



CASE

CASE WESTERN RESERVE UNIVERSITY



**Financial Statements
June 30, 2003**

Case Western Reserve University
Consolidated Financial Statements for the Year Ending June 30, 2003

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Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of activities and cash flows present fairly, in all material respects, the consolidated financial position of Case Western Reserve University and its affiliated entities (the "University") as of June 30, 2003, 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 2002 financial statements, and in our report dated September 23, 2002, 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, which 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.

PricewaterhouseCoopers LLP

October 6, 2003

CASE WESTERN RESERVE UNIVERSITY

Consolidated Balance Sheet

June 30, 2003

(with summarized financial information as of June 30, 2002)

(in thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash and temporary investments	\$ 76,936	\$ 141,020
Accounts and loans receivable, net	103,028	98,587
Securities pledged under lending agreements	60,227	111,967
Pledges receivable, net	55,605	79,714
Prepaid expenses and other assets	12,575	9,409
Intangible assets	3,445	-
Investments	1,205,380	1,253,728
Property, plant, equipment and books, net	527,725	480,471
Funds held in trust by others	252,706	269,939
Total assets	<u>\$ 2,297,627</u>	<u>\$ 2,444,835</u>
Liabilities		
Accounts payable and accrued expenses	\$ 56,802	\$ 67,519
Deferred income and deposits	25,957	27,693
Payable under securities lending agreements	62,162	116,419
Annuities payable	33,824	34,732
Refundable advances	7,069	6,906
Minimum pension liability	15,108	-
Bonds and notes payable	290,102	313,866
Refundable federal student loans	19,788	20,011
Total liabilities	<u>510,812</u>	<u>587,146</u>
Net Assets		
Unrestricted	1,015,274	1,067,090
Temporarily restricted	31,574	31,995
Permanently restricted	739,967	758,604
Total net assets	<u>1,786,815</u>	<u>1,857,689</u>
Total liabilities and net assets	<u>\$ 2,297,627</u>	<u>\$ 2,444,835</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, 2003
(with summarized financial information for the year ended June 30, 2002)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2003	June 30, 2002
Operating revenues					
Student tuition and fees	\$ 175,933			\$ 175,933	\$ 163,432
Less: Student aid	(64,126)			(64,126)	(58,786)
	111,807			111,807	104,646
Endowment income	78,742		\$ 299	79,041	68,659
Grants and contracts	217,578	\$ 78		217,656	202,014
Gifts and pledges	2,145	19,665	11,567	33,377	40,631
State of Ohio appropriation	5,143			5,143	5,137
Facilities and administrative cost recovery	60,408			60,408	56,480
Organized activities	7,337			7,337	7,077
Other sources	22,129		36	22,165	13,266
Auxiliary services	23,482			23,482	22,421
Net assets released from restrictions	33,371	(20,505)	(12,866)	-	-
Total operating revenues	562,142	(762)	(964)	560,416	520,331
Operating expenses					
Instructional	187,483			187,483	167,364
Sponsored research and training	190,511			190,511	187,053
Other sponsored projects	22,384			22,384	23,450
Libraries	17,314			17,314	16,992
Student services	16,717			16,717	14,934
University services	89,551			89,551	69,949
Auxiliary enterprises - students	21,625			21,625	21,883
Auxiliary enterprises - other	12,503			12,503	11,977
Total operating expenses	558,088	-	-	558,088	513,602
Net operating revenues	4,054	(762)	(964)	2,328	6,729
Non-operating revenues and expenses					
Investment and other income (loss)	(64,115)	(1,020)	(16,235)	(81,370)	(90,163)
Net unrealized appreciation (depreciation) in the fair market value of investments	20,806	1,327	(448)	21,685	(32,903)
Actuarial adjustment to annuities payable	72	34	(990)	(884)	(2,467)
Loss on disposal of equipment	(970)			(970)	(1,391)
Adjustment for minimum pension liability	(11,663)			(11,663)	-
Non-operating revenues, net	(55,870)	341	(17,673)	(73,202)	(126,924)
Decrease in net assets before effect of accounting change	(51,816)	(421)	(18,637)	(70,874)	(120,195)
Change in accounting estimate for equipment and capital projects	-	-	-	-	12,789
Decrease in net assets	(51,816)	(421)	(18,637)	(70,874)	(107,406)
Beginning net assets	1,067,090	31,995	758,604	1,857,689	1,965,095
Ending net assets	\$ 1,015,274	\$ 31,574	\$ 739,967	\$ 1,786,815	\$ 1,857,689

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

CASE WESTERN RESERVE UNIVERSITY
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)
(in thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	\$ (70,874)	\$ (107,406)
<i>Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:</i>		
Change in accounting estimate for equipment and capital projects	-	(12,789)
Depreciation	31,380	31,117
Net unrealized (appreciation) depreciation in the fair market value of investments	(21,685)	32,903
Net realized losses on investments	28,990	22,634
Increase to annuities payable resulting from actuarial adjustments	884	2,467
Gifts of property and equipment	(433)	(203)
Loss on disposal of equipment	970	1,391
Contributions restricted for long-term investment	(11,482)	(15,864)
(Increase) decrease in accounts receivable, net	(5,872)	10,843
Decrease in pledges receivable, net	24,109	2,978
Increase in prepaid expenses and other assets	(3,166)	(5,491)
Increase in intangible assets	(3,445)	-
Decrease in funds held in trust by others	17,233	40,891
(Decrease) increase in accounts payable and accrued expenses	(10,717)	14,912
(Decrease) increase in deferred income and deposits	(1,736)	1,871
Increase (decrease) in refundable advances	163	(472)
Increase in minimum pension liability	15,108	-
Net cash (used for) provided by operating activities	<u>(10,573)</u>	<u>19,782</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans collected	8,102	7,994
Student loans issued	(6,671)	(6,910)
Proceeds from the sale of investments	1,609,659	961,705
Purchase of investments	(1,568,616)	(1,072,710)
Proceeds from the sale of buildings and land	920	-
Purchase of property, plant, equipment and books	(80,091)	(62,895)
Net cash used for investing activities	<u>(36,697)</u>	<u>(172,816)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in federal advances for student loans	(223)	608
Decrease in securities pledged under lending agreements	51,740	16,212
Decrease in payables under securities lending agreements	(54,257)	(14,165)
Contributions restricted for long-term investment	11,482	15,864
Proceeds from bond issues and long-term debt	-	120,000
Repayment of debt	(23,764)	(5,714)
Payments on annuities payable	(4,425)	(4,876)
Increase to annuities payable resulting from new gifts	2,633	1,259
Net cash (used for) provided by financing activities	<u>(16,814)</u>	<u>129,188</u>
Net decrease in cash and temporary investments	(64,084)	(23,846)
Cash and temporary investments, beginning of year	141,020	164,866
Cash and temporary investments, end of year	<u>\$ 76,936</u>	<u>\$ 141,020</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 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. Enterprise Development, Inc., is a wholly owned subsidiary of the University organized to foster the growth of promising businesses and to improve Northeast Ohio's entrepreneurial climate.</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, 2003, 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 financial statements include 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, 2002, from which it was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.
Income Taxes	The University is 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>2003</u>	<u>2002</u>
Accounts receivable, net:		
Grants, contracts and others	\$ 50,731	\$ 44,395
Students	10,946	11,411
Student loans, net	<u>41,351</u>	<u>42,781</u>
	<u>\$ 103,028</u>	<u>\$ 98,587</u>
Allowances for doubtful accounts:		
Accounts receivable	\$ 2,451	\$ 2,184
Loans receivable	\$ 1,829	\$ 1,862

NOTE B
Pledges
Receivable

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

	<u>2003</u>	<u>2002</u>
In one year or less	\$ 28,040	\$ 59,330
Between one year and five years	24,619	27,325
More than five years	<u>13,389</u>	<u>3,190</u>
	66,048	89,845
Less: discount of \$4,984 and allowance of \$5,459	(10,443)	
Less: discount of \$2,202 and allowance of \$7,929		(10,131)
	<u>\$ 55,605</u>	<u>\$ 79,714</u>

Pledges receivable have been made for the following purposes:

	<u>2003</u>	<u>2002</u>
Department programs and activities	\$ 19,102	\$ 22,721
Endowments for scholarships and department programs and activities	17,270	31,756
Building construction	<u>19,233</u>	<u>25,237</u>
	<u>\$ 55,605</u>	<u>\$ 79,714</u>

Uncollectible pledges totaling \$21,259 (2003) and \$4,154 (2002) are included in University Services expense.

NOTE C
Investments

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

	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		
United States 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	\$ 1,205,380	\$ 1,162,867

	2002	
	Fair Market Value	Cost
Short-term investments	\$ 78,599	\$ 78,599
Domestic stocks	335,395	330,964
International securities	175,725	172,353
Bonds		
United States government	161,272	158,667
Corporate	167,057	164,573
Mutual funds	74,105	77,645
Limited partnerships and other	232,448	226,091
Equity real estate	29,127	24,008
Total	\$ 1,253,728	\$ 1,232,900

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 2003 endowment and similar funds distribution of \$1.96 per unit totaled \$55,108, of which \$41,814 was accumulated realized gains. For fiscal 2002, the distribution of \$1.92 per unit totaled \$52,332, of which \$31,648 was accumulated realized gains.

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 \$33.20 (2003) and \$34.24 (2002).

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 \$10,456 (2003) and \$6,630 (2002). These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency.

NOTE C
Investments
(continued)

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 \$103,060 (2003) and \$131,078 (2002) 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 \$60,227 (2003) and \$111,967 (2002). The fair value of collateral received is \$62,162 (2003) and \$116,419 (2002).

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.

During fiscal 2002, the University undertook a review of its estimates relating to movable equipment and construction in progress activities. As a result, effective July 1, 2001 the estimated economic lives of equipment assets were changed from 12 years to 5, 8, 10, or 12 years, based on the equipment category. The effect of this change was a net decrease of \$19,202 to the University's total net assets for the year ended June 30, 2002. In addition, the University changed the estimate used to capitalize certain construction-related expenditures. The effect of this change was a net increase of \$31,991 to the University's total net assets for the year ended June 30, 2002. The University believes these changes more appropriately reflect the actual economic value of the equipment and projects.

NOTE D
**Property,
 Plant,
 Equipment,
 and Books**
(continued)

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

	<u>2003</u>	<u>2002</u>
Land and land improvements	\$ 31,531	\$ 31,991
Building and building improvements	564,209	503,174
Equipment	121,954	116,334
Library books	26,947	25,554
Construction-in-progress	<u>144,195</u>	<u>140,382</u>
	888,836	817,435
Less: accumulated depreciation	<u>(361,111)</u>	<u>(336,964)</u>
	<u>\$ 527,725</u>	<u>\$ 480,471</u>

The above assets include \$161,958 leased from the Ohio Higher Education Facilities 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	2003	2002
Ohio Higher Education Facilities Commission revenue bonds and notes:				
Series 1988	7.40 - 7.90%	2003-2013	\$ 17,023	\$ 15,759
Series 1990	6.50 - 7.15%	2003-2020	12,135	12,102
Series 1992	5.60 - 5.70%	2003-2004	2,690	22,330
Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
Series 1997	5.25 - 5.50%	2003-2018	17,601	19,695
Series 1997	5.00 - 5.50%	2003-2017	24,320	26,295
Series 1997	4.75 - 6.25%	2003-2014	10,500	11,250
Series 2001	Variable	2003-2022	18,990	19,100
Series 2002	Variable	2031	64,875	64,875
Series 2002	5.00 - 5.125%	2019-2022	35,125	35,125
United States government housing bonds:				
Series 1966	3.00%	2003-2016	1,535	1,690
Series 1971	3.00 - 3.50%	2003-2016	1,670	1,795
Ohio Board of Regents	-n/a-	2006	638	850
Ohio Higher Education Facilities Commission commercial paper	-Various-	-Various-	<u>63,000</u>	<u>63,000</u>
			<u>\$290,102</u>	<u>\$313,866</u>

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

NOTE E
Bonds and
Notes Payable
(continued)

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. Nominal interest rates averaged 1.27% (2003) and 2.01% (2002).

In May 2002, the University issued facility revenue bonds in the amount of \$100,000 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. Interest rates on the Series 2002A debt are variable. The University has entered into two master swap agreements with a financial institution, which effectively fixes the interest rates at 4.43% until June 2022 for \$15,000 of this series, and 3.60% until September 2022 for an additional \$15,000.

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

2004 —	\$7,360
2005 —	\$7,155
2006 —	\$6,724
2007 —	\$6,939
2008 —	\$6,878

Interest payments for fiscal year 2003, including payments for variable rate debt, were \$10,547. Interest paid under interest rate swap agreements during fiscal 2003 totaled \$1,286. See Note J.

Certain borrowing agreements require the University to maintain reserves as additional collateral against its borrowings.

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 \$311,787 (2003) and \$327,144 (2002). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

NOTE G
Retirement
Plans

The funded status of the University's defined benefit plan is as follows:

	<u>2003</u>	<u>2002</u>
Benefit obligation	\$ 69,923	\$ 54,894
Fair value of plan assets	43,656	43,651
Funded status	<u>\$ (26,267)</u>	<u>\$ (11,243)</u>
Accrued benefit cost recognized in accrued expenses in the balance sheet	\$ 10,214	\$ 10,765
Accumulated benefit obligation	\$ 68,977	\$ 54,128

Due to market conditions in 2003, the rate of return on assets for the University's defined benefit plan was lower than expected. Further, 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. The roll-forward of this liability is as follows:

	<u>2003</u>
Minimum pension liability, beginning balance	\$ -
Adjustment to non-operating activity	11,663
Creation of intangible asset	<u>3,445</u>
Minimum pension liability, ending balance	<u>\$ 15,108</u>

Weighted-average assumptions for the defined benefit plan are as follows:

	<u>2003</u>	<u>2002</u>
Discount rate	5.75%	7.00%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.50%	4.00%

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

	<u>2003</u>	<u>2002</u>
Defined benefit plan:		
Benefit cost	\$ 2,027	\$ 1,262
Employer contribution	2,578	-
Benefits paid	2,338	1,979
Defined contribution plan:		
Employer contribution	16,669	15,280

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). UHC and the University will jointly own and operate the newly-constructed Wolstein Research Building. 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). Research grants from the National Institutes of Health to support work by CCF-based investigators will be awarded to and administered through the University by CCLCM, which will operate as an academic unit of the School of Medicine.

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 2003 was \$9,261. 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.

In February 2001, the University entered into a long-term interest rate swap agreement with a notional amount of \$18,990 (2003) and \$19,100 (2002). This agreement effectively fixes the interest rate on the OHEFC Series 2001 variable rate bond issue at 4.34% through October 1, 2022. The fair value of this agreement at June 30 is recorded as a liability of \$2,358 (2003) and \$720 (2002).

NOTE J
Derivatives
and Other
Financial
Instruments
(continued)

In May 2002, the University entered into a long-term interest rate swap agreement with a notional amount of \$15,000. This agreement effectively fixes the interest rate on \$15,000 of the \$64,875 OHEFC Series 2002A variable rate bond issue at 4.43% through June 5, 2022 (see Note E). The fair value of this agreement at June 30 is recorded as a liability of \$2,471 (2003) and \$724 (2002).

In September 2002, the University entered into a long-term interest rate swap agreement with a notional amount of \$15,000. This agreement effectively fixes the interest rate on \$15,000 of the \$64,875 OHEFC Series 2002A variable rate bond issue at 3.60% through September 25, 2022 (see Note E). The fair value of this agreement at June 30 is recorded as a liability of \$806.

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.