



CASE WESTERN RESERVE  
UNIVERSITY EST. 1826



CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

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**Case Western Reserve University**  
**Consolidated Financial Statements for the Year Ending June 30, 2009**

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**Report of Independent Auditors**

To the Board of Trustees  
Case Western Reserve University:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Case Western Reserve University (the "University") as of June 30, 2009, and the 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 2008 financial statements, and in our report dated October 17, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

As described in Note 5 and 6 to the accompanying consolidated financial statements, as of July 1, 2008, the University adopted Financial Accounting Standards Board Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds* and Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*.



October 10, 2009

**CASE WESTERN RESERVE UNIVERSITY**  
**Consolidated Balance Sheet**  
**June 30, 2009 and 2008**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>Assets</b>		
Cash and temporary investments	\$ 41,729	\$ 53,090
Accounts and loans receivable, net	107,282	105,555
Securities pledged under lending agreements	-	36,346
Pledges receivable, net	51,348	44,326
Prepaid expenses and other assets	16,314	16,963
Prepaid pension asset	-	11,418
Investments	1,263,398	1,607,277
Funds held in trust by others	220,656	300,719
Property, plant, equipment and books, net	795,088	801,064
<b>Total assets</b>	<u>\$ 2,495,815</u>	<u>\$ 2,976,758</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 59,226	\$ 69,619
Deferred income and other liabilities	47,248	38,604
Payable under securities lending agreements	-	37,655
Annuities payable	40,167	43,796
Refundable advances	8,116	6,057
Accrued pension liability	25,562	-
Notes and bonds payable	589,216	590,998
Refundable federal student loans	16,431	16,153
<b>Total liabilities</b>	<u>785,966</u>	<u>802,882</u>
<b>Net Assets</b>		
Unrestricted	219,400	1,301,680
Temporarily restricted	719,744	23,509
Permanently restricted	770,705	848,687
<b>Total net assets</b>	<u>1,709,849</u>	<u>2,173,876</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,495,815</u>	<u>\$ 2,976,758</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, 2009**

*with summarized financial information for the year ended June 30, 2008*

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
<b>Operating revenues</b>					
Student tuition and fees	\$ 279,765			\$ 279,765	\$ 267,554
Less: Student aid	(112,731)			(112,731)	(105,584)
	<u>167,034</u>			<u>167,034</u>	<u>161,970</u>
Endowment income	79,613	\$ 13,897	\$ 418	93,928	77,498
Grants and contracts	270,433			270,433	250,620
CCLCM grants and contracts	89,962			89,962	90,990
Gifts and pledges	6,754	14,559	31,179	52,492	47,524
State of Ohio appropriation	3,571			3,571	3,896
Facilities and administrative cost recovery	67,687			67,687	64,948
Organized activities	9,861			9,861	10,654
Other sources	42,935		898	43,833	46,461
Auxiliary services	46,278			46,278	42,964
Net assets released from restrictions	21,806	(20,187)	(1,619)	-	-
Total operating revenues	<u>805,934</u>	<u>8,269</u>	<u>30,876</u>	<u>845,079</u>	<u>797,525</u>
<b>Operating expenses</b>					
Instructional	244,002			244,002	236,178
Sponsored research and training	260,141			260,141	244,279
Other sponsored projects	29,354			29,354	25,591
CCLCM research and training	89,962			89,962	90,990
Libraries	20,909			20,909	20,590
Student services	19,064			19,064	18,775
University services	84,276			84,276	79,069
Auxiliary enterprises - students	48,776			48,776	48,882
Auxiliary enterprises - others	10,422			10,422	10,452
Total operating expenses	<u>806,906</u>	<u>-</u>	<u>-</u>	<u>806,906</u>	<u>774,806</u>
<b>Net operating (deficit) revenues</b>	<u>(972)</u>	<u>8,269</u>	<u>30,876</u>	<u>38,173</u>	<u>22,719</u>
<b>Non-operating revenues and expenses</b>					
Investment and other (losses) income	(39,382)	(153,481)	(86,191)	(279,054)	25,756
Net appreciation (depreciation) in the fair market value of investments	967	(179,323)	(5,505)	(183,861)	(138,348)
Actuarial adjustment to annuity payable			3,249	3,249	3,056
Loss on disposal of plant assets	(5,554)			(5,554)	(9,863)
Pension plan changes other than periodic benefit costs	(36,980)			(36,980)	12,551
Non-operating losses, net	<u>(80,949)</u>	<u>(332,804)</u>	<u>(88,447)</u>	<u>(502,200)</u>	<u>(106,848)</u>
<b>Decrease in net assets before effect of accounting changes</b>	<u>(81,921)</u>	<u>(324,535)</u>	<u>(57,571)</u>	<u>(464,027)</u>	<u>(84,129)</u>
<b>Cumulative effect of change in accounting principle</b>	<u>(1,000,359)</u>	<u>1,020,770</u>	<u>(20,411)</u>	<u>-</u>	<u>-</u>
<b>(Decrease) increase in net assets</b>	<u>(1,082,280)</u>	<u>696,235</u>	<u>(77,982)</u>	<u>(464,027)</u>	<u>(84,129)</u>
<b>Beginning net assets</b>	<u>1,301,680</u>	<u>23,509</u>	<u>848,687</u>	<u>2,173,876</u>	<u>2,258,005</u>
<b>Ending net assets</b>	<u>\$ 219,400</u>	<u>\$ 719,744</u>	<u>\$ 770,705</u>	<u>\$ 1,709,849</u>	<u>\$ 2,173,876</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, 2009 and 2008**  
(in thousands)

	<u>Year Ended</u> <u>June 30, 2009</u>	<u>Year Ended</u> <u>June 30, 2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (464,027)	\$ (84,129)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation	64,918	60,402
Amortization of bond issuance costs	83	44
Loss on debt refinancing	-	719
Net unrealized depreciation in the fair market value of investments	183,861	138,348
Realized losses (gains) on investments	111,018	(28,592)
Increase to annuities payable resulting from actuarial adjustments	1,590	1,469
Gifts of property and equipment	(125)	(625)
Receipt of contributed securities	(4,103)	(6,371)
Loss on disposal of plant assets	5,554	9,863
Contributions restricted for long-term investment	(21,591)	(23,498)
Decrease in accounts and loans receivable, net	504	20,515
(Increase) decrease in pledges receivable, net	(7,021)	8,602
Decrease (increase) in prepaid expenses and other assets	566	(3,406)
Decrease (increase) in prepaid pension asset	11,418	(11,418)
Decrease in funds held in trust by others	80,062	25,314
Decrease in accounts payable and accrued expenses	(6,265)	(6,734)
Increase in deferred income and other liabilities	8,644	10,762
Increase (decrease) in refundable advances	2,059	(6,337)
Increase (decrease) in accrued pension liability	25,562	(1,133)
Net cash (used for) provided by operating activities	<u>(7,293)</u>	<u>103,795</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Student loans collected	5,151	6,405
Student loans issued	(7,382)	(7,183)
Proceeds from the sale of investments	2,136,354	1,984,801
Purchase of investments	(2,083,251)	(2,095,907)
Proceeds from the sale of buildings and land	270	1,771
Purchase of property, plant, equipment and books	(68,769)	(51,559)
Net cash used for investing activities	<u>(17,627)</u>	<u>(161,672)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in refundable federal student loans	278	(848)
Decrease in securities pledged under lending agreements	36,346	47,737
Decrease in payable under securities lending agreements	(37,655)	(49,237)
Contributions restricted for long-term investment	21,591	23,498
Proceeds from bond issues and long-term debt	23,100	199,559
Payment of bond issuance costs	-	(1,233)
Repayment of debt	(24,882)	(198,637)
Decrease to annuities payable resulting from payments	(5,693)	(11,835)
Increase to annuities payable resulting from new gifts	474	1,546
Net cash provided by financing activities	<u>13,559</u>	<u>10,550</u>
Net decrease in cash and cash equivalents	(11,361)	(47,327)
Cash and cash equivalents, beginning of year	53,090	100,417
Cash and cash equivalents, end of year	<u>\$ 41,729</u>	<u>\$ 53,090</u>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES</b>		
Construction in progress payments included in accounts payable	\$ 1,689	\$ 5,817

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

Unless otherwise indicated, all dollar values are listed in thousands as of June 30.

## 1. Summary of Significant Accounting Policies and Terms

### *Basis of Accounting Presentation*

The consolidated financial statements use the accrual basis of accounting. These statements include the accounts of the University, Triangle Residential LP and Triangle Residential LLC.

Triangle Residential LP is a limited partnership formed in 2005 that owns and operates two apartment buildings, a parking garage and a commercial structure located in the Ford-Euclid-Mayfield Road area. The University is the sole limited partner. The general partner is Triangle Residential LLC, a wholly owned subsidiary of the University, also formed in 2005. The University, through Triangle Residential LP, plans to operate the properties pending finalization of plans to develop an arts, entertainment and residential complex in the area.

### *Net Asset Categories*

The consolidated financial statements present information about the University's financial position and activities using three categories of net assets:

- 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 or legal stipulations 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 generated by these funds to be used for a designated purpose.

### *Cash and Temporary Investments*

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.

### *Investments*

Investments are stated at fair value. The fair value of all debt and equity securities with readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Realized gains and losses on investments are included in investment income. Average cost is generally used to determine gains or losses on securities sold. Unrealized changes in the fair market value of investments are shown as net unrealized appreciation or depreciation.

***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 in the same fiscal year in which they are received are reported with unrestricted contribution revenues.

***Grants and Contracts (Government and Private)***

Revenues from government and private grants and contracts are recognized as earned in accordance with the terms of the 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 financial statements.

***Funds Held in Trust by Others***

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2009, which approximates the present value of the future income flows from these funds.

Certain prior year net asset amounts presented in the consolidated financial statements have been reclassified to conform to the current year presentation. Specifically, unspent income received from funds held in trust by others totaling \$1,424 was reclassified from unrestricted net assets to temporarily restricted net assets. This reclassification is included in the cumulative effect of change in accounting principle resulting from the University's adoption of FASB Staff Position 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds" (see Note 5). Income received from funds held in trust by others is classified as temporarily restricted net assets until those amounts are appropriated for expenditure of the University.

***Conditional Asset Retirement Obligations***

The University accounts for asset retirement obligations in accordance with Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," and FAS Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

***Allocation of Certain Expenses***

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

***Retirement Plans***

The University accounts for its defined benefit postretirement plan in accordance with Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R)." The University recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet in the year in which the change occurs, with an offsetting impact to unrestricted net assets.

***Use of Estimates***

Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

***Comparative Information***

The statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ending June 30, 2008, from which it was derived.

***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 financial statements. Effective July 1, 2007, the University adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – An Interpretation of SFAS No. 109, Accounting for Income Taxes." FIN 48 addresses the accounting, classification, measurement and disclosure of uncertainty in income tax recognition. The adoption did not have a material effect on the University's consolidated financial statements.

**CASE WESTERN RESERVE UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2009**

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**2. Accounts and Loans Receivable**

Accounts and loans receivable are as follows:

	<u>2009</u>	<u>2008</u>
Accounts receivable, net:		
Grants, contracts and others	\$ 48,675	\$ 54,817
Students	9,948	5,557
Student loans, net	<u>48,659</u>	<u>45,181</u>
	<u>\$ 107,282</u>	<u>\$ 105,555</u>
Allowances for doubtful accounts:		
Accounts receivable	\$ 4,077	\$ 14,971
Loans receivable	\$ 1,450	\$ 2,835

**3. Pledges Receivable**

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

	<u>2009</u>	<u>2008</u>
In one year or less	\$ 9,453	\$ 6,173
Between one year and five years	45,338	40,316
More than five years	<u>3,725</u>	<u>3,701</u>
	58,516	50,190
Less: Discount	(3,464)	(2,789)
Less: Allowance	<u>(3,704)</u>	<u>(3,075)</u>
	<u>\$ 51,348</u>	<u>\$ 44,326</u>

Pledges receivable have been made for the following purposes:

	<u>2009</u>	<u>2008</u>
Department programs and activities	\$ 22,601	\$ 17,482
Endowments for scholarships and department programs and activities	19,380	14,349
Building construction	<u>9,367</u>	<u>12,495</u>
	<u>\$ 51,348</u>	<u>\$ 44,326</u>

Pledges have been discounted at a rate of 5%. Uncollectible pledges totaling \$3,534 (2009) and \$5,953 (2008) were written off against the allowance for uncollectible pledges.

The University had conditional pledge commitments totaling \$50,541 (2009) and \$32,986 (2008).

**CASE WESTERN RESERVE UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2009**

**4. Investments**

The University's investments by type (excluding funds held in trust by others) are as follows:

	2009		2008	
	Fair Market		Fair Market	
	Value	Cost	Value	Cost
Short-term investments	\$ 78,692	\$ 78,683	\$ 140,335	\$ 140,335
Domestic stocks	17,993	23,088	50,032	52,758
International securities	142,467	154,491	295,967	273,207
Bonds				
• Government and municipal	20,391	20,507	49,239	54,249
• Corporate	22,262	23,436	82,625	83,988
Mutual funds	201,524	194,230	137,600	122,456
Limited partnerships and other				
• Venture capital	57,443	51,758	55,691	47,350
• Private equity	210,831	236,017	261,157	208,921
• Hedge funds	303,687	287,730	380,421	306,027
• Other	103,027	93,583	43,402	42,549
Equity real estate	105,081	109,106	110,808	100,807
Total	<u>\$ 1,263,398</u>	<u>\$ 1,272,629</u>	<u>\$ 1,607,277</u>	<u>\$ 1,432,647</u>

Included in the University's investments are unexpended bond proceeds. These funds are temporarily 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 \$8,408 (2009) and \$52,638 (2008).

Also included in investments are amounts due to the operating fund for fiscal 2009 distributions made to individual endowment funds that exceeded current year endowment returns. The amount due to operating is \$54,723 (2009).

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 \$234,266 (2009) and \$233,334 (2008) 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 equities traded principally outside the United States, the amount of collateral required is 105%. For fixed income securities traded principally outside the United States, the amount of collateral required is 102%. The University discontinued its participation in this program in November 2008. The fair value of securities on loan is \$-0- (2009) and \$36,346 (2008). The fair value of collateral received is \$-0-

(2009) and \$37,655 (2008). Cash collateral is reflected in the cash and temporary investments balance.

## 5. Endowments and Similar Funds

The endowment represents only those related net assets that are under the control of the University. Endowment-related assets include donor-restricted endowment funds and board-designated endowments. The purpose of endowment funds is to generate in perpetuity operating revenue to support specific activities or for general institutional use. Gift annuities, interests in funds held in trust by others and pledges designated for the endowment but not yet received are not considered components of the endowment.

Effective June 1, 2009, the state of Ohio adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines contained in this legislation relate to the prudent management, investment, and expenditure of donor-restricted endowment funds held by charitable organizations. Additionally, the legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an institution's endowment funds.

Within the context of this model legislation, in August 2008 the Financial Accounting Standards Board issued FASB Staff Position 117-1 entitled "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds." This standard provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of UPMIFA, and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds) whether or not the organization is subject to UPMIFA. The University adopted this standard retroactive to July 1, 2008 for the year ended June 30, 2009. Upon adoption, cumulative returns totaling \$1,019,346 as of July 1, 2008 were reclassified as temporarily restricted net assets. Of this amount, \$998,935 was previously reported as unrestricted net assets; \$20,411 was previously reported as a component of permanently restricted net assets.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowments under UPMIFA requirements is to preserve intergenerational equity to the extent possible. This principle holds that future endowment beneficiaries should receive at least the same level of economic support that the current generation enjoys. To that end, investment goals are formulated to earn returns over the long-term that equal or exceed the board-approved distribution rates plus the impacts from inflation. The University's endowment funds are invested in a broadly diversified portfolio designed to produce long-term rates of return that sustain or increase the real spending contribution from endowed assets and to mitigate downturns in a single sector.

Unless otherwise directed in the gift instrument, donor-restricted and board-designated endowments are pooled for efficient investment purposes. The unit market value for the pool is used to account for pooled transactions. The unit market values are \$35.82 (2009) and \$45.35 (2008). Total investment return for the pooled and unpooled endowment was -19.01% (2009) and 0.59% (2008).

UPMIFA stipulates that unless directed otherwise in the gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. The University's policy is to classify as permanently restricted net assets, (a) the original value of initial

gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) for those endowment funds with donor-specified reinvestment provisions, accumulations to the permanent endowment made in accordance with the gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

The University's Board of Trustees has approved an endowment distribution policy based on a hybrid spending formula that contains a constant growth component and a market value based component, both of which are equally weighted. The constant growth component seeks to provide growth in annual spending equal to the rate of academic inflation as measured by the Higher Education Price Index; the market value component is based on 5% of the average of the three previous calendar year-end market values. The objective of this two-pronged approach is to provide support for operations while preserving intergenerational equity, as well as to insulate programming supported by endowments from short-term fluctuations in the investment markets.

Actual endowment return in excess of distributions under the spending policy is reinvested in the endowment. For years in which the actual endowment return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Specific appropriation for expenditure of funds under the University's endowment distribution policy occurs each spring when the Board of Trustees approves the operating budget for the following year. The fiscal 2009 pooled endowment and similar funds distribution of \$2.19 per unit totaled \$69,354, which was funded from accumulated realized gains. For fiscal 2008, the distribution of \$2.13 per unit totaled \$65,126, which was partially funded from accumulated realized gains.

In addition to the general distribution, the Board of Trustees has authorized a temporary supplemental distribution from unrestricted endowments of previously reinvested income, realized appreciation and principal to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled \$7,912 (2009) and \$5,886 (2008). Endowment income reported in the consolidated statement of activities includes both distributions to support current operational needs under the spending policy described above, and the supplemental endowment distribution to the extent that operating expenditures have been incurred.

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift amounts. When deficits exist in donor-designated funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$22,709 (2009) and \$937 (2008). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments, and authorized appropriation that was deemed prudent.

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The University's endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board-designated endowment funds	\$ (2,311)	\$ -	\$ -	\$ (2,311)
Donor-restricted endowment funds	-	694,829	478,352	1,173,181
Total endowment funds	<u>\$ (2,311)</u>	<u>\$ 694,829</u>	<u>\$ 478,352</u>	<u>\$ 1,170,870</u>

Changes in endowment net assets for fiscal year 2009 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,025,816	\$ 251	\$ 472,164	\$ 1,498,231
Net assets reclassified based on adoption of UPMIFA	(998,935)	1,019,346	(20,411)	-
Endowment net assets after reclassification	26,881	1,019,597	451,753	1,498,231
Investment return:				
Investment income	47	15,529	-	15,576
Realized and unrealized depreciation	(5,795)	(286,230)	-	(292,025)
Total investment return	(5,748)	(270,701)	-	(276,449)
Contributions	63	838	26,165	27,066
Appropriation of endowment assets for expenditure	(798)	(77,614)	434	(77,978)
Reclassification of deficits in donor-designated funds	(22,709)	22,709	-	-
Endowment net assets, end of year	<u>\$ (2,311)</u>	<u>\$ 694,829</u>	<u>\$ 478,352</u>	<u>\$ 1,170,870</u>

Of the amount classified as temporarily restricted endowment net assets, \$435,371 represents the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

## 6. Fair Value Measurements

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability, i.e., an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The three levels of inputs are as follows:

- Level 1 — Quoted unadjusted prices in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and volume to produce pricing information on an ongoing basis. Market price data are generally obtained from exchange or dealer markets.
- Level 2 — Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Financial instruments carried at fair value as of June 30, 2009 by the SFAS 157 valuation hierarchy are as follows:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Investments				
Short-term investments	\$ 78,226	\$ 466	\$ -	\$ 78,692
Domestic stocks and mutual funds	204,689	1,450	13,378	219,517
International securities	59,693	26,336	56,438	142,467
Bonds				
• Government and municipal	11,160	9,231	-	20,391
• Corporate	4,857	17,405	-	22,262
Limited partnerships and other				-
• Venture capital	-	-	57,443	57,443
• Private equity	-	-	210,831	210,831
• Hedge fund	-	-	303,687	303,687
• Other	31,774	36,663	34,590	103,027
Equity real estate	213	-	104,868	105,081
Total investments	<u>390,612</u>	<u>91,551</u>	<u>781,235</u>	<u>1,263,398</u>
Funds held in trust by others	-	-	220,656	220,656
Total assets at fair value	<u>\$ 390,612</u>	<u>\$ 91,551</u>	<u>\$ 1,001,891</u>	<u>\$ 1,484,054</u>
Interest rate swaps payable	-	19,036	-	19,036
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 19,036</u>	<u>\$ -</u>	<u>\$ 19,036</u>

Investments included in Level 3 consist primarily of the University's ownership in alternative investments (principally limited partnership interests in hedge funds, private equity, real estate, real assets and other similar funds), and beneficial interests in funds held in trust by others.

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

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Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or maintains a residual interest. These trusts are valued at the present value of the future income flows expected to be received over the term of the agreements.

A rollforward of the balance sheet amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy is as follows:

	Stocks & Mutual Funds	Int'l Securities	Venture Capital	Private Equity	Hedge Funds	Other	Equity Real Estate	Total
Beginning balance, July 1, 2008	\$ 40,295	\$ 79,055	\$ 55,691	\$ 261,157	\$ 380,421	\$ 343,705	\$ 110,595	\$ 1,270,919
Realized (losses) gains and investment income	(2,795)	-	(2,442)	3,083	1,972	(82,518)	(1,806)	(84,506)
Unrealized gains (losses)	(9,697)	(22,617)	(2,656)	(68,887)	(58,434)	(11,224)	(14,026)	(187,541)
Net purchases, issuances and settlements	(14,425)	-	6,850	15,478	(20,272)	5,283	10,105	3,019
Transfers in (out) of Level 3	-	-	-	-	-	-	-	-
Ending balance, June 30, 2009	\$ 13,378	\$ 56,438	\$ 57,443	\$ 210,831	\$ 303,687	\$ 255,246	\$ 104,868	\$ 1,001,891

All net realized and unrealized gains and losses in the table above are included in the University's consolidated statement of activities. Net unrealized losses relate to those financial instruments held by the University at June 30, 2009.

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

The provisions of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" were effective for the University as of July 1, 2008. The University did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

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**7. 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:

	2009	2008
Land and land improvements	\$ 39,009	\$ 39,263
Building and building improvements	1,064,490	1,030,473
Equipment and software	248,975	234,674
Library books	32,855	31,687
Construction-in-progress	38,777	35,120
	<u>1,424,106</u>	<u>1,371,217</u>
Less: accumulated depreciation	(629,018)	(570,153)
	<u>\$ 795,088</u>	<u>\$ 801,064</u>

The above assets include \$492,376 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 financial statements is the obligation for related bonds issued by the OHEFC.

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**8. Bonds and Notes Payable**

Bonds and notes payable are as follows:

	Interest Rate	Maturity	2009	2008
Ohio Higher Education Facility Commission revenue bonds and notes:				
Series 1988	7.85 - 7.90%	2009-2013	\$ 23,801	\$ 25,051
Series 1990	6.50 - 7.15%	2009-2020	11,650	11,830
Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
Series 1997	4.90 - 6.25%	2009-2014	8,920	8,920
Series 2001	Variable	2009-2022	13,285	14,790
Series 2002A	Variable	2023-2031	64,875	64,875
Series 2004A	3.625 - 5.00%	2016-2034	77,844	78,001
Series 2006	3.75 - 5.25%	2012-2044	90,194	90,569
Series 2008A	Variable	2030-2044	60,000	60,000
Series 2008B	Variable	2030-2044	67,500	67,500
Series 2008C	4.00 - 5.00%	2014-2033	52,621	52,764
U.S. Government housing bonds:				
Series 1966	3.00 - 3.50%	2009-2016	845	990
Series 1971	3.00%	2009-2016	905	1,015
Ohio Higher Education Facility Commission commercial paper				
	-various-	-various-	63,000	63,000
Ohio Higher Education Facility Commission capital lease				
	6.75%	2009-2018	681	710
Ohio Higher Education Facility Commission capital lease				
	4.123%	2009-2018	12,293	12,880
Charter One Bank	3.25%	2009	100	-
Compass Group USA, Inc.				
	-n/a-	2009-2019	3,750	938
HUD loan - part A	4.96%	2009-2041	12,617	12,779
HUD loan - part B	5.33%	2009-2041	4,335	4,386
			<u>\$ 589,216</u>	<u>\$ 590,998</u>

The fair value of the University's bonds and notes payable is approximately \$569,412 (2009) and \$571,925 (2008). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

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The U.S government 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 \$63,000 tax-exempt commercial paper program in February 2000 to provide construction funds for several approved capital projects and to refinance earlier projects. In November 2008, the OHEFC authorized a \$27,000 expansion of that program, to a total size of \$90,000, to provide funding for future projects. The university has issued no additional commercial paper pursuant to the \$27,000 of new authority, and the amount outstanding under this program as of June 30 is \$63,000, with maturities not exceeding 270 days from the issuance date. All commercial paper issued under the terms of the program must mature no later than February 1, 2030. Interest rates for this program averaged 1.14% (2009) and 2.67% (2008).

The University has a revolving line of credit with a financial institution with an individual limit of \$60,000 to finance working capital. In June 2009, a second revolving line of credit was opened with another financial institution with an individual limit of \$40,000, also to finance working capital. Both lines are subject to review and renewal annually. There were no amounts outstanding at June 30, 2009.

In May 2008, the OHEFC series 2008 bonds were issued to refinance the OHEFC series 2004B bonds. The amount refinanced was \$177,826. The variable portion of the debt is supported by two lines of credit with financial institutions. The unamortized balance of deferred financing fees is included in prepaid expenses and other assets. The balance was \$1,367 (2009) and \$1,233 (2008).

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

2010 —	\$5,121
2011 —	\$5,151
2012 —	\$5,500
2013 —	\$6,869
2014 —	\$7,081
Thereafter —	\$528,226

The University has letter of credit agreements, standby bond purchase agreements and a liquidity agreement with various financial institutions to purchase the University's variable rate demand bonds and commercial paper if they cannot be remarketed. In the event that the bonds and notes covered by these agreements were not remarketable and the agreements not otherwise renewed, the principal amounts due in the principal payment requirements table for the periods noted would be \$68,121; \$132,651; \$5,500; \$6,869; \$7,081; and \$337,726, respectively.

Interest payments for fiscal year 2009, including payments for variable rate debt, were \$21,518. Interest payments under interest rate swap agreements during fiscal 2009 totaled \$4,091. See Note 12.

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2009.

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**9. Retirement Plans**

The University has both defined benefit and defined contribution pension plans for its employees. In accordance with ERISA requirements, the University has established a trust to hold plan assets for its defined benefit plan. The funded status of the University's defined benefit plan is as follows:

	<u>2009</u>	<u>2008</u>
Benefit obligation at June 30	\$ 103,584	\$ 88,378
Fair value of plan assets at June 30	<u>78,022</u>	<u>99,796</u>
Funded status at June 30	<u>\$ (25,562)</u>	<u>\$ 11,418</u>
Accumulated benefit obligation	\$ 102,999	\$ 87,924

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

	<u>2009</u>	<u>2008</u>
Net periodic benefit cost	\$ 1,900	\$ 1,914
Employer contributions	\$ -	\$ 7,098
Benefits paid	\$ 2,769	\$ 3,056

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

2010 —	\$ 3,860
2011 —	\$ 3,715
2012 —	\$ 3,522
2013 —	\$ 5,001
2014 —	\$ 5,868

Amounts expected to be paid between 2015 and 2019 total \$33,706. The University's estimated employer contribution for the defined benefit plan in fiscal 2010 will depend on the results of the July 1, 2009 actuarial valuation.

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

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	<u>2009</u>	<u>2008</u>
Benefit obligation:		
Discount rate	6.50%	7.00%
Rate of compensation increase	4.50%	4.50%
Measurement date	6/30/09	6/30/08
Census date	7/1/08	7/1/07
Net periodic benefit cost:		
Discount rate	7.00%	6.50%
Expected return on plan assets	8.50%	9.00%
Rate of compensation increase	4.50%	4.50%

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

The investment objective for the defined benefit plan is to maximize total return with tolerance for slightly above average risk, in order to meet the obligations that the University has to its plan beneficiaries. To accomplish this objective, the University has established a broadly-diversified asset allocation strategy that includes absolute return strategies (50%), equity investments (30%), real estate (10%), and inflation-indexed bonds and cash (10%). The weightings of the investments relative to each other in the total portfolio fluctuate as market conditions vary; they are adjusted regularly to remain within acceptable ranges.

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

	<u>2009</u>	<u>2008</u>
Equity securities	66.00%	64.00%
Fixed income securities	29.00%	24.00%
Real estate	3.00%	10.00%
Other	2.00%	2.00%
Total	<u>100.00%</u>	<u>100.00%</u>

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The amounts recognized in the University's balance sheet and in unrestricted net assets related to the defined benefit plan are as follows:

	<u>2009</u>	<u>2008</u>
Balance sheet:		
Net balance sheet (liability) asset	<u>\$ (25,562)</u>	<u>\$ 11,418</u>
Unrestricted net assets:		
Prior service costs	1,020	1,356
Actuarial losses (gains)	<u>34,671</u>	<u>(745)</u>
Amount recognized as a reduction of unrestricted net assets	<u>\$ 35,691</u>	<u>\$ 611</u>

The estimated amortization of prior year service costs expected in fiscal 2010 totals \$336.

Components of the net periodic benefit cost and other changes in plan assets that are recognized in the statement of activities for fiscal year 2009 are as follows:

Change in actuarial losses	\$ 35,416
Amortization of prior service cost	<u>(336)</u>
Total loss recognized in unrestricted net assets	\$ 35,080
Net periodic benefit cost	1,900
Employer contributions	-
Total loss recognized in the statement of activities	<u>\$ 36,980</u>

Benefit plan costs for the defined contribution plan are \$17,652 (2009) and \$17,051 (2008).

## **10. Commitments and Contingencies**

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

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

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 \$89,962 (2009) and \$90,990 (2008).

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

The expected cost to complete construction in progress is approximately \$9,506.

**11. 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 amounts purchased were \$22,692 (2009) and \$19,414 (2008). No obligation associated with this agreement is recorded in the accompanying financial statements.

**12. Derivatives and Other Financial Instruments**

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

Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the balance sheets are as follows:

Date of Agreement	Notional Amount	Fixed Rate	Maturity Date	2009	2008
August 2004	\$ 13,285	4.34%	2022	\$ (1,858)	\$ (1,163)
May 2002	15,000	4.43%	2022	(2,752)	(1,790)
September 2002	15,000	3.60%	2022	(1,452)	(494)
October 2003	35,000	3.81%	2034	(5,588)	(2,187)
December 2006	100,000	3.37%	2012	(4,922)	(1,640)
January 2008	100,000	3.37%	2017	(2,464)	(1,533)

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income.

**13. Commonfund Short Term Investment Fund**

Last year, the University disclosed a subsequent event related to the Commonfund Short Term Investment Fund (CSTIF) in the consolidated financial statements. As of June 30, 2008, the balance in the CSTIF was \$1,501 and was reported in cash and temporary investments. Subsequent to June 30, 2008, the University increased its investment in CSTIF to \$19,550. On September 27, 2008, the CSTIF trustee terminated the fund and distributions were pending an orderly liquidation of its assets. As of June 30, 2009, the University has received distributions in the amount of \$17,394 and the balance of \$2,156 remaining in the CSTIF is reported in investments. The timing and amount of future distributions is dependent on the sale or maturity of the CSTIF's underlying investments and the liquidity of markets into which those investments may be sold. The distributions are expected to be received in full – no amounts are reserved.

**14. Subsequent Events**

The University has performed an evaluation of subsequent events through October 10, 2009, the date on which the consolidated financial statements were issued.