

CASE WESTERN RESERVE UNIVERSITY

Federal Entity Identification

Number 1-341018992-A1

Report On Federal Awards In Accordance

With OMB Circular A-133

June 30, 2004

CASE WESTERN RESERVE UNIVERSITY
REPORT ON FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133

June 30, 2004

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FINANCIAL

Report of Independent Auditors
on Financial Statements and Supplementary Schedule
of Expenditures of Federal Awards

To the Board of Trustees,
Case Western Reserve University:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Case Western Reserve University and its affiliated entities (the University) at June 30, 2004, and the consolidated changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2003 financial statements, and in our report dated October 6, 2003, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters for the year ended June 30, 2004. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 5, 2004

CASE WESTERN RESERVE UNIVERSITY
Consolidated Balance Sheet
June 30, 2004 and 2003
(in thousands)

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Assets		
Cash and temporary investments	\$ 73,474	\$ 76,936
Accounts and loans receivable, net	121,683	98,997
Securities pledged under lending agreements	71,919	60,227
Pledges receivable, net	66,798	55,605
Prepaid expenses and other assets	13,344	12,575
Intangible assets	2,960	3,445
Investments	1,442,370	1,205,380
Property, plant, equipment and books, net	663,629	527,725
Funds held in trust by others	272,632	252,706
Total assets	<u>\$ 2,728,809</u>	<u>\$ 2,293,596</u>
Liabilities		
Accounts payable and accrued expenses	\$ 57,507	\$ 56,802
Deferred income and deposits	22,888	21,926
Payable under securities lending agreements	74,039	62,162
Annuities payable	30,975	33,824
Refundable advances	9,891	7,069
Minimum pension liability	10,539	15,108
Bonds and notes payable	569,917	290,102
Refundable federal student loans	19,299	19,788
Total liabilities	<u>795,055</u>	<u>506,781</u>
Net Assets		
Unrestricted	1,102,808	1,015,274
Temporarily restricted	43,505	31,574
Permanently restricted	787,441	739,967
Total net assets	<u>1,933,754</u>	<u>1,786,815</u>
Total liabilities and net assets	<u>\$ 2,728,809</u>	<u>\$ 2,293,596</u>

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

CASE WESTERN RESERVE UNIVERSITY

Consolidated Statement of Activities

For the Year Ended June 30, 2004

(with summarized financial information for the year ended June 30, 2003)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2004	June 30, 2003
Operating revenues					
Student tuition and fees	\$ 190,220			\$ 190,220	\$ 175,933
Less: Student aid	(73,156)			(73,156)	(64,424)
	<u>117,064</u>			<u>117,064</u>	<u>111,509</u>
Endowment income	80,065		\$ 463	80,528	79,041
Grants and contracts	254,475	\$ 140		254,615	205,665
CCLCM grants and contracts	24,110			24,110	-
Gifts and pledges	17,285	20,243	16,310	53,838	45,368
State of Ohio appropriation	4,231			4,231	5,143
Facilities and administrative cost recovery	67,491			67,491	60,408
Organized activities	7,768			7,768	7,337
Other sources	9,984		105	10,089	22,165
Auxiliary services	26,987			26,987	23,482
Net assets released from restrictions	13,357	(14,286)	929	-	-
Total operating revenues	<u>622,817</u>	<u>6,097</u>	<u>17,807</u>	<u>646,721</u>	<u>560,118</u>
Operating expenses					
Instructional	196,708			196,708	187,483
Sponsored research and training	211,782			211,782	184,637
Other sponsored projects	37,501			37,501	27,960
CCLCM grants and contracts	24,110			24,110	-
Libraries	17,689			17,689	17,314
Student services	18,451			18,451	16,717
University services	89,197			89,197	89,551
Auxiliary enterprises - students	24,435			24,435	21,625
Auxiliary enterprises - other	16,669			16,669	12,503
Total operating expenses	<u>636,542</u>	<u>-</u>	<u>-</u>	<u>636,542</u>	<u>557,790</u>
Net operating (deficit) revenues	<u>(13,725)</u>	<u>6,097</u>	<u>17,807</u>	<u>10,179</u>	<u>2,328</u>
Non-operating revenues and expenses					
Investment and other income (loss)	30,619	1,500	23,320	55,439	(81,370)
Net unrealized appreciation in the fair market value of investments	69,345	4,311	5,864	79,520	21,685
Actuarial adjustment to annuities payable		23	483	506	(884)
Loss on disposal of plant assets	(2,789)			(2,789)	(970)
Adjustment for minimum pension liability	4,084			4,084	(11,663)
Non-operating revenues, net	<u>101,259</u>	<u>5,834</u>	<u>29,667</u>	<u>136,760</u>	<u>(73,202)</u>
Increase (decrease) in net assets	<u>87,534</u>	<u>11,931</u>	<u>47,474</u>	<u>146,939</u>	<u>(70,874)</u>
Beginning net assets	<u>1,015,274</u>	<u>31,574</u>	<u>739,967</u>	<u>1,786,815</u>	<u>1,857,689</u>
Ending net assets	<u>\$ 1,102,808</u>	<u>\$ 43,505</u>	<u>\$ 787,441</u>	<u>\$ 1,933,754</u>	<u>\$ 1,786,815</u>

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

CASE WESTERN RESERVE UNIVERSITY
Consolidated Statement of Cash Flows
For the Years Ended June 30, 2004 and 2003
(in thousands)

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	\$ 146,939	\$ (70,874)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:</i>		
Depreciation	40,349	31,380
Net unrealized appreciation in the fair market value of investments	(79,520)	(21,685)
Net realized (gains) losses on investments	(15,423)	28,990
(Decrease) increase to annuities payable resulting from actuarial adjustments	(506)	884
Gifts of property and equipment	(714)	(433)
Loss on disposal of plant assets	2,789	970
Contributions restricted for long-term investment	(15,479)	(11,482)
Increase in accounts receivable, net	(21,886)	(5,872)
(Increase) decrease in pledges receivable, net	(11,193)	24,109
Increase in prepaid expenses and other assets	(769)	(3,166)
Decrease (increase) in intangible assets	485	(3,445)
(Increase) decrease in funds held in trust by others	(19,926)	17,233
Increase (decrease) in accounts payable and accrued expenses	705	(10,717)
Increase (decrease) in deferred income and deposits	962	(1,736)
Increase in refundable advances	2,822	163
Decrease (increase) in minimum pension liability	(4,569)	15,108
Net cash provided by (used for) operating activities	<u>25,066</u>	<u>(10,573)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans collected	7,200	8,102
Student loans issued	(8,000)	(6,671)
Proceeds from the sale of investments	2,034,061	1,609,659
Purchase of investments	(2,176,108)	(1,568,616)
Proceeds from the sale of buildings and land	379	920
Purchase of property, plant, equipment and books	(178,707)	(80,091)
Net cash used for investing activities	<u>(321,175)</u>	<u>(36,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in federal advances for student loans	(489)	(223)
(Increase) decrease in securities pledged under lending agreements	(11,692)	51,740
Increase (decrease) in payables under securities lending agreements	11,877	(54,257)
Contributions restricted for long-term investment	15,479	11,482
Proceeds from bond issues and long-term debt	285,774	-
Repayment of debt	(5,959)	(23,764)
Payments on annuities payable	(3,367)	(4,425)
Increase to annuities payable resulting from new gifts	1,024	2,633
Net cash provided by (used for) financing activities	<u>292,647</u>	<u>(16,814)</u>
Net decrease in cash and temporary investments	(3,462)	(64,084)
Cash and temporary investments, beginning of year	76,936	141,020
Cash and temporary investments, end of year	<u>\$ 73,474</u>	<u>\$ 76,936</u>

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

Part 2 – Summary of Significant Accounting Policies and Terms

This part explains the accounting practices the University uses in its consolidated financial statements.

Basis of Accounting Presentation	<p>The consolidated financial statements use the accrual basis of accounting. These statements include the accounts of the University, the Case Alumni Association, and JumpStart, Inc. (formerly Enterprise Development, Inc.).</p> <p>The Case Alumni Association is an independent, not-for-profit entity engaged in activities that provide support and service to both the Case School of Engineering and programs in the applied sciences. JumpStart, Inc. is a not-for-profit corporation organized to accelerate the growth of early stage businesses and ideas into venture-ready companies and to improve Northeast Ohio's entrepreneurial climate. In June 2004, the University voted to admit the Northeast Ohio Technology Coalition as an equal voting member of Enterprise Development, Inc. and to change the name of the corporation to JumpStart, Inc. See Note K.</p>
Net Asset Categories	<p>The consolidated financial statements present information about the University's financial position and activities using three categories of net assets:</p> <ul style="list-style-type: none">• Unrestricted net assets have no donor-imposed restrictions. They are available for any purpose consistent with the University's mission.• Temporarily restricted net assets are subject to specific donor-imposed restrictions that must be met by University actions or through the passage of time.• Permanently restricted net assets are subject to donor-imposed restrictions that the University must honor in perpetuity. Usually, donors allow part or all of the income to be used for a designated purpose.
Cash and Temporary Investments	<p>Investments with a maturity of three months or less when purchased are reported as temporary investments (i.e., cash equivalents) unless they are part of long-term investment pools.</p>
Investments	<p>Investments are recorded at fair market value. Fair market values for private equity and real estate investments in limited partnerships or commingled funds, are estimated by their external investment managers. The University reviews the assumptions and methods used in these estimated valuations. Since limited partnership investments are not readily marketable, these estimates may differ from the value that would have been used had a ready market been available. Such differences could be material. 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 market value of investments are shown as net unrealized appreciation or depreciation.</p>

Contributions	Contributions (including unconditional pledges) are recognized as either temporarily restricted or permanently restricted net assets when donors' commitments are received. Conditional pledges become revenue when the conditions are substantially met. Gifts whose restrictions are met and which are received in the same fiscal year are reported with unrestricted contribution revenues.
Grants and Contracts (Government and Private)	Revenues from government and private grants and contracts are recognized in accordance with the terms of the contract. Any government revenue received before it is expended is recorded as a refundable advance. Expenses incurred for government grants before revenue is received are recorded as receivables.
Collections	The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. Therefore, 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 market value as of June 30, 2004, which approximates the present value of the future income flows from these funds.
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.
Use of Estimates	Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.
Comparative Information	The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ending June 30, 2003, from which it was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.
Income Taxes	The University is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the consolidated financial statements.

Part 3 – Notes

These notes clarify and amplify data in the consolidated financial statements. Unless otherwise indicated, all dollar values are listed in thousands as of June 30.

NOTE A
Accounts and
Loans
Receivable

Accounts and loans receivable are as follows:

	<u>2004</u>	<u>2003</u>
Accounts receivable, net:		
Grants, contracts and others	\$ 67,938	\$ 46,700
Students	11,595	10,946
Student loans, net	42,150	41,351
	<u>\$ 121,683</u>	<u>\$ 98,997</u>
Allowances for doubtful accounts:		
Accounts receivable	\$ 6,739	\$ 6,482
Loans receivable	\$ 1,730	\$ 1,829

NOTE B
Pledges
Receivable

Unconditional pledges are expected to be realized in the following periods:

	<u>2004</u>	<u>2003</u>
In one year or less	\$ 27,163	\$ 28,040
Between one year and five years	27,979	24,619
More than five years	26,208	13,389
	<u>81,350</u>	<u>66,048</u>
Less: Discount of \$8,052 and allowance of \$6,500	(14,552)	
Less: Discount of \$4,984 and allowance of \$5,459		(10,443)
	<u>\$ 66,798</u>	<u>\$ 55,605</u>

Pledges receivable have been made for the following purposes:

	<u>2004</u>	<u>2003</u>
Department programs and activities	\$ 22,731	\$ 19,102
Endowments for scholarships and department programs and activities	19,307	17,270
Building construction	24,760	19,233
	<u>\$ 66,798</u>	<u>\$ 55,605</u>

Uncollectible pledges totaling \$754 (2004) and \$21,255 (2003) are included in University Services expense.

NOTE C
Investments

Investments (except funds held in trust by others) are as follows:

	2004	
	Fair Market	
	Value	Cost
Short-term investments	\$ 68,495	\$ 68,495
Domestic stocks	367,930	313,371
International securities	196,318	168,609
Bonds		
• U.S. Government	151,073	154,631
• Corporate	209,750	203,256
Mutual funds	69,178	66,807
Limited partnerships and other	340,575	306,277
Equity real estate	39,051	38,891
Total	<u>\$ 1,442,370</u>	<u>\$ 1,320,337</u>
	2003	
	Fair Market	
	Value	Cost
Short-term investments	\$ 50,030	\$ 50,030
Domestic stocks	314,534	303,206
International securities	173,131	168,389
Bonds		
• U.S. Government	111,329	109,479
• Corporate	188,524	174,273
Mutual funds	63,264	65,688
Limited partnerships and other	279,039	268,496
Equity real estate	25,529	23,306
Total	<u>\$ 1,205,380</u>	<u>\$ 1,162,867</u>

Included in the University's cash and investments are **unexpended bond proceeds**. These funds are held by trustees under the bond indenture for future capital expenditures. The proceeds are invested in cash, U.S government and corporate bonds and mutual funds. The fair value of these assets totaled \$231,744 (2004) and \$93,511 (2003).

The University's **spending policy** determines the amount of endowment income to be used as operating revenue and distributed for spending during the year. Distributions in excess or deficit of amounts actually earned are transferred to or from the endowment pool, honoring any donor restrictions. The fiscal 2004 endowment and similar funds distribution of \$1.98 per unit totaled \$56,731, of which \$43,630 was accumulated realized gains. For fiscal 2003, the distribution of \$1.96 per unit totaled \$55,108, of which \$41,814 was accumulated realized gains.

NOTE C
Investments
(continued)

Certain endowment and similar fund assets are pooled for efficient investment purposes. The unit market value for each pool is used to account for **pooled transactions**. The unit market values are \$36.91 (2004) and \$33.20 (2003).

As a result of **market declines**, the fair market values of certain donor-restricted endowments fell below the level required by donor stipulations or law by \$1,665 (2004) and \$10,456 (2003). These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency.

Investments in stocks, bonds, mutual funds, and other investments are exposed to a variety of uncertainties, including interest rate, market fluctuation, and credit risks. Due to the **level of risk** associated with certain investments, the value of these investments could change. Such changes could materially affect the amounts reported in the consolidated financial statements.

Investment strategies employed by outside managers incorporate the use of financial instruments with off-balance sheet risk. These financial instruments include international investment funds with underlying equity interests as well as forward and futures contracts that are subject to foreign currency translation gains and losses. Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the consolidated financial position of the University.

The University is obligated under certain limited partnerships and similar agreements to provide future funding for further investment. The University had **unfunded commitments** of approximately \$100,249 (2004) and \$103,060 (2003) that are likely to be called in the future.

The University has a **securities lending** agency agreement for the purpose of lending securities held or beneficially owned by the University. Under this agreement, the University's agent receives collateral in the form of cash or U.S. government securities in exchange for loaning securities to approved borrowers. The agent invests these funds on behalf of the University until the securities are returned. The amount of collateral required for securities traded principally in the United States is equal to 102% of the market value of the securities borrowed. For securities traded principally outside the United States, the amount of collateral required is 105%. The fair value of securities on loan is \$71,919 (2004) and \$60,227 (2003). The fair value of collateral received is \$74,039 (2004) and \$62,162 (2003).

NOTE D
Property,
Plant,
Equipment,
and Books

Property, plant, equipment, and library books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 28 years for buildings, 5 to 12 years for equipment, and 10 years for books.

Components of property, plant, equipment, and books are as follows:

	2004	2003
Land and land improvements	\$ 37,022	\$ 31,531
Building and building improvements	754,575	564,209
Equipment and software	136,377	121,954
Library books	28,638	26,947
Construction-in-progress	93,091	144,195
	<u>1,049,703</u>	<u>888,836</u>
Less: accumulated depreciation	(386,074)	(361,111)
	<u>\$ 663,629</u>	<u>\$ 527,725</u>

The above assets include \$298,889 leased from the Ohio Higher Education Facility Commission (OHEFC). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. Also included in the University's consolidated financial statements is the obligation for related bonds issued by the OHEFC.

NOTE E
Bonds and
Notes Payable

Bonds and notes payable are as follows:

	Interest	Maturity	2004	2003
Ohio Higher Education Facilities Commission revenue bonds and notes:				
Series 1988	7.85 - 7.90%	2009-2013	\$ 18,391	\$ 17,023
Series 1990	6.50 - 7.15%	2004-2020	12,156	12,135
Series 1992	5.70%	2004	1,020	2,690
Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
Series 1997	5.25 - 6.50%	2004-2018	15,285	17,601
Series 1997	5.00 - 5.50%	2004-2017	22,235	24,320
Series 1997	4.75 - 6.25%	2004-2014	9,775	10,500
Series 2001	Variable	2004-2022	18,875	18,990
Series 2002	Variable	2023-2031	64,875	64,875
Series 2002	5.00 - 5.13%	2019-2022	35,125	35,125
Series 2004	2.00 - 5.00%	2005-2034	107,950	-
Series 2004	Variable	2008-2044	177,825	-
United States government housing bonds:				
Series 1966	3.00%	2004-2016	1,435	1,535
Series 1971	3.00 - 3.50%	2004-2016	1,545	1,670
Ohio Board of Regents	-n/a-	2006	425	638
Ohio Higher Education Facilities Commission commercial paper	-Various-	-Various-	63,000	63,000
			<u>\$569,917</u>	<u>\$290,102</u>

The housing bonds are collateralized by securities and pledges of net revenues from the University's student housing and dining facilities.

The Ohio Higher Education Facility Commission (OHEFC) authorized a tax-exempt commercial paper program in February 2000 to provide construction funds for several approved capital projects and to refinance earlier projects. The program authorizes the University to issue up to \$63,000 for as long as 30 years. The amount outstanding under this program as of June 30 is \$63,000, with maturities not exceeding 270 days from the issuance date. Interest rates for this program averaged .97% (2004) and 1.27% (2003).

In March 2004, the University issued facility revenue bonds in the amount of \$285,775 through the OHEFC. The proceeds from this issue will be used to build, renovate and furnish student residence halls, laboratories, classrooms and other campus facilities and to purchase the Wolstein Research Building from University Hospitals of Cleveland. Interest rates on the Series 2004A debt are fixed, while rates on the Series 2004B debts are variable. The University has entered into three master swap agreements with financial institutions, which effectively fixes the interest rates for the variable rate debt at 2.46% until March 2009 for \$60,000 of this series and 1.91% until March 2007 for \$40,000 of this series. See Note J.

NOTE E
Bonds and
Notes Payable
(continued)

Principal payment requirements for bonds, notes, and capital lease obligations for the next five years, excluding commercial paper, are approximately as follows:

2005 —	\$7,155
2006 —	\$8,714
2007 —	\$8,969
2008 —	\$8,948
2009 —	\$7,994

Interest payments for fiscal year 2004, including payments for variable rate debt, were \$10,730. Interest paid under interest rate swap agreements during fiscal 2004 totaled \$1,866. See Note J.

Certain borrowing agreements require the University to maintain reserves as additional collateral against its borrowings. These agreements also require that the University comply with certain covenants. The University is in compliance with these provisions.

NOTE F
Fair Value of
Investments

The University's consolidated financial instruments consist principally of cash, temporary investments, accounts and pledges receivable, loans receivable, and long-term investments, as well as obligations under bonds and notes payable. Cash and temporary investments, pledges receivable, investments and other assets are recorded at approximate fair value.

Loans receivable are amounts due from students primarily under federally sponsored programs. Since notes receivable under federal student loan programs are not saleable and can be assigned only to the U.S. government or its designee, it is not practical to determine their fair value.

The fair value of the University's bonds and notes payable is approximately \$584,778 (2004) and \$311,787 (2003). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

NOTE G
Retirement
Plans

The University has both defined benefit and defined contribution pension plans for its employees. The funded status of the University's defined benefit plan is as follows:

	2004	2003
Benefit obligation at June 30	\$ 71,874	\$ 69,923
Fair value of plan assets at June 30	49,121	43,656
Funded status	<u>\$ (22,753)</u>	<u>\$ (26,267)</u>
Accrued benefit expenses recognized		
in the balance sheet	\$ 11,015	\$ 10,214
Accumulated benefit obligation	\$ 70,675	\$ 68,977

NOTE G
Retirement
Plans
(continued)

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

	2004	2003
Equity securities	65.00%	63.00%
Fixed income securities	34.00%	36.00%
Cash and cash equivalents	1.00%	1.00%
Total	<u>100.00%</u>	<u>100.00%</u>

The **investment objective** for the defined benefit plan is to maximize total return with tolerance for slightly above average risk. The asset allocation strategy strongly favors equities, with a target allocation of approximately 65% equity securities and 35% fixed income securities. Due to market volatility, the target allocation is not always desirable and asset allocations will fluctuate between the acceptable ranges. A core equity position of large cap stocks will be maintained.

It is management's intent to give the investment managers flexibility within the overall guidelines with respect to investment decisions and their timing. However, certain investments require specific review and approval by management. Management is also informed of significant modifications of any previously approved investment or anticipated use of derivatives to execute investment strategies.

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

Due to market conditions in 2003, the rate of return on assets for the University's defined benefit plan was lower than expected, and interest rates were near all-time lows. In order to better reflect these conditions, the discount rate used to calculate the University's accumulated benefit obligation (ABO) was decreased from 7.00% in 2002 to 5.75% in 2003. This change resulted in an increase in the ABO, which exceeded the fair value of the plan's assets. As a result, the University was required to recognize an additional **minimum pension liability** in 2003. Net amounts recognized in the University's balance sheet are as follows:

	2004	2003
Accrued benefit liability	\$ (21,554)	\$ (25,322)
Intangible asset	2,960	3,445
Accumulated non-operating income	7,579	11,663
Net amount recognized	<u>\$ (11,015)</u>	<u>\$ (10,214)</u>

NOTE G
Retirement
Plans
(continued)

Current pension-related charges to non-operating income are as follows:

	<u>2004</u>	<u>2003</u>
Accumulated non-operating income, beginning of year	\$ 11,663	\$ -
Accumulated non-operating income, end of year	<u>7,579</u>	<u>11,663</u>
Current charge (credit) to non-operating income	<u>\$ (4,084)</u>	<u>\$ 11,663</u>

The weighted-average assumptions used to determine the University's obligation under the defined benefit plan at June 30 are as follows:

	<u>2004</u>	<u>2003</u>
Discount rate	6.25%	5.75%
Rate of compensation increase	4.50%	4.50%
Census date	7/1/03	7/1/02

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

2005 —	\$2,679
2006 —	\$2,836
2007 —	\$2,506
2008 —	\$3,245
2009 —	\$3,962

Amounts expected to be paid between 2010 and 2014 total \$23,366. The University's **estimated contribution** for the defined benefit plan in fiscal 2005 is \$10,183. This amount may decrease based on the results of the July 1, 2004 actuarial valuation.

Benefit plan costs for the defined benefit and defined contribution plans are as follows:

	<u>2004</u>	<u>2003</u>
Defined benefit plan		
Benefit cost	\$ 3,976	\$ 2,027
Employer contributions	3,175	2,578
Benefits paid	2,141	2,338
Defined contribution plan		
Employer contributions	17,799	16,669

The weighted-average assumptions used to determine net periodic benefit cost for the defined benefit plan are as follows:

	<u>2004</u>	<u>2003</u>
Discount rate	5.75%	7.00%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.50%	4.00%

NOTE H
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 consolidated financial position, operations, or cash flows.

In December 2002, the Boards of University Hospitals Health System and the University approved a new fifty year partnership between the School of Medicine and University Hospitals of Cleveland (UHC). This agreement will significantly strengthen the historical relationship between the entities by developing a joint strategic plan for certain research initiatives.

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation (CCF) to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine (CCLCM). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the School of Medicine. Expenditures for research conducted under this joint agreement totaled \$24,110 in 2004.

The University is self-insured for 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.

NOTE I
Related Party
Transaction
(Utilities)

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University buildings. The amount purchased during fiscal 2004 was \$9,128. No obligation associated with this agreement is recorded in the accompanying financial statements.

**NOTE J
 Derivatives
 and Other
 Financial
 Instruments**

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the University and its counterparty agree to exchange the difference between the fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Operations are charged the variable rate interest; the difference between the fixed and variable interest amounts under the swap agreements is recorded in non-operating revenues and expenses as investment and other income.

Information related to the long-term interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing and the asset (liability) recognized in the balance sheet are as follows:

Date of Agreement	OHEFC Borrowing	Notional Amount	Effective Rate	Maturity Date	2004	2003
February 2001	Series 2001	\$ 19,100	4.34%	2022	\$ 936	\$ 2,358
May 2002	Series 2002	15,000	4.43%	2022	1,113	2,471
September 2002	Series 2002	15,000	3.60%	2022	(369)	806
October 2003	Series 2004	35,000	3.81%	2034	(520)	-
March 2004	Series 2004	60,000	2.46%	2009	1,634	-
March 2004	Series 2004	20,000	1.92%	2007	349	-
March 2004	Series 2004	20,000	1.92%	2007	(337)	-

The University selected the combination of variable rate bond issues and long-term interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transaction. Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income.

**NOTE K
 Subsequent
 Events**

Prior to June 2004, Enterprise Development, Inc. was a wholly-owned subsidiary of the University. On June 8, 2004 the University voted to admit the Northeast Ohio Technology Coalition (NorTech) as an equal voting member of EDI and to change EDI's name to JumpStart, Inc. This reorganization was certified by the Ohio Secretary of State on August 18, 2004.

JumpStart plans to invest in ten to fifteen companies a year and to provide business assistance services, including entrepreneurial education and promotion programs. The state of Ohio and area foundations are expected to provide much of JumpStart's funding. The activities of JumpStart through June 30, 2004 were not material and are incorporated into the University's consolidated financial statements.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Research and Development - University			
Department of Agriculture			
Direct Programs			
Grants for Agricultural Research_Competitive Research	10.206		\$ 238,707
Pass Through Programs			
Ohio State University	10.200	RF738566	(195)
University of Southern Mississippi	10.206	USM-0221705147-A10	357
Department of Agriculture Subtotal			238,869
Department of Commerce			
Pass Through Programs			
Integrated Fuel Cell Technology	11	INTEGRATED FUEL CELLS	72,833
Northwestern University	11	0730 520 W400 434	24,636
			<u>97,469</u>
Ohio State University Research	11.417	RF845493	74
University of New Hampshire	11.419	02-609	32,689
Ohio Aerospace Institute	11.612	R-300-100187-40101	12,540
Ohio Aerospace Institute	11.612	R-300-100187-40101	45,754
T/J Technologies	11.612	70NANB1H3055	55,658
			<u>113,952</u>
Department of Commerce Subtotal			244,184
Department of Defense			
Direct Programs			
Basic and Applied Scientific Research	12.300		1,029,491
Military Medical Research and Development	12.420		896,607
Basic Scientific Research	12.431		2,815,678
Basic, Applied and Advanced Research in Science	12.630		69,142
Department of Defense Research	12.800		738,263
Research & Technology Development	12.910		460,806
Pass Through Programs			
California Institute of Technology	12	6A-1051558	128,144
Spatial Integrated Systems	12	N00014-02-C-0384	106,724
Ohio Aerospace Institute	12	OAI	34,261
Physical Sciences Inc.	12	30985-1414	14,956
Makel Engineering Inc.	12	PO-R04178	7,172
University of Dayton Research	12	RSC04007	2,506
			<u>293,763</u>
Honeywell	12.300	DAAD19-01-2-0010	16,679
University of California	12.300	KK3115	184,358
CREE, Inc.	12.300	02-006	90,523
Honeywell	12.300	DAAD19-01-2-0010	99,821
Sierra Lobo, Inc	12.300	SLI-0701-002	(130)
University of Washington	12.300	429159	202,346
Sierra Lobo, Inc	12.300	SLI-0902-003	13,867
			<u>607,464</u>
University of Michigan	12.420	F010101	281
Nichols Res. Corp- Army	12.431	NRC-IDIQ-97-0020	(2,775)
Corporation for National Research	12.431	MDA972-99-1-003	1,724
California Institute of Technology	12.431	1036224	114,526
ITN Energy Systems, Inc	12.431	02I-0086	(4,013)
Science Research Laboratory	12.431	C-0003-316A	21,672
University of California	12.431	SA3627	731,173
			<u>862,307</u>
Advanced Technology Institute	12.800	20010764	24,199
Utility Development Corporation	12.800	F49620-02-C-0400	9,152
			<u>33,351</u>
Boeing Company	12.910	Z10715	186,712

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Georgia Institute of Technology	12,910	E-19-Z18-G1	242,302
			<u>429,014</u>
Department of Defense Subtotal			<u>8,236,167</u>
Department of Housing and Urban Development			
Direct Programs			
Department of Housing and Urban Development	14		250,820
			<u>250,820</u>
Department of the Interior Geological Survey			
Direct Programs			
U.S. Geological Survey Research and Data Acquisition	15,808		17,066
			<u>17,066</u>
Agency for International Development			
Pass Through Programs			
National Council for Eurasian	19	818-9	49,645
Association Liaison Office	19	ASSOC. LIAISON OFFIC	3,140
Association Liaison Office	19	ASSOC. LIAISON OFFIC	59,065
			<u>111,850</u>
Department of Justice			
Pass Through Programs			
National Center for Juvenile Justice	16	70099-014	(21)
National Institute of Justice	16	2003-RP-BX-1001	49,796
National Institute of Justice	16	2003-RP-BX-1001	372,577
			<u>422,352</u>
Cuyahoga County Board of Commissioners	16,523	2002-JB-007-A112 / CE0314001	11,654
Cuyahoga County Board of Commissioners	16,523	CE0400408-01/2003-JB-011-A112	3,076
			<u>14,730</u>
Shaker Heights Health Department	16,729	2001-JN-FX-0115	(420)
Department of Justice	16,560	2002-IJ-CX-0009	2,634
			<u>439,296</u>
Department of Transportation			
Pass Through Programs			
National Research Council	20	HSR-40	10,710
National Research Council	20	HSR-40	58,139
			<u>68,849</u>
Ohio Department of Transportation	20,205	8880	83,551
Ohio Department of Transportation	20,205	9772	335
Ohio Department of Transportation	20,205	9795	4,197
			<u>88,083</u>
Department of Transportation Subtotal			
National Aeronautics and Space Administration			
Direct Programs			
Aerospace Education Services Program	43,001		616,738
Technology Transfer	43,002		3,989,446
Pass Through Programs			
Ohio State University Research	43	745432	624,661
Cleveland State University	43	XP-97527301-0	1,001
			<u>625,662</u>
Space Telescope Science Institute	43,002	HST-GO-08669.04A	7,459
National Space Biomedical Resesearch	43,002	NPFR00206	78,595
Jet Propulsion Laboratory	43,002	1222330	3,382
Naval Warfare Center	43,002	N68936-01-P-1112	111
National Space Biomedical Research	43,002	NA00208	56,310
Jet Propulsion Laboratory	43,002	1239487	149,861

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

National Space Biomedical Research	43.002	IHF00205	25,161
Universities Space Research Association	43.002	04520-01	765,777
Universities Space Research Association	43.002	04520-01	1,178,897
Make! Engineering Inc.	43.002	PO-R04180	894
			<u>2,266,447</u>
National Aeronautics and Space Administration Subtotal			<u>7,498,293</u>
National Endowment for the Arts			
Direct Programs			
Promotion of the Humanities Research	45.161		24,120
			<u>24,120</u>
National Endowment for the Arts			<u>24,120</u>
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		1,371,786
Mathematical & Physical Sciences	47.049		3,221,297
Geosciences	47.050		5,439
Computer and Information Science & Engineering	47.070		1,476,417
Biological Sciences	47.074		1,576,408
Social, Behavioral and Economic Sciences	47.075		408,736
Polar Programs	47.078		148,720
Other NSF Programs	47		157,529
Pass Through Programs			
Faraday Technology, Inc.	47	DMI-0232064	32,602
Cape Cod Research, Inc.	47	DMI 0216035	9,011
			<u>41,613</u>
Sensor Development Corporation	47.041	DMI-0319303	23,101
Kent State University	47.041	KENT STATE UNIV/NSF	653
			<u>23,754</u>
University of California	47.049	KK4123	42,484
University of California	47.049	SA2700-21235PG	557,849
University of California	47.049	008231-001	119,589
			<u>719,922</u>
Southern California Earthquake	47.050	083263	52,212
University of California	47.070	SA4182-23640PG	67,737
University of Oregon	47.076	204991C	4,001
University of California	47.078	SA3862-22394PG	68,929
University of Chicago	47.078	23132-B	125,144
			<u>194,073</u>
National Science Foundation Subtotal			<u>9,469,644</u>
Department of Veteran Affairs			
Direct Programs			
Various Department of Veteran Affairs Programs	64		15,000
			<u>15,000</u>
Department of Veteran Affairs Subtotal			<u>15,000</u>
Environmental Protection Agency			
Direct Programs			
Environmental Protection Consolidated Research	66.500		229,323
Various EPA Programs	66		199,664
			<u>428,987</u>
Environmental Protection Agency Subtotal			<u>428,987</u>
Department of Energy			
Direct Programs			
Department of Energy	81		234,484
Used Energy-Related Laboratory Equipment Grants	81.022		235,881
Energy-Related Inventions	81.036		162,461
Office of Energy Research Financial Assistance Program	81.049		271,462
Conservation Research and Development	81.086		486,007
Pass Through Programs			
Brookhaven National Laboratory	81	67739	18,159

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Brookhaven National Laboratory	81	82506	3,645
3M Company	81	0000945522	134,563
3M Company	81	0001105039	69,610
Battelle Memorial Institute	81	4000017402	17,203
University of South Carolina	81	04-0955	44,382
University of Chicago	81	1F-01481	8,393
Los Alamos National Labs	81	25703-001-02 38	53,273
UTC Fuel Cells	81	3565 OB	108,487
Los Alamos National Labs	81	54647-001-02 37	(2,528)
Los Alamos National Labs	81	55661-001-02 37	408,621
Dupont Company	81	DE-FC04-02AL67606	69,693
Foster-Miller, Inc.	81	DLAN.030240.000.790	28,119
De Nora America, Inc	81	ETEK DENORA	149,698
National Renewable Energy Lab	81	XDJ-3-30630-33	73,460
			<hr/>
			1,184,778
University of Michigan	81.049	F007537	112,813
Battelle, Pacific Northwest	81.049	BATELLE MEMORIAL	(3,320)
			<hr/>
			109,493
			<hr/>
Department of Energy Subtotal			<hr/> 2,684,566 <hr/>
Department of Education			
Direct Programs			
Special Education Research and Innovation to Improve	84.324		160,019
			<hr/>
Department of Education Subtotal			<hr/> 160,019 <hr/>
Department of Health & Human Services			
Direct Programs			
Food and Drug Administration- Research	93.103		283,402
Maternal & Child Health Federal Consolidated Programs	93.110		384,729
Biological Response to Environmental Health Hazards	93.113		133,021
Applied Toxicological Research and Testing	93.114		671,735
Project Grant & Cooperative Agreements for TB Control Programs	93.116		4,366,188
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		286,528
Oral Diseases & Disorder Research	93.121		1,890,095
Grants to Increase Organ Donations	93.134		78,607
Human Genome Research	93.172		1,001,114
Research Related to Deafness & Communications Disorders	93.173		794,368
Research and Training in Alternative Medicine	93.213		133,028
Research on Healthcare Costs, Quality and Outcomes	93.226		623,078
Consolidated Knowledge Development and Application (KD&A)	93.230		896
National Center on Sleep Disorders Research	93.233		808,578
Mental Health Research Grants	93.242		5,579,113
Alcohol Research Programs	93.273		1,546,200
Drug Abuse Research Programs	93.279		1,774,249
Mental Health Research Career/Scientist Development Award	93.281		231,912
Centers for Disease Control and Prevention	93.283		2,105,482
Biomedical Imaging Research	93.286		703,583
National Heart and Lung Research	93.287		463,103
Comparative Medicine Program	93.306		234,698
Clinical Research	93.333		2,584,069
Nursing Research	93.361		2,052,518
Biomedical Technology	93.371		1,452,256
Research Infrastructure	93.389		2,193,548
Cancer Cause & Prevention Research	93.393		3,111,993
Cancer Detection and Diagnosis Research	93.394		2,186,338
Cancer Treatment Research	93.395		8,917,059
Cancer Biology Research	93.396		4,039,227
Cancer Centers Support Grants	93.397		4,204,659
Cancer Research Manpower	93.398		1,484,172
Cancer Control	93.399		2,570,968
Cell Biology and Biophysics Research	93.821		5,145,345
Heart & Vascular Diseases Research	93.837		13,039,812
Lung Diseases Research	93.838		12,425,394
Blood Diseases & Resources Research	93.839		2,904,592
Arthritis, Musculoskeletal, & Skin Diseases Research	93.846		6,410,487
Diabetes, Endocrinology & Metabolism Research	93.847		12,127,690
Digestive Diseases & Nutrition Research	93.848		3,508,679

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Kidney Disease, Urology & Hematology Research	93.849		7,808,187
Clinical Research Related to Neurological Disorders	93.853		5,763,584
Biological Basis Research in Neurosciences	93.854		6,088,437
Allergy, Immunology & Transplantation Research	93.855		2,126,107
Microbiology & Infectious Diseases Research	93.856		14,363,669
Pharmacology, Physiology, and Biological Chemistry Research	93.859		2,561,672
Genetics and Developmental Biology Research	93.862		4,463,670
Population Research	93.864		2,700,228
Centers for Research for Mothers and Children	93.865		5,130,160
Aging Research	93.866		8,414,800
Vision Research	93.867		4,700,210
Center for Medical Rehabilitation Research	93.929		634,753
Senior International Fellowships	93.989		468,643
Pass Through Programs			
University of Wisconsin Medical	93	J033342	12,680
University of Mississippi	93	UNIV OF MISSISSIPPI	7,723
Visiting Nurse Service of New York	93	VNSNY	73,223
Institute for Cancer Prevention	93	CA70972-06	9,931
Wayne State University	93	WSU03035-A1	117,726
Boston University	93	CA91958	11,935
University of Wisconsin Medical	93	J033342	208,040
Organix Inc.	93	1 R43 DK065322	8,434
Johns Hopkins University	93	8308-80100-X	17,798
SAIC-Frederick, Inc.	93	23XS087A	50,191
Biomec, Inc.	93	1R43HL068501-01	13,881
			<hr/>
			531,562
Jewish Community Federation of Cleveland	93.048	90AM2610	40,433
Hemophilia Foundation of Michigan	93.110	5H30MC00015-13	7,704
Hemophilia Foundation of Michigan	93.110	6H30MC 00015-14	9,955
Boston University	93.110	MC-431538-DJW	11,291
			<hr/>
			28,950
University of Pennsylvania	93.113	537908	92,715
Children's Hospital Research Foundation	93.115	CHMC 030	81,309
Cleveland Clinic Foundation	93.121	974188820602	14,796
Cleveland Clinic Foundation	93.121	DE015198	95,846
University of Illinois	93.121	02-268	(19,009)
Osteoplastics Corporation	93.121	1 R43 DE-13786-01	(301)
			<hr/>
			91,332
University of Pittsburgh	93.134	108079-1	39,128
Cleveland Clinic Lerner College	93.137	D52MP02105-01	13,686
University of Washington	93.172	691490	88,416
Howard University	93.172	1 P41 HG02677-01	75,014
Boston University	93.172	6203-5	113,121
Boston University	93.172	HG02213-03	7,265
			<hr/>
			283,816
Northwestern University	93.226	0600 370 FE75 465	52,438
National Bureau of Economic Research	93.226	32-4061	21,698
			<hr/>
			74,136
University of Pittsburgh	93.242	106612	(5,825)
Virginia Commonwealth University	93.242	5222860/PO P517926	63,532
Duke University	93.242	GCID#100528	98,470
University of Massachusetts	93.242	MH055278-07	41,014
Yale University	93.242	MH066645-02	14,741
Yale University	93.242	MH60250-03	103,091
University of Mississippi	93.242	Univ of Mississippi Med Cnt.	(21)
University of Arizona	93.242	V976131	167,867
			<hr/>
			482,869
Yale New Haven Hospital	93.252	YALE NEW HAVEN HOSPITAL	10,573
Flow-Amp Systems, LTD.	93.279	DA16537	20,054
Yale University	93.279	DKP1079151	23,431
Research Foundation of State University of New York	93.279	247230	12,412
			<hr/>
			55,897
University of Mississippi	93.282	MH63187	120,345
University of North Carolina	93.282	N01MH90001	87,966
			<hr/>
			208,311
Hemophilia Foundation of Michigan	93.283	U27/CCU 513182-07	7,578
Hemophilia Foundation of Michigan	93.283	U27/CCU513182-08	7,862
Hemophilia Foundation of Michigan	93.283	U27/CCU 513182-04	(3,000)
Hemophilia Foundation of Michigan	93.283	U27/CCU 513182-06	6,297
Association of American Medical Colleges	93.283	U36/CCU319276	31,232
Association of American Medical Colleges	93.283	MM-0122-02/02	100,311
			<hr/>

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

			150,280
University of North Carolina	93.361	5-30676	(4,540)
Florida International University	93.361	572700450-01	14,239
University of Connecticut	93.361	251202	1,164
			<u>10,863</u>
Massachusetts Institute of Technology	93.371	5710001668	10,170
Massachusetts Institute of Technology	93.371	5710001452	24,767
			<u>34,937</u>
Ohio State University	93.390	743794	66,514
University of Cincinnati	93.390	P021-040-K106-1119	120
			<u>66,634</u>
University of Iowa	93.393	1 11660 00	(5,489)
American College of Radiology	93.393	AMER COLL OF RADIOLO	66,921
University of California	93.393	CA88164	278,740
			<u>340,172</u>
Ohio State University	93.394	746327	49,077
National Childhood Cancer Foundation	93.395	11224	603
National Childhood Cancer Foundation	93.395	11469	31,241
Frontier Science Technology Research	93.395		3,314
SAIC-Frederick, Inc.	93.395	22XS124A	43,997
SAIC-Frederick, Inc.	93.395	23XS037A	13
National Childhood Cancer Foundation	93.395	98543-1113	48,423
Bowling Green State University	93.395	CA91027-03	68,566
University of Medicine & Dentistry	93.395	CA-95739-01	15,667
Frontier Science Technology Research	93.395	CWD211-01	537
Frontier Science Technology Research	93.395	CWR211-00	398
Aventis Pharmaceuticals	93.395	GIA #11189	23,966
Wayne State University	93.395	WSU00101-A2	79,026
			<u>315,751</u>
Stanford University	93.397	PY-2343	21,934
Social & Scientific Systems	93.397	SOCIAL SCIENTIFIC SYSTEMS, INC.	455
			<u>22,389</u>
Oncology Nursing Society	93.398	1R25CA93426	28,928
Southwest Oncology Group	93.399	CA37429	5,112
National Surgical Adjuvant Breast Research	93.399	PFED18-IRE-01	42,620
National Surgical Adjuvant Breast Research	93.399	PIND-IRE-01	48,836
National Surgical Adjuvant Breast Research	93.399	TFED32-#728	57,093
National Surgical Adjuvant Breast Research	93.399	TIND-728	13,514
			<u>167,175</u>
University of Miami	93.821	GM055796	38,026
Florida State University	93.821	G15367	231,181
			<u>269,207</u>
Massachusetts Institute of Technology	93.837	5710001455	82,150
University of Pittsburgh	93.837	105744-2	34,381
University of Pittsburgh	93.837	107903-1	134,214
Northern California Institute	93.837	2 FRAM 767-01	6,453
Cornell University	93.837	37603-6513	28,245
New York Medical College	93.837	41-085-2	47,258
Children's Hospital Research Foundation	93.837	CHMC 112	17
Children's Hospital Research Foundation	93.837	CHMC 181-N	33,093
Chan Test, Inc.	93.837	HL067503-02	92,109
Cleveland Clinic Foundation	93.837	HL-56256-05	32,304
Emory University	93.837	HL63666-03	34,311
Biomec, Inc.	93.837	HL65815-02	96,382
Massachusetts General Hospital	93.837	MASS GEN. CONTRACT	4,357
St. Luke's Roosevelt Institute	93.837	OAT STUDY	13
Cleveland Clinic Foundation	93.837	R01 HL69094-03	105,374
Wayne State University	93.837	WSU 03066	24,751
Wayne State University	93.837	WSU 99027-A3	19,136
			<u>774,548</u>
Duke University	93.838	58	5,550
Duke University	93.838	9100	376
University of Pennsylvania	93.838	00481-04-05	137,437
University of Pennsylvania	93.838	481-03-05	(26,910)
University of North Carolina	93.838	5-51638	338,907
Duke University	93.838	ESCAPE - 21	14,912
Children's Hospital of Philadelphia	93.838	HL-62514-03	22,539
Aastron Bioscience, Inc.	93.838	HL74681-01	40,815
Emmes Corporation	93.838	N01-HB-67132	2,778
University of Florida	93.838	UF99087	963
			<u>537,367</u>

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Medical College of Georgia	93.839	MCG-STOP II-000967-08	36,713
Oklahoma Medical Research Foundation	93.846	AR-42460-10	29,703
University of Chicago	93.846	26682	29,639
Drexel University	93.846	232120	87,625
University of Texas	93.846	#201.2.5101	5
Aastron Bioscience, Inc.	93.846	1 R43 AR049633-01	29,331
Dartmouth College	93.846	5-30453.5725	87,271
University of Utah	93.846	9809032F	109,974
Oklahoma Medical Research Foundation	93.846	AR-42460-09	9,804
University of Utah	93.846	9809032FA	152,046
			<hr/> 535,398
Children's Hospital and Region	93.847	HR.7659.109004.007	12,085
George Washington University	93.847	T2K0405	180,730
George Washington University	93.847	T2K0102	761
George Washington University	93.847	T2K0304	351,797
University of Medicine & Dentistry	93.847	55369	19,771
Northern California Institute	93.847	GRU0018FGS-I-01	37,428
			<hr/> 602,572
University of Pennsylvania	93.848	538257	7,666
University of Pennsylvania	93.848	541099	4,097
Rhode Island Hospital	93.848	7694-02	40,287
			<hr/> 52,050
University of Chicago	93.853	24469	17,529
University of South Florida	93.853	6112-162-LO-C	88,931
Cleveland Medical Devices, Inc.	93.853	NS044465602	72,399
Washington University	93.853	WU-03-91	885
Children's Hospital Research Foundation	93.853	CHMC #345	39,458
University of Washington	93.853	WU-04-43	15,957
Washington University	93.853	WU-01-117	23,719
			<hr/> 258,878
Cleveland Medical Devices, Inc.	93.854	NS-41118	85,417
Wayne State University	93.854	WSU99025-A2	(3,325)
University of Cincinnati	93.854	NS39160	(1,359)
University of Alaska	93.854	UAF 01-0017	69,285
MicroStrain	93.854	NS-35757-03	15,105
Medical College of Georgia	93.854	MCG 0010107-13	336
University of Chicago	93.854	NS40229	350
			<hr/> 165,809
Massachusetts Institute of Technology	93.855	5710000979	143,838
Oklahoma Medical Research Foundation	93.855	AI2471713	37,556
			<hr/> 181,394
University of California	93.856	114 VN	41,012
University of California	93.856	2706SC	60,211
University of California	93.856	3310SC	(3,257)
University of California	93.856	3572SC	351,249
Social & Scientific Systems, Inc.	93.856	AACTG.27.5149.01	242,996
Rush Presbyterian -St. Luke's	93.856	AI055793-01	112,325
Rush Presbyterian -St. Luke's	93.856	AI055793-02	78,839
University of Notre Dame	93.856	AI-45123-05	152,974
Family Health International	93.856	N01-HD-0-3310-502-02	366,537
University of Minnesota	93.856	SILCAAT	161,832
Washington University	93.856	WU-03-143	38,262
Washington University	93.856	WU-03-144	4,806
Washington University	93.856	WU-04-167	1,374
University of Washington	93.856	766830	23,262
University of Washington	93.856	845702	301,171
Social & Scientific Systems, Inc.	93.856	#200IC003	234,809
			<hr/> 2,168,402
Henry Ford Hospital	93.858	HL60263-05	203,263
Henry Ford Hospital	93.858	HL60263-03	(6,696)
Henry Ford Hospital	93.858	HL60263-04	(2,985)
			<hr/> 193,582
Mayo Clinic- Rochester	93.859	U01GM61388	63,298
Northwestern University	93.865	#0600 370 E313	24,840
Northwestern University	93.865	#0600 370 E361 910	92,918
University of Pittsburgh	93.865	006178-1	358
Penn State University	93.865	2253-CWRU-DHHS-8075	190,109
Penn State University	93.865	2620-CWRU-DHHS-6167	21,790
Johns Hopkins University	93.865	8009-35493-0	117,691
Columbia University	93.865	COLUMBIA UNIVERSITY	(113)
			<hr/> 447,593

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

University of Washington	93.866	389107	48,997
University of Pittsburgh	93.866	106099-1	1,330
University of California	93.866	2740SC	13,341
Cleveland Clinic Foundation	93.866	AG16613-03	(2,113)
University of Michigan	93.866	F001611	9,399
University of Michigan	93.866	F002931	35,935
University of Virginia	93.866	GC10857-117544	156,720
Boston University	93.866	GC159610NGC	176,745
University of Texas	93.866	K-428-1-17	(7,193)
			<hr/> 433,161
Ohio State University	93.867	743554	26,867
Ohio State University	93.867	745413	49,788
Duke University	93.867	02-SC-NIH-1053	86,005
Cleveland Clinic Lerner College of Medicine	93.867	1 R01 EY013516-01	41,635
University of California	93.867	10205850-002	87,867
Ohio State University	93.867	U10 EY10419 (738116)	(300)
			<hr/> 291,862
Cleveland Clinic Foundation	93.879	1 R01 LM008154-01	16,352
University of Kentucky	93.929	#4-64189-00-74	(9,443)
University of Illinois	93.929	020263/E0001026	6,461
University of Kentucky	93.929	HD38570	(9,123)
Children's Research Institute	93.929	HD-39834-02	467,161
NeuroControl Corporation	93.929	HD45103-01	30,037
			<hr/> 485,093
Yale University	93.989	TW006678-01	8,299
			<hr/> 8,299
Department of Health & Human Services Subtotal			<hr/> 190,419,134
Total Research and Development - University			<hr/> 220,394,947
Research and Development - Cleveland Clinic Lerner College of Medicine			
Department of Health & Human Services			
Direct Programs			
Oral Diseases & Disorder Research	93.121		64,423
Research Related to Deafness and Communication Disorders	93.173		79,964
Alcohol Research Programs	93.273		34,477
Centers for Disease Control and Prevention	93.283		51,133
Biomedical Imaging Research	93.286		136,997
Research Infrastructure	93.389		400,508
Cancer Cause & Prevention Research	93.393		954,766
Cancer Treatment Research	93.395		571,865
Cancer Biology Research	93.396		1,915,362
Cancer Research Manpower	93.398		44,768
Cell Biology and Biophysics Research	93.821		262,079
Heart & Vascular Diseases Research	93.837		6,710,910
Lung Diseases Research	93.838		1,334,194
Blood Diseases & Resources Research	93.839		1,585,538
Arthritis, Musculoskeletal, & Skin Diseases Research	93.846		1,303,146
Digestive Diseases & Nutrition Research	93.848		669,925
Kidney Disease, Urology & Hematology Research	93.849		1,921,363
Clinical Research Related to Neurological Disorders	93.853		1,118,640
Biological Basis Research in Neurosciences	93.854		233,609
Allergy, Immunology & Transplantation Research	93.855		362,463
Pharmacology, Physiology, and Biological Chemistry Research	93.859		771,615
Genetics and Developmental Biology Research	93.862		1,016,803
Population Research	93.864		262,203
Centers for Research for Mothers and Children	93.865		42,181
Aging Research	93.866		196,297
Vision Research	93.867		1,064,001
Center for Medical Rehabilitation Research	93.929		140,439
Pass Through Programs			
Immune Tolerance Network	93	AI 15416-1	63,777
Johns Hopkins University	93.103	AR 92240	157,150
National Institutes of Health	93.121	DE 015510-02	4,034
National Institutes of Health	93.393	CA 88164	315,848
GOG	93.395	CA 27469	1,302

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

National Childhood Cancer Foundation	93.395	CA 98543-01	17,846
			<u>19,148</u>
National Institutes of Health	93.399	CA 37429	195,793
Southwest Oncology Group	93.399	CA 37429-19	11,127
University of Texas	93.399	CN 95040-05	29,609
Washington University	93.399	CA 068124-09	23,050
			<u>259,579</u>
National Institutes of Health	93.821	GM 52019	7,235
Foster Miller	93.837	HL 72610-01	4,206
Fox Chace Cancer Center	93.837	CN 95037	2,295
National Institutes of Health	93.837	HL 38408	17,891
			<u>24,392</u>
National Institutes of Health	93.848	DK 50984-08	9,106
			<u>9,106</u>
Department of Health & Human Services Subtotal			<u>24,109,938</u>
Total Research and Development - Cleveland Clinic Lerner College of Medicine			<u>24,109,938</u>
Research Training Grants			-
Department of Commerce			-
Direct Programs			
Measurement and Engineering Research and Standards	11.609		<u>2,000</u>
Department of Commerce Subtotal			<u>2,000</u>
Department of Defense			
Direct Programs			
Military Medical Research and Development	12.420		<u>119,350</u>
Department of Defense Subtotal			<u>119,350</u>
Department of Housing and Urban Development			
Direct Programs			
Other Department of Housing and Urban Development	14		<u>295,768</u>
Department of Housing and Urban Development Subtotal			<u>295,768</u>
National Aeronautics and Space Administration			
Direct Programs			
Aerospace Education Services Program	43.001		3,101
Technology Transfer	43.002		<u>59,955</u>
National Aeronautics and Space Administration Subtotal			<u>63,056</u>
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		5,798
Education and Human Resources	47.076		1,109,878
Pass Through Programs			
City of Cleveland Board of Education	47	47-076	<u>199,755</u>
National Science Foundation Subtotal			<u>1,315,431</u>
Department of Energy			
Pass Through Programs			
University of Pittsburgh	81	400960-12	<u>31,893</u>
Department of Energy			<u>31,893</u>
Department of Education			
Direct Programs			
Graduate Assistance in Areas of National Need	84.200		278,970
Special Education Personnel Preparation to Improve Services	84.325		201,218
Pass Through Programs			
Children's Hospital Medical Center	84.324	H324RO10014	<u>55,889</u>

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

			<u>536,077</u>
Department of Education Subtotal			
Department of Health & Human Services			
Direct Programs			
Maternal and Child Health Federal Consolidated Programs	93.110		162,824
Nurse Anesthetist Traineeships	93.124		26,243
Special International Postdoctoral Research Program	93.154		1,055,090
Nursing Workforce Diversity	93.178		174,523
National Research Service Awards Health Services Research	93.225		239,789
Advanced Education Nursing Grant Program	93.247		120,872
Mental Health National Research Service Awards for Research Training	93.282		240,148
Centers for Disease Control and Prevention Investigations	93.286		29,026
Professional Nurse Traineeship	93.358		129,501
Nursing Research	93.361		176,716
Cancer Treatment Research	93.395		520,228
Cancer Biology Research	93.396		36,487
Cancer Research Manpower	93.398		718,175
Cancer Control	93.399		201,793
Refugee and Entrant Assistance Voluntary Agency Programs	93.567		135,369
Biophysics and Physiological Sciences	93.821		1,715,151
Heart and Vascular Diseases Research	93.837		601,752
Lung Diseases Research	93.838		731,048
Blood Diseases and Resources Research	93.839		537,093
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		330,885
Diabetes, Endocrinology and Metabolism Research	93.847		578,509
Digestive Diseases and Nutrition Research	93.848		72,991
Kidney Diseases, Neurology, Hematology Research	93.849		60,300
Extramural Research Programs in the Neurosciences	93.853		104,035
Allergy, Immunology, and Transplantation Research	93.855		228,656
Microbiology and Infectious Diseases Research	93.856		216,563
Pharmacology, Physiology, and Biological Chemistry Research	93.859		186,860
Genetics and Developmental Biology Research	93.862		287,953
Center for Research for Mothers and Children	93.865		731,231
Aging Research	93.866		502,499
Vision Research	93.867		327,040
Minority Access to Research Careers	93.880		40,128
Grants for Residency Training in General Internal	93.884		252,100
Resource and Manpower Development in the Environmental	93.894		34,234
Grants for Faculty Development in Family Medicine	93.895		39,326
Grants for Predoctoral Training in Family Medicine	93.896		330,764
Center for Medical Rehabilitation Research	93.929		147,899
Fogarty International Research Collaboration Award	93.934		214,248
Grants for Geriatric Education Centers	93.969		403,409
Grants for Establishment of Departments of Family Medicine	93.984		138,401
Senior International Fellowships	93.989		226,489
Pass through programs			
Ohio State University	93.181	743316	8,657
Ohio State University	93.181	745793	6,773
			<u>15,430</u>
Substance Abuse Initiative of Greater Cleveland	93.230	SP09768-01-02	32,205
Substance Abuse Initiative of Greater Cleveland	93.230	SP09768-01-03	80,181
			<u>112,386</u>
Department of Health & Human Services Subtotal			<u>13,134,164</u>
Corporation for National Service			
Pass Through Programs			
Tulane University	94	TUL-166-03/04	18,617
Bonner (C. & B.) Foundation	94.005	BONNER FOUNDATION	1,982
Corporation for National Service Subtotal			<u>20,599</u>
Total Research Training Grants			<u>15,518,338</u>
Total Research and Development (including research training grants)			<u>260,023,223</u>

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Student Financial Aid		
Department of Education		
Direct Programs		
Federal Supplemental Educational Opportunity Grants	84.007	1,077,997
Federal Work Study Program	84.033	2,247,263
Federal Perkins Loan Program	84.038	77,800
Federal Pell Grant Program	84.063	1,436,965
		<u>1,436,965</u>
Department of Education Subtotal		<u>4,840,025</u>
 Department of Health and Human Services		
Direct Programs		
Scholarships for Health Professions Students	93.820	6,170
		<u>6,170</u>
Department of Health and Human Services Subtotal		<u>6,170</u>
 Total Student Financial Aid		
		<u>4,846,195</u>
 TRIO		
Department of Education		
Direct Programs		
TRIO Talent Search	84.044	268,889
TRIO Upward Bound	84.047	490,412
		<u>490,412</u>
Department of Education Subtotal		<u>759,301</u>
Total TRIO		<u>759,301</u>
 Other Federal Assistance		
Department of Defense		
Direct Programs		
Basic Scientific Research	12.431	4,190
Air Force Defense Research Sciences Program	12.800	22,463
		<u>22,463</u>
Department of Defense Subtotal		<u>26,653</u>
 Department of Housing and Urban Development		
Direct Programs		
Community Development Block Grants/Economic Development	14.246	135,381
		<u>135,381</u>
Department of Housing and Urban Development Subtotal		<u>135,381</u>
 Department of Labor		
Direct Programs		
Mine Health and Safety Grants	17.600	7,466
		<u>7,466</u>
Department of Justice Subtotal		<u>7,466</u>
 National Aeronautics and Space Administration		
Direct Programs		
Technology Transfer	43.002	25,404
		<u>25,404</u>
National Aeronautics and Space Administration Subtotal		<u>25,404</u>
 National Science Foundation		
Direct Programs		
Engineering Grants	47.041	60,988
Biological Sciences	47.074	20,978
Social, Behavioral, and Economic Sciences	47.075	242,476
Education and Human Resources	47.076	4,026
		<u>4,026</u>
National Science Foundation Subtotal		<u>328,468</u>

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2004

Department of Energy			
Direct Programs			
Other Department of Energy Programs	81		6,437
Department of Energy Subtotal			6,437
Department of Education			
Direct Programs			
Institute on Disability and Rehabilitation Research	84,143		145,501
Department of Education Subtotal			145,501
Department of Health & Human Services			
Direct Programs			
Research Related to Deafness and Communication Disorders	93.173		1,217
Rural Telemedicine Grants	93.211		587,317
Mental Health Research Grants	93.242		49,990
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		126,312
Mental Health National Research Service Awards	93.282		2,458
Discovery and Applied Research	93.286		2,854
Cancer Biology Research	93.396		1,664
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		365
Microbiology and Infectious Diseases Research	93.856		3,905
Aging Research	93.866		1,656
Pass Through Programs			
National Youth Sports Corporation	93.570	03-128	72,310
National Collegiate Athletic Association	93.570	NATL COLLEGIATE ATHL	10,615
National Youth Sports Corporation	93.570	04-1028	20,094
National Youth Sports Corporation	93.570	02-128	(13,652)
			89,367
Department of Health & Human Services Subtotal			867,105
Corporation for National Service			
Pass Through Programs			
Purdue University	94.005	642-0837-4	5,812
Corporation for National Service	94.006	03AFH-K728-04-A134	107,942
Corporation for National Service	94.006	00ASF-J021-03-A134	40,078
			148,020
Corporation for National Service Subtotal			153,832
Total Other Federal Assistance			1,696,247
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 267,324,966

CASE WESTERN RESERVE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant transactions of Case Western Reserve University (the University) recorded on the accrual basis of accounting. The accompanying Schedule does not include any federal grant transactions for the Case Alumni Association or Enterprise Development, Inc., the University's affiliated entities. To the extent required, federal awards of the affiliated entities are audited and reported upon in separate reports issued by other auditors. However, these entities have been consolidated with the University's financial statements for the year ended June 30, 2004 to comply with the provisions of Statement of Position 94-3, "Reporting of Related Entities by Not-for-Profit Organizations."

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation (CCF) to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine (CCLCM). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the University's School of Medicine.

Subrecipients:

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. Under the research and development program, a total of \$21,792,564 was passed through to subgrantee organizations from the University and \$1,315,584 from the CCLCM for the year ended June 30, 2004. No funds were passed through under other programs.

2. Catalog of Federal Domestic Assistance Numbers:

Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available and were able to be identified by the University. The programs for which CFDA Numbers were not available or identified are reported with the federal agency's 2-digit prefix when known.

3. Indirect Costs:

The University recovers indirect costs by means of predetermined indirect cost rates. The predetermined rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The predetermined rate effective for the period July 1, 2003 to June 30, 2004 for on-campus research and for the CCLCM is 53% of modified total direct costs. The base rates for off-campus research for the same period vary depending upon the location of the research. The base rates for research at University Hospitals of

CASE WESTERN RESERVE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

Cleveland and Cleveland MetroHealth Medical Center for the same period are 51% and 51.5%, respectively. The base rate for all other off-campus research for the same period is 29%. The negotiated predetermined indirect cost rates are in effect through June 30, 2004, based on a rate agreement dated May 3, 1999.

4. Loan Advances:

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins, Nursing, Health Profession Student and Disadvantaged Students Loan Programs for the year ended June 30, 2004:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 4,574,830	\$ 16,540,048
Nursing Student Loan Program	93.364	\$ 107,690	\$ 400,654
Health Professional Student Loan Program/PCL	93.342	\$ 551,950	\$ 2,844,066
Loan for Disadvantaged Students	93.342	\$ -	\$ 165,389

5. Federal Family Education Loan Program:

During the year ended June 30, 2004, the University received the following loan amounts under the Federal Family Education Loan Program (FFELP) (which includes Stafford Loans, unsubsidized Stafford Loans, and Parents Plus Loans for Undergraduate Students):

	CFDA Numbers	Amounts
Federal Family Education Loan Program	84.032	\$ 55,050,038

6. Housing and Urban Development (HUD) Mortgage Bonds:

During the year ended June 30, 2004, the University made principal and interest payments of \$225,000 and \$98,425 respectively on HUD mortgage bonds. HUD mortgage bonds payable at June 30, 2004 amounted to \$2,980,000.

**REPORTS ON COMPLIANCE AND ON THE
INTERNAL CONTROL STRUCTURE**

**Report of Independent Auditors on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Trustees,
Case Western Reserve University:

We have audited the consolidated financial statements of Case Western Reserve University and its affiliated entities (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements,

noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the University in a separate letter dated September 27, 2004.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

October 5, 2004

**Report of Independent Auditors on Compliance
with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees,
Case Western Reserve University:

Compliance

We have audited the compliance of Case Western Reserve University and its affiliated entities (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's consolidated financial statements include the operations of Enterprise Development, Inc., which expended \$183,109 in federal awards which are not included in the Schedule for the year ended June 30, 2004. Enterprise Development, Inc. was audited by other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-1, 04-2, 04-3, 04-4, 04-5, 04-6 and 04-7.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

March 31, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	___ yes	X no	
Reportable condition(s) identified that are not considered to be material weaknesses?	___ yes	X none reported	
Noncompliance material to financial statements noted?	___ yes	X no	

Federal Awards:

Internal control over major programs:			
Material weakness(es) identified?	___ yes	X no	
Reportable condition(s) identified that are not considered to be material weaknesses?	___ yes	X none reported	

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes ___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
See Schedule of Expenditures of Federal Awards	Research and Development (including training grants) Student Financial Aid

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? X yes ___ no

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section II - Financial Statement Findings

No current year findings.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs

Finding #04-1: Timely Submission of Interest Earned on Advances

Information on the federal program/Condition/Context

Interest earned on advances from two Department of Defense grants, CFDA Numbers 12.420 and 12.431, during fiscal year 2004 in the amount of \$2,715 and \$2,582, respectively, was not remitted to the Federal agency.

Criteria or specific requirement

OMB Circular A-110, section .22L, states "interest earned on advances by the local government grantees and sub grantees are required to be submitted, at least quarterly, to the Federal Agency. Up to \$250 per year may be kept for administrative expenses."

Cause/Effect

The grants were not identified as interest-bearing when processed through Grants Accounting. Therefore, the Federal awarding agency had not received its share of interest earned on these grants. The failure to timely remit interest earned on advances may reduce Federal funding in the future.

Recommendation

We recommend that the University identify all interest-bearing accounts and timely remit interest earned on advances to the Federal agency.

Views of responsible officials and planned corrective actions

We agree. Grants Accounting has implemented procedures to verify that interest-bearing projects are properly identified when the award is established by the Office of Sponsored Program Administration. The interest earned has been sent to the awarding agency. We reviewed the other Department of Defense grants noting no other interest earned that was not remitted. Responsible person: Paul Frey. Deadline: Done.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-2: Annual Certification of Cost Share Amounts Not Performed

Information on the federal program/Condition/Context

The annual cost sharing certification required for a National Science Foundation grant, CFDA Number 47.076, in which the total amount of cost sharing exceeded \$500,000 for the entire grant period, was not completed.

Criteria or specific requirement

The National Science Foundation Grants policy manual states annual certifications for awards with cost sharing requirements of \$500,000 or more must be completed.

Cause/Effect

The department administrators and researchers were unaware of the requirement for annual certification. There was no specification on the notice of award of this requirement of the grant. Further, no communication was received directly from the National Science Foundation requiring this certification. By not fulfilling certification requirements, future funding could be limited.

Recommendation

It is recommended that the University understand the annual certification and reporting responsibilities when large cost sharing obligations are involved.

Views of responsible officials and planned corrective actions

The Office of Sponsored Program Administration and the Controller's Office will work together to identify affected projects and submit the required certifications in the future. Responsible Person: Paul Frey. Deadline: December 31, 2005.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-3: Incorrect Indirect Cost Rate Charged

Information on the federal program/Condition/Context

For a Department of Health & Human Services grant, CFDA Number 93.398, an indirect cost rate in excess of what was awarded by the granting agency was found to be charged on one of 30 grants selected for testing. The approved rate was 8% and 20% was inadvertently charged resulting in \$8,235 being overcharged to the grant.

Criteria or specific requirement

In accordance with OMB Circular A-21, section C, costs must conform with the allowability of costs provisions of OMB Circular A-21, or limitations in the program agreement, program regulations, or program statute. The Notice of Award letter states an 8% recovery for indirect costs was allowable for this grant.

Cause/Effect

When the grant was established, the indirect cost rate was input incorrectly and reviews performed to check the rate did not identify the error. Therefore, the grant was overcharged and the University was reimbursed for unallowable expenses.

Recommendation

It is recommended that the University establish proper procedures and controls to prevent this from occurring in the future. Further, the University should refund the money overcharged to the agency.

Views of responsible officials and planned corrective actions

When the Controller's Office prepares financial status reports, the indirect cost rate is checked against the agency notice of award and adjusted, if necessary. In addition, it is unusual for an incorrect indirect cost rate to be charged to an award without the overcharge being questioned at the department level. The Controller's Office will re-enforce the procedures to identify and correct awards which have been established with inaccurate indirect cost rates. Responsible Person: Grants Managers, Tom Flannery and Barbara Sheean. Deadline: Done, implemented on an ongoing basis.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-4: Timely Filing of Financial Status Reports

Information on the federal program/Condition/Context

The final financial status report (FSR) for a Department of Health & Human Services grant, CFDA Number 93.847, due 90 days after the grant end date was not submitted to the awarding agency. This was one exception noted out of 30 grants selected for testing.

Criteria or specific requirement

In accordance with OMB Circular A-110, section .52, the Federal awarding agency requires recipients to submit annual and final reports no later than 90 days after the end of the specified reporting period.

Cause/Effect

The original end date for the grant was extended. A FSR was prepared for the original end date and submitted. However, the FSR was required to be submitted within 90 days of the extended grant end date. Grants Accounting prepared the final FSR and it was signed by the Controller's Office. However, the FSR was never transmitted to the awarding agency.

Recommendation

Grants Accounting should diligently monitor reporting requirements and due dates and use available resources on a regular basis to ensure timely filing of all required reporting.

Views of responsible officials and planned corrective actions

All required NIH FSR's are now input electronically to the NIH eCommons web site. This web site only allows transmission of reports that are due. Use of this web site should prevent any confusion regarding the reporting of FRS's due to the NIH as this site lists all required reports by due date and removes them from the due list as they are submitted. The Controller's Office uses this web site as a control mechanism to ensure that all required FSR's are scheduled for production. Responsible Person: Grants Manager, Tom Flannery. Deadline: Immediate and ongoing.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-5: Improper Accounting for Equipment Disposals

Information on the federal program/Condition/Context

A total of eight pieces of equipment reported as lost were tested and two pieces of equipment reported as transferred were tested. Of these, all eight pieces reported as lost were identified as active and in use. No documentation could be found related to one of the pieces of equipment reported as transferred. The equipment tested related to Department of Health & Human Services and National Science Foundation grants, CFDA Numbers 93.837, 93.103, 93.855, 93.838, 93.856 and 47.075

Criteria or specific requirement

In accordance with OMB Circular A-110, section .34, equipment records should be maintained accurately and an appropriate control system should be in effect.

Cause/Effect

There is an apparent lack of control over the equipment disposal record keeping process. This causes the balances related to equipment to be misstated on the financial statements.

Recommendation

Although immaterial to the financial statements, it is recommended that proper controls be established for the recording and reporting of equipment disposals and transfers. Further, the equipment recorded as disposed but that is still in use should be reinstated by the University.

Views of responsible officials and planned corrective actions

The University will review and revise its equipment inventory procedures to consider additional verification steps when departments code equipment items as disposed, lost or transferred. Also, the University has reinstated the equipment on the financial records. Responsible Person: Associate Controller, Paul Frey and Indirect Cost Specialist, Nick DeGeorge. Deadline: April 30, 2005.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-6: Discrepancy in Effort Reported to Sponsor and Effort Certification Reports

Information on the federal program/Condition/Context

For one CCLCM grant, which was from the National Heart, Lung, and Blood Institute, CFDA Number 93.839, out of 25 CCLCM grants tested, a level of effort of 40% was required based on the filed Progress Report for the principal investigator. However, the principal investigator reported 25% on the Staff Effort Report.

Criteria or specific requirement

In accordance with OMB Circular A-110, section .23, the criteria for acceptable matching includes conformity to other applicable provisions of the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Cause/Effect

The failure to follow effort reporting requirements may reduce Federal funding in the future.

Recommendation

Formalized controls and review procedures for Staff Effort Reports should be established.

Views of responsible officials and planned corrective actions

Revision will be made to the staff effort certification guidelines to give more precise instructions to Department Administrators and Research Administrators on how to document discrepancies and the required corrective actions. Also, a more formalized review process of Staff Effort Reports will be established in Sponsored Research Administration. A new proposal and award database is being selected. This database will allow the Office of Sponsored Research (OSR) to generate effort reports on an Award and Principal Investigator basis to assist Department Administrators and OSR staff in their review. Responsible Person: CCLCM Manager of Research Accounting, Jerry Kasarcik. Deadline: Immediate and on-going.

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2004

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #04-7: Missing Signatures and Signature Date Discrepancies on Staff Effort Reports

Information on the federal program/Condition/Context

Nine of the Staff Effort Reports tested for 25 of the CCLCM grants were signed prior to the end of the reporting period including: two from the National Cancer Institute: CFDA Numbers 93.393 and 93.396; three from the National Heart, Lung, and Blood Institute: CFDA Numbers 93.837, 93.837 and 93.839; two from the National Institute of General Medical Sciences: CFDA Number 93.859 and 93.862; one from the National Institute on Alcohol Abuse and Alcoholism: CFDA Number 93.273; and one from the National Center for Research Resources: CFDA Number 93.389. In addition, the principal investigator did not sign the Staff Effort Reports for two grants from the National Cancer Institute, both CFDA Number 93.396.

Criteria or specific requirement

In accordance with OMB Circular A-110, section .23, the criteria for acceptable matching includes conformity to other applicable provisions of the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Cause/Effect

The failure to follow effort reporting requirements may reduce Federal funding in the future.

Recommendation

Controls and review procedures for Staff Effort Reports should be established.

Views of responsible officials and planned corrective actions

Sponsored Research Administration will establish a formal review of Staff Effort Reports. Part of the review will include making sure all Staff Effort Reports are signed and properly dated. Unsigned and/or improperly dated reports will be returned to the Department Administrators. A specific time period will be designated for Administrators to obtain the missing signature(s) and/or correct the improperly dated effort reports. Responsible Person: CCLCM Manager of Research Accounting, Jerry Kasarcik. Deadline: Immediate and on-going.

CASE WESTERN RESERVE UNIVERSITY
PRIOR YEAR FINDINGS

for the year ended June 30, 2004

Section I Part A - Summary of Prior Year Findings

Finding #03-1: Timely Submission of Interest Earned on Advances

Audit Finding

During the testing, PricewaterhouseCoopers noted interest earned on Department of Defense Research, CFDA Number 12.800, grant advances for during fiscal year 2003 in the amount of \$12,500 was not remitted to the Federal Agency.

Status

See current year finding #04-1. This finding recurred during the current year as the exception for fiscal 2003 was found during testing conducted after June 30, 2003. When the fiscal 2003 exception was found, all Department of Defense grants were reviewed and the exception related to fiscal 2004 was identified. The University addressed this finding through the implementation of the corrective action.

Finding #03-2: Prevailing Wages in Accordance with Davis Bacon Act

Audit Finding

The University had a renovation during 2003 that was funded in part with \$27,000 from Aging Research, CFDA Number 93.866, thus the project was subject to the requirements of the Davis Bacon Act. The University did not obtain weekly payroll advices certified in accordance with the Davis Bacon Act and specific government written clauses were not included in the contract.

Status

The University addressed this finding through the implementation of the corrective action as included in the prior year report. This was not noted in the current year as a finding again.

CASE WESTERN RESERVE UNIVERSITY
PRIOR YEAR FINDINGS, Continued

for the year ended June 30, 2004

Section I Part A - Summary of Prior Year Findings, Continued

Finding #03-3: Timely Performance of Exit Counseling

Audit Finding

During the testing of the Federal Perkins Loan program, PricewaterhouseCoopers noted that the University did not provide exit-counseling material to 17 of the 21 students selected within 30 days of becoming aware of the student's separation from the University.

Status

The University addressed this finding through the implementation of the corrective action as included in the prior year report. This was not noted in the current year as a finding again.

Finding #03-4: Student Loans with Collection Agencies

Audit Finding

During testing of the Federal Perkins Loan program, PricewaterhouseCoopers noted that the University did not place three of the eight students selected with another collection agency after a 12-month period.

Status

The University addressed this finding through the implementation of the corrective action as included in the prior year report. This was not noted in the current year as a finding again.

CASE WESTERN RESERVE UNIVERSITY
PRIOR YEAR FINDINGS, Continued

for the year ended June 30, 2004

Section I Part A - Summary of Prior Year Findings, Continued

Finding #03-5: Eligibility for Deferment

Audit Finding

During testing of the Federal Perkins Loan program, PricewaterhouseCoopers noted that nine out of 19 loans selected were deferred inappropriately due to medical residency. PricewaterhouseCoopers also noted that the University does not reaffirm deferment status of loans every 12 months.

Status

The University addressed this finding through the implementation of the corrective action as included in the prior year report. This was not noted in the current year as a finding again.

Finding #03-6: Proper Forbearance Procedures

Audit Finding

During testing of the Federal Perkins Loan program, PricewaterhouseCoopers noted that six of the 19 loans tested had been granted to borrowers for a period in excess of 36 months. PricewaterhouseCoopers also noted that the interest on one of the 19 loans selected was inappropriately removed.

Status

The University addressed this finding through the implementation of the corrective action as included in the prior year report. This was not noted in the current year as a finding again.

CASE WESTERN RESERVE UNIVERSITY
PRIOR YEAR FINDINGS, Continued

for the year ended June 30, 2004

Section I Part B - Summary of Prior Year Findings of Other Audits

Finding: Ineligible TRIO Program Participants

Audit Finding

The Department of Education audited the Talent Search program of the University for the grant period September 1, 2001 through August 31, 2002. The Department of Education issued its draft report on May 8, 2003 questioning \$212,428 of grant expenditures for the budget period as unallowable due to ineligible participants.

Status

The University responded to the report on June 5, 2003. The Department of Education issued its final audit report on July 11, 2003 with no changes from its initial report. The University submitted its formal response to the final audit report on August 7, 2003. The University did not accept the findings of the audit and documented its position in both responses and has not received any further correspondence.