2018 FINANCIAL REPORT

Case Western Reserve University
EST. 1826
think beyond the possible

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Cover: The Nord Family Greenway is a 2,200-foot-long expanse that connects Case Western Reserve University's main and west campuses. The 15-acre commons, made possible by broad and generous philanthropic collaboration offers open-air spaces suited to performances, picnics and even quiet contemplation. Most of all, it is a permanent, living invitation to those beyond University Circle to explore not only the greenway itself, but the dozens of arts and cultural institutions that fill the roughly square-mile district. It is named in honor of the project's lead donors, the Eric and Jane Nord Family..

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

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University (the "University") continued to produce positive financial results during Fiscal Year 2018 (FY18), reflecting over a decade of solid financial performances.

The University's FY18 financial plan continued to focus on maintaining momentum in core operating results, strengthening the balance sheet, and generating new funding for strategic capital projects by philanthropy. The results were a $34 million or 3.4% operating margin on a Generally Accepted Accounting Principles (GAAP) basis; an increase in total net assets of $111 million; and another record setting year in attainment with $208 million in new gifts and pledges.

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

FY18 FINANCIAL HIGHLIGHTS

Solid Core Operating Results

The University's management of resources produced a net operating activity of $34 million or a 3.4% operating margin reflected on the *Statement of Activities* (GAAP Basis). Likewise, the *Statement of Operations* (unaudited, management view) reports a positive operating indicator, an operating surplus, of $9.0 million, which is also positive compared against the FY18 operating budget. Both net operating activity and operating surplus have been positive for over a decade. See *Selected Financial Data* on page 7 for more information.

Strengthened Financial Position - Balance Sheet

The University's *Statement of Financial Position*, the balance sheet, reflects a year of positive growth as indicated by an increase in total assets of $95 million combined with a reduction of total liabilities of $16 million yielding an increase in total net assets of $111 million. Working capital initiatives, stronger investment returns, continued flow of new capital pledges, refinanced long term debt, expiration of interest rate swaps and the reduction of accrued pension liability all contributed to a stronger balance sheet.

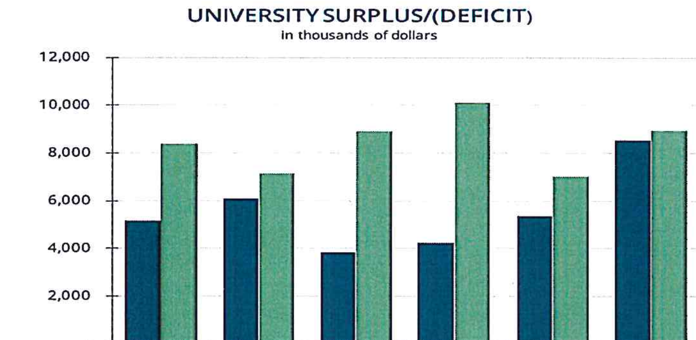
Record-breaking Attainment Level

The generosity of university donors once again produced a record year in attainment of $208 million in FY18. The total represents a 15% increase over the prior year. Attainment has increased in each of the last ten years. In FY18, the University received gifts from 18,000 donors, totaling $113 million as reported on a cash basis. Realized gifts and pledges of $69 million are reported in the *Statement of Activities* (GAAP basis).

STATEMENT OF OPERATIONS *unaudited*

The University manages its daily operations using a *Statement of Operations* (management view) that is prepared on a modified-cash basis and presented by natural account class; it is unaudited. The *Statement of Operations* measures and reports the organization's management center-based activities. It excludes non-operating transactions, depreciation expense, differs in its treatment of capital, and excludes most restricted funds transactions (e.g. restricted gift revenue).

The University produced a total surplus of $9.0 million in FY18, compared to a revised budgeted surplus of $8.5 million and a $7.1 million surplus in FY17. FY18 marked the eleventh consecutive year of positive operating results.



	2013	2014	2015	2016	2017	2018 *
Budget	5,200	6,127	3,868	4,269	5,401	8,548
Actual	8,412	7,179	8,964	10,096	7,052	8,967

*2018 is Revised Budget

The FY18 operating results reflect increasing research and training revenue along with increased tuition revenues.

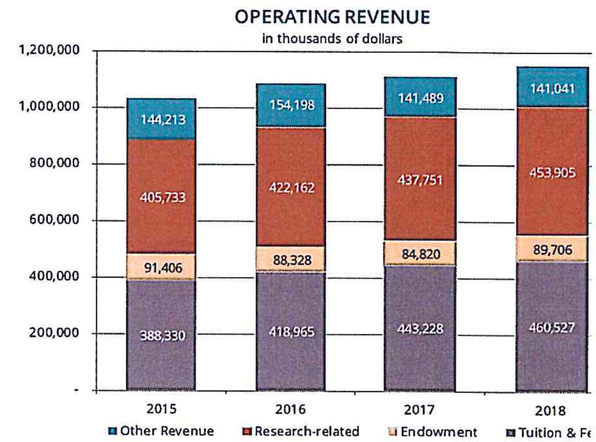
MANAGEMENT CENTER OPERATING REVENUES

Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research-related, and Other Revenue. The University reported $1.145 billion in total revenue, a $38 million or 3% increase over FY17.

Gross tuition and fees revenue was $460 million, a $17 million or 4% increase over FY17. Gross undergraduate tuition was $220 million, an $8 million or 4% increase over FY17. The increase is a net of a 3.25% rate increase offset by a 1% increase in the discount rate. The University changed its undergraduate financial aid policy to a meet full need basis in FY18. Professional and graduate program gross tuition, along with summer programs and fees, was $241 million, a $10 million or 4% increase over FY17.

Endowment revenue used by operations was $90 million, a $5 million or 6% increase over FY17.

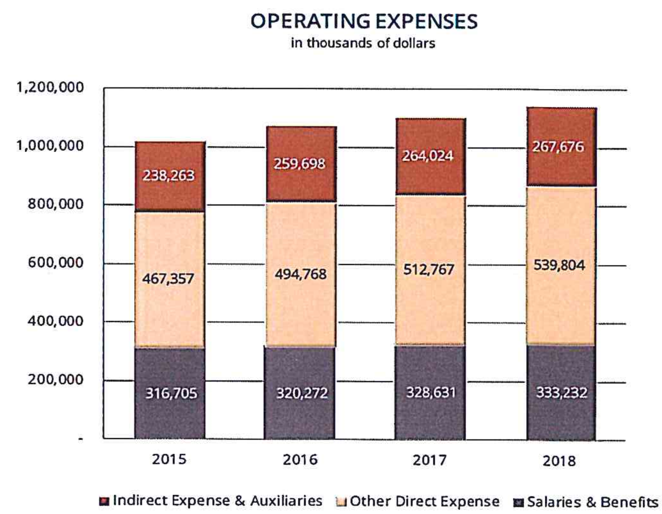
Research-related revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $454 million, a $16 million or 4% increase over FY17.



Other revenue was $141 million, which is unchanged from FY17.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1.141 billion, a $36 million or 3% increase over FY17. Expenses are categorized as Salaries and Benefits, Other Direct, and Indirect Expense and Auxiliaries.



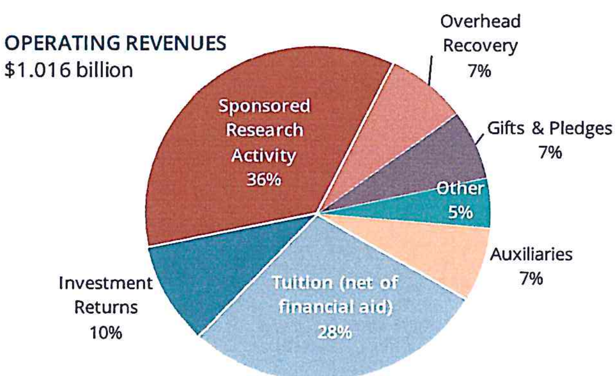
Salaries and benefits were $333 million, a $5 million or 2% increase over FY17. Other direct expense was $540 million, a $27 million or 5% increase over FY17. Indirect expense and auxiliaries were $268 million, a $4 million or 2% increase over FY17.

CONSOLIDATED STATEMENT OF ACTIVITIES

The *Statement of Activities* (GAAP basis) includes consolidated results from the University's operating and non-operating activities which produced a positive change in net assets. In FY18, operating activity contributed $34 million to net assets.

OPERATING REVENUES

Total operating revenues were $1.016 billion, a decrease of $6 million or less than 1% from FY17. The components of the University's revenues are shown below and additional detail of operating revenue follows.



Statement of Activities data

Tuition income

Gross tuition income of $471 million increased $19 million or 4% over FY17, and includes fees and undergraduate, graduate, summer, and professional tuition. Gross tuition income is offset in part by financial aid awarded; the financial aid offset for FY18 was $182 million, resulting in net tuition of $289 million, or 28% of operating revenues.

The net tuition and fees income of $289 million represents a $11 million or 4% increase over FY17, with increased revenues generated by an increase in tuition rates and from higher student enrollment.

Investment returns

Investment returns included $67 million in returns distributed from the long-term investment pool, $16 million in returns on operating investments, and $16 million in distributions from funds held by others (FHBO) for endowment spending. Investment returns, which represent 10% of operating revenues, totaled $99 million, an increase of $2 million or 2% over FY17.

Grants and contracts

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

Grants and contracts received for research and training purposes totaled $361 million, including $100 million in CCLCM awards. This amount reflects an increase of $11 million or 3% over FY17. The total represents 36% of overall University operating revenues. This increase corresponds with an increase in research operating expenses.

Overhead cost recovery

Facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $77 million in FY18, a $2 million or 3% increase over FY17. Overhead recovery represents 7% of operating revenues.

Gifts and pledges

Gifts and pledges income was $69 million, a decrease of $27 million or 28% from FY17. Gifts and pledges, which represent 7% of operating revenues, are recorded in the appropriate asset category when received.

Other revenue

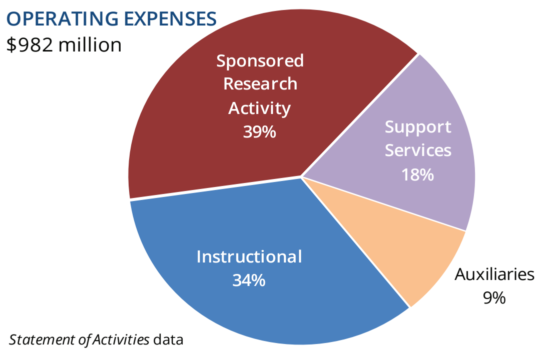
Other revenue of $49 million decreased $5 million or 10% from FY17. Other revenue represents 5% of operating revenues and includes the State of Ohio appropriation, Organized Activities, and Other Sources.

Auxiliaries

Auxiliaries revenue of $73 million increased $264 thousand or less than 1% over FY17. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $63 million, or "Other," including Rental Properties and Parking, totaling $10 million for FY18. Auxiliaries revenue represents 7% of operating revenues.

OPERATING EXPENSES

Total expenses of $982 million increased $23 million or 2% over FY17. The components of the University's expenses are shown below and additional detail of operating expenses follows.



Statement of Activities data

Instructional costs of $332 million, represents 34% of operating expenses, increased by $10 million or 3% over FY17. Included in direct instructional costs are faculty and staff salaries and benefits.

Sponsored research activity of $386 million, represents 39% of operating expenses, increased $11 million or 3% over FY17. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support services costs of $181 million, represents 18% of operating expenses, including libraries, student services, and university services, increased $4 million or 2% over FY17. The increase is primarily in university services due to an increase in benefit expenses.

Auxiliaries expenses of $83 million, represents 9% of operating expenses, decreased $2 million or 2% over FY17. The decrease came from auxiliaries-other.

NON-OPERATING ACTIVITIES

Non-operating activities increased net assets by $77 million, a $67 million decrease from FY17. Most of the decrease is due to financial market fluctuations. Long-term investment activities (investment income and net appreciation) resulted in a $137 million increase in net assets. Other non-operating activities (investment returns distributed for operations, changes in liabilities due under life-income agreements, pension plan changes other than periodic benefit costs, and loss on disposal of plant assets) resulted in a $60 million decrease in net assets.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University's investment pool consist of a group of funds, including the endowment funds, funds functioning as endowments (also referred to as *quasi-endowment*), Board-designated funds, and operating funds, that are invested in a broadly diversified portfolio. The total investment return for the investment pool, net of external manager fees, approximated 9.15% (2018) and 12.43% (2017). Additional detail on the investment pool is shown in *Footnote 5*.

The University's combined endowment, the purpose of which is to generate revenue in perpetuity, is comprised of funds invested and managed by the University, that includes endowment funds and quasi-endowments (referred to as the *endowment pool*) and funds invested and managed outside the University (referred to as *funds held in trust*). The University's combined endowment at June 30, 2018 and 2017 is shown in the table below:

(in thousands)	2018	2017
Endowment Pool:		
Donor-restricted	$ 1,173,633	$ 1,118,540
Donor-purpose restricted	296,604	288,060
Quasi-endowment	69,065	54,637
Funds held in trust (FHBO)	347,459	337,553
Total combined endowment	**$ 1,886,761**	**$ 1,798,790**
Change in market value	**4.89%**	**8.18%**

Activities and total investment return for the combined endowment for the years ending June 30, 2018 and 2017 are shown in the table below:

(in thousands)	2018	2017
Beginning combined endowment	$ 1,798,790	$ 1,662,739
Additions	27,459	28,984
Spending distribution	(83,115)	(77,861)
Campaign support	(6,000)	(6,000)
Operating support	(3,239)	(3,550)
Other	(222)	(324)
Appreciation (depreciation) and investment income	153,088	194,802
Ending combined endowment	**$ 1,886,761**	**$ 1,798,790**
Combined endowment investment return	**9.24%**	**12.69%**

CHANGE IN NET ASSETS

The combined net operating activity of $34 million and net non-operating activity of $77 million resulted in an increase in net assets of $111 million or 5% over FY17.

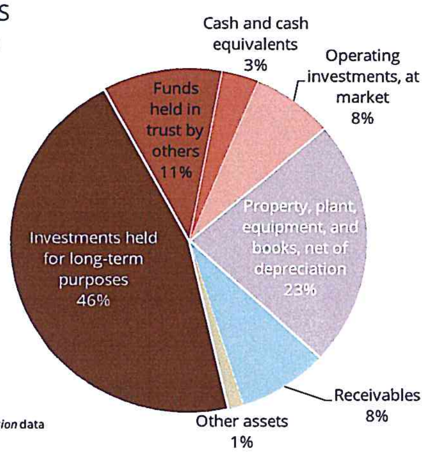
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The University's *Statement of Financial Position* reflect total assets of $3.203 billion with a primarily sizable cash and investment balance of $2.155 billion.

ASSETS

Total cash and investments of $2.155 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 $742 million or 23% of assets. Total assets increased $95 million or 3% over FY17.

TOTAL ASSETS
$3.203 billion



Statement of Financial Position data

Cash and cash equivalents

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

The University's cash position on June 30 was $105 million, a decrease of $38 million or 27% from FY17. 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 $239 million of operational investments in addition to cash and cash equivalents. These investments generally have a maturity of greater than 90 days but may be liquidated on demand. Operating investments increased $51 million or 27% over FY17.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had $264 million in receivables, which represent 8% of assets. Receivables increased $11 million or 5% over FY17.

Investments held for long-term purposes

Long-term investments of $1.464 billion increased $68 million or 5% over FY17. Because a majority of the University's long-term investments are endowments or similar funds, the Board of Trustees' annually-approved endowment spending allocation and support for certain development-related activities had an impact of approximately $65 million on long-term investments in FY18.

Funds held by others

Funds held in trust by others of $347 million increased $10 million or 3% over FY17.

Property, plant, equipment, and library books

Property, plant, equipment, and library books, net of depreciation, constitute 23% of the University's assets, totaling $742 million for FY18. Net plant assets decreased $15 million or 2% from FY17.

LIABILITIES

Total liabilities of $806 million decreased $17 million or 2% from FY17.

Retirement plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 4.35% in FY18 increased over FY17. The University's accrued pension liability decreased $12 million from FY17, to a total accrued pension liability of $90 million in FY18.

Debt

Total liability on notes and bonds payable, including the line of credit and unamortized bond premium and issuance costs, remained flat year over year at $531 million. The line of credit balance was $22 million higher, offset by scheduled principal payments of $18 million and scheduled bond premium amortization of $4 million.

The University restructured a portion of its debt portfolio in FY18 to refund the 2015B bonds ($73 million) and to close the commercial paper program ($30 million). The restructuring lowered the proportion of the portfolio's variable rate debt from 35% to 15% and smoothed out the debt service in later years. The University's remaining variable rate debt of $68 million is synthetically fixed with four floating-to-fixed rate swaps totaling $73 million. The 2018 refinancing included bond premium of $14.5 million. The restructuring, along with scheduled principal payments and premium amortization, reduced the University's total long-term indebtedness to $461 million in FY18 from $493 million in FY17.

NET ASSETS

In FY18, the University's total net assets increased $111 million or 5% over FY17 to $2.397 billion.

CHANGE IN NET ASSETS

(in thousands)	**2018**	**2017**
Beginning net assets	$ 2,286,160	$ 2,077,928
Increase in net assets	111,142	208,232
Ending net assets	**$ 2,397,302**	**$ 2,286,160**

Unrestricted net assets

Unrestricted net assets increased $23 million or 11% over FY17 to $229 million. Net operating activity added $33 million and net non-operating activity decreased net assets by $10 million.

Temporarily restricted net assets

Temporarily restricted net assets increased $54 million or 5% over FY17 to $1.067 billion. The University received $23 million of new temporarily restricted gifts and pledges and $47 million in net assets released from restrictions in net operating activity. Non-operating activity increased temporarily restricted net assets by $107 million from long-term investment activities and decreased temporarily restricted net assets by $30 million in assets released from restrictions.

Permanently restricted net assets

Permanently restricted net assets increased $34 million or 3% over FY17 to $1.101 billion. The University received $25 million of new permanently restricted gifts and pledges and $1 million in net assets released from restrictions in net operating activity. Non-operating activity increased permanently restricted net assets by $9 million, primarily from long-term investment activities.

PROSPECTIVE DISCUSSION

The University expects to maintain a positive operating position as reflected in its FY19 operating budget surplus of $5 million. The Class of 2022 is the largest and most academically qualified in the university's history. Lastly, senior leadership is continuously engaged in improving operating performance using a disciplined approach.

John F. Sideras, CPA

Senior Vice President and Chief Financial Officer

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

in thousands of dollars	2018	2017	2016	2015
STATEMENT OF OPERATIONS HIGHLIGHTS - Management View				
Total revenue	$ 1,145,179	$ 1,107,288	$ 1,083,653	$ 1,029,682
Total expense	1,140,712	1,105,422	1,074,738	1,022,325
Operating margin	4,467	1,866	8,915	7,357
Retained surplus use	4,500	5,186	1,181	1,607
Surplus	**$ 8,967**	**$ 7,052**	**$ 10,096**	**$ 8,964**
STATEMENT OF ACTIVITIES HIGHLIGHTS - GAAP Basis				
Tuition and fees (net of student aid)	$ 289,278	$ 278,258	$ 255,613	$ 233,564
Investment, FHBO, and operational returns	99,354	97,537	88,011	95,288
Grants and contracts	361,177	350,171	335,208	315,316
Facilities and administrative cost recovery	76,642	74,557	72,272	70,611
Gifts and pledges	68,678	95,779	131,513	87,542
Other revenue	48,523	53,933	68,608	63,034
Auxiliary services	72,645	72,381	70,031	65,287
Total operating revenue	1,016,297	1,022,616	1,021,256	930,642
Instructional expenses	331,878	322,242	311,880	305,429
Sponsored research activity	386,071	374,671	363,077	348,381
Support services	180,568	176,230	162,105	146,278
Auxiliary services	83,370	85,311	78,582	74,216
Total operating expense	981,887	958,454	915,644	874,304
Net operating activity	**$ 34,410**	**$ 64,162**	**$ 105,612**	**$ 56,338**
Long-term investment activities	137,252	190,376	(91,469)	50,567
Other non-operating activities	(60,520)	(46,306)	(108,805)	(84,999)
Net non-operating activities	**$ 76,732**	**$ 144,070**	**$ (200,274)**	**$ (34,432)**
Change in net assets	**$ 111,142**	**$ 208,232**	**$ (94,662)**	**$ 21,906**
FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ 105,409	$ 143,589	$ 139,344	$ 143,096
Operating investments, at market	238,988	187,904	160,195	148,105
Receivables	263,526	252,142	229,157	203,933
Investments (held for long-term purposes)	1,463,671	1,395,449	1,298,508	1,417,187
Funds held in trust by others	347,459	337,553	312,635	336,825
Property, plant, equipment, and books, net of depreciation	742,416	757,082	776,317	766,094
Prepaid expenses and other assets	41,899	35,013	32,700	6,634
Total assets	**$ 3,203,368**	**$ 3,108,732**	**$ 2,948,856**	**$ 3,021,874**
Total liabilities	**$ 806,066**	**$ 822,572**	**$ 870,928**	**$ 849,284**
Total net assets	**$ 2,397,302**	**$ 2,286,160**	**$ 2,077,928**	**$ 2,172,590**
OTHER FINANCIAL INFORMATION				
Net investments (including FHBO), at fair value	$ 2,050,118	$ 1,920,906	$ 1,771,338	$ 1,902,117
Investments payout in support of operations	$ 83,115	$ 77,861	$ 81,675	$ 83,434
Total gifts and pledges (attainment)	$ 207,973	$ 181,187	$ 174,136	$ 166,914
Total gifts - cash basis	$ 113,178	$ 113,983	$ 158,454	$ 133,423
STUDENTS				
Enrollment *				
Undergraduate	5,035	5,044	5,053	4,814
Post-Baccalaureate	5,882	5,776	5,534	5,316

*Enrollment for fall semester of fiscal year in FTEs

Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

We have audited the accompanying consolidated financial statements of Case Western Reserve University, which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statement of activities for the year ended June 30, 2018 and of cash flows for the years ended June 30, 2018 and 2017.

Management's Responsibility for the Consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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.

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 as of June 30, 2018 and 2017, and the changes in their net assets for the year ended June 30, 2018 and their cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statement of activities (not presented herein) and of cash flows for the year then ended, and in our report dated October 14, 2017, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 20, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of dollars	June 30 2018		June 30 2017	
ASSETS				
Cash and cash equivalents	$	105,409	$	143,589
Operating investments		238,988		187,904
Accounts and loans receivable, net		116,725		106,965
Pledges receivable, net		146,801		145,177
Prepaid expenses and other assets		41,899		35,013
Investments, held for long-term purposes		1,463,671		1,395,449
Funds held in trust by others		347,459		337,553
Property, plant, equipment and books, net		742,416		757,082
TOTAL ASSETS	**$**	**3,203,368**	**$**	**3,108,732**
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	$	63,221	$	61,267
Deferred income and other liabilities		52,311		59,713
Annuities payable		35,141		34,241
Refundable advances		7,528		6,127
Accrued pension liability		89,893		101,817
Notes and bonds payable		531,244		531,184
Refundable federal student loans		26,728		28,223
TOTAL LIABILITIES	**$**	**806,066**	**$**	**822,572**
NET ASSETS				
Unrestricted	$	228,685	$	205,826
Temporarily restricted		1,067,412		1,012,836
Permanently restricted		1,101,205		1,067,498
TOTAL NET ASSETS	**$**	**2,397,302**	**$**	**2,286,160**
TOTAL LIABILITIES AND NET ASSETS	**$**	**3,203,368**	**$**	**3,108,732**

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, 2017

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2018	2017
OPERATING REVENUES					
Student tuition and fees	$ 470,870			$ 470,870	$ 451,874
Less: Student aid	(181,592)			(181,592)	(173,616)
	289,278			289,278	278,258
Investment returns distributed for operations	67,157			67,157	62,044
FHBO returns distributed	14,692	$ 1,266		15,958	15,817
Investment returns on operating investments	16,239			16,239	19,676
Grants and contracts	261,210			261,210	253,861
CCLCM grants and contracts	99,967			99,967	96,310
Gifts and pledges	20,692	22,864	$ 25,122	68,678	95,779
State of Ohio appropriation	2,575			2,575	2,734
Facilities and administrative cost recovery	76,642			76,642	74,557
Organized activities	12,659			12,659	11,960
Other sources	33,125		164	33,289	39,239
Auxiliary services - students	62,795			62,795	62,681
Auxiliary services - other	9,850			9,850	9,700
Net assets released from restrictions	47,482	(46,579)	(903)	-	
TOTAL OPERATING REVENUES	**$ 1,014,363**	**$ (22,449)**	**$ 24,383**	**$ 1,016,297**	**$ 1,022,616**
OPERATING EXPENSES					
Instructional	331,878			331,878	322,242
Sponsored research and training	261,605			261,605	252,592
Other sponsored projects	24,499			24,499	25,769
CCLCM research and training	99,967			99,967	96,310
Libraries	22,815			22,815	22,500
Student services	33,120			33,120	30,802
University services	124,633			124,633	122,928
Auxiliary services - students	70,412			70,412	69,506
Auxiliary services - other	12,958			12,958	15,805
TOTAL OPERATING EXPENSES	**$ 981,887**	**$ -**	**$ -**	**$ 981,887**	**$ 958,454**
NET OPERATING ACTIVITY	**$ 32,476**	**$ (22,449)**	**$ 24,383**	**$ 34,410**	**$ 64,162**
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment income	$ 7,041	$ 59,250	$ 3,523	$ 69,814	$ 19,943
Net appreciation	9,902	48,196	9,340	67,438	170,433
Total long-term investment activities	16,943	107,446	12,863	137,252	190,376
Investment returns distributed for operations	(67,157)			(67,157)	(62,044)
Change in liabilities due under life-income agreements	(19)		(3,539)	(3,558)	2,020
Loss on disposal of plant assets	(1,827)			(1,827)	(2,382)
Pension plan changes other than periodic benefit costs	12,022			12,022	16,100
Net assets released from restrictions	30,421	(30,421)		-	
NET NON-OPERATING ACTIVITY	**$ (9,617)**	**$ 77,025**	**$ 9,324**	**$ 76,732**	**$ 144,070**
CHANGE IN NET ASSETS	**$ 22,859**	**$ 54,576**	**$ 33,707**	**$ 111,142**	**$ 208,232**
Beginning Net Assets	205,826	1,012,836	1,067,498	2,286,160	2,077,928
ENDING NET ASSETS	**$ 228,685**	**$ 1,067,412**	**$ 1,101,205**	**$ 2,397,302**	**$ 2,286,160**

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 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 111,142	$ 208,232
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	67,880	68,344
Amortization of bond issuance costs	235	208
Amortization of bond premiums	(4,132)	(3,184)
Loss on debt refunding and defeasance		601
Realized and unrealized net gains on investments	(138,577)	(178,438)
Increase (decrease) to annuities payable resulting from actuarial adjustments	3,558	(2,020)
Gifts of property and equipment	(123)	(49)
Loss on disposal of plant assets	1,827	2,382
Contributions restricted for long-term investment	(18,163)	(19,931)
(Increase) decrease in accounts and loans receivable, net	(11,323)	5,692
Increase in pledges receivable, net	(1,624)	(30,623)
Increase in prepaid expenses and other assets	(6,886)	(2,313)
Increase in funds held in trust by others	(9,906)	(24,918)
Increase in accounts payable and accrued expenses	4,294	3,108
(Decrease) increase in deferred income and other liabilities	(7,402)	3,671
Increase in refundable advances	1,400	1,372
Decrease in accrued pension liability	(11,924)	(11,699)
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	**$ (19,724)**	**$ 20,435**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 7,683	$ 7,834
Issued	(6,120)	(5,887)
Decrease (increase) in donor-restricted cash for long-term investment	22,978	(3,019)
Proceeds from the sale of investments	1,477,316	2,924,537
Purchase of investments	(1,458,045)	(2,870,749)
Proceeds from the sale of plant assets	560	415
Purchases of property, plant, equipment and books	(57,817)	(49,162)
NET CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES	**$ (13,445)**	**$ 3,969**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in federal advances for student loans	$ (1,496)	$ (588)
Contributions restricted for long-term investment	10,077	15,690
Distributions restricted for long-term investment	(22,978)	
Proceeds from the sale of investments received as gifts	8,086	7,260
Proceeds from short-term debt	213,000	157,600
Repayment of short-term debt	(191,000)	(176,600)
Repayment of commercial paper	(30,000)	(38,110)
Proceeds from notes and bonds payable	102,682	182,919
Repayment of notes and bonds payable	(90,725)	(165,268)
Increase to annuities payable resulting from new gifts	114	270
Decrease to annuities payable resulting from payments	(2,771)	(3,332)
NET CASH USED FOR FINANCING ACTIVITIES	**$ (5,011)**	**$ (20,159)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**$ (38,180)**	**$ 4,245**
Cash and cash equivalents, beginning of year	143,589	139,344
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 105,409**	**$ 143,589**
SUPPLEMENTAL DATA:		
Interest paid in cash	$ 17,126	$ 17,728
Construction-in-progress payments included in accounts payable	4,499	6,838

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

Basis of Presentation

Case Western Reserve University ("the University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2018, and for the year then ended, as well as summarized information for the year ended June 30, 2017, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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.

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
- 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 for intended purposes. 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 are also included in this category.

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

Contributions

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

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

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

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

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

Cash and Cash Equivalents

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

Operating Investments

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

Prepaid Expenses and Other Assets

Within other assets, the University has cash of $5,188 and $28,167 as of June 30, 2018 and 2017, respectively, restricted by donors for investment in property and equipment. Also included as of June 30, 2018 is an earnest deposit of $29,953 to the Cleveland Clinic Foundation ("CCF") on the University's investment in the Health Education Campus ("HEC") (Note 10).

Investments

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

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

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

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

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

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

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

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

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

Collections

The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, their value is not reflected in the University's consolidated financial statements.

Funds Held in Trust by Others

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2018 and 2017.

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

Fixed Assets

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

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

Split-Interest Agreements

The University has split-interest agreements consisting primarily of pooled income funds, charitable gift annuities and charitable remainder unitrusts and annuities. Contributions are recognized at the date the trusts and annuities are established, net of a liability for the present value of the estimated future cash outflows to beneficiaries, using a discount rate of 2.9% and 2.6% for June 30, 2018 and 2017, respectively. These assets are invested and payments are made to donors and beneficiaries in accordance with the respective agreements.

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 Benefits." The University recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated statements 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 U.S. GAAP rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

Comparative Information

The 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2017, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code ("IRC"). The University is classified as an organization that is not a private foundation under section 509(a) of the IRC, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2018 and 2017. 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, 2018 and 2017.

New Pronouncements

In May 2014, the FASB issued Accounting Standard Update ("ASU") 2014-09: "Revenue from Contracts with Customers (Topic 606)" at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2019, the first year in which the standard is effective.

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

In August 2016, the FASB issued ASU 2016-14: "Presentation of Financial Statements of Not-for-Profit Entities," which simplifies and improves how a not-for-profit entity classifies net assets and presents and discloses information related to liquidity, financial performance, and cash flows in financial statements. The standard is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2019, the first year in which the standard is effective.

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

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

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

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

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

In June 2018, the FASB issued ASU 2018-08: “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,” which will assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions as well as determining whether a contribution is conditional. The standard is effective for fiscal years beginning after June 15, 2018. The University is evaluating the impact this will have on the consolidated financial statements for fiscal year ending June 30, 2019, the first year in which the standard is effective.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2018 and 2017 were as follows:

	2018	2017
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	$ 64,110	$ 52,362
Students	2,096	2,890
STUDENT LOANS, NET	50,519	51,713
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 116,725**	**$ 106,965**

Allowance for doubtful accounts:		
Accounts receivable	$ 4,945	$ 3,857
Loans receivable	$ 2,067	$ 2,419

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

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

Management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2018 is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. The discount rate utilized for fiscal 2018 and 2017 was 5%.

Unconditional promises to give at June 30, 2018 and 2017 are expected to be realized in the following periods:

	2018	2017
Less than one year	$ 49,046	$ 46,979
Between one year and five years	103,958	101,849
More than five years	17,696	17,500
	170,700	166,328
Less: Discount	(10,994)	(11,819)
Less: Allowance	(12,905)	(9,332)
TOTAL PLEDGES RECEIVABLE, NET	**$ 146,801**	**$ 145,177**

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 doubtful accounts at June 30, 2018 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2018 and 2017 had the following restrictions:

	2018	2017
Department programs and activities	$ 44,748	$ 35,418
Endowments for scholarships and department programs and activities	39,946	29,948
Building construction	62,107	79,811
TOTAL PLEDGES RECEIVABLE, NET	**$ 146,801**	**$ 145,177**

Uncollectible pledges totaling $6,141 (2018) and $6,113 (2017) were written off against the allowance for uncollectible pledges. The University had conditional pledge commitments totaling $19,321 (2018) and $10,568 (2017).

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

4. LONG-TERM INVESTMENTS

The University holds long-term investments for permanently restricted endowment funds, donor-restricted funds, annuity assets, Board-designated funds and excess operating assets that are able to be invested in longer term investments.

The University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (Note 5). The University's long-term investments at June 30, 2018 and 2017 were as follows:

	2018	2017
Cash and cash equivalents		$ 50,423
Domestic stocks	$ 83,685	66,094
International securities	104,657	92,480
Global securities	320,568	252,175
Bonds		
Government and municipal	29,860	19,088
Corporate	91,226	19,509
Mutual funds	166,525	272,173
Derivatives	94,816	27,280
Limited partnerships and Other		
Venture capital	115,416	116,624
Private equity	255,038	231,050
Real estate	69,090	77,815
Absolute return	335,300	322,125
Other	36,397	36,436
Equity real estate	81	81
TOTAL INVESTMENTS	**$ 1,702,659**	**$ 1,583,353**

	2018	2017
Operating investments	$ 238,988	$ 187,904
Investments, held for long-term purposes	1,463,671	1,395,449
TOTAL INVESTMENTS	**$ 1,702,659**	**$ 1,583,353**

Investment returns shown on the consolidated statement of activities are netted against investment management fees of $11,245 (2018) and $9,548 (2017). The investments were held for the following purposes:

	2018	2017
Endowment	$ 1,173,633	$ 1,118,540
Donor-restricted funds	304,850	298,486
University investments	171,296	111,748
Annuities	41,985	44,294
Funds held for the benefit of others	10,895	10,285
TOTAL INVESTMENTS	**$ 1,702,659**	**$ 1,583,353**

University investments include unspent bond proceeds of $0 (2018) and $24 (2017) (Note 8).

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

The breakdown of these classifications are:

June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (8,392)	$ 538,176	$ 643,849	$ 1,173,633
Donor purpose-restricted funds		296,604		296,604
Board-designated funds	69,065			69,065
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 60,673**	**$ 834,780**	**$ 643,849**	**$ 1,539,302**

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (11,234)	$ 501,891	$ 627,883	$ 1,118,540
Donor purpose-restricted funds		288,060		288,060
Board-designated funds	54,637			54,637
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ 43,403**	**$ 789,951**	**$ 627,883**	**$ 1,461,237**

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.

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

The pool is accounted for on a dollarized method of accounting similar to a money market fund and accounted for on an account basis. The total investment return for the pooled investments, net of external manager fees, approximated 9.15% (2018) and 12.43% (2017).

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 4.5% 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 year 2018 and 2017 pooled endowment and similar funds spending allocation approved by the Investment Committee of the Board were $58,900 and $61,300, respectively. The approved spending rate for fiscal year 2018 and 2017 were 4.75% and 4.91% of beginning market value, respectively. The total amount allocated was $59,422 and $63,439, respectively.

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

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Both fiscal years 2018 and 2017 pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution totaled $6,000 in 2018 and $6,000 in 2017.

Changes in endowment and similar funds net assets for fiscal year 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2016	**$ 22,689**	**$ 721,151**	**$ 606,264**	**$ 1,350,104**
Investment income	1,878	41,439		43,317
Realized and unrealized gains	4,398	96,656		101,054
TOTAL INVESTMENT RETURN	6,276	138,095		144,371
Contributions	6,012	1,175	21,797	28,984
Current year withdrawals			(178)	(178)
Current year expenditures	(2,460)	(59,584)		(62,044)
Reclassification of deficits in donor-designated funds	10,886	(10,886)		-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2017	**$ 43,403**	**$ 789,951**	**$ 627,883**	**$ 1,461,237**
Investment income	3,171	59,341		62,512
Realized and unrealized gains	3,272	52,178		55,450
TOTAL INVESTMENT RETURN	6,443	111,519		117,962
Contributions	10,465	829	16,165	27,459
Current year withdrawals			(199)	(199)
Current year expenditures	(2,480)	(64,677)		(67,157)
Reclassification of deficits in donor-designated funds	2,842	(2,842)		-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2018	**$ 60,673**	**$ 834,780**	**$ 643,849**	**$ 1,539,302**

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 $8,392 (2018) and $11,234 (2017). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments and additions, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, $538,176 (2018) and $501,891 (2017) represented the investment returns on 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, 2018 and 2017 by the ASC 820 valuation hierarchy are as follows:

June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Domestic stocks	$ 43,323	$ 980		$ 39,382	$ 83,685
International securities		44,119		60,538	104,657
Global securities				320,568	320,568
Bonds					
Government and municipal		29,860			29,860
Corporate		91,226			91,226
Mutual funds	159,933	6,592			166,525
Derivatives		94,816			94,816
Limited partnerships and Other					
Venture capital			$ 16,745	98,671	115,416
Private equity			4,332	250,706	255,038
Real estate				69,090	69,090
Absolute return		6,286		329,014	335,300
Other		42	36,355		36,397
Equity real estate			81		81
TOTAL INVESTMENTS	**$ 203,256**	**$ 273,921**	**$ 57,513**	**$ 1,167,969**	**$ 1,702,659**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 347,459**	**$ -**	**$ 347,459**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 4,394				$ 4,394
Mutual funds	94,476	$ 8,947			103,423
Limited partnerships and Other					
Absolute return				$ 42,854	42,854
Other				8,540	8,540
Equity real estate				9,031	9,031
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 98,870**	**$ 8,947**	**$ -**	**$ 60,425**	**$ 168,242**
ASSETS AT FAIR VALUE	**$ 302,126**	**$ 282,868**	**$ 404,972**	**$ 1,228,394**	**$ 2,218,360**
Interest rate swaps payable (Note 12)	$ -	$ 10,671	$ -	$ -	$ 10,671
LIABILITIES AT FAIR VALUE	**$ -**	**$ 10,671**	**$ -**	**$ -**	**$ 10,671**

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June 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
INVESTMENTS					
Cash and cash equivalents	$ 36,092	$ 14,331			$ 50,423
Domestic stocks	29,586	980		$ 35,528	66,094
International securities		33,615		58,865	92,480
Global securities				252,175	252,175
Bonds					
Government and municipal		19,088			19,088
Corporate		19,509			19,509
Mutual funds	266,151	6,022			272,173
Derivatives		27,280			27,280
Limited partnerships and Other					
Venture capital			$ 15,952	100,672	116,624
Private equity			4,127	226,923	231,050
Real estate				77,815	77,815
Absolute return		6,175		315,950	322,125
Other		42	36,394		36,436
Equity real estate			81		81
TOTAL INVESTMENTS	**$ 331,829**	**$ 127,042**	**$ 56,554**	**$ 1,067,928**	**$ 1,583,353**
FUNDS HELD IN TRUST BY OTHERS	**$ -**	**$ -**	**$ 337,553**	**$ -**	**$ 337,553**
PENSION PLAN ASSETS					
Cash and cash equivalents	$ 5,455				$ 5,455
Mutual funds	82,056	$ 9,273			91,329
Limited partnerships and Other					
Absolute Return				$ 44,954	44,954
Other				4,073	4,073
Equity real estate				8,597	8,597
TOTAL PENSION PLAN ASSETS (Note 9)	**$ 87,511**	**$ 9,273**	**$ -**	**$ 57,624**	**$ 154,408**
ASSETS AT FAIR VALUE	**$ 419,340**	**$ 136,315**	**$ 394,107**	**$ 1,125,552**	**$ 2,075,314**
Interest rate swaps payable (Note 12)	$ -	$ 14,690	$ -	$ -	$ 14,690
LIABILITIES AT FAIR VALUE	**$ -**	**$ 14,690**	**$ -**	**$ -**	**$ 14,690**

Level 3 Investment Information

Investments included in Level 3 consist primarily of the University's ownership in alternative investments (principally limited partnership interests in venture capital, private equity, equity real estate, real assets and other similar funds), 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 fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner based on appraisals or other estimates that require varying degrees of judgment.
- If no public market consideration exists, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, subsequent developments concerning the companies to which the securities relate, or other estimates requiring varying degrees of judgment. The University regularly reviews, evaluates and performs significant due diligence around these investments to ensure that the values provided by the investment managers are appropriate measures of fair value. The University agrees with the valuations and assumptions used in determining the fair value of these investments.

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

	Venture Capital	Private Equity	Equity Real Estate	Other & Funds Held by Others	Total
June 30, 2016	$ 14,852	$ 3,820	$ 143	$ 361,390	$ 380,205
Investment income	15	4		9,169	9,188
Unrealized gains	1,785	462		17,684	19,931
Purchases	169	44			213
Settlements	(869)	(203)	(62)	(14,296)	(15,430)
June 30, 2017	**$ 15,952**	**$ 4,127**	**$ 81**	**$ 373,947**	**$ 394,107**
Investment loss	(3)	(1)		(12)	(16)
Unrealized gains	1,524	395		10,232	12,151
Purchases	82	21			103
Settlements	(810)	(210)		(353)	(1,373)
June 30, 2018	**$ 16,745**	**$ 4,332**	**$ 81**	**$ 383,814**	**$ 404,972**

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

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

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

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

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

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

Category	Redemption Frequency	Redemption Notice Period	Fair Value	Unfunded Commitments
Domestic stocks (a)	monthly, quarterly, annually	30 - 90 days	$ 39,382	
International securities (b)	monthly, quarterly	30 - 90 days	60,538	
Global securities (c)	monthly, quarterly	30 - 90 days	320,567	
Limited partnerships and Other				
Venture capital (d)			98,671	$ 30,819
Private equity (e)			250,706	148,178
Real estate (f)			69,090	48,283
Absolute return (g)	monthly, quarterly, annually	30 - 90 days	371,868	64,746
Other (h)			8,540	
Equity real estate (i)			9,031	
TOTAL			**$ 1,228,393**	**$ 292,026**

(a) ***Domestic stocks*** include funds invested in 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 100% of the net asset value is accessible within one year.

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

(c) ***Global securities*** include funds invested in equity securities domiciled in both Domestic stocks and International securities. Investments in this asset class have a mandate for global securities worldwide. Approximately 100% of the net asset value is accessible within one year or less.

(d) ***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.

(e) ***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.

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

(g) ***Absolute return*** includes hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top down macro-economic analysis or bottom up company or theme specific analysis; managers may shift portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds, but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the absolute return category from monthly, quarterly, annually, and up to a maximum of three years for traditional hedge fund vehicles and 5-10 years for private credit vehicles. Approximately 92% of the net asset value in this asset class is accessible within one year or less and 94% within three years. Over the course of the last twelve months less liquid, private credit funds with 5-10 year hold periods have been added to the portfolio for diversification purposes. This has marginally reduced liquidity in the absolute return asset class but as the private credit funds begin to call more capital portfolio liquidity will be further reduced but still maintained at manageable levels.

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

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

Derivative Information

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

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

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

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

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

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

Concentration risk– 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 risk – 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 primarily as a manager replacement strategy to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side.

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"). TRS offer synthetic exposure to beta returns while avoiding the transaction and administrative costs of owning the actual underlying equity shares. TRS are 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, quarterly, or annually), 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. Options are 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.

Swaptions: Swaptions are a specific type of Option which gives the buyer the right, but not the obligation, to enter into a specified swap agreement with the counterparty on a specified future day.

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 OTC 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:

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

			2017		
Location	Derivative Type	Notional Amount	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments, held for long-term purposes					
	Total return swaps	$ 207,681		$ 27,799	
	Options (over-the-counter)			(519)	
TOTAL DERIVATIVES, 2017			**$ -**	**$ 27,280**	**$ -**

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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	2018	2017
Net effect on investment income (loss)			
	Total return swaps	$ 39,072	$ 6,031
	Options (over-the-counter)		601
	Futures contracts		330
	Interest rate hedges		(2,121)
	Yield curve hedges		(1,306)
		$ 39,072	**$ 3,535**
Net appreciation			
	Total return swaps	2,596	21,299
		$ 2,596	**$ 21,299**
NET EFFECT OF DERIVATIVES		**$ 41,668**	**$ 24,834**

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 10 to 30 years for land improvements, 10 to 50 years for building and building improvements, 5 to 15 years for equipment, and 10 years for books. Components of property, plant, equipment and books are as follows:

	2018	2017
Land and land improvements	$ 72,483	$ 61,035
Building and building improvements	1,355,525	1,337,187
Equipment and software	304,173	290,629
Library books	46,645	44,920
Construction-in-progress	42,453	41,380
	1,821,279	1,775,151
Less: Accumulated depreciation	(1,078,863)	(1,018,069)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$ 742,416**	**$ 757,082**

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

Capitalized interest added to construction-in-progress was $0 (2018) and $152 (2017). The expected cost to complete construction-in-progress is approximately $38,306.

Depreciation expense included in the consolidated statement of activities is $67,880 (2018) and $68,344 (2017).

8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate(s)	Maturity	2018	2017
OHEFC revenue notes and bonds:	Series 1990	6.50%	2018-2021	$ 6,300	$ 8,045
	Series 1994	6.25%	2019	4,745	9,085
	Series 2006	4.00 - 5.25%	2018-2027	40,525	42,260
	Series 2008C	5.00%	2018		1,595
	Series 2012A	4.00 - 5.00%	2018-2024	18,880	22,415
	Series 2013A	4.00 - 5.00%	2018-2024	20,435	22,510
	Series 2014A	1.42%	2030-2045	67,500	67,500
	Series 2015A	4.00 - 5.38%	2018-2035	47,095	48,765
	Series 2015B	1.51%	2018		73,730
	Series 2016	3.00 - 5.00%	2018-2041	166,450	166,450
	Series 2018	3.00 - 5.00%	2018-2031	88,780	
OHEFC commercial paper		1.24%	2018		30,000
Compass Group USA, Inc.		-n/a-	2018-2019	263	563
TOTAL LIABILITY				**$ 460,973**	**$ 492,918**
Line of credit				36,000	14,000
Unamortized bond premium				37,705	27,264
Unamortized bond issuance cost				(3,434)	(2,998)
TOTAL NOTES AND BONDS PAYABLE				**$ 531,244**	**$ 531,184**

In November 2016, the OHEFC Series 2016 bonds were issued to refinance the balance of the OHEFC Series 2008A bonds in the amount of $60,000, a portion of the OHEFC Series 2006 bonds in the amount of $32,805, and OHEFC tax-exempt Commercial Paper in the amount of $33,000. The OHEFC Series 2016 bonds were also issued to defease a portion of the OHEFC Series 2008C in the amount of $43,662, and a portion of the OHEFC Series 2013A in the amount of $13,416 and included a University cash contribution of $2,197. Deferred financing fees of $1,370 were paid and the unamortized balance is a reduction to *Notes and bonds payable.* The total amount of the bond proceeds were $186,450.

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

The amount outstanding under the OHEFC tax-exempt commercial paper program to provide construction funds for several approved capital projects was $0 (2018) and $30,000 (2017). Principal was paid down in the amount of $30,000 (2018) and $38,110 (2017). The commercial paper program was terminated in May 2018. The annualized interest cost and credit facility expense for this program was 1.61% (2018) and 1.20% (2017).

The University has revolving lines of credit with two financial institutions in the amount of $100,000 to finance working capital. Each $50,000 line is subject to annual review, one in September 2018 and the other in February 2019. The amount outstanding was $36,000 (2018) and $14,000 (2017).

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

Year	Total Scheduled Principal Payments
2019	$ 14,868
2020	15,595
2021	15,375
2022	18,335
2023	45,925
Thereafter	350,875
TOTAL	**$ 460,973**

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Interest expense, including those amounts for interest rate swap agreements (Note 12), was $19,283 (2018) and $19,721 (2017).

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:

	2018	2017
Funded status at June 30 of prior fiscal year	$ (101,817)	$ (113,516)
Service cost	(10,424)	(10,287)
Interest cost	(10,682)	(10,098)
Expected return on assets	12,868	12,236
Actuarial gain	5,939	9,316
Employer contributions	14,223	10,532
FUNDED STATUS AT JUNE 30	**$ (89,893)**	**$ (101,817)**
Accumulated benefit obligation	$ 256,998	$ 254,593

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

	2018	2017
Net periodic benefit cost	$ 14,321	$ 14,933
Employer contributions	14,223	10,532
Benefits paid	6,998	6,138

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

2019	$ 6,634
2020	7,224
2021	7,658
2022	8,490
2023	9,176

Amounts expected to be paid between 2024 and 2028 total $59,179. The University's estimated employer contribution for the defined benefit plan in fiscal 2019 will depend on the results of the July 1, 2018 actuarial valuation and is estimated to be $16,972.

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

	2018	2017
BENEFIT OBLIGATION		
Discount rate	4.35%	4.10%
Rate of compensation increase	2.25%	2.25%
Measurement date	6/30/18	6/30/17
Census date	7/1/17	7/1/16
NET PERIODIC BENEFIT COST		
Discount rate	4.10%	3.90%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	2.25%	2.25%

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

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

	2018	2017
Equity securities	42%	39%
Fixed income securities	22%	23%
Real estate	5%	6%
Other	31%	32%
TOTAL ASSET ALLOCATION	**100%**	**100%**

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:

	2018	2017
Benefit obligation at June 30	$ 258,135	$ 256,225
Fair value of plan assets at June 30	168,242	154,408
NET LIABILITY	**$ (89,893)**	**$ (101,817)**
UNRESTRICTED NET ASSETS		
Actuarial losses	92,676	104,698
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	**$ 92,676**	**$ 104,698**

The estimated amortization of net loss expected in fiscal 2019 totals $5,211. 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:

	2018	2017
Change in actuarial gains	$ (12,022)	$ (16,100)
TOTAL GAIN RECOGNIZED, UNRESTRICTED NET ASSETS	**(12,022)**	**(16,100)**
Service cost	10,424	10,287
Interest cost	10,682	10,098
Expected return on assets	(12,868)	(12,236)
Net loss amortization	6,083	6,784
Net periodic benefit cost	**14,321**	**14,933**
TOTAL LOSS (GAIN) RECOGNIZED, STATEMENT OF ACTIVITIES	**$ 2,299**	**$ (1,167)**

Benefit plan costs for the defined contribution plan are $22,884 (2018) and $21,940 (2017).

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 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 $99,967 (2018) and $96,310 (2017).

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

The University and CCF have entered into an agreement with a perpetual term to provide for the development, operation and joint use of a new state-of-the-art Health Education Campus ("HEC"), which includes an academic building and a separate dental clinic. The HEC will provide a unified educational space for programs of the School of Medicine, including CCLCM, the School of Dental Medicine and the Frances Payne Bolton School of Nursing. Occupancy is scheduled to be in spring of 2019. CCF is providing interim funding of construction costs as needed, while the University and CCF are collaborating on fundraising to cover the capital costs of HEC. In the event that amounts raised by 2020 do not cover the total costs of the HEC, the University has agreed to provide up to $50,000 over a five-year period beginning in 2021.

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

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11. RELATED PARTY TRANSACTIONS

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase steam, chilled water, and other utilities for several University buildings. The amounts purchased were $22,624 (2018) and $22,423 (2017). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

In July 2012, the University received an energy efficiency grant from the Medical Center Company in the amount of $998. The grant required a capital contribution of $267 from the University and payback of a portion of projected energy cost savings. Payback terms are 36 months beginning January 2014. The obligation recorded in *Deferred income and other liabilities* is $0 (2018) and $23 (2017).

In August 2015, the Medical Center Company approved an additional energy efficiency grant in the amount of $829. The project costs incurred totaled $0 (2018) and $169 (2017). The payback terms related to this project are 36 months beginning March 2016. The obligation related to this project recorded in *Deferred income and other liabilities* is $155 (2018) and $217 (2017).

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

12. DERIVATIVES

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

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an independent swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy. Under four agreements in effect at June 30, 2018, 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, 2018, with comparative fair values for June 30, 2017. Information related to the interest rate swap agreements and the liability recognized in the consolidated statements of financial position in *Deferred income and other liabilities* are as follows:

Notional Amount		Interest Rate	Commencement	Termination Date	Basis	2018		2017	
						Level 2 Fair Market Value			
$	8,405	4.34%	Aug. 12, 2004	Oct. 1, 2022	LIBOR	$	(589)	$	(1,005)
	15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR		(1,441)		(2,244)
	15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR		(1,035)		(1,732)
	35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR		(7,606)		(9,709)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY						**$**	**(10,671)**	**$**	**(14,690)**

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as *Investment income.* The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000. The University had placed $0 (2018 and 2017) into such a fund.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $2,157 (2018) and $4,236 (2017).

13. RESTRICTED NET ASSETS

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

June 30, 2018	Temporarily Restricted		Permanently Restricted		Total	
Endowment						
True endowment	$	538,176	$	643,849	$	1,182,025
Funds functioning as endowment (FFE)		296,604				296,604
Total true endowment and FFE		834,780		643,849		1,478,629
Funds held in trust by others				347,459		347,459
TOTAL UNIVERSITY ENDOWMENT	**$**	**834,780**	**$**	**991,308**	**$**	**1,826,088**
Other net assets						
Pledges receivable		85,594		49,818		135,412
Funds held in trust by others, unused income		8,729				8,729
Student loan funds				37,316		37,316
Split-interest agreements		99		12,033		12,132
Purpose restricted gifts		138,210		10,730		148,940
TOTAL NET ASSETS	**$**	**1,067,412**	**$**	**1,101,205**	**$**	**2,168,617**

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June 30, 2017	Temporarily Restricted	Permanently Restricted	Total
Endowment			
True endowment	$ 501,891	$ 627,883	$ 1,129,774
Funds functioning as endowment (FFE)	288,060		288,060
Total true endowment and FFE	789,951	627,883	1,417,834
Funds held in trust by others		337,553	337,553
TOTAL UNIVERSITY ENDOWMENT	**$ 789,951**	**$ 965,436**	**$ 1,755,387**
Other net assets			
Pledges receivable	94,343	38,665	133,008
Funds held in trust by others, unused income	7,463		7,463
Student loan funds		37,125	37,125
Split-interest agreements	143	18,396	18,539
Purpose restricted gifts	120,936	7,876	128,812
TOTAL NET ASSETS	**$ 1,012,836**	**$ 1,067,498**	**$ 2,080,334**

14. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 20, 2018, the date on which the consolidated financial statements were issued.