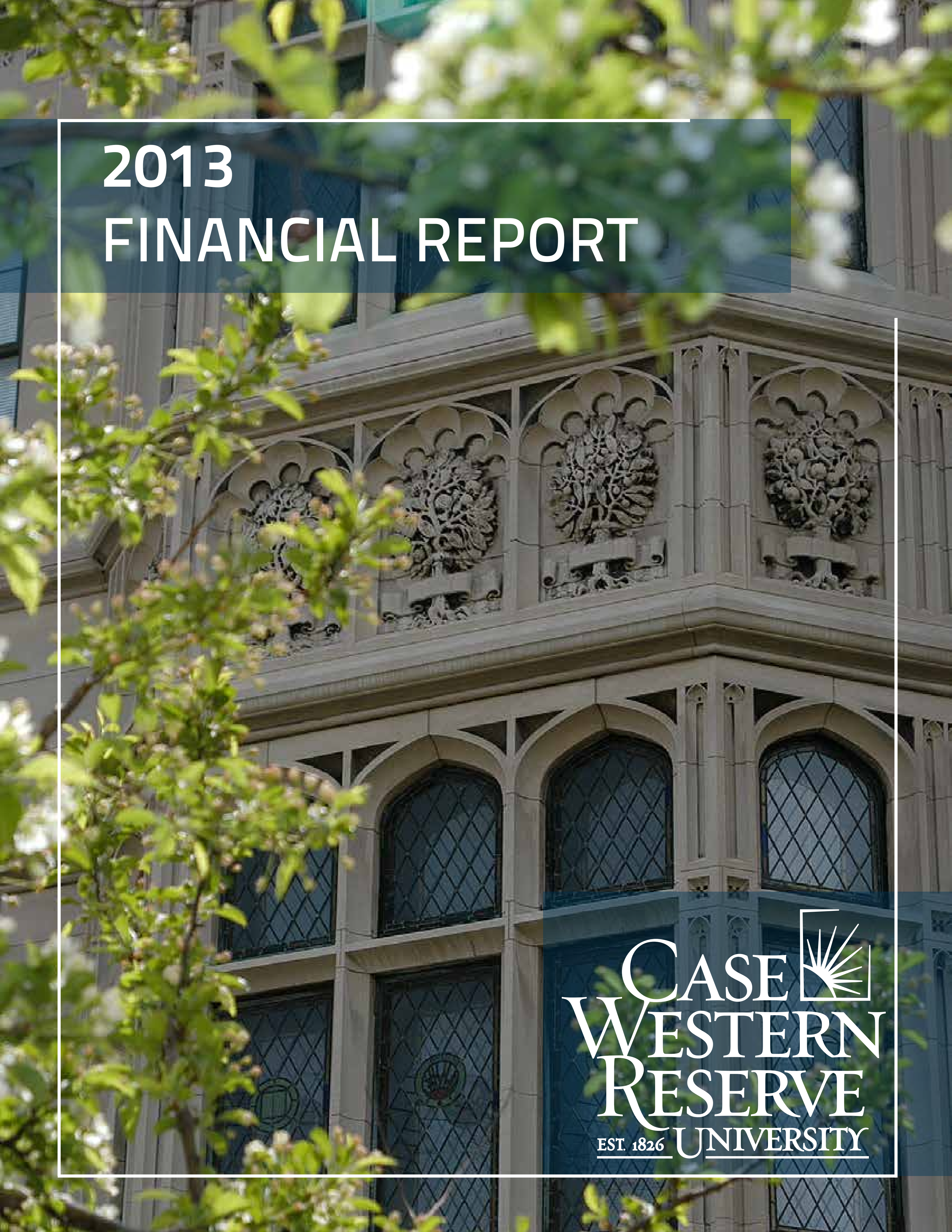
2013
FINANCIAL REPORT



CASE WESTERN RESERVE
EST. 1826 UNIVERSITY

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University continued to grow a solid financial resource base during Fiscal Year 2013 ("FY13"). The University's net operating activities were positive, the fundraising campaign drove record levels of attainment, and undergraduate enrollment efforts resulted in the largest and most academically accomplished entering class in University history. In addition, financial markets began to return to normal levels producing non-operating financial benefits reflected in investment returns, reduced pension liability, and more favorable interest rate swaps.

The FY13 financial plan continued to focus on maintaining momentum in core operating results, funding strategic capital projects by philanthropy, and achieving desired undergraduate enrollment. The results were a $42 million or 4.6% operating margin, a new record in attainment of $146 million in new pledges, and growth in undergraduate enrollment that contributed to a net tuition revenue increase of $10 million. Capital expenditures continue to adhere to a disciplined planning process that leverages philanthropic support for strategic projects such as the Tinkham Veale University Center, a $50 million capital project funded entirely by gifts. Normalized financial markets led to non-operating improvements of $136 million as investment returns grew and pension liabilities decreased. Undergraduate enrollment growth has consumed all available student housing, however, and new housing supported by incremental revenue may result in the issuance of new debt.

Following are additional comments related to the University's operations and financial results.

FY13 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

The University's stewardship of resources produced a net operating income of $42 million, a 4.6% operating margin. A proactive management plan was reflected in a balanced budget in 2013, including a budgeted operating surplus of $5.2 million. The *Statement of Operations* surplus of $8.4 million reflects revenue diversity across a wide array of academic programs that attract increasing student numbers. Both net operating activity (GAAP-basis) and operating surpluses (management view modified-cash basis) have been positive for six years, and also have outperformed annual budgets. Management is committed to sustained operating improvements.

Record-breaking Attainment Level

In 2013, the University benefitted again from generous donor support. Having announced the public phase of its $1 billion campaign the prior year, Case Western Reserve set a new record for attainment of $146 million in FY13. The total represents a 5% increase over the previous record amount of $138 million achieved in FY12. Attainment has increased in each of the last six years. In FY13 the University received gifts from nearly 20,000 donors, totaling $95 million as reported on a cash basis. Realized gifts and pledges of over $77 million are reported in the financial statements on an accrual basis.

Growing Undergraduate Enrollment

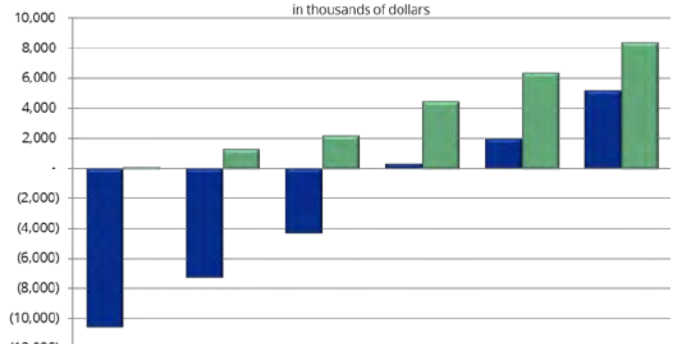
The University began the 2012-2013 academic year by welcoming 1,372 students, the largest, most diverse and highly qualified entering undergraduate class in the institution's history. Undergraduate tuition revenue, combined with other increases in professional and graduate programs, grew student tuition and fees to $347 million, or by $29 million from the prior year. Student aid kept pace with climbing revenue, yielding an overall net tuition increase of $10 million. In addition, auxiliary revenue related to student-services increased by $5.5 million. Higher undergraduate enrollment continued into 2013-2014 which means the University now utilizes most of its available student housing. Additional student housing to meet the growing undergraduate enrollment is under consideration.

STATEMENT OF OPERATIONS

The University manages its daily operations using a *Statement of Operations* 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 an operating surplus of $8.4 million in FY13, compared to a budgeted suruplus of $5.2 million and a $6.4 million surplus in FY12. FY13 marked the sixth consecutive year of positive operating results.

UNIVERSITY SURPLUS/(DEFICIT)
in thousands of dollars



	2008	2009	2010	2011	2012	2013
Budget	(10,500)	(7,226)	(4,278)	332	2,000	5,200
Actual	127	1,336	2,226	4,499	6,375	8,412

The FY13 operating results reflect increasing net tuition revenue from increasing numbers of undergraduates, strong auxiliary revenues correlated to increased undergraduate enrollment, and careful management of expenses.

MANAGEMENT CENTER OPERATING REVENUES

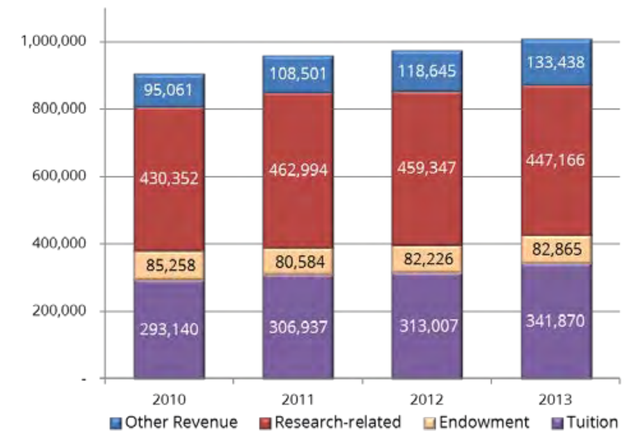
Operating revenues are classified in four categories: Tuition, Endowment, Research-related, and Other. The University reported $1,005 million in revenue, a $32 million or 3% increase from FY12.

Gross undergraduate tuition increased $19 million or 13% over FY12, a direct reflection of the 3.25% rate increase and addition of 376 undergraduate full-time equivalents over FY12. Professional and graduate program gross tuition, along with Summer programs and fees, added another $10 million in tuition revenue, for a total $29 million or 9% tuition revenue increase from FY12.

Endowment revenue used by operations was essentially flat as compared to FY12.

Research-related revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were down $12 million or 3% from FY12 largely because of the conclusion of federal budget stimulus funding.

OPERATING REVENUE
in thousands of dollars

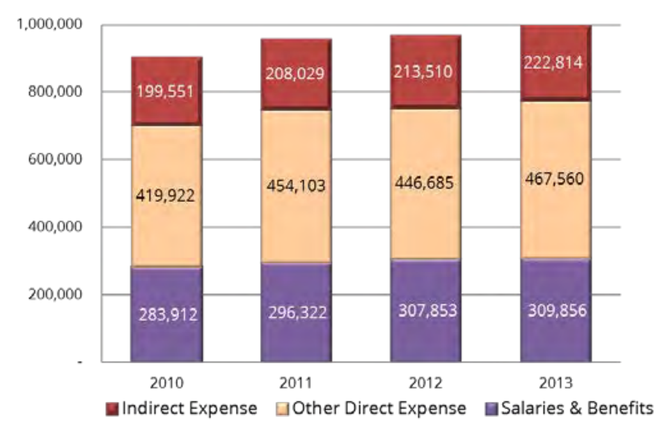


Other Revenue increased $15 million or 12% over FY12, fueled by an $8 million or 15% increase in auxiliary services revenue, related to rate increases and 9% growth in the undergraduate student population.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1,000 million, a $32 million or 3% increase from FY12. Functional expenses are categorized as Salaries and Benefits, Other Direct, and Indirect Expenses. Increases in operating expenses closely tracked the revenue increases due to student volume.

OPERATING EXPENSES
in thousands of dollars



Expenses not related to student enrollment increased in total only $13 million or 1% over FY12; Salaries & Benefits increased $2 million, or 1%.

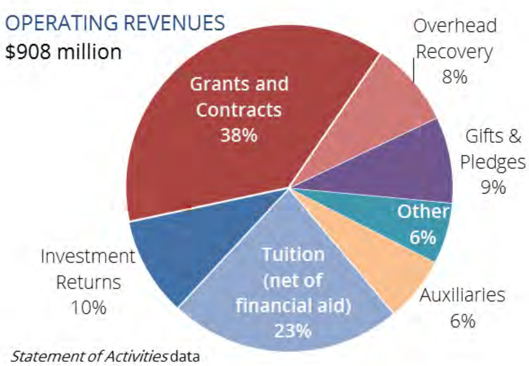
The increases in Other Direct Expense, up $21 million or 5% over FY12, and Indirect Expense, up $9 million or 4%, were driven by the undergraduate student population growth, as reflected in the financial aid and student-related auxiliary segments respectively.

CONSOLIDATED STATEMENT OF ACTIVITIES

The *Statement of Activities* includes consolidated results from the University's operating and non-operating activities to produce change in net assets. In FY13, operating activity contributed $42 million to net assets.

OPERATING REVENUES

Total operating revenues were $908 million, a $17 million or 2% increase from FY12. The components of the University's revenues are shown below; additional detail of operating revenue follows.



Statement of Activities data

Tuition Income

Gross tuition income of $347 million, including fees and undergraduate, graduate, summer, and professional tuition, increased $29 million or 9% over FY12. Gross tuition income is offset in part by financial aid awarded; the financial aid offset for FY13 was $138 million, resulting in net tuition of $209 million, or 23% of operating revenues.

The net tuition income of $209 million represents a $10 million or 5% increase over FY12, with increased revenues generated by a growing undergraduate population.

Investment Returns

Investment Returns included $61 million in returns distributed from the long-term investment pool, $14 million in returns on operating investments, and $14 million in distributions from funds held by others (FHBO) for endowment spending. Investment returns in operations, which represent 10% of operating revenue, totaled $88 million, an increase of $4 million or 5% from FY12.

Grants and contracts

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

Grants and contracts received for research and training purposes total $344 million, including $91 million in CCLCM awards. This amount reflected a decrease of $15 million or 4% from FY12. The total represents 38% of overall University operating revenue. The decline corresponds with a drop in research operating expenses and arises from the end of federal budget stimulus funds.

Overhead cost recovery

The Facilities and Administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $76 million in FY13, a $3 million or 4% decrease from FY12. Overhead recovery constituted 8% of operating revenue.

Gifts & Pledges

Gifts & Pledges income of $77 million was up $15 million or 25% from then-historic FY12 levels thanks in large part to a successful development campaign that entered its public phase in 2012. Gifts & Pledges are recorded in the appropriate asset category once received.

Auxiliaries

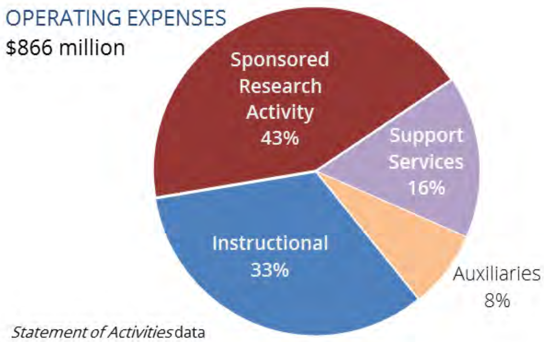
Auxiliary Services income of $58 million, which was 6% of operating revenues, increased $7 million or 14% over FY12. Auxiliary income is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $45 million, or "Other," including Rental Properties and Parking, totaling $13 million for FY13.

Other Revenue

Other revenue of $55 million held constant as compared to FY12 and constituted 6% of revenue. Other revenue was provided by the State of Ohio appropriation, Organized Activities, and Other Sources.

OPERATING EXPENSES

Total expenses of $866 million increased $12 million or 1% over FY12. The components of the University's expenses are shown; additional detail of operating expenses follows.



Statement of Activities data

Instructional costs of $288 million, which comprise 33% of operating expenses, increased by $18 million or 7% over FY12. Included in direct instructional costs are faculty and staff salaries and benefits, including a merit increase pool for faculty and staff of 2% over FY12.

Sponsored Research Activity of $374 million, representing 43% of operating expenses, decreased $16 million or 4% from FY12. Sponsored research activity includes Sponsored research and training, Other sponsored projects, and CCLCM research and training expenses.

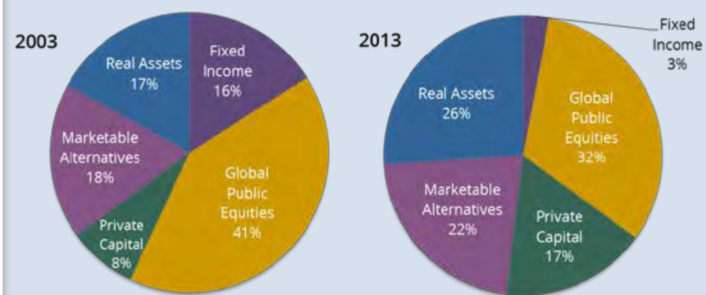
Support Services costs of $138 million, or 16% of operating expenses, including Library, Student Services, and University Services, increased $3 million or 2% over FY12.

Auxiliaries expenses of $66 million, which constitute 8% of operating expenses, increased $7 million or 12% over FY12. $3 million of the increase came from student-focused auxiliaries because of increased volume in student housing and food services.

THE UNIVERSITY'S ENDOWMENT

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

Compared to ten years ago at the end of FY2003, the pool's investment holdings in public equities and public fixed income are lower and the asset categories that generally provide more consistent, less volatile returns—such as marketable alternatives, private capital and real assets—are higher.



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

NON-OPERATING ACTIVITIES

Non-operating activity added $69 million to net assets, largely because of positive investment returns.

Long-term Investment Activities

Long-term investment activities realized $29 million in investment returns and $80 million in unrealized appreciation on $1.6 billion in investment assets. Investment income increased $45 million over FY12, and investment appreciation increased $126 million over FY12.

Other Non-Operating Activities

Other non-operating activities, including Changes in liabilities due under life-income agreements and Loss on disposal of plant assets, resulted in a $20 million gain in net assets. Most significant in this other non-operating activity was the $27 million generated by the improvement in the discount rate used to value pension plan liability.

CHANGE IN NET ASSETS

The combined net operating activity of $42 million and net non-operating activity of $69 million resulted in total net assets of $1.936 billion, an increase of $111 million or 6% from FY12.

CHANGE IN NET ASSETS

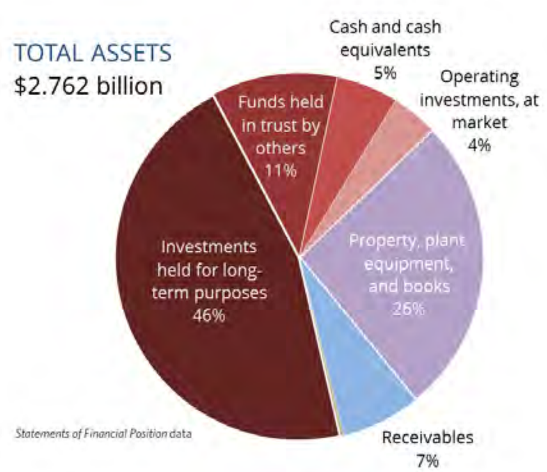
(in millions)	2013	2012
Beginning net assets	$ **1,824,649**	$ 1,973,541
Increase/(decrease) in net assets	**111,259**	(148,892)
Ending net assets	**$ 1,935,908**	**$ 1,824,649**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The University's *Statements of Financial Position* reflect total assets of $2.762 billion, primarily a sizable cash and investment balance of $1.836 billion, the cash portion of which increased liquidity over FY12.

ASSETS

Total cash and investments of $1.836 billion, including cash and cash equivalents, operating investments, long-term investments, and funds held by others, combined total 67% of University assets. Property, plant, equipment and books represent an additional $725 million or 26% of assets. Total assets increased $117 million or 4% over FY12.



Cash and Cash Equivalents

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

The University's cash position on June 30 was $151 million, an increase of $17 million or 13% over FY12. Cash equivalents include all highly liquid investments with original purchase maturity of 90 or fewer days, and appropriated endowment income which may be spent on demand.

Operating Investments, at market

The University's operations were supported by $113 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 were up $25 million or 29% over FY12 totals.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University has $194 million in receivables, which represent 7% of assets. Receivables were up $22 million or 13% from FY12.

Investments held for long-term purposes

Long-term investments of $1.27 billion increased a net $38 million or 3% from FY12. Because a majority of the University's long-term investments are endowments or similar funds, the Board of Trustees' annually-appropriated endowment spending allocation had an impact of approximately $67.5 million on long-term investments in FY13.

Funds Held By Others

Funds held in trust by others of $306 million increased $20 million or 7% from FY12.

Property, Plant, Equipment, and Books

Property, plant, equipment, and library books, net of depreciation, constitute 26% of the University's assets, totaling $725 million for FY13. Net plant assets decreased $6 million or less than 1% from FY12.

LIABILITIES

Total liabilities increased over FY12 to $826 million, a $6 million or less than 1% increase from FY12 totals.

Retirement Plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The University's accrued pension liability position decreased by $23 million from FY12, to a total accrued pension liability of $41 million in FY13. This decrease was due to an improvement in the discount rate used to value pension liability.

Debt

Total liability on notes and bonds payable increased $42 million or 8% over FY12 as a result of drawing an additional $27 million on the University's previously authorized commercial paper program for bridge financing for philanthropically-financed capital projects .

NET ASSETS

In FY13, the University's total net assets increased $111 million or 6% over FY12 to $1.936 billion.

Unrestricted Net Assets

Unrestricted net assets increased $18 million or 12% from FY12 to $165 million. Net operating activity added $5 million and net non-operating activity added $13 million.

Temporarily Restricted Net Assets

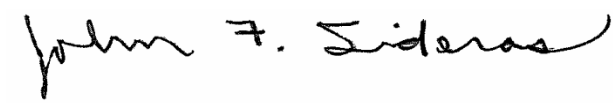
Temporarily restricted net assets increased $51 million or 6% to $845 million. The University received $56 million of new temporarily restricted gifts and pledges in FY13, which were offset partially by $38 million in assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets increased $42 million or 5% to $926 million during FY13. The increase was due to the receipt of $18 million in new gifts and pledges, and $28 million in investment appreciation, which were partially offset by a change in liabilities due under life-income agreements of $3 million and net assets released from restrictions of $1 million.

PROSPECTIVE DISCUSSION

The University expects to continue to build on its solid financial base as reflected in its FY14 operating budget surplus of $6 million. The Tinkham Veale University Center, fully funded by philanthropy, will open in time for the arrival of students for fall semester 2014. The incoming Class of 2017 is at the targeted size and quality, and replaces a smaller graduating class. Planning for new student housing is well underway and any new debt will be supported by incremental revenues. Finally, senior leadership is committed to continuous operating performance improvements, thereby strengthening the University's financial position.



John F. Sideras, CPA

Senior Vice President and Chief Financial Officer

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

	2013	2012	2011	2010
STATEMENT OF OPERATIONS HIGHLIGHTS - Management View				
Total Revenue	$ 1,005,339	$ 973,225	$ 959,016	$ 903,811
Total Expense	$ 1,000,230	$ 968,048	$ 958,454	$ 903,385
Operating Margin	$ 5,109	$ 5,177	$ 562	$ 426
Retained Surplus Use	3,303	1,198	3,937	1,800
Surplus	$ 8,412	$ 6,375	$ 4,499	$ 2,226
STATEMENT OF ACTIVITIES HIGHLIGHTS				
Tuition and Fees (net of student aid)	$ 209,258	$ 199,709	$ 188,078	$ 174,927
Investment, FHBO, and operational returns	88,141	84,165	105,188	89,002
Grants and Contracts	344,170	358,849	369,007	349,475
Facilities and Administrative cost recovery	76,196	79,607	79,742	75,705
Gifts and Pledges	77,498	62,165	77,878	54,627
Other Revenue	54,662	55,205	50,446	43,784
Auxiliary Services	58,250	51,002	49,449	45,517
Total Operating Revenue	$ 908,175	$ 890,702	$ 919,788	$ 833,037
Instructional Expenses	287,539	269,966	261,461	253,578
Sponsored Research Activity	374,422	389,979	394,955	375,141
Support Services	138,000	135,463	134,580	130,355
Auxiliary Services	66,003	58,971	62,414	58,781
Total Operating Expense	$ 865,964	$ 854,379	$ 853,410	$ 817,855
Net Operating Activity	$ 42,211	$ 36,323	$ 66,378	$ 15,182
Long-term Investment Activities	109,288	(60,933)	233,577	76,368
Other non-operating activity	(40,240)	(124,282)	(51,572)	(76,241)
Net Non-Operating activity	$ 69,048	$ (185,215)	$ 182,005	$ 127
Change in Net Assets	$ 111,259	$ (148,892)	$ 248,383	$ 15,309
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 151,100	$ 133,905	$ 105,900	$ 102,998
Operating investments, at market	112,618	87,304	77,914	64,205
Receivables	194,157	171,807	183,870	148,607
Investments (held for long-term purposes)	1,266,661	1,229,017	1,321,428	1,161,596
Funds held in trust by others	305,682	285,756	297,768	255,729
Property, plant, equipment, and books, net of depreciation	724,547	730,637	745,260	770,248
Prepaid expenses and other assets	7,448	6,979	8,424	9,258
Total Assets	$ 2,762,213	$ 2,645,405	$ 2,740,564	$ 2,512,641
Total Liabilities	$ 826,305	$ 820,756	$ 767,023	$ 787,483
Total Net Assets	$ 1,935,908	$ 1,824,649	$ 1,973,541	$ 1,725,158
OTHER FINANCIAL INFORMATION				
Net Investments (including FHBO), at fair value	$ 1,684,961	$ 1,602,077	$ 1,697,110	$ 1,481,530
Investments payout in support of operations	74,499	74,159	72,536	79,106
As a % of total expense	7%	8%	8%	9%
Total gifts and pledges (attainment)	$ 145,908	$ 138,362	$ 126,211	$ 115,529
Total gifts - cash basis	94,529	91,763	86,189	80,855
STUDENTS				
Enrollment*				
Undergraduate	4,302	3,935	4,132	4,139
Graduate	4,957	4,879	4,806	4,743
Annual Undergraduate Tuition Rate (in dollars)	$ 41,420	$ 40,120	$ 38,760	$ 37,300

* Enrollment for fall semester of fiscal year in FTEs

REPORT OF INDEPENDENT AUDITORS

Independent Auditors' Report

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying consolidated financial statements of Case Western Reserve University ("University"), which comprise the consolidated statement of financial position as of June 30, 2013 and the related consolidated statements of activities and cash flows for the year then ended.

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Case Western Reserve University at June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have previously audited Case Western Reserve University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Cleveland, Ohio
October 5, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

in thousands of dollars	For the year ended June 30 2013	2012
ASSETS		
Cash and cash equivalents	$ 151,100	$ 133,905
Operating investments, at market	112,618	87,304
Accounts and loans receivable, net	100,734	102,681
Pledges receivable, net	93,423	69,126
Prepaid expenses and other assets	7,448	6,979
Investments, held for long-term purposes	1,266,661	1,229,017
Funds held in trust by others	305,682	285,756
Property, plant, equipment and books, net	724,547	730,637
TOTAL ASSETS	**$ 2,762,213**	**$ 2,645,405**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 57,116	$ 66,376
Deferred income and other liabilities	53,605	61,120
Annuities payable	41,550	41,454
Refundable advances	7,541	5,449
Accrued pension liability	40,778	63,291
Notes and bonds payable	601,980	559,978
Refundable federal student loans	23,735	23,088
TOTAL LIABILITIES	**$ 826,305**	**$ 820,756**
NET ASSETS		
Unrestricted	**$ 164,526**	**$ 146,716**
Temporarily restricted	**845,028**	**793,989**
Permanently restricted	**926,354**	**883,944**
TOTAL NET ASSETS	**$ 1,935,908**	**$ 1,824,649**
TOTAL LIABILITIES AND NET ASSETS	**$ 2,762,213**	**$ 2,645,405**

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

CONSOLIDATED STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2012

in thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2013	2012
OPERATING REVENUES					
Student tuition and fees	$ 346,792			$ 346,792	$ 317,861
Less: Student aid	(137,534)			(137,534)	(118,152)
	209,258			209,258	199,709
Investment returns distributed for operations	60,568			60,568	60,833
FHBO returns distributed	12,870	$ 1,061		13,931	13,326
Investment returns on operating investments	13,642			13,642	10,006
Grants and contracts	252,854			252,854	265,888
CCLCM grants and contracts	91,316			91,316	92,961
Gifts & Pledges	3,703	55,798	$ 17,997	77,498	62,165
State of Ohio appropriation	2,758			2,758	2,744
Facilities and administrative cost recovery	76,196			76,196	79,607
Organized activities	13,542			13,542	11,927
Other sources	37,835		527	38,362	40,534
Auxiliary services - students	45,330			45,330	39,788
Auxiliary services - other	12,920			12,920	11,214
Net assets released from restrictions	38,108	(38,240)	132	-	-
TOTAL OPERATING REVENUES	**$ 870,900**	**$ 18,619**	**$ 18,656**	**$ 908,175**	**$ 890,702**
OPERATING EXPENSES					
Instructional	287,539			287,539	269,966
Sponsored research and training	257,272			257,272	269,865
Other sponsored projects	25,834			25,834	27,153
CCLCM research and training	91,316			91,316	92,961
Libraries	22,466			22,466	22,279
Student services	23,304			23,304	22,780
University services	92,230			92,230	90,404
Auxiliary services - students	50,342			50,342	47,376
Auxiliary services - other	15,661			15,661	11,595
TOTAL OPERATING EXPENSES	**$ 865,964**	**$ -**	**$ -**	**$ 865,964**	**$ 854,379**
NET OPERATING ACTIVITY	**$ 4,936**	**$ 18,619**	**$ 18,656**	**$ 42,211**	**$ 36,323**
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment income	$ 4,493	16,246	8,226	$ 28,965	$ (15,540)
Net appreciation	(1,619)	62,016	19,926	80,323	(45,393)
Total long-term investment activities	2,874	78,262	28,152	109,288	(60,933)
Long-term investment income and gains distributed for operations	(60,568)			(60,568)	(60,833)
Change in liabilities due under life-income agreements			(3,492)	(3,492)	(4,472)
Loss on disposal of plant assets	(3,144)			(3,144)	(1,680)
Pension plan changes other than periodic benefit costs	26,964			26,964	(55,655)
Other non-operating activity	-			-	(1,642)
Net assets released from restrictions	46,748	(45,842)	(906)	-	-
NET NON-OPERATING ACTIVITY	**$ 12,874**	**$ 32,420**	**$ 23,754**	**$ 69,048**	**$ (185,215)**
CHANGE IN NET ASSETS	**$ 17,810**	**$ 51,039**	**$ 42,410**	**$ 111,259**	**$ (148,892)**
Beginning Net Assets	146,716	793,989	883,944	**1,824,649**	1,973,541
ENDING NET ASSETS	**$ 164,526**	**$ 845,028**	**$ 926,354**	**$ 1,935,908**	**$ 1,824,649**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

in thousands of dollars	For the year ended June 30 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 111,259	$ (148,892)
Adjustments to reconcile change in net assets to net (cash used for) provided by operating activities:		
Depreciation	62,169	63,356
Amortization of bond issuance costs	125	98
Amortization of bond premiums	(1,504)	(755)
Increase in capital appreciation notes	602	1,044
Net unrealized depreciation in the fair market value of investments	(71,968)	34,371
Realized gains on investments	(33,130)	(6,897)
Increase to annuities payable resulting from actuarial adjustments	3,492	4,472
Gifts of property and equipment	(59)	(377)
Receipt of contributed securities	(3,566)	(3,429)
Loss on disposal of plant assets	3,144	1,680
Contributions restricted for long-term investment	(11,733)	(20,729)
Decrease in accounts and loans receivable, net	1,974	19,938
Increase in pledges receivable, net	(24,297)	(6,936)
(Increase) decrease in prepaid expenses and other assets	(593)	1,346
(Increase) decrease in funds held in trust by others	(18,475)	12,012
(Decrease) increase in accounts payable and accrued expenses	(10,356)	8,450
(Decrease) increase in deferred income and other liabilities	(7,515)	11,705
Increase (decrease) in refundable advances	2,093	(1,055)
(Decrease) increase in accrued pension liability	(22,514)	40,709
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	**$ (20,852)**	**$ 10,111**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 6,859	$ 6,899
Issued	(6,886)	(7,839)
Proceeds from the sale of investments	2,012,876	2,713,818
Purchase of investments	(1,968,622)	(2,654,842)
Proceeds from the sale of plant assets	316	1,005
Purchases of property, plant, equipment and books	(58,383)	(50,948)
NET CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES	**$ (13,840)**	**$ 8,093**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in federal advances for student loans	$ 646	$ 3,202
Contributions restricted for long-term investment	11,733	20,729
Proceeds from short-term debt	45,000	15,000
Repayment of short-term debt	(20,000)	(15,000)
Proceeds from commercial paper	27,000	-
Proceeds from notes and bonds payable	7,256	-
Repayment of notes and bonds payable	(16,352)	(10,489)
Increase to annuities payable resulting from new gifts	291	1,147
Decrease to annuities payable resulting from payments	(3,687)	(4,788)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**$ 51,887**	**$ 9,801**
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 17,195	$ 28,005
Cash and cash equivalents, beginning of year	133,905	105,900
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 151,100**	**$ 133,905**
SUPPLEMENTAL DATA:		
Interest paid in cash	$ 14,657	$ 16,968
Construction in progress payments included in accounts payable	3,190	2,093

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Case Western Reserve University ("the University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2013, and for the year then ended, as well as summarized information for the year ended June 30, 2012, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

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

Net Asset Categories

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

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

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

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

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

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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 958, "Not for Profit Entities," in August 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and expanded disclosures about an organization's endowment (both donor-restricted and board-designated funds). The University's Board of Trustees ("the Board") has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated and expended by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Contributions

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

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

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

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

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

Cash and Cash Equivalents

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

Operating Investments, at Market

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

Investments

Investments are made within guidelines authorized by the Board. Investments are initially recorded at cost at date of acquisition or fair value at date of donation in the case of gifts. Ownership of marketable securities is recognized as of the trade date. Endowment returns are calculated net of internal and external investment management expenses.

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

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

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

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

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

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

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

Collections
The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. Their value is not reflected in the University's consolidated financial statements.

Funds Held in Trust by Others
Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2013 and 2012, which approximates the present value of the future income flows from these funds.

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

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

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

Asset Retirement Obligations

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

Allocation of Certain Expenses

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

Retirement Plans

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

Use of Estimates

Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of

finance facilities, net of any investment income earned through contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

Comparative Information

The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ending June 30, 2012, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2013 and 2012. 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, 2013 and 2012.

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2013 and 2012 were as follows:

	2013	2012
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	$ 46,273	$ 49,414
Students	2,961	1,934
STUDENT LOANS, NET	51,500	51,333
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 100,734**	**$ 102,681**
Allowances for doubtful accounts:		
Accounts receivable	$ 2,969	$ 3,496
Loans receivable	$ 2,788	$ 2,076

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 losses 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, 2013, is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. Unconditional promises to give at June 30, 2013 and 2012, are expected to be realized in the following periods:

	2013	2012
In one year or less	$ 14,190	$ 11,173
Between one year and five years	76,374	55,015
More than five years	17,485	13,805
	108,049	79,993
Less: Discount	(8,278)	(6,911)
Less: Allowance	(6,348)	(3,956)
TOTAL PLEDGES RECEIVABLE, NET	**$ 93,423**	**$ 69,126**

Management follows a similar approach as described in Note 2 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts to be prudent and reasonable. Management believes that the allowance for doubtbul accounts at June 30, 2013, is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2013 and 2012, had the following restrictions:

	2013	2012
Department programs and activities	$ 42,522	$ 32,277
Endowments for scholarships and department programs and activities	21,584	18,270
Building construction	29,317	18,579
TOTAL PLEDGES RECEIVABLE, NET	**$ 93,423**	**$ 69,126**

Uncollectible pledges totaling $1,122 (2013) and $4,042 (2012) were written off against the allowance for uncollectible pledges.

The University had conditional pledge commitments totaling $54,016 (2013) and $48,048 (2012).

4. LONG TERM INVESTMENTS

The University holds long term investments for permanently restricted endowment funds, donor-restricted funds, annuity assets, Board-designated funds and excess operating assets that are able to be invested in longer term investments. The University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (see Note 5). The University's long term investments at June 30, 2013 and 2012, were as follows

	2013	2012
Cash & cash equivalents	$ 88,581	$ 53,799
Domestic stocks	54,307	68,117
International securities	24,580	36,444
Bonds		
Government and municipal	17,079	28,503
Corporate	17,399	26,947
Mutual funds	142,592	183,080
Derivatives	8,318	11,217
Limited partnerships and other		
Venture capital	93,887	78,331
Private equity	252,221	267,556
Hedge funds	477,569	412,188
Other	90,348	48,521
Equity real estate	112,398	101,618
TOTAL INVESTMENTS	**$ 1,379,279**	**$ 1,316,321**

	2013	2012
Operating investments, at market	$ 112,618	$ 87,304
Investments, held for long term purposes	1,266,661	1,229,017
TOTAL INVESTMENTS	**$ 1,379,279**	**$ 1,316,321**

Investment returns shown on the statement of activites are netted against investment management fees of $14,419 (2013) and $12,492 (2012). The investments were held for the following purposes:

	2013	2012
Endowment	$ 989,475	$ 911,980
Donor restricted funds	272,331	247,219
University investments	58,039	97,816
Annuities	51,177	51,450
Funds held for the benefit of others	8,257	7,856
TOTAL INVESTMENTS	**$ 1,379,279**	**$ 1,316,321**

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5. ENDOWMENT AND SIMILAR FUNDS

Endowment Funds

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

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

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

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

Similar Funds

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

The breakdown of these classifcations are:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
Donor restricted endowment funds	$ (18,154)	$ 461,264	$ 546,365	$ 989,475	$ 963,263
Donor purpose restricted funds		266,604		266,604	260,630
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ (18,154)**	**$ 727,868**	**$ 546,365**	**$ 1,256,079**	**$ 1,223,893**

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 where each unit is worth $1 and accounted for on a per endowment or account basis. The total investment return for the pooled investments, net of external manager fees, approximated 7.52% (2013) and -1.58% (2012).

Spending Policy

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

A constant growth component which seeks to provide growth in annual spending equal to the rate of academic inflation as measured by the Higher Education Price Index

A market value component based on 5% of the average of the three previous calendar year-end market values

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves the operating budget for the following year. The fiscal 2013 and 2012 pooled endowment and similar funds spending allocation approximated 5.27% and 4.76% respectively of beginning market value. The total amount allocated was $64,443 and $63,769 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 remaining invested.

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Both fiscal years 2013 and 2012, pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled $7,200 in 2013 and $7,900 in 2012.

Changes in endowment and similar funds net assets for fiscal year 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
Endowment and similar funds net assets, beginning of year	$ (20,079)	$ 712,717	$ 531,255	$ 1,223,893	$ 1,300,019
Investment income		16,246		16,246	12,686
Realized and unrealized gains		63,936		63,936	(32,292)
TOTAL INVESTMENT RETURN		80,182		80,182	(19,606)
Contributions		2,847	15,276	18,123	22,870
Current year withdrawals		(5,758)	(166)	(5,924)	(8,904)
Current year expenditures		(60,195)		(60,195)	(70,486)
Reclassification of deficits in donor-designated funds	1,925	(1,925)		-	-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR	**$ (18,154)**	**$ 727,868**	**$ 546,365**	**$ 1,256,079**	**$ 1,223,893**

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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. When deficits exist in these funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $18,154 (2013) and $20,079 (2012). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, $461,264 (2013) and $452,087 (2012) represented the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

6. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2013 and 2012 by the ASC 820 valuation hierarchy are as follows:

June 30, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 60,193	$ 28,388		$ 88,581
Domestic stocks	1,388	18,736	$ 34,183	54,307
International securities	10	13,334	11,236	24,580
Bonds				
Government and municipal		17,079		17,079
Corporate		17,399		17,399
Mutual funds	140,012	2,580		142,592
Derivatives		8,318		8,318
Limited partnerships and other				
Venture capital			93,887	93,887
Private equity			252,221	252,221
Hedge funds		78,328	399,241	477,569
Other	111	74	90,163	90,348
Equity real estate	124		112,274	112,398
TOTAL INVESTMENTS	**$ 201,838**	**$ 184,236**	**$ 993,205**	**$ 1,379,279**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 305,682**	**$ 305,682**
PENSION PLAN ASSETS				
Cash & cash equivalents	$ 6,859			$ 6,859
Mutual funds	49,529			49,529
Limited partnerships and Other				
Hedge funds		$ 66,362	$ 5,832	72,194
Other			490	490
Equity real estate			6,292	6,292
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 56,388**	**$ 66,362**	**$ 12,614**	**$ 135,364**
ASSETS AT FAIR VALUE	**$ 258,226**	**$ 250,598**	**$ 1,311,501**	**$ 1,820,325**
Interest rate swaps payable	$ -	$ 25,058	$ -	**$ 25,058**
LIABILITIES AT FAIR VALUE	**$ -**	**$ 25,058**	**$ -**	**$ 25,058**

June 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 46,979	$ 6,820		$ 53,799
Domestic stocks	27,238	11,355	$ 29,524	68,117
International securities	10	25,026	11,408	36,444
Bonds				
Government and municipal		28,503		28,503
Corporate		26,947		26,947
Mutual funds	174,413	8,435	232	183,080
Derivatives		11,217		11,217
Limited partnerships and other				
Venture capital			78,331	78,331
Private equity			267,556	267,556
Hedge funds		79,309	332,879	412,188
Other	146	391	47,984	48,521
Equity real estate	213		101,405	101,618
TOTAL INVESTMENTS	**$ 248,999**	**$ 198,003**	**$ 869,319**	**$ 1,316,321**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 285,756**	**$ 285,756**
PENSION PLAN ASSETS				
Cash & cash equivalents	$ 13,448			$ 13,448
Mutual funds	46,237			46,237
Limited partnerships and Other				
Hedge funds		$ 55,072	$ 5,092	60,164
Other			383	383
Equity real estate			4,814	4,814
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 59,685**	**$ 55,072**	**$ 10,289**	**$ 125,046**
ASSETS AT FAIR VALUE	**$ 308,684**	**$ 253,075**	**$ 1,165,364**	**$ 1,727,123**
Interest rate swaps payable	$ -	$ 34,038	$ -	$ 34,038
LIABILITIES AT FAIR VALUE	**$ -**	**$ 34,038**	**$ -**	**$ 34,038**

Level 3 Investment Information

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

- The value of certain alternative investments represents the ownership interest in the net asset value of the respective partnership.
- The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner based on appraisals or other estimates that require varying degrees of judgment.
- If no public market consideration, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, or

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other estimates requiring varying degrees of judgment. The University regularly reviews, evaluates and performs significant due diligence around these investments to ensure that the values provided by the investment managers are appropriate measures of fair value. The University agrees with the valuations and assumptions used in determining the fair value of these investments.

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

	Mutual Funds & Domestic Stocks	Int'l Securities	Venture Capital	Private Equity	Hedge Funds	Equity Real Estate	Other & Funds Held by Others	Total
Beginning balance, July 1, 2011	$ 16,681	$ 10,553	$ 77,945	$ 278,205	$ 311,170	$ 106,471	$ 344,007	**$ 1,145,032**
Investment income	(1,154)		2,300	17,902	4,291	1,792	661	**25,792**
Unrealized gains (losses)	11,383	855	387	(12,058)	110	3,188	(15,401)	**(11,536)**
Purchases	7,355		13,668	36,078	127,000	11,897	8,776	**204,774**
Settlements	(4,509)		(15,969)	(52,571)	(51,242)	(17,129)	(3,920)	**(145,340)**
Transfers out of Level 3					(53,358)			**(53,358)**
June 30, 2012	**$ 29,756**	**$ 11,408**	**$ 78,331**	**$ 267,556**	**$ 337,971**	**$ 106,219**	**$ 334,123**	**$ 1,165,364**
Investment income	7		6,296	21,829	(3,520)	(4,426)	108	**20,294**
Unrealized gains (losses)	5,202	(172)	1,579	3,713	38,568	19,772	18,849	**87,511**
Purchases	753		21,414	25,184	53,457	14,665	52,526	**167,999**
Settlements	(1,535)		(13,733)	(66,061)	(21,403)	(17,664)	(9,271)	**(129,667)**
ENDING BALANCE, JUNE 30, 2013	**$ 34,183**	**$ 11,236**	**$ 93,887**	**$ 252,221**	**$ 405,073**	**$ 118,566**	**$ 396,335**	**$ 1,311,501**

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

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

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

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

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

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

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic stocks (a)	$ 34,183		monthly, quarterly, annually	30 - 90 days
International securities (b)	11,236		monthly, quarterly	30 - 90 days
Limited partnerships and other				
Venture capital ©	93,887	$ 17,943		
Private equity (d)	252,221	57,229		
Hedge funds (e)	399,241		monthly, quarterly, annually	30 - 90 days
Other (f)	90,163	36,846		
Equity real estate (g)	112,274	48,509		
TOTAL	**$ 993,205**	**$ 160,527**		

(a) Domestic stocks include equity securities domiciled in the United States. Fund liquidity is daily, monthly, quarterly, semi-annual, annual, and up to a maximum period of three years. Approximately 87% of domestic equity exposure is accessible within one year or less, with all funds accessible within three years.

(b) International securities include equity securities domiciled in countries outside of the United States including developed and emerging markets. Approximately 87% of the net asset value is accessible within one year or less, with all funds accessible within three years.

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

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

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

(f) Other includes various direct private investments as well as private funds that do not fall within the other categories listed. Examples would include an Eastern Europe agriculture fund, some private U.S. oil and gas partnerships and various stakes in local private organizations. For the funds, the valuations have been estimated using manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-15 years.

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

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 of Trustees. The University assumes many risks as a result of its investment decisions and investment holdings. Many risks are discussed in the Investment Policy Statement:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Options: Options or Option Structures are non-standardized agreements whereby one party makes or receives one payment at the time of initial transaction to/from a counterparty and may make or receive a second payment to/from the counterparty at the expiration date of the agreement based on an individual option or a combination of individual options. Trading Medium: OTC. Transacted via ISDA/CSA agreement between counterparties. Subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Options/Option Structures allow investors to customize the risk/return profile of existing portfolios. For example: Investors who are underweight equities and have a moderately positive outlook can obtain enhanced equity exposure by capping returns with or without a leveraged payoff. More bearish investors can opt for downside protection to reduce risk. Collateral between the counterparties is exchanged daily based on the mark to market performance of the Option or Option

Structure. At maturity the Option or Option Structure is cash settled. Prior to maturity, Options/Option Structures may trade above or below their intrinsic value due to various factors such as time, volatility, interest rates, skew, delta, gamma etc. The value eventually converges to intrinsic value at maturity. Used for beta replacement strategies, alpha strategies or hedging strategies.

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

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

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

			2012		
Location	Derivative Type	Notional Amount	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments					
	Total return swaps	$ 107,264		$ 4,902	
	Options (over-the-counter)	26,363		5,864	
	Interest rate hedges	78,187		316	
	Yield curve hedges	145,471		135	
TOTAL DERIVATIVES, 2012			**$ -**	**$ 11,217**	**$ -**

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

Location	Derivative Type	2013	2012
Net effect on investment income			
	Options (over the counter)	$ (1,982)	$ (27,738)
	Total return swaps	(1,158)	
	Forward contracts	(20)	
	Interest rate hedges	(160)	
	Futures contracts		(10,255)
		$ (3,320)	**$ (37,993)**
Unrealized gains (losses)			
	Options (over the counter)	(1,507)	(4,613)
	Total return swaps	(2,411)	(2,866)
	Yield curve hedges	1,435	
		$ (2,483)	**$ (7,479)**
NET EFFECT OF DERIVATIVES		**$ (5,803)**	**$ (45,472)**

7. PROPERTY, PLANT, EQUIPMENT, AND BOOKS

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

	2013	2012
Land and land improvements	$ 42,678	$ 38,359
Building and building improvements	1,152,290	1,137,051
Equipment and software	254,136	266,343
Library books	37,911	37,067
Construction-in-progress	47,554	27,818
	1,534,569	**1,506,638**
Less: accumulated depreciation	(810,022)	(776,001)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$ 724,547**	**$ 730,637**

The above assets include $503,423 leased from the Ohio Higher Education Facility Commission ("OHEFC"). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in Notes and bonds payable on the consolidated statements of financial position.

Capitalized interest of $9 was added to construction in progress as of June 30, 2013. No interest was capitalized in the fiscal year ended June 30, 2012. The expected cost to complete construction in progress is approximately $46,701.

Depreciation expense included in the consolidated statement of activities is $62,169 (2013) and $63,356 (2012).

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8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate	Maturity	2013	2012
OHEFC revenue notes and bonds:	Series 1988	7.90%	2013	$ 6,406	$ 12,334
	Series 1990	6.50%	2015-2020	11,650	11,650
	Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
	Series 1997	6.25%	2013-2014	3,555	5,105
	Series 2001	0.15%	2013-2022	11,730	12,200
	Series 2002A	0.15%	2023-2031	64,875	64,875
	Series 2004A	4.25 - 5.00%	2024-2034	49,455	75,670
	Series 2006	3.75 - 5.25%	2013-2044	81,200	82,490
	Series 2008A	0.16%	2030-2044	60,000	60,000
	Series 2008B	0.14%	2044	67,500	67,500
	Series 2008C	4.00 - 5.25%	2014-2033	50,490	50,490
	Series 2012A	2.00 - 5.00%	2013-2023	28,345	-
U.S. Government housing bonds:	Series 1966	3.00%	2014-2016	405	535
OHEFC commercial paper:		.17 - .20%	2030	90,000	63,000
OHEFC capital lease:		6.75%		-	467
		4.12%		-	5,205
Compass Group USA, Inc.:		-n/a-	2013-2019	1,950	2,400
Housing and Urban Development loan:	Part A	4.96%	2013-2041	11,885	12,082
	Part B	5.33%	2013-2041	4,100	4,163
TOTAL LIABILITY				**$ 563,546**	**$ 550,166**
Line of Credit				25,000	-
Unamortized Bond Premium				13,434	9,812
TOTAL NOTES AND BONDS PAYABLE				**$ 601,980**	**$ 559,978**

The fair market value of the University's notes and bonds payable is approximately $610,607 (2013) and $578,290 (2012) and is considered Level 2 financial instruments as defined by the ASC 820 valuation hierarchy. These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

The U.S government housing bonds are collateralized by securities and pledges of net revenues from the University's student housing and dining facilities. In November 2012, the OHEFC Series 2012A bonds were issued to defease and refinance a portion of the OHEFC Series 2004A bonds and OHEFC capital lease. The amount defeased for OHEFC Series 2004A bonds was $26,215 and the amount refinanced for the OHEFC capital lease was $4,852. Deferred financing fees of $397 were paid and the unamortized balance is included in prepaid expenses and other assets.

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

In February 2013 $27,000 was drawn to provide bridge financing for the construction of the Tinkham Veale University Center. At June 30, 2013, there were $11,250 of unspent funds included in operating investments in the consolidated statement of financial position. Deferred financing fees of $226 were paid and the unamortized balance is included in prepaid expenses and other assets. The amount outstanding under the commercial paper program was $90,000 (2013) and $63,000 (2012), with maturities not exceeding 270 days from the issuance date. All commercial paper issued under the terms of the program must mature no later than February 1, 2030. The annualized interest cost and credit facility expense for this program was 0.65% (2013) and 0.83% (2012).

The University has revolving lines of credit with two financial institutions in the amount of $60,000 to finance working capital. Both lines are subject to review and renewal annually. The amount outstanding was $25,000 (2013) and -0- (2012).

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

Year	Scheduled Principal Payments	Outstanding VRDO's	Total Maximum Principal Payments
2014	$ 11,655	$ 110,105	$ 121,760
2015	11,728	33,500	45,228
2016	12,548	93,500	106,048
2017	13,134	13,500	26,634
2018	14,390	43,500	57,890
Thereafter	500,091	(294,105)	205,986
TOTAL	**$ 563,546**	**$ -**	**$ 563,546**

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

Interest expense, including those amounts for interest rate swap agreements (Note 12), was $20,949 (2013) and $21,090 (2012).

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2013.

9. RETIREMENT PLANS

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

	2013	2012
Benefit obligation at June 30	$ 176,142	$ 188,337
Fair value of plan assets at June 30	135,364	125,046
FUNDED STATUS AT JUNE 30	**$ (40,778)**	**$ (63,291)**
Accumulated benefit obligation	$ 175,260	$ 186,742

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

	2013	2012
Net periodic benefit cost	$ 11,105	$ 6,167
Employer contributions	6,655	21,113
Benefits paid	3,932	3,681

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

2014	$ 4,887
2015	4,768
2016	5,558
2017	5,954
2018	6,517

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Amounts expected to be paid between 2019 and 2023 total $41,778. The University's estimated employer contribution for the defined benefit plan in fiscal 2014 will depend on the results of the July 1, 2013 actuarial valuation and is estimated to be $9,200.

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

	2013	2012
BENEFIT OBLIGATION		
Discount rate	5.25%	4.50%
Rate of compensation increase	4.25%	4.25%
Measurement date	6/30/13	6/30/12
Census date	7/1/12	7/1/11
NET PERIODIC BENEFIT COST		
Discount rate	4.50%	6.00%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.25%	4.25%

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

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

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

	2013	2012
Equity securities	60.00%	60.00%
Fixed income securities	25.00%	25.00%
Real estate	4.00%	4.00%
Other	11.00%	11.00%
TOTAL ASSET ALLOCATION	**100.00%**	**100.00%**

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

	2013	2012
STATEMENT OF FINANCIAL POSITION		
NET LIABILITY	**$ (40,778)**	$ (63,291)
UNRESTRICTED NET ASSETS		
Prior service costs	$ -	$ 160
Actuarial losses	56,751	83,555
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	**$ 56,751**	**$ 83,715**

The estimated amortization of prior year service costs expected in fiscal 2014 totals $3,588. Components of the net periodic benefit cost and other changes in plan assets that are recognized in the consolidated statement of activities are as follows:

	2013	2012
Change in actuarial (gains) losses	$ (26,804)	$ 55,893
Amortization of prior service cost	(160)	(238)
TOTAL (GAIN) LOSS RECOGNIZED, UNRESTRICTED NET ASSETS	**(26,964)**	**55,655**
Net periodic benefit cost	11,105	6,167
TOTAL (GAIN) LOSS RECOGNIZED, STATEMENT OF ACTIVITIES	**$ (15,859)**	**$ 61,822**

Benefit plan costs for the defined contribution plan are $19,834 (2013) and $19,499 (2012).

10. COMMITMENTS AND CONTINGENCIES

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

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation ("CCF") to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine ("CCLCM"). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the School of Medicine. Expenditures for research conducted under this joint agreement totaled $91,316 (2013) and $92,961 (2012).

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

During 2013, the University entered into a joint purchase agreement to purchase real property from the Cleveland Institute of Arts. The University's commitment is $4,600 with $500 placed as an earnest deposit and is shown on the consolidated statement of financial position in prepaid expenses and other assets. The remaining $4,100 is due at closing, which is anticipated to be in fiscal 2016.

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

11. RELATED PARTY TRANSACTION

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University buildings. The amounts purchased were $20,508 (2013) and $21,998 (2012). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

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

At June 30, 2013, the University has five interest rate swap agreements. Net payments or receipts under the swap agreements are recorded as adjustments to investment and other income and the incremental expense is disclosed below.

Under one agreement in effect at June 30, 2013, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month LIBOR.

The following table provides detailed information on the interest rate swaps at June 30, 2013, with comparative fair values for June 30, 2012. The number of swaps is reported based on notional amount. Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the consolidated statements of financial position in deferred income and other liabilities are as follows:

Notional Amount	Rate	Commencement	Date	Basis	2013	2012
					Level 2 Fair Market Value	
$ 12,200	4.34%	Aug. 12, 2004	Oct.1, 2022	LIBOR	**$ (1,980)**	$ (2,646)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	**(3,306)**	(4,321)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	**(2,310)**	(3,254)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	**(7,952)**	(11,795)
100,000	3.37%	Jan. 3, 2012	Jan. 1, 2017	SIFMA	**(9,510)**	(12,022)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (25,058)**	**$ (34,038)**

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income. The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000. The University had placed $5,435 (2013) and $17,796 (2012) into such a fund, which is shown in Cash and cash equivalents on the consolidated statements of financial position.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $6,182 in 2013 and $6,161 in 2012.

13. RESTRICTED NET ASSETS

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

	Temporarily Restricted	Permanently Restricted	2013	2012
Endowment				
True Endowment	$ 461,264	$ 546,365	$ 1,007,629	$ 983,342
Funds functioning as endowment (FFE)	266,604		266,604	260,630
Total True endowment and FFE	727,868	546,365	1,274,233	1,243,972
Funds held in trust by others		305,682	305,682	285,756
TOTAL UNIVERSITY ENDOWMENT	**$ 727,868**	**$ 852,047**	**$ 1,579,915**	**$ 1,529,728**
Other net assets				
Pledges receivable	71,807	18,647	90,454	65,295
Funds held in trust by others, unused income	5,057		5,057	3,996
Student loan funds		34,460	34,460	33,907
Split interest agreements		16,229	16,229	11,496
Purpose restricted gifts	40,296	4,971	45,267	33,511
TOTAL NET ASSETS	**$ 845,028**	**$ 926,354**	**$ 1,771,382**	**$ 1,677,933**

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 5, 2013, the date on which the consolidated financial statements were issued. No material items were noted which require disclosure.

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