225 million. Net operating activity added $50 million and net non-operating activity decreased net assets by $84 million.

Net assets with donor restrictions

Net assets with donor restrictions decreased $15 million or 1% from FY19 to $2.125 billion, driven by $29 million in negative valuation adjustments on restricted long-term investments. The University received $81 million of new restricted gifts and pledges and $78 million in net assets released from restrictions in net operating activity. Non-operating activity decreased net assets with donor restrictions by $17 million in assets released from restrictions.

PROSPECTIVE DISCUSSION

The University expects to maintain a positive operating position as reflected in its FY21 operating budget surplus of $11 million with a significant contingency reserve. Preparations continue to focus on potential pandemic operational impacts. Lastly, senior leadership is continuously engaged in improving operating performance, strengthening the University's financial position and maintaining strategic momentum using a disciplined approach.

John F. Sideras

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

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

in thousands of dollars	2020	2019	2018	2017
STATEMENT OF OPERATIONS HIGHLIGHTS - Management View				
Total revenue	$ 1,197,095	$ 1,185,178	$ 1,145,179	$ 1,107,288
Total expense	1,195,338	1,180,348	1,140,712	1,105,422
Operating margin	1,757	4,830	4,467	1,866
Retained surplus use	388	2,850	4,500	5,186
Surplus	**$ 2,145**	**$ 7,680**	**$ 8,967**	**$ 7,052**
STATEMENT OF ACTIVITIES HIGHLIGHTS - GAAP Basis				
Tuition and fees (net of student aid)	$ 302,802	$ 300,703	$ 289,278	$ 278,258
Investment, FHBO, and operational returns	97,822	97,893	97,584	97,537
Grants and contracts	364,688	365,693	361,177	350,171
Facilities and administrative cost recovery	76,856	78,765	76,642	74,557
Gifts and pledges	110,818	98,173	70,449	95,779
Other revenue	57,108	50,914	48,523	53,933
Auxiliary services	65,505	75,767	72,645	72,381
Total operating revenues and other support	1,075,599	1,067,908	1,016,298	1,022,616
Instructional expenses	358,200	341,555	331,878	322,242
Sponsored research activity	385,277	393,959	386,071	374,671
Support services	189,724	186,782	180,568	176,230
Auxiliary services	87,961	84,976	83,370	85,311
Total operating expense	1,021,162	1,007,272	981,887	958,454
Net operating activity	**$ 54,437**	**$ 60,636**	**$ 34,411**	**$ 64,162**
Long-term investment activities	(1,854)	77,014	136,238	190,376
Other non-operating activities	(101,763)	(92,510)	(60,520)	(46,306)
Net non-operating activities	**$ (103,617)**	**$ (15,496)**	**$ 75,718**	**$ 144,070**
Change in net assets	**$ (49,180)**	**$ 45,140**	**$ 110,129**	**$ 208,232**
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 108,276	$ 80,586	$ 105,409	$ 143,589
Operating investments, at market	232,034	255,668	238,988	187,904
Receivables, net	244,883	268,206	247,359	252,142
Investments (held for long-term purposes)	1,535,878	1,511,280	1,463,671	1,395,449
Funds held in trust by others	280,247	298,189	303,597	337,553
Health Education Campus	134,611	59,890	46,120	
Property, plant, equipment, and books, net of depreciation	719,320	733,010	742,416	757,082
Prepaid expenses and other assets	19,582	10,564	11,946	35,013
Total assets	**$ 3,274,831**	**$ 3,217,393**	**$ 3,159,506**	**$ 3,108,732**
Total liabilities	**$ 925,431**	**$ 818,813**	**$ 806,066**	**$ 822,572**
Total net assets	**$ 2,349,400**	**$ 2,398,580**	**$ 2,353,440**	**$ 2,286,160**
OTHER FINANCIAL INFORMATION				
Net investments (including FHBO), at fair value	$ 2,048,159	$ 2,065,137	$ 2,006,256	$ 1,920,906
Investments payout in support of operations	$ 86,212	$ 83,634	$ 81,345	$ 77,861
Total gifts and pledges (attainment)	$ 167,964	$ 182,093	$ 207,973	$ 181,187
Total gifts - cash basis	$ 135,426	$ 112,557	$ 113,178	$ 113,983
STUDENTS				
Enrollment *				
Undergraduate	5,286	5,151	5,035	5,044
Post-Baccalaureate	5,790	5,921	5,882	5,776

*Enrollment for fall semester of fiscal year in FTEs

Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying financial statements of Case Western Reserve University, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statement of activities for the year ended June 30, 2020 and of cash flows for the years ended June 30, 2020 and 2019.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Case Western Reserve University as of June 30, 2020 and 2019, and the changes in its net assets for the year ended June 30, 2020 and its cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the statement of financial position as of June 30, 2019, and the related statements of activities (not presented herein) and of cash flows for the year then ended, and in our report dated October 19, 2019, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2019 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Cleveland, Ohio
October 16, 2020

STATEMENTS OF FINANCIAL POSITION

	June 30	
In thousands of dollars	2020	2019
ASSETS		
Cash and cash equivalents	$ 108,276	$ 80,586
Operating investments	232,034	255,668
Accounts and loans receivable, net	91,682	103,950
Pledges receivable, net	153,201	164,256
Prepaid expenses and other assets	10,533	10,564
Right-of-use assets - operating leases	9,049	
Investments, held for long-term purposes	1,535,878	1,511,280
Funds held in trust by others	280,247	298,189
Health Education Campus, net	134,611	59,890
Property, plant, equipment and books, net	719,320	733,010
TOTAL ASSETS	**$ 3,274,831**	**$ 3,217,393**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 60,691	$ 63,800
Deferred income and other liabilities	116,613	67,942
Operating lease obligations	9,049	
Annuities payable	36,724	36,421
Refundable advances	5,863	7,710
Accrued pension liability	130,403	104,192
Notes and bonds payable	542,907	512,650
Refundable federal student loans	23,181	26,098
TOTAL LIABILITIES	**$ 925,431**	**$ 818,813**
NET ASSETS		
Without donor restrictions	$ 224,696	$ 258,483
With donor restrictions	2,124,704	2,140,097
TOTAL NET ASSETS	**$ 2,349,400**	$ **2,398,580**
TOTAL LIABILITIES AND NET ASSETS	**$ 3,274,831**	**$ 3,217,393**

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

STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2019

			For the year ended June 30	
In thousands of dollars	Without Donor Restrictions	With Donor Restrictions	2020	2019
OPERATING REVENUES AND OTHER SUPPORT				
Student tuition and fees, net of student aid of $206,737 and $190,262, respectively	$ 302,802		$ 302,802	$ 300,703
Investment returns distributed for operations	69,999		69,999	68,687
FHBO returns distributed	14,703	$ 1,510	16,213	14,947
Investment returns on operating investments	11,610		11,610	14,259
Grants and contracts	263,749		263,749	264,081
CCLCM grants and contracts	100,939		100,939	101,612
Gifts and pledges	30,162	80,656	110,818	98,173
State of Ohio appropriation	2,492		2,492	2,555
Facilities and administrative cost recovery	76,856		76,856	78,765
Organized activities	10,044		10,044	11,997
Other sources	44,108	464	44,572	36,362
Auxiliary services - students	57,956		57,956	66,224
Auxiliary services - other	7,549		7,549	9,543
Net assets released from restrictions	78,106	(78,106)	-	
TOTAL OPERATING REVENUES AND OTHER SUPPORT	**$ 1,071,075**	**$ 4,524**	**$ 1,075,599**	**$ 1,067,908**
OPERATING EXPENSES				
Instructional	358,200		358,200	341,555
Sponsored research and training	258,792		258,792	268,347
Other sponsored projects	25,546		25,546	24,000
CCLCM research and training	100,939		100,939	101,612
Libraries	22,850		22,850	23,816
Student services	35,275		35,275	34,748
University services	131,599		131,599	128,218
Auxiliary services - students	72,022		72,022	70,241
Auxiliary services - other	15,939		15,939	14,735
TOTAL OPERATING EXPENSES	**$ 1,021,162**	**$ -**	**$ 1,021,162**	**$ 1,007,272**
NET OPERATING ACTIVITY	**$ 49,913**	**$ 4,524**	**$ 54,437**	**$ 60,636**
NON-OPERATING ACTIVITIES				
Long-term investment activities				
Investment income	$ 9,777	$ 27,755	$ 37,532	$ 26,691
Net (depreciation) appreciation	(10,598)	(28,788)	(39,386)	50,323
Total long-term investment activities	(821)	(1,033)	(1,854)	77,014
Investment returns distributed for operations	(69,999)		(69,999)	(68,687)
Change in liabilities due under life-income agreements	(11)	(2,117)	(2,128)	(2,863)
Loss on disposal of plant assets	(535)		(535)	(3,500)
Pension plan changes other than periodic benefit costs	(29,101)		(29,101)	(17,460)
Net assets released from restrictions	16,767	(16,767)	-	
NET NON-OPERATING ACTIVITY	**$ (83,700)**	**$ (19,917)**	**$ (103,617)**	**$ (15,496)**
CHANGE IN NET ASSETS	**$ (33,787)**	**$ (15,393)**	**$ (49,180)**	**$ 45,140**
Beginning net assets	258,483	2,140,097	2,398,580	2,353,440
ENDING NET ASSETS	**$ 224,696**	**$ 2,124,704**	**$ 2,349,400**	**$ 2,398,580**

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

STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2020		2019	
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$	(49,180)	$	45,140
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:				
Depreciation		70,434		65,981
Amortization of bond issuance costs		326		279
Amortization of bond premiums		(5,368)		(5,142)
Amortization of right-of-use assets - operating leases		1,183		
Realized and unrealized net gains on investments		(29,434)		(98,345)
Increase to annuities payable resulting from actuarial adjustments		2,128		2,863
Gifts of property and equipment		(489)		(45)
Loss on disposal of plant assets		535		3,500
Contributions restricted for long-term investment		(48,098)		(27,413)
Decrease (Increase) in accounts and loans receivable, net		8,588		(6,982)
Decrease (Increase) in pledges receivable, net		11,055		(17,455)
Decrease in prepaid expenses and other assets		31		1,382
Decrease in funds held in trust by others		17,942		5,408
(Decrease) Increase in accounts payable and accrued expenses		(2,881)		2,169
(Decrease) increase in deferred income and other liabilities		(1,329)		15,631
Decrease in operating lease obligations		(1,183)		
(Decrease) Increase in refundable advances		(1,847)		182
Increase in accrued pension liability		26,211		14,299
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	**$**	**(1,376)**	**$**	**1,452**
CASH FLOWS FROM INVESTING ACTIVITIES				
Student loans				
Collected	$	7,993	$	7,787
Issued		(4,313)		(4,197)
Increase in donor-restricted cash for long-term investment		(3,862)		(4,054)
Proceeds from the sale of investments		925,137		1,068,467
Purchase of investments		(896,667)		(1,034,411)
Increase in Health Education Campus		(27,911)		(13,770)
Proceeds from the sale of plant assets		333		645
Purchases of property, plant, equipment and books		(54,161)		(62,265)
NET CASH USED FOR INVESTING ACTIVITIES	**$**	**(53,451)**	**$**	**(41,798)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in federal advances for student loans	$	(2,917)	$	(630)
Contributions restricted for long-term investment		36,008		24,763
Proceeds from the sale of investments received as gifts		15,952		6,704
Proceeds from short-term debt		228,000		205,500
Repayment of short-term debt		(231,000)		(204,500)
Proceeds from notes and bonds payable		76,014		67,636
Repayment of notes and bonds payable		(37,715)		(82,367)
Increase to annuities payable resulting from new gifts		214		558
Decrease to annuities payable resulting from payments		(2,039)		(2,141)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**$**	**82,517**	**$**	**15,523**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$**	**27,690**	**$**	**(24,823)**
Cash and cash equivalents, beginning of year		80,586		105,409
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**108,276**	**$**	**80,586**
SUPPLEMENTAL DATA:				
Interest paid in cash	$	19,523	$	19,167
Construction-in-progress payments included in accounts payable		2,682		2,910
Noncash activity:				
Initial adoption of ASU 2016-02: “Leases (Topic 842)” (Note 5)		10,232		
Health Education Campus contingent liability (Note 9)		50,000		

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

Basis of Presentation

Case Western Reserve University ("the University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The financial statements of the University as of June 30, 2020 and 2019, 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 barriers to the grant or contract funding have been overcome as qualifying expenses are incurred. Any payment received before barriers to funding have been overcome is recorded as a refundable advance. Once recognition is allowed, projects funded by grants and contracts that incur expenses prior to payment receipts are recorded as revenue with a corresponding receivable.

Investment Returns on Operating Investments

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

Cash and Cash Equivalents

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

Operating Investments

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

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, 2020 and 2019.

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 1.20% and 2.4% for June 30, 2020 and 2019, 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, 2019, 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, 2020 and 2019. 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, 2020 and 2019.

Revenue Recognition

During the year ended June 30, 2019, the University implemented Accounting Standard Update ("ASU") 2014-09: "Revenue from Contracts with Customers (Topic 606)," which allows users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The University applied the modified retrospective method for implementation, applying the guidance to all contracts at the date of initial application resulting in no material changes to the presentation of financial statement line items. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Significant judgments, such as the timing of satisfaction of performance obligation and associated transaction prices, may be required in the recognition of revenue, and certain economic factors, such as varying student class sizes, may affect revenue recognized in future years. Student tuition and fees are recorded as revenues during the year the related academic services are provided and are displayed net of student aid on the statement of activities. Student tuition and fees received in advance of services provided are recorded as deferred revenue. The University's significant revenue sources, shown in disaggregated form, for the fiscal years ended June 30, 2020 and 2019 are as follows:

	2020	2019
STUDENT TUITION AND FEES		
Undergraduate tuition	$ 258,938	$ 241,295
Less: Student aid	(139,961)	(124,157)
	118,977	117,138
Graduate and professional tuition	242,915	242,020
Less: Student aid	(66,776)	(66,105)
	176,139	175,915
Fees	7,686	7,650
TOTAL NET STUDENT TUITION AND FEES	**$ 302,802**	**$ 300,703**
AUXILIARY SERVICES REVENUE		
Food services	$ 15,492	$ 18,198
Housing and greek life	35,747	41,035
Health services	6,123	5,914
Parking	5,001	5,990
Other	3,142	4,630
TOTAL AUXILIARY SERVICES REVENUES	**$ 65,505**	**$ 75,767**

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

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

New Pronouncements

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)," which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. This standard requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The standard is effective for fiscal years beginning after December 15, 2018, and has been adopted by the University in the current fiscal year using the effective date method (Note 5). As permitted by the standard the University has elected to not reassess prior lease identification, lease classification, initial indirect cost, and certain land easements.

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 2016, the FASB issued ASU 2016-15: "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which attempts to eliminate the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This includes debt prepayment or debt extinguishment costs, certain contingent consideration payments and proceeds from the settlement of insurance claims, among others. The standard is effective for fiscal years beginning after December 15, 2018, and has been adopted by the University in the current fiscal year and did not have a material effect on the financial statements.

In November 2016, the FASB issued ASU 2016-18: "Statement of Cash Flows (Topic 230): Restricted Cash," which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2018, 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 2017, the FASB issued ASU 2017-07: "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, among other improvements to benefit cost presentation. The standard is effective for fiscal years beginning after December 15, 2018, 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 2017, the FASB issued ASU 2017-08: "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The standard is effective for fiscal years beginning after December 15, 2019. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2021, the first year in which the standard is effective.

In August 2017, the FASB issued ASU 2017-12: "Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard is effective for fiscal years beginning after December 15, 2020. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2022, the first year in which the standard is effective.

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

In August 2018, the FASB issued ASU 2018-14:

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

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

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.

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, 2020 and 2019, the University's financial assets and liquidity resources available for general expenditure within one year are as follows:

	2020	2019
FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR:		
Cash and cash equivalents	$ 108,276	$ 80,586
Operating investments	40,364	56,193
Accounts and notes receivable, net	47,683	55,949
Expected pledge payments available for operations	15,869	11,453
Other assets	579	857
Fiscal year 2021 and 2020 pooled endowment and similar funds spending allocation, respectively	72,300	67,100
Total	285,071	272,138
LIQUIDITY RESOURCES:		
Committed lines of credit	150,000	100,000
Less: current borrowings under lines of credit	(34,000)	(37,000)
Total	116,000	63,000
TOTAL FINANCIAL ASSETS AND LIQUIDITY RESOURCES AVAILABLE WITHIN ONE YEAR	**$ 401,071**	**$ 335,138**

Additionally, the University has Board-designated funds of $187,860 and $199,474, including a liquidity reserve of $108,763 and $122,210, as of June 30, 2020 and 2019, respectively. Although the University does not intend to spend from these investment funds, other than amounts appropriated by the Board for fiscal year 2021, amounts from its Board-designated funds could be made available, if necessary.

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

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, 2020 and 2019 were as follows:

	2020	2019
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	$ 46,377	$ 54,929
Students	1,502	1,677
STUDENT LOANS, NET	43,803	47,344
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 91,682**	**$ 103,950**

	2020	2019
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Accounts receivable	$ 6,059	$ 5,941
Loans receivable	$ 1,531	$ 1,632

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

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

Management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2020 is adequate to absorb credit losses inherent in the portfolio as of that date.

4. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. The discount rate utilized for fiscal 2020 and 2019 was 5%.

Unconditional promises to give at June 30, 2020 and 2019 are expected to be realized in the following periods:

	2020	2019
Less than one year	$ 54,233	$ 51,719
Between one year and five years	111,639	124,822
More than five years	18,069	17,237
	183,941	193,778
Less: Discount	(12,007)	(10,782)
Less: Allowance	(18,733)	(18,740)
TOTAL PLEDGES RECEIVABLE, NET	**$ 153,201**	**$ 164,256**

Management follows a similar approach as described in Note 3 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts to be prudent and reasonable. Management believes that the allowance for doubtful accounts at June 30, 2020 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2020 and 2019 had the following restrictions:

	2020	2019
Department programs and activities	$ 58,505	$ 50,594
Endowments for scholarships and department programs and activities	60,896	62,282
Building construction	33,800	51,380
TOTAL PLEDGES RECEIVABLE, NET	**$ 153,201**	**$ 164,256**

Uncollectible pledges totaling $17,452 (2020) and $5,203 (2019) were written off against the allowance for uncollectible pledges. The University had conditional pledge commitments totaling $16,863 (2020) and $17,616 (2019).

5. LEASING

The University is committed to minimum annual rent payments under several operating leases for educational and commercial space through fiscal year 2032. The components of lease expense are as follows:

LEASE COST		2020
Operating lease expense	$	1,581
Short-term lease expense		396
Sublease income		(500)
TOTAL LEASE EXPENSE	**$**	**1,477**

OTHER INFORMATION:	
Weighted-average remaining lease term in years - operating leases	9 years
Weighted-average discount rate - operating leases	3.09%

Payments due include options to extend operating leases through fiscal year 2032 and are summarized below as of June 30, 2020:

Year		
2021	$	1,509
2022		1,437
2023		1,019
2024		988
2025		916
Thereafter		4,680
		10,549
Less: amounts representing interest		(1,500)
TOTAL OPERATING LEASE OBLIGATION	**$**	**9,049**

The University is the lessor in a lease for commercial space through fiscal year 2024. Future minimum rental revenue due is summarized below as of June 30, 2020:

Year		
2021	$	500
2022		500
2023		500
2024		458
TOTAL	**$**	**1,958**

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, 2020 and 2019 were as follows:

		2020		2019
Equity securities	$	364,849	$	418,165
Fixed-income securities		163,028		136,491
Limited partnerships and Other				
Venture capital		28,084		30,432
Private equity		604,785		564,760
Real estate		5,974		39,040
Absolute return		551,776		507,193
Other		49,335		70,786
Equity real estate		81		81
TOTAL INVESTMENTS	**$**	**1,767,912**	**$**	**1,766,948**

		2020		2019
Operating investments	$	232,034	$	255,668
Investments, held for long-term purposes		1,535,878		1,511,280
TOTAL INVESTMENTS	**$**	**1,767,912**	**$**	**1,766,948**

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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, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowments		$ 1,207,487	$ 1,207,487
Purpose-restricted funds functioning as endowments		283,975	283,975
Board-designated funds	$ 79,097		79,097
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 79,097**	**$ 1,491,462**	**$ 1,570,559**

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

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 1.30% (2020) and 6.04% (2019).

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 2020 and 2019 pooled endowment and similar funds spending allocation approved by the Investment Committee of the Board were $67,100 and $61,900, respectively. The approved spending rate for fiscal year 2020 and 2019 were 4.70% and 4.60% of beginning market value, respectively. The total amount allocated was $66,688 and $62,732, 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 2020 and 2019 pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution totaled $6,000 in 2020 and $6,000 in 2019.

Changes in endowment and similar funds net assets for fiscal year 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2018	**$ 73,806**	**$ 1,465,496**	**$ 1,539,302**
Investment income	1,574	24,375	25,949
Realized and unrealized gains	2,346	47,227	49,573
TOTAL INVESTMENT RETURN	3,920	71,602	75,522
Contributions	2,355	20,083	22,438
Current year withdrawals		(264)	(264)
Current year expenditures	(2,817)	(65,870)	(68,687)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2019	**$ 77,264**	**$ 1,491,047**	**$ 1,568,311**
Investment income	3,634	61,177	64,811
Realized and unrealized losses	(2,488)	(45,294)	(47,782)
TOTAL INVESTMENT RETURN	1,146	15,883	17,029
Contributions	3,965	51,253	55,218
Current year expenditures	(3,278)	(66,721)	(69,999)
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2020	**$ 79,097**	**$ 1,491,462**	**$ 1,570,559**

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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:

		2020		2019
Aggregate historical value	$	159,796	$	98,319
Aggregate fair value		147,092		89,999
AGGREGATE DEFICIENCY	**$**	**(12,704)**	**$**	**(8,320)**

8. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2020 and 2019 by the ASC 820 valuation hierarchy are as follows:

June 30, 2020		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	$	265,534	$	54			$	99,261	$	364,849
Fixed-income securities		143,668		19,360						163,028
Limited partnerships and Other										
Venture capital								28,084		28,084
Private equity								604,785		604,785
Real estate								5,974		5,974
Absolute return								551,776		551,776
Other					$	37,729		11,606		49,335
Equity real estate						81				81
TOTAL INVESTMENTS	**$**	**409,202**	**$**	**19,414**	**$**	**37,810**	**$**	**1,301,486**	**$**	**1,767,912**
FUNDS HELD IN TRUST BY OTHERS	**$**	**-**	**$**	**-**	**$**	**280,247**	**$**	**-**	**$**	**280,247**
PENSION PLAN ASSETS										
Cash and cash equivalents	$	3,410							$	3,410
Equity securities		95,402								95,402
Fixed-income securities		42,064	$	3,417						45,481
Limited partnerships and Other										
Absolute return							$	25,797		25,797
Other								12,091		12,091
Equity real estate								9,600		9,600
TOTAL PENSION PLAN ASSETS (Note 12)	**$**	**140,876**	**$**	**3,417**	**$**	**-**	**$**	**47,488**	**$**	**191,781**
ASSETS AT FAIR VALUE	**$**	**550,078**	**$**	**22,831**	**$**	**318,057**	**$**	**1,348,974**	**$**	**2,239,940**
Interest rate swaps payable (Note 15)	$	-	$	17,334	$	-	$	-	$	17,334
LIABILITIES AT FAIR VALUE	**$**	**-**	**$**	**17,334**	**$**	**-**	**$**	**-**	**$**	**17,334**

June 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Equity securities	$ 319,959	$ 54		$ 98,152	$ 418,165
Fixed-income securities	98,973	37,518			136,491
Limited partnerships and Other					
Venture capital				30,432	30,432
Private equity				564,760	564,760
Real estate				39,040	39,040
Absolute return				507,193	507,193
Other			$ 37,161	33,625	70,786
Equity real estate			81		81
TOTAL INVESTMENTS	**$ 418,932**	**$ 37,572**	**$ 37,242**	**$ 1,273,202**	**$ 1,766,948**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 298,189**	**$ -**	**$ 298,189**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 6,161				$ 6,161
Equity securities	83,453				83,453
Fixed-income securities	34,130	$ 2,826			36,956
Limited partnerships and Other					
Absolute Return				$ 32,827	32,827
Other				11,400	11,400
Equity real estate				9,506	9,506
TOTAL PENSION PLAN ASSETS (Note 12)	**$ 123,744**	**$ 2,826**	**$ -**	**$ 53,733**	**$ 180,303**
ASSETS AT FAIR VALUE	**$ 542,676**	**$ 40,398**	**$ 335,431**	**$ 1,326,935**	**$ 2,245,440**
Interest rate swaps payable (Note 15)	$ -	$ 13,602	$ -	$ -	$ 13,602
LIABILITIES AT FAIR VALUE	**$ -**	**$ 13,602**	**$ -**	**$ -**	**$ 13,602**

Level 3 Investment Information

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

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

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

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	Venture Capital	Equity Real Estate	Other & Funds Held by Others	Total
June 30, 2018	$ 16,745	$ 81	$ 339,952	$ 356,778
Investment income			621	621
Unrealized losses	(22)		(5,522)	(5,544)
Settlements			(869)	(869)
Transfers	(16,723)		1,168	(15,555)
June 30, 2019	**$ -**	**$ 81**	**$ 335,350**	**$ 335,431**
Investment income			170	170
Unrealized losses			(17,353)	(17,353)
Settlements			(76)	(76)
Transfers			(115)	(115)
June 30, 2020	**$ -**	**$ 81**	**$ 317,976**	**$ 318,057**

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	$ 99,261	
Limited partnerships and Other				
Venture capital (b)			28,084	$ 41,627
Private equity (c)			604,785	109,851
Real estate (d)			5,974	34,688
Absolute return (e)	monthly, quarterly, annually	30 - 90 days	577,573	20,587
Other (f)			23,697	
Equity real estate (g)			9,600	
TOTAL			**$ 1,348,974**	**$ 206,753**

(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 98% 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 70% of the net asset value in this asset class is accessible within one year or less and 82% 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.

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

The valuations for the venture capital, private equity and real estate investments have been estimated using the managers' fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying properties, and portfolio companies, are sold at the market.

Derivative Information

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

The University seeks to mitigate these risks by using derivative transactions. At the macro level of the investment portfolio, derivative transactions also create cost-effective beta exposure that may replace a fund or investment manager, add alpha, support liquidity management, and reduce the impact of extreme negative market conditions. The University's portfolio did not include any derivative instruments as of June 30, 2020 and 2019. The derivative instruments used during fiscal year 2019 included total return swaps.

Total Return Swaps ("TRS"): A TRS is a nonstandardized agreement whereby one party makes periodic cash payments based on a set rate (e.g., London Interbank Offered Rate) while another party makes periodic cash payments based on the total return of an underlying index.

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

Location	Derivative Type		2020		2019
Investment income	Total return swaps			$	13,227
NET EFFECT OF DERIVATIVES		**$**	**-**	**$**	**13,227**

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 $503,000 as of June 30, 2020. 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. Components of the HEC are as follows

		2020		2019
Cash transferred to CCF	$	87,801	$	59,890
Less: Accumulated depreciation		(3,190)		
	$	84,611	$	59,890
Contingent liability		50,000		
TOTAL HEALTH EDUCATION CAMPUS, NET	**$**	**134,611**	**$**	**59,890**

The University has pledges receivable for the HEC project of $28,952 (2020) and $40,645 (2019).

As the University occupies approximately 83% of the HEC, but has only transferred cash for approximately 17% of the total estimated HEC project costs, the University has free use of a portion of the HEC. The University recorded contribution revenue, based on estimated fair value, for the free use of space and the corresponding expense of $8,833 in the statement of activities for fiscal year 2020.

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:

		2020		2019
Land and land improvements	$	76,483	$	73,750
Building and building improvements		1,394,381		1,370,484
Equipment and software		333,485		316,242
Library books		48,014		47,575
Construction-in-progress		60,415		58,562
		1,912,778		1,866,613
Less: Accumulated depreciation		(1,193,458)		(1,133,603)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$**	**719,320**	**$**	**733,010**

The above assets include $577,757 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 $25,232.

Depreciation expense included in the statement of activities was $70,434 (2020) and $65,981 (2019).

11. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate(s)	Maturity		2020		2019
OHEFC revenue notes and bonds[1]:							
Fixed-rate bonds:	Series 1990	6.50%	2020-2021	$	2,280	$	4,365
	Series 2006	5.25%	2020-2027		34,190		40,340
	Series 2012A	4.00 - 5.00%	2020-2024		12,830		15,670
	Series 2013A	4.00 - 5.00%	2020-2024		17,935		20,435
	Series 2015A	4.00 - 5.00%	2020-2030		21,585		45,375
	Series 2016	3.00 - 5.00%	2021-2041		163,640		163,640
	Series 2018	3.00 - 5.00%	2020-2031		88,550		88,780
	Series 2019B	5.00%	2032-2041		30,550		
	Series 2019C	1.63%	2027-2035		35,815		
Variable-rate bonds:	Series 2019A	2.13 - 0.68%[2]	2022-2045		68,160		68,160
Compass Group USA, Inc.		-n/a-	2020-2030		2,380		
TOTAL LIABILITY				**$**	**477,915**	**$**	**446,765**
Line of credit					34,000		37,000
Unamortized bond premium					34,951		32,563
Unamortized bond issuance cost					(3,959)		(3,678)
TOTAL NOTES AND BONDS PAYABLE				**$**	**542,907**	**$**	**512,650**

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

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

In April 2019, the OHEFC Series 2019A bonds were issued to refinance the balance of the OHEFC Series 2014A bonds in the amount of $67,623. Deferred financing fees of $537 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bond issued was $68,160. The earliest optional redemption date for the bond is October 2021, with a mandatory tender for purchase on April 1, 2022.

In December 2019, the OHEFC Series 2019B bonds were issued to refinance a portion of the balance of the OHEFC Series 2015A bonds in the amount of $22,036 and to finance renovations of Fribley Commons, a dining facility, in the amount of $15,993. Deferred financing fees of $277 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bond was $38,306. The eariest optional redemption date for the bond is December 2029.

In December 2019, the OHEFC Series 2019C bonds were issued to provide bridge financing for the construction of Phase II of the Maltz Performing Arts Center in the amount of $35,479. Deferred financing fees of $336 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bond issued was $35,815. The earliest optional redemption date for the bond is June 2026, with a mandatory tender for purchase on December 1, 2026.

The University has revolving lines of credit with two financial institutions in the amount of $150,000 to finance working capital. The $25,000 line is subject to review and renewal in September 2020. Of the remaining $125,000 line, $50,000 is subject to review and renewal in June

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2021 and the remaining $75,000 is subject to review and renewal in March 2022. The amount outstanding was $34,000 (2020) and $37,000 (2019).

In January 2020, the University entered into a revolving line of credit with a financial institution in the amount of $50,000 to provide short-term liquidity to the investment pool. The line is subject to review and renewal in January 2021 and was not utilized during the fiscal year.

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

Year		Total Scheduled Principal Payments
2021	$	49,485
2022		18,587
2023		46,177
2024		44,772
2025		15,942
Thereafter		336,952
TOTAL	**$**	**511,915**

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:

		2020		2019
Funded status at June 30 of prior fiscal year	$	(104,192)	$	(89,893)
Service cost		(9,130)		(9,192)
Interest cost		(11,254)		(11,370)
Expected return on assets		14,631		13,169
Actuarial (loss) gain		(36,137)		(22,742)
Employer contributions		15,679		15,836
FUNDED STATUS AT JUNE 30	**$**	**(130,403)**	**$**	**(104,192)**
Accumulated benefit obligation	$	320,684	$	283,289

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

		2020		2019
Net periodic benefit cost	$	12,789	$	12,675
Employer contributions		15,679		15,836
Benefits paid		6,695		6,575

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

2021	$	7,817
2022		8,535
2023		9,050
2024		9,940
2025		10,719

Amounts expected to be paid between 2026 and 2030 total $64,481. The University's estimated employer contribution for the defined benefit plan in fiscal 2021 will depend on the results of the July 1, 2020 actuarial valuation and is estimated to be $17,804.

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

	2020	2019
BENEFIT OBLIGATION		
Discount rate	3.20%	3.90%
Rate of compensation increase	2.25%	2.25%
Measurement date	6/30/20	6/30/19
Census date	7/1/19	7/1/18
NET PERIODIC BENEFIT COST		
Discount rate	3.90%	4.35%
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 asset allocation strategy that includes equity investments (50%), fixed income (20%), absolute return strategies (combination of fixed income and equity securities) (12%), private credit (8%), real estate (5%), and cash (5%). 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:

	2020	2019
Equity securities	50%	46%
Fixed income securities	25%	24%
Real estate	5%	5%
Other	20%	25%
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:

	2020	2019
Benefit obligation at June 30	$ 322,184	$ 284,495
Fair value of plan assets at June 30	191,781	180,303
NET LIABILITY	**$ (130,403)**	**$ (104,192)**
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Accumulated actuarial losses	139,237	110,136
AMOUNT RECOGNIZED AS REDUCTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS	**$ 139,237**	**$ 110,136**

The estimated amortization of the net loss expected in fiscal 2021 totals $9,317. Components of the net periodic benefit cost and other changes in plan assets that are recognized in the statement of activities are as follows:

	2020	2019
Change in actuarial loss	$ 29,101	$ 17,460
TOTAL LOSS RECOGNIZED, NET ASSETS WITHOUT DONOR RESTRICTIONS	**29,101**	**17,460**
Service cost	9,130	9,192
Interest cost	11,254	11,370
Expected return on assets	(14,631)	(13,169)
Net loss amortization	7,036	5,282
Net periodic benefit cost	**12,789**	**12,675**
TOTAL LOSS RECOGNIZED, STATEMENT OF ACTIVITIES	**$ 41,890**	**$ 30,135**

Benefit plan costs for the defined contribution plan are $24,490 (2020) and $23,908 (2019).

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 $100,939 (2020) and $101,612 (2019).

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

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

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 $20,442 (2020) and $22,026 (2019). No obligation associated with this agreement is recorded in the accompanying financial statements.

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In August 2015, the Medical Center Company approved an energy efficiency grant in the amount of $829, of which $255 was used. The payback terms related to this project are 36 months beginning March 2016. The obligation related to this project recorded in *Deferred income and* *other liabilities* is $23 (2020) and $80 (2019).

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 $512 (2020) and $873 (2019).

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 four agreements in effect at June 30, 2020, 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, 2020, with comparative fair values for June 30, 2019. 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	2020 Level 2 Fair Market Value	2019 Level 2 Fair Market Value
$ 6,530	4.34%	Aug. 12, 2004	Oct. 1, 2022	LIBOR	$ (460)	$ (543)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	(1,284)	(1,437)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(1,194)	(1,180)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(14,396)	(10,442)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (17,334)**	**$ (13,602)**

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 counter-party's financial exposure to the University to no more than $20,000. The University had placed $0 (2020 and 2019) into such a fund.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $1,986 (2020) and $1,700 (2019).

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, 2020 and 2019:

June 30, 2020	Instructional	Sponsored projects	Libraries	Student services	University services	Auxiliaries	Total operating expenses
Salaries and wages	$ 196,338	$ 148,452	$ 6,304	$ 17,111	$ 54,248	$ 12,059	$ 434,512
Fringe benefits	59,532	37,777	1,925	5,302	17,548	3,802	125,886
Other operating expense	67,030	167,628	4,208	10,365	42,539	30,486	322,256
Allocations							
Depreciation	14,299	15,656	7,106	1,400	7,696	24,277	70,434
Interest	1,607	3,994	360	164	1,817	11,020	18,962
Plant operations and maintenance	19,394	11,770	2,947	933	7,751	6,317	49,112
TOTAL	**$ 358,200**	**$ 385,277**	**$ 22,850**	**$ 35,275**	**$ 131,599**	**$ 87,961**	**$ 1,021,162**

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

17. NET ASSETS

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

	2020	2019
WITHOUT DONOR RESTRICTIONS		
Board-designated:		
Quasi-endowments	$ 79,097	$ 77,264
Liquidity reserve	108,763	122,210
TOTAL BOARD-DESIGNATED	187,860	199,474
Unrestricted	36,836	59,009
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	**$ 224,696**	**$ 258,483**
WITH DONOR RESTRICTIONS		
Endowments	$ 1,207,487	$ 1,198,275
Purpose-restricted funds functioning as endowments	283,975	292,772
Pledges receivable	114,360	114,819
Funds held in trust by others	284,516	300,947
Student loan funds	37,449	37,700
Split-interest agreements	11,878	15,596
Purpose-restricted gifts	185,039	179,988
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 2,124,704**	**$ 2,140,097**

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18. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 16, 2020, the date on which the financial statements were issued.

In August 2020, the University entered into a new revolving line of credit with a financial institution in the amount of $50,000 to finance working capital. In September 2020, the University chose not to renew the existing $25,000 line of credit subject to renewal. The University increased the total capacity of the revolving lines of credit for financing working capital to $175,000.

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