



think beyond the possible

Consolidated Financial Statements

Fiscal Year 2011

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MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

(unaudited)

Fiscal year 2011 ("FY11") was a period of continued economic recovery and stabilization. Case Western Reserve University's net operating activities were positive, investments generated a substantial return, and philanthropy advanced to historic levels.

The University's stewardship of financial assets produced net operating income of \$66 million. Non-operating activity contributed an additional \$182 million to the overall strengthened financial condition, resulting in total net assets increasing by \$248 million for the year.

The FY11 financial plan centered on enhancing core operating performance, increasing overall investment returns, and broadening philanthropic efforts during the quiet phase of a pending capital campaign. The results were a 7% operating margin, 27% total margin, total investment return of 18.8%, and a record year for attainment at \$126 million. Capital expenditures continue to reflect targeted investments driven by a working capital model and philanthropic gifts. There is no current plan for new debt.

Below are additional details about the University's operations and financial results.

FY11 FINANCIAL HIGHLIGHTS

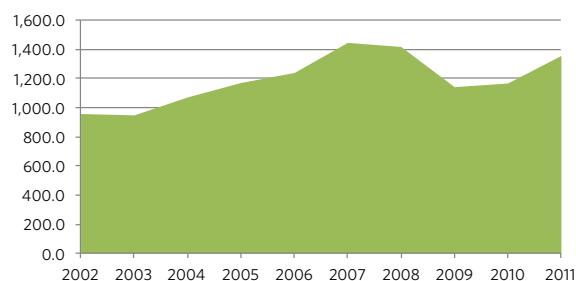
Solid core operating results

The University's positive operating performance continued through FY11, posting a net operating result of \$66 million. Total operating revenue of \$920 million increased by \$87 million or 10% and total operating expenses of \$853 million increased by \$36 million or 4%.

Positive investment performance

The University's investment pool ("the pool") posted a strong investment result in FY11, earning an 18.8% rate of return. The pool continued to recover market value lost in the economic turmoil of 2008 and early 2009. As of June 30, the pool's market value surpassed \$1.3 billion net of positive investment returns and new endowment gifts.

Pooled Endowment Market Value
10 year trend - in millions



In addition to the internally managed pool of endowment and similar funds, the University's asset base includes another \$298 million in funds externally managed in trust by others, Funds Held by Others, which increased \$42 million or 16% over FY10.

Total long-term investments are \$1.6 billion for FY11.

Support from donors

The University benefitted from generous support of its donors. During FY11, the University posted an historic record level of attainment, totaling \$126 million in gifts and pledges. The University received gifts from 18,945 donors, an 8% increase over the previous year. FY11 gifts totaled \$86 million as reported on a cash basis; realized gifts and restricted revenue of \$78 million are reported in the financial statements on an accrual basis.

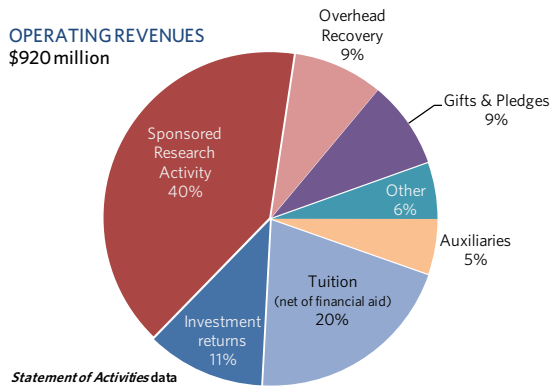
CONSOLIDATED STATEMENT OF ACTIVITIES

The *Statement of Activities* includes consolidated results from operating and non-operating activities of the University and change in net assets. The total increase in net assets of the University was \$248 million in FY11.

(in millions)	2011	2010
Operating Revenue	\$ 919,788	\$ 833,037
Operating Expense	853,410	817,855
Net Operating Activity	66,378	15,182
Net Nonoperating Activity	182,005	127
Increase in net assets	\$ 248,383	\$ 15,309

OPERATING REVENUES

FY11 operating revenues of \$920 million improved by \$87 million or 10% over FY10. The components of the University's revenues are shown below; additional detail of the improvement follows.



Tuition Income

Total tuition income of \$309 million, including undergraduate, graduate, summer, and professional tuition and fees, increased \$16 million or 6% over FY10. Total tuition income is offset in part by financial aid awarded; the financial aid offset for FY11 was \$121 million, resulting in net tuition of \$188 million or 20% of operating revenues.

The net tuition income of \$188 million increased \$13 million or 8% over FY10, with better-than-budget revenues enhanced by summer programs income.

Sponsored Research Activity

Sponsored research activity includes grant and contract awards for Case Western Reserve University and its affiliates, including the Cleveland Clinic Lerner College of Medicine ("CCLCM").

Grants and contracts received for research and training purposes total \$369 million, including \$100 million in CCLCM awards. The total represents 40% of University operating revenue and increased \$20 million or 6% in FY11. These revenue increases are offset by corresponding operating expenses.

The majority of the increase originated in government sponsored grants and contracts secured by faculty in the

School of Medicine, including a \$12 million increase for research activities conducted by the CCLCM.

Overhead Recovery

The facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was \$80 million or 9% of operating revenue in FY11, an increase of \$4 million or 5% over FY10.

Investment Returns

Total investment returns included in operations of \$105 million, which represents 11% of operating revenue, increased \$16 million or 18% over FY10.

Investment returns includes \$59.9 million in returns from the long-term investment pool, \$32.7 million in returns on operating investments, and \$12.6 million in distributions from funds held by others.

Gifts & Pledges

Gifts & Pledges income was up significantly in FY11. Total income of \$78 million, which represents 9% of operating revenue, increased \$23 million or 43% over FY10.

Auxiliaries

Auxiliary services income of \$49 million, which is 5% of operating revenues, increased \$4 million or 9% over FY10. Auxiliary income is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling \$39 million, or "Other," totaling \$10 million for FY11.

OPERATING EXPENSES

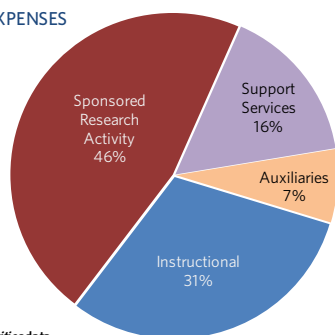
Total expenses of \$853 million increased \$36 million or 4% over FY10. Significant drivers of these increases, including a \$20 million increase in Sponsored Research Activity and a \$4 million increase in Auxiliaries, were offset by corresponding revenue.

Total expenses excluding segments with offsetting revenue increased only 3% over FY10.

Instructional costs of \$261 million, which comprise 31% of operating expenses, increased by \$8 million or 3% over FY10. Included in direct instructional costs are faculty and staff salaries and benefits. Health care costs and expenses associated with the University's medical self-insurance

drove benefit costs up by 10% over FY10, a significant factor behind the increase.

OPERATING EXPENSES
\$853 million



Statement of Activities data

Sponsored Research Activity of \$395 million, representing 46% of operating expenses, increased by \$20 million or 5% over FY10. This amount matches the Grants and Contracts revenue increase for FY11.

Support Services costs of \$135 million, or 16% of operating expenses, including Library, Student Services, and University Services, increased by \$4 million, or 3%, over FY10.

Auxiliaries expenses of \$62 million, which constitute 7% of operating expenses, increased by \$4 million or 6% over FY10. This amount, however, is matched by a corresponding revenue increase.

NON-OPERATING ACTIVITIES

Non-operating activity for FY11 was driven by strong long-term investment returns, resulting in an increase of \$182 million to the University's net assets.

Long-term Investment Activities

Long-term investment activities produced \$234 million of non-operating income in FY11, including \$72 million in investment income and an additional \$162 million in appreciation on investment assets.

Long-term investment gains of \$60 million were distributed for operations in FY11.

Other Non-Operating Activities

Other non-operating activities netted an additional \$8 million in net assets, including changes in liabilities due under life-income agreements and pension plan changes.

CHANGE IN NET ASSETS

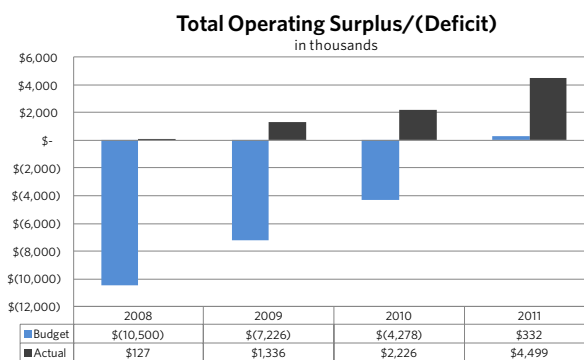
The combined operating and non-operating activities from FY11 led to a contribution of \$248 million to total net assets, a dramatic increase over FY10's net increase of \$15 million.

CHANGE IN NET ASSETS		
(in millions)	2011	2010
Beginning net assets	\$ 1,725,158	\$ 1,709,849
Increase in net assets	248,383	15,309
Ending net assets	\$ 1,973,541	\$ 1,725,158

MANAGEMENT CENTER OPERATING STATEMENT - UNAUDITED

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

The University ended the year with a *Statement of Operations* surplus of \$4.5 million in FY11, compared to a budget of \$0.3 million and a \$2.2 million surplus in FY10.



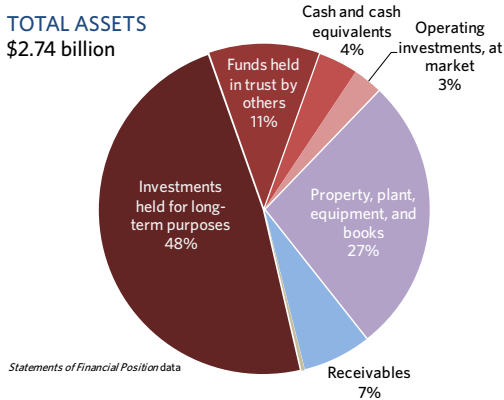
The FY11 operating results were achieved without use of a Board-designated contingency fund of \$8.2 million which will be retained for use in subsequent years.

FINANCIAL POSITION

The University's *Statements of Financial Position* reflect a sizable cash and investment balance of \$1.8 billion with strong investment returns, increased liquidity, and total assets of \$2.7 billion.

ASSETS

Total cash and investments of \$1.8 billion, including cash and cash equivalents, operating investments, long-term investments, and funds held by others, combined are 66% of University assets. It also holds an additional \$745 million or 27% of assets in property, plant, equipment and books. Total assets increased \$228 million or 9% over FY10 to \$2.7 billion.



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

Cash and Cash Equivalents

The University's cash position at June 30 was \$106 million. Cash equivalents include all highly liquid investments with original purchase maturity of 90 days or less and appropriated endowment income which may be spent on demand. FY11 cash and cash equivalents increased by \$3 million.

Operating Investments, at market

In addition to cash and cash equivalents, the University's operations are supported by \$78 million of operational investments. These investments generally have a maturity of greater than 90 days but may be liquidated on demand.

Operating investments were up 21% or \$14 million over FY10 totals.

Investments held for long-term purposes

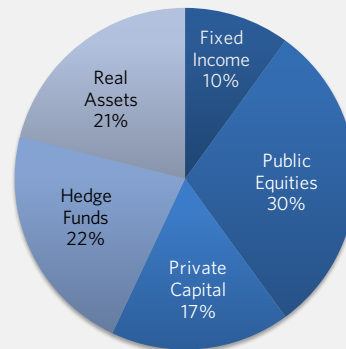
Long-term investments of \$1.32 billion were up \$160 million or 14% from FY10. These funds are internally managed by the University.

Funds Held By Others

Funds held in trust by others of \$298 million increased the asset base by \$42 million in FY11. These externally managed investments produced an annual rate of return of 22% in FY11.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University diligently stewards contributions to provide the greatest impact for future generations. Its pooled endowment investment policy places a priority on active risk-management strategies that seek to protect and grow portfolio value in volatile markets. It is focused more on consistency of investment outcome than on maximizing investment return at any cost. To that end, the University uses inexpensive hedges designed to protect value in falling markets, holds diversified funds, and assigns managers to various asset classes. The overriding goal is to build a portfolio that does well on both an absolute and a relative basis in a variety of economic and inflationary environments – an approach known as outcome-driven investing.



In addition to the investment pool, the University benefits from other significant endowed assets, mostly trusts and deferred gifts. These funds held by others are externally invested and managed. As of June 30, these other assets helped bring the total investments' market value to \$1.697 billion.

LIABILITIES

Total liabilities improved modestly over FY11 to \$767 million, a \$20 million or 3% decrease from FY10 totals.

Retirement Plans

The University provides both defined benefit and defined contribution pension plans for its faculty and staff. Amortization of its overall pension liability improved the University's position by \$9 million for FY11 to total accrued pension liability of \$23 million.

Debt

Scheduled debt service payments made through FY11 decreased liability on notes and bonds payable by \$9 million to \$570 million.

While there is no current plan for new debt, in 2008 the University's Board of Trustees authorized an increase in its commercial paper program to \$90 million, of which \$27 million has not yet been drawn. It is anticipated this balance will be used for bridge financing for strategic capital projects within the next 3 fiscal years.

NET ASSETS

Unrestricted Net Assets

In total, unrestricted net assets of the University increased \$28 million or 15% to \$216 million, with \$16 million resulting from operating activities.

Temporarily Restricted Net Assets

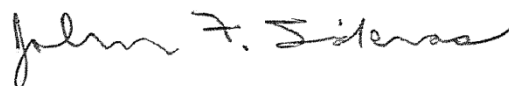
Temporarily restricted net assets increased \$149 million or 20% to \$883 million. The University received \$47 million of new temporarily restricted gifts and pledges in FY11, and benefitted from a \$137 million increase in investment income and appreciation. Offsetting these increases were the \$35 million in assets released from their restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets increased \$71 million or 9% to \$875 million during FY11. The majority of the increase was due to the receipt of \$25 million in new gifts and pledges, and \$47 million in long-term investment gains, offset by \$1 million in other operating activity.

PROSPECTIVE DISCUSSION

The University expects to continue to build on successive years of positive operating results as reflected in its budgeted surplus for fiscal year 2012. Strategic capital projects are supported through restricted gifts and a new \$1 billion dollar campaign will begin in fiscal year 2012. Finally, senior leadership is committed to strengthening the University's financial position through a disciplined and well-executed strategic plan.



John F. Sideras, CPA
Senior Vice President and Chief Financial Officer

SELECTED FINANCIAL AND OTHER DATA *unaudited*

Fiscal Years Ended June 30

	2011	2010	2009	2008
	(in thousands of dollars)			
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS				
Tuition and Fees (net of student aid)	\$ 188,078	\$ 174,927	\$ 167,034	\$ 161,970
Investment Returns	105,188	89,002	93,928	77,498
Grants and Contracts	369,007	349,475	360,395	341,610
Facilities and Administrative cost recovery	79,742	75,705	67,687	64,948
Gifts and Pledges	77,878	54,627	52,492	47,524
Other Sources	50,424	43,784	52,786	61,011
Auxiliary Services	49,449	45,517	46,278	42,964
Total Operating Revenues	\$ 919,788	\$ 833,037	\$ 840,600	\$ 797,525
Instructional Expenses	261,461	253,578	241,929	236,178
Sponsored Research Activity	394,955	375,141	378,006	360,860
Support Services	134,580	130,355	123,402	118,434
Auxiliary Services	62,414	58,781	59,090	59,334
Total Operating Expenses	\$ 853,410	\$ 817,855	\$ 802,427	\$ 774,806
Net Operating Activity	\$ 66,378	\$ 15,182	\$ 38,173	\$ 22,719
Long-term Investment Activities	233,577	76,368	(368,987)	(112,592)
Other non-operating activity	(51,571)	(76,241)	(133,213)	(71,754)
Net Non-Operating activity	\$ 182,005	\$ 127	\$ (502,200)	\$ (184,346)
Increase/(Decrease) in Net Assets	248,383	15,309	(464,027)	(84,129)
Beginning Net Assets	1,725,158	1,709,849	2,173,876	2,258,005
Ending Net Assets	\$ 1,973,541	\$ 1,725,158	\$ 1,709,849	\$ 2,173,876
STATEMENT OF OPERATIONS HIGHLIGHTS (MODIFIED CASH BASIS)				
Tuition	\$ 306,937	\$ 293,140	\$ 278,600	\$ 265,067
Research & Training	336,493	318,024	311,533	305,675
Other Revenue	315,586	292,647	291,624	289,160
Total Revenue	\$ 959,016	\$ 903,811	\$ 881,757	\$ 859,902
Salaries and Benefits	456,199	440,697	423,907	405,351
Non-Salary, Direct	294,226	263,137	265,850	257,532
Indirect Expenses	208,029	199,551	190,653	177,566
Total Expense	\$ 958,454	\$ 903,385	\$ 880,410	\$ 840,449
Operating Surplus	562	426	1,347	19,453
Retained Surplus Contribution/(Use)	(3,937)	(1,800)	11	19,326
Total Surplus	\$ 4,499	\$ 2,226	\$ 1,336	\$ 127
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	\$ 105,900	\$ 102,998	\$ 97,959	\$ 53,090
Operating investments, at market	77,914	64,205		
Receivables	183,870	148,607	158,630	186,227
Investments (held for long-term purposes)*	1,321,428	1,161,596	1,207,168	1,607,277
Funds held in trust by others	297,768	255,729	220,656	300,719
Property, plant, equipment, and books, net of depreciation	745,260	770,248	795,088	801,064
Other assets	8,424	9,258	16,314	28,381
Total assets	\$ 2,740,564	\$ 2,512,641	\$ 2,495,815	\$ 2,976,758
Total liabilities	767,023	787,483	785,966	802,882
Total net assets	\$ 1,973,541	\$ 1,725,158	\$ 1,709,849	\$ 2,173,876
OTHER FINANCIAL INFORMATION				
Total Investments (including FHBO) at year end	\$ 1,697,110	\$ 1,481,530	\$ 1,409,000	\$ 1,784,000
Investments payout in support of operations	72,536	79,106	93,928	77,498
As a % of total expenses	8%	9%	11%	9%
Total gifts and pledges (attainment)	\$ 126,211	\$ 115,529	\$ 108,707	\$ 103,283
Total gifts - cash basis	86,189	80,855	80,073	90,091

* Prior to 2010, "Investments" included both operating investments and investments held for long-term purposes

REPORT OF INDEPENDENT AUDITORS



Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Case Western Reserve University (the "University") as of June 30, 2011, 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 June 30, 2010 consolidated financial statements, and in our report dated October 13, 2010, 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. 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

October 15, 2011

PricewaterhouseCoopers LLP, 200 Public Square, 18th Floor, Cleveland, OH 44114
T: (216) 875 3000, F: (216) 566 7846, www.pwc.com/us

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>In thousands of dollars</i>	For the year ended	
	June 30	
	2011	2010
ASSETS		
Cash and cash equivalents	\$ 105,900	\$ 102,998
Operating investments, at market	77,914	64,205
Accounts and loans receivable, net	121,680	95,945
Pledges receivable, net	62,190	52,662
Prepaid expenses and other assets	8,424	9,258
Investments, held for long-term purposes	1,321,428	1,161,596
Funds held in trust by others	297,768	255,729
Property, plant, equipment and books, net	745,260	770,248
TOTAL ASSETS	\$ 2,740,564	\$ 2,512,641
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 57,834	\$ 57,148
Deferred income and other liabilities	49,416	53,339
Annuities payable	40,623	42,299
Refundable advances	6,503	6,587
Accrued pension liability	22,582	31,902
Notes and bonds payable	570,179	579,298
Refundable federal student loans	19,886	16,910
TOTAL LIABILITIES	\$ 767,023	\$ 787,483
NET ASSETS		
Unrestricted	\$ 215,901	\$ 187,485
Temporarily restricted	883,118	733,784
Permanently restricted	874,522	803,889
TOTAL NET ASSETS	\$ 1,973,541	\$ 1,725,158
TOTAL LIABILITIES AND NET ASSETS	\$ 2,740,564	\$ 2,512,641

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

CONSOLIDATED STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2010

<i>In thousands of dollars</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30	
				2011	2010
OPERATING REVENUES					
Student tuition and fees	\$ 309,499			\$ 309,499	\$ 293,124
Less: Student aid	(121,421)			(121,421)	(118,197)
	188,078			188,078	174,927
Investment returns distributed for operations	59,756		\$ 178	59,934	66,867
FHBO returns distributed	12,070	\$ 532		12,602	12,239
Investment returns on operating investments	32,652			32,652	9,896
Grants and contracts	268,909			268,909	260,945
CCLCM grants and contracts	100,098			100,098	88,530
Gifts & Pledges	6,341	46,589	24,948	77,878	54,627
State of Ohio appropriation	3,262			3,262	3,253
Facilities and administrative cost recovery	79,742			79,742	75,705
Organized activities	11,395			11,395	11,180
Other sources	34,894		895	35,789	29,351
Auxiliary services - students	38,742			38,742	37,804
Auxiliary services - other	10,707			10,707	7,713
Net assets released from restrictions	23,020	(20,988)	(2,032)	-	-
TOTAL OPERATING REVENUES	\$ 869,666	\$ 26,133	\$ 23,989	\$ 919,788	\$ 833,037
OPERATING EXPENSES					
Instructional	261,461			261,461	253,578
Sponsored research and training	267,767			267,767	258,420
Other sponsored projects	27,090			27,090	28,191
CCLCM research and training	100,098			100,098	88,530
Libraries	22,122			22,122	21,416
Student services	21,886			21,886	20,356
University services	90,572			90,572	88,583
Auxiliary services - students	50,482			50,482	45,729
Auxiliary services - other	11,932			11,932	13,052
TOTAL OPERATING EXPENSES	\$ 853,410	-	-	\$ 853,410	\$ 817,855
NET OPERATING ACTIVITY	\$ 16,256	\$ 26,133	\$ 23,989	\$ 66,378	\$ 15,182
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment income	\$ 47,093	24,320	177	\$ 71,590	\$ 39,024
Net appreciation	2,089	112,744	47,154	161,987	37,344
Total long-term investment activities	49,182	137,064	47,331	233,577	76,368
Long-term investment income and gains distributed for operations	(59,756)	-	(178)	(59,934)	(66,867)
Change in liabilities due under life-income agreements			(2,315)	(2,315)	(3,782)
Loss on disposal of plant assets	(6)			(6)	(162)
Pension plan changes other than periodic benefit costs	10,390			10,390	(2,317)
Other non-operating activity	293	-	-	293	(3,113)
Net assets released from restrictions	12,057	(13,863)	1,806	-	-
NET NON-OPERATING ACTIVITY	\$ 12,160	\$ 123,201	\$ 46,644	\$ 182,005	\$ 127
INCREASE IN NET ASSETS	\$ 28,416	\$ 149,334	\$ 70,633	\$ 248,383	\$ 15,309
Beginning Net Assets	187,485	733,784	803,889	1,725,158	1,709,849
ENDING NET ASSETS	\$ 215,901	\$ 883,118	\$ 874,522	\$ 1,973,541	\$ 1,725,158

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands of dollars</i>	For the year ended	
	June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 248,383	\$ 15,309
<i>Adjustments to reconcile change in net assets to net cash used for operating activities:</i>		
Depreciation	65,364	64,406
Amortization of bond issuance costs	128	98
Amortization of bond premiums	(732)	(710)
Net unrealized appreciation in the fair market value of investments	(119,688)	(37,343)
Realized gains on investments	(96,276)	(41,963)
Increase to annuities payable resulting from actuarial adjustments	2,315	6,130
Gifts of property and equipment	(495)	-
Receipt of contributed securities	(3,731)	(3,732)
Loss on disposal of plant assets	6	162
Contributions restricted for long-term investment	(18,840)	(27,028)
(Increase) decrease in accounts and loans receivable, net	(24,769)	12,269
Increase in pledges receivable, net	(9,528)	(1,314)
Decrease in prepaid expenses and other assets	706	6,156
Increase in funds held in trust by others	(42,039)	(35,073)
Increase (decrease) in accounts payable and accrued expenses	584	(2,078)
(Decrease) increase in deferred income and other liabilities	(3,923)	6,092
Decrease in refundable advances	(85)	(1,529)
(Decrease) increase in accrued pension liability	(9,320)	6,340
NET CASH USED FOR OPERATING ACTIVITIES	\$ (11,940)	\$ (33,808)
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	\$ 6,274	\$ 5,870
Issued	(7,240)	(6,802)
Proceeds from the sale of investments	2,962,458	1,742,302
Purchase of investments	(2,916,302)	(1,677,897)
Proceeds from the sale of plant assets	2,126	217
Purchases of property, plant, equipment and books	(41,912)	(39,143)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 5,404	\$ 24,547
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in federal advances for student loans	\$ 2,976	\$ 478
Contributions restricted for long-term investment	18,840	27,028
Proceeds from bond issues and long-term debt	1,452	2,361
Repayment of notes and bonds payable	(9,839)	(11,569)
Increase to annuities payable resulting from new gifts	1,258	965
Decrease to annuities payable resulting from payments	(5,249)	(4,963)
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 9,438	\$ 14,300
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 2,902	\$ 5,039
Cash and cash equivalents, beginning of year	102,998	97,959
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 105,900	\$ 102,998
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Construction in progress payments included in accounts payable	\$ 2,000	\$ 1,899

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Case Western Reserve University (the "University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2011, and for the year then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

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

Net Asset Categories

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

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

- All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts, investment returns on unrestricted funds designated to function as endowment, recovery of facility and administrative costs from grants and contracts, and auxiliary services revenues.
- Revenues related to sponsored research and other sponsored program agreements which are considered exchange transactions.

- Unrestricted funds functioning similar to endowment and related investment returns.
- Gifts with donor-imposed restrictions, if the restriction is anticipated to be met within the current fiscal year of the University.
- Investments in plant assets.
- All expenses of the University.

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

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

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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 958, "Not for Profit Entities," in August 2008. The standard provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and expands disclosures about an organization's endowment (both donor restricted and board designated funds). The University's Board of Trustees ("Board") has interpreted UPMIFA as requiring

the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Contributions

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

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

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

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

Beginning in fiscal 2011, the University invested excess operating funds and certain board designated funds with the University's investment pool. The operating funds were unitized and received a pro-rata portion of income, expenses, gains, and losses within the pool.

Cash and Cash Equivalents

The University considers all highly liquid investments with an original maturity of 90 days or less when purchased as cash and cash equivalents, except those amounts managed by investment managers as part of the investment pool that do not belong to operations, or unspent bond proceeds, which are classified as investments.

Operating Investments, at Market

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

Investments

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

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

The fair value of all debt and equity securities with readily determinable fair 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.

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

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

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

sources including market participants, dealers and brokers.

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

Collections

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

Funds Held in Trust by Others

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2011 and 2010, which approximates the present value of the future income flows from these funds.

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

Asset Retirement Obligations

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

Allocation of Certain Expenses

The consolidated statement of activities presents expenses by function. Some expenses — such as

depreciation, amortization, and expenses related to the operation of the physical plant — are allocated by square footage. Interest expense is allocated to the functions that derive the greatest benefit from the facilities financed.

Retirement Plans

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

Use of Estimates

Financial statements using accounting principles generally accepted in the United States of America rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of 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, 2010, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c)(3) of the Internal Revenue Code. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code because it is described in sections 509(a)(1) and 170(b)(1)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax, however; it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2011 and 2010. ASC 740, “Income Taxes,” prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification and disclosure requirements for uncertain tax provisions. The University has no financial reporting requirements associated with ASC 740 for the years ended June 30, 2011 and 2010.

Reclassifications

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2011 and 2010, in thousands of dollars, were as follows:

	2011	2010
Accounts receivable, net		
Grants, contracts and others	\$ 69,051	\$ 43,502
Students	2,697	2,852
Student loans, net	49,932	49,591
ACCOUNTS AND LOANS RECEIVABLE, NET	\$ 121,680	\$ 95,945
Allowances for doubtful accounts:		
Accounts receivable	\$ 3,322	\$ 3,437
Loans receivable	\$ 1,751	\$ 1,432

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

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

Considering the other factors already discussed herein, management considers the allowance for doubtful accounts losses to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows.

Unconditional promises to give at June 30, 2011 and 2010, are expected to be realized in the following periods:

	2011	2010
In one year or less	\$ 9,327	\$ 8,834
Between one year and five years	45,567	35,213
More than five years	18,521	17,205
	73,415	61,252
Less: Discount	(7,584)	(5,460)
Less: Allowance	(3,641)	(3,130)
PLEDGES RECEIVABLE, NET	\$ 62,190	\$ 52,662

Management follows a similar approach as described in Note 3 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts losses to be prudent and reasonable. Management believes that the allowance for

doubtful accounts at June 30, 2011 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2011 and 2010, had the following restrictions:

	2011	2010
Department programs and activities	\$ 26,011	\$ 25,111
Endowments for scholarships and department programs and activities	17,337	14,606
Building construction	18,842	12,945
PLEDGES RECEIVABLE, NET	\$ 62,190	\$ 52,662

Pledges have been discounted at the market rate. Uncollectible pledges totaling \$2,314 (2011) and \$2,415 (2010) were written off against the allowance for uncollectible pledges.

The University had conditional pledge commitments totaling \$40,891 (2011) and \$27,152 (2010).

4. LONG TERM INVESTMENTS

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

through traditional investments as well as operating an investment pool that works similar to a mutual fund (see note 6). The University's long term investments at June 30, 2011 and 2010, were as follows:

	2011	2010
Operating investments, at market	\$ 77,914	\$ 64,205
Investments, held for long term	1,321,428	1,161,596
TOTAL INVESTMENTS	\$ 1,399,342	\$ 1,225,801

	2011		2010	
	Fair Market Value	Cost	Fair Market Value	Cost
Cash & cash equivalents	\$ 207,530	\$ 207,530	\$ 158,868	\$ 158,868
Certificates of deposit	-	-	6,000	6,000
Domestic stocks	56,716	50,620	26,132	27,985
International securities	41,686	39,679	29,734	31,313
Bonds				
Government and municipal	13,816	13,800	25,865	25,801
Corporate	30,164	29,976	16,795	16,124
Mutual funds	186,435	165,662	252,192	235,489
Derivatives	1,150	339	(21,624)	8,406
Limited partnerships and other				
Venture capital	77,945	62,613	65,841	58,053
Private equity	278,205	243,226	226,315	225,390
Hedge funds	359,101	284,324	321,210	276,342
Other	44,244	38,577	27,647	19,031
Equity real estate	102,350	114,621	90,826	108,885
TOTAL INVESTMENTS	\$ 1,399,342	\$ 1,250,967	\$ 1,225,801	\$ 1,197,687

The investments were held for the following purposes:

	2011	2010
Endowment	\$ 964,548	\$ 886,588
Donor restricted funds	295,186	214,852
University investments	78,661	67,209
Annuities	52,673	49,211
Funds held for the benefit of others	7,971	7,649
Agency funds	303	292
INVESTMENTS	\$ 1,399,342	\$ 1,225,801

5. ENDOWMENT AND SIMILAR FUNDS

Endowment Funds

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

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). UPMIFA stipulates that unless directed otherwise in the gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. Accordingly, the following items are recorded as permanently restricted net assets:

- The original value of initial gifts donated to the permanent endowment.
- The original value of subsequent gifts to the permanent endowment.
- For those endowment funds with donor-specified reinvestment provisions, accumulations to the

permanent endowment made in accordance with the gift instrument at the time the accumulation is added to the fund.

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

Similar Funds

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
Donor restricted endowment funds	\$ (8,018)	\$ 514,300	\$ 510,100	\$ 1,016,382	\$ 887,281
Donor temporarily restricted funds	-	283,637	-	283,637	266,874
ENDOWMENT AND SIMILAR FUNDS	\$ (8,018)	\$ 797,937	\$ 510,100	\$ 1,300,019	\$ 1,154,155

Investment Pool

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

from endowed and similar assets and to mitigate downturns in a single sector.

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

A unit market value for the pool is used to account for pooled transactions. The unit market values are \$41.68 (2011) and \$36.42 (2010). The total investment return for the pooled investments, net of external manager fees, approximated 18.82% (2011) and 7.19% (2010).

Spending Policy

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

- A constant growth component seeks to provide growth in annual spending equal to the rate of academic inflation as measured by the Higher Education Price Index.
- A market value component based on 5% of the average of the three previous calendar year-end market values.

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves the operating budget for the following year. The fiscal 2011 pooled endowment and similar funds spending allocation was \$2.015 per unit totaling \$63,846. For fiscal 2010, pooled endowment and similar funds spending allocation was \$2.160 per unit totaling \$69,536.

While the policy provides guidance for the level of spending permitted (allocation), the actual spending will vary from the spending allocation based on the timing of actual expenditures. Funds are transferred from the investment pool to the University's operating account after they have been spent in accordance with the

endowment and similar funds requirements. The physical movement of cash and investments between the investment pool and operating accounts occurs on a periodic basis as determined by the University and its process to maintain the proper balance between liquidity and remaining invested.

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. The fiscal 2011 pooled endowment and similar funds distribution was funded from current year investment income. For fiscal 2010, pooled endowment and similar funds distribution was funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled \$7,900 (2011) and \$7,869 (2010).

Changes in endowment and similar funds net assets for fiscal year 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
Endowment and similar funds net assets, beginning of year	\$ (13,601)	\$ 678,500	\$ 489,256	\$ 1,154,155	\$ 1,150,122
Investment income	-	16,078	178	16,256	10,301
Realized and unrealized gains	-	182,702	-	182,702	64,052
TOTAL INVESTMENT RETURN	-	198,780	178	198,958	74,353
Contributions	-	2,730	20,666	23,396	11,149
Current year withdrawals	-	(6,532)	-	(6,532)	(6,525)
Current year expenditures	-	(69,958)	-	(69,958)	(74,944)
Recovery of prior year deficits of underwater endowments	5,583	(5,583)	-	-	-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR	\$ (8,018)	\$ 797,937	\$ 510,100	\$ 1,300,019	\$ 1,154,155

Occasionally, the fair market 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-restricted funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$8,018 (2011) and \$13,601 (2010). These deficits resulted from unfavorable market fluctuations that occurred after the

investment of recently established endowments, and authorized appropriation that was deemed prudent. Of the amount classified as temporarily restricted endowment net assets, \$514,300 (2011) and \$411,626 (2010) represents the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

6. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2011 by the ASC 820 valuation hierarchy are as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	\$ 48,432	\$ 159,098	\$ -	\$ 207,530
Certificates of deposit	-	-	-	-
Domestic stocks	28,928	11,263	16,525	56,716
International securities	96	31,037	10,553	41,686
Bonds				
Government and municipal	5	13,811	-	13,816
Corporate	4,956	25,208	-	30,164
Mutual funds	156,791	29,488	156	186,435
Derivatives	-	1,150	-	1,150
Limited partnerships and other				
Venture capital	-	-	77,945	77,945
Private equity	-	-	278,205	278,205
Hedge funds	-	101,289	257,812	359,101
Other	146	74	44,024	44,244
Equity real estate	213	-	102,137	102,350
INVESTMENTS	\$ 239,567	\$ 372,418	\$ 787,357	\$ 1,399,342
FUNDS HELD IN TRUST BY OTHERS	-	-	\$ 297,768	\$ 297,768
PENSION PLAN ASSETS (Note 9)				
Cash & cash equivalents	\$ 1,759	\$ -	\$ -	\$ 1,759
Mutual funds	42,619	-	-	42,619
Limited partnerships and other				
Hedge funds	-	-	53,358	53,358
Other	-	-	2,215	2,215
Equity real estate	-	-	4,334	4,334
PENSION PLAN ASSETS (Note 9)	\$ 44,378	\$ -	\$ 59,907	\$ 104,285
ASSETS AT FAIR MARKET VALUE	\$ 283,945	\$ 372,418	\$ 1,145,032	\$ 1,801,395
Interest rate swaps payable	\$ -	\$ 20,571	\$ -	\$ 20,571
LIABILITIES AT FAIR MARKET VALUE	\$ -	\$ 20,571	\$ -	\$ 20,571

Level 2 Investment Information

Investments included in Level 2 consist primarily of the University's ownership in assets through "fund of funds" investments. In these types of arrangements, the University invests in investment pools or mutual fund type arrangements through banks, dealers, brokers and other intermediaries. While the asset value of the direct investments in the pool or mutual fund is not published, the underlying investments within those funds are observable and obtained through the fund in which the University invests.

Level 3 Investment Information

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

- The value of certain alternative investments represents the ownership interest in the net asset value of the respective partnership.

- The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner based on appraisals or other estimates that require varying degrees of judgment.
- If no public market 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.

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

	Mutual Funds & Domestic Stocks	Cash & Derivatives	Int'l Securities	Venture Capital	Private Equity	Hedge Funds	Equity Real Estate	Other & Funds Held by Others	Total
Beginning balance, July 1, 2010	\$ 15,160	\$ 2,743	\$ -	\$ 65,841	\$ 226,315	\$ 302,678	\$ 92,902	\$ 283,746	\$ 989,385
Realized gains (losses) and investment income	6,324	4,727	-	3,007	28,244	(3,487)	(580)	712	38,947
Unrealized gains (losses)	2,034	165	553	7,545	33,481	39,188	6,332	39,091	128,389
Net purchases, issuances and settlements	3,562	(7,635)	10,000	1,552	(9,835)	50,125	7,817	20,493	76,079
Transfers out of Level 3	(10,399)	-	-	-	-	(77,334)	-	(35)	(87,768)
ENDING BALANCE, JUNE 30, 2011	\$ 16,681	\$ -	\$ 10,553	\$ 77,945	\$ 278,205	\$ 311,170	\$ 106,471	\$ 344,007	\$1,145,032

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

The pricing inputs and methods described above could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

As a practical matter, the University is permitted under U.S. generally accepted accounting principles ("US GAAP") to estimate the fair value of an investment at the measurement date using the reported net asset value

("NAV") without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real estate and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV

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

at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

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

Category	Fair Market Value	Unfunded Commitments	Redemption Frequency	Notice Period
Limited partnerships and other				
Venture capital (a)	\$ 77,945	\$ 25,252	n/a	
Private equity (b)	278,205	59,079	n/a	
Hedge funds (c)	257,812	-	varies	30 - 60 days
Other (d)	44,024	40,855	n/a	
Equity real estate (e)	102,137	46,933	n/a	
LEVEL 3 UNFUNDED COMMITMENTS	\$ 760,123	\$ 172,119		

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

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

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

(d) **Other** includes various direct private investments as well as private funds that do not fall within the other categories listed. Examples would include an Eastern Europe agriculture fund, some private U.S. oil and gas partnerships and various stakes in local private organizations. For the funds, the valuations have been estimated using manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying portfolio companies are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-10 years.

(e) **Equity real estate** includes private real estate funds that invest primarily in the United States. Some of these private partnerships also make investments internationally, primarily in Europe, India and Brazil. The private funds make investments in various real estate types, such as office, industrial, retail and multi-family properties. The valuations for these investments have been estimated using the

manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying properties are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 5-7 years

Derivative Information

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

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

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

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

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

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

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

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

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

Commodity risk - refers to the uncertainties of future market values and the size of future income caused by

fluctuation in the prices of commodities (energy, agricultural, precious and industrial metals) due to demand/supply imbalances.

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

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

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

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

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

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

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

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

Futures: An Equity Index Future is a standardized obligation to buy or sell a market index, at a certain date in the future (settlement date), at a specified price (futures price). Equity Index Futures are typically cash-settled. Trading Medium: Exchange A single clearing house (e.g., Options Clearing Corporation, for the Chicago Board Options Exchange) is the counterparty to both parties involved in the contract. Futures trade a premium or discount to the cash index level based on the

following theoretical formula: Futures Fair Value = Cash Index Value + Expected Interest Income prior to contract expiry - Expected Dividend Income prior to contract expiry - Expected Lending Income prior to contract expiration. The value of a futures contract converges to that of the underlying index at expiration. The investor posts an initial margin and a maintenance margin which represents a small portion of the overall notional value (usually 12%-18% of the notional value). Collateral between the counterparties is exchanged daily based on the mark to market performance of the futures contract. Used to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side. Used primarily as a manager replacement strategy.

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

Options: Options or Option structures are non-standardized agreements whereby one party makes periodic cash payments based on a set rate (e.g., LIBOR)

while another party makes periodic cash payments based upon a predefined, linear or non-linear payoff profile based on an individual option or a combination of individual options. Trading Medium: Over-The-Counter (OTC). Transacted via ISDA/CSA agreement between counterparties. Subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Options/Option structures allow investors to customize the risk/return profile of existing portfolios. For example: Investors who are underweight equities and have a moderately positive outlook can obtain enhanced equity exposure by capping returns with or without a leveraged payoff. More bearish investors can opt for downside protection to reduce risk. Collateral between the counterparties is exchanged daily based on the mark to market performance of the Option or Option

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

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

Location	Derivative Type	Notional Amount	2011		
			Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments					
	Total return swaps	\$ 32,230	\$ -	\$ (19)	\$ -
	Options (over-the-counter)	383,094	-	1,169	-
DERIVATIVES, 2011			\$ -	\$ 1,150	\$ -

Location	Derivative Type	Notional Amount	2010		
			Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments					
	Total return swaps	\$ 109,972	\$ -	\$ (7,766)	\$ (166)
	Interest rate swaps	74,811	-	(73)	-
	Options (over-the-counter)	222,598	268	(13,887)	-
DERIVATIVES, 2010			\$ 268	\$ (21,726)	\$ (166)

The following table provides detailed information on the effect the derivatives had on the overall performance of

the investment portfolio which is reflected in the consolidated statement of activities:

Location	Derivative Type	2011	2010
Investment Income			
	Options (over the counter)	\$ 48,254	\$ 38,328
	Futures contracts	27,029	(8,188)
		\$ 75,283	\$ 30,140
Unrealized gains (losses)			
	Options (over the counter)	\$ (1,133)	\$ (19,068)
	Total return swaps	230	(10,962)
		\$ (903)	\$ (30,030)
EFFECT OF DERIVATIVES		\$ 74,380	\$ 110

7. PROPERTY, PLANT, EQUIPMENT, AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 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:

	2011	2010
Land and land improvements	\$ 38,875	\$ 39,009
Building and building improvements	1,129,256	1,087,177
Equipment and software	284,847	266,510
Library books	35,865	34,303
Construction-in-progress	7,898	37,011
	<u>1,496,741</u>	<u>1,464,010</u>
Less: accumulated depreciation	(751,481)	(693,762)
PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	\$ 745,260	\$ 770,248

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 consolidated financial statements is the obligation for related bonds issued by the OHEFC.

8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate	Maturity	2011	2010
Ohio Higher Education Facility Commission revenue notes and bonds:	Series 1988	7.85 - 7.90%	2011-2013	\$ 17,821	\$ 22,899
	Series 1990	6.50 - 7.13%	2011-2020	11,650	11,650
	Series 1994	6.00 - 6.25%	2014-2018	20,000	20,000
	Series 1997	4.90 - 6.25%	2011-2014	6,525	7,785
	Series 2001	Variable	2011-2022	12,615	12,975
	Series 2002A	Variable	2023-2031	64,875	64,875
	Series 2004A	3.625 - 5.00%	2016-2034	75,670	75,670
	Series 2006	3.75 - 5.25%	2012-2044	82,490	82,490
	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	50,490	50,490
U.S. Government housing bonds:	Series 1966	3.00 - 3.50%	2011-2016	665	690
	Series 1971	3.00%	2011-2016	535	785
Ohio Higher Education Facility Commission commercial paper:		.25 - .43%	not to exceed 270 days	63,000	63,000
Ohio Higher Education Facility Commission capital lease:		6.75%	2011-2018	543	614
		4.12%	2011-2018	5,890	6,548
Compass Group USA, Inc.		-n/a-	2011-2019	2,850	3,300
HUD Loan:	Part A	4.96%	2011-2041	12,268	12,448
	Part B	5.33%	2011-2041	4,224	4,280
LIABILITY				559,611	567,999
Unamortized Bond Premium					
Ohio Higher Education Facility Commission:	Series 2004A			1,860	2,017
	Series 2006			6,909	7,314
	Series 2008C			1,799	1,968
UNAMORTIZED BOND PREMIUM				10,568	11,299
NOTES AND BONDS PAYABLE				\$ 570,179	\$ 579,298

The fair market value of the University's notes and bonds payable is approximately \$575,020 (2011) and \$589,298 (2010). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

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

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. The annualized interest cost for this program was .34% (2011) and .38% (2010).

Year	Scheduled Principal Payments	Outstanding VRDO's	Maximum Principal Payments
2012	\$ 9,989	\$ 64,748	\$ 74,737
2013	10,983	96,248	107,231
2014	10,805	48,998	59,803
2015	11,820	28,998	40,818
2016	12,658	28,998	41,656
Thereafter	503,356	(267,990)	235,366
TOTAL	\$ 559,611	\$ -	\$ 559,611

The University has total revolving lines of credit in the amount of \$60,000 with two financial institutions of \$30,000 each to finance working capital. Both lines are subject to review and renewal annually. There were no amounts outstanding at June 30, 2011.

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 \$1,284 (2011) and \$1,355 (2010).

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

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 obligations ("VRDO's") and commercial paper if they cannot be remarketed. Outstanding VRDO's in the above table represent amounts payable in the event that bonds are tendered but not successfully remarketed.

Interest payments for fiscal year 2011, including payments for variable rate debt, were \$15,334. Interest payments under interest rate swap agreements during fiscal 2011 totaled \$6,038. 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, 2011.

9. RETIREMENT PLANS

The University has both defined benefit and defined contribution pension plans for its employees. In accordance with provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), 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:

	2011	2010
Benefit obligation at June 30	\$ 126,867	\$ 118,267
Fair value of plan assets at June 30	104,285	86,365
FUNDED STATUS AT JUNE 30	\$ (22,582)	\$ (31,902)
Accumulated benefit obligation	\$ 125,983	\$ 117,137

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

	2011	2010
Net periodic benefit cost	\$ 5,486	\$ 4,023
Employer contributions	4,416	442
Benefits paid	5,192	3,128

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

Fiscal 2012	\$ 4,865
Fiscal 2013	\$ 5,036
Fiscal 2014	\$ 5,677
Fiscal 2015	\$ 5,291
Fiscal 2016	\$ 6,208

Amounts expected to be paid between 2017 and 2021 total \$39,153. The University's estimated employer contribution for the defined benefit plan in fiscal 2012 will depend on the results of the July 1, 2011 actuarial valuation.

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

	2011	2010
BENEFIT OBLIGATION		
Discount rate	6.00%	6.25%
Rate of compensation increase	4.25%	4.25%
Measurement date	6/30/11	6/30/10
Census date	7/1/10	7/1/09
NET PERIODIC BENEFIT COST		
Discount rate	6.25%	6.50%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.25%	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:

	2011	2010
Equity securities	63.00%	62.00%
Fixed income securities	31.00%	33.00%
Real estate	4.00%	3.00%
Other	2.00%	2.00%
ASSET ALLOCATION	100.00%	100.00%

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

	2011	2010
STATEMENT OF FINANCIAL POSITION		
NET BALANCE SHEET LIABILITY	\$ (22,582)	\$ (31,902)
UNRESTRICTED NET ASSETS		
Prior service costs	\$ 398	\$ 684
Actuarial losses	27,662	37,766
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	\$ 28,060	\$ 38,450

The estimated amortization of prior year service costs expected in fiscal 2012 totals \$336.

Components of the net periodic benefit cost and other changes in plan assets that are recognized in the consolidated statement of activities for fiscal year 2011 are as follows:

Change in actuarial losses	\$ (10,104)
Amortization of prior service cost	(286)
TOTAL GAIN RECOGNIZED, UNRESTRICTED NET ASSETS	(10,390)
Net periodic benefit cost	5,486
Employer contributions	(4,416)
TOTAL GAIN RECOGNIZED, STATEMENT OF ACTIVITIES	\$ (9,320)

Benefit plan costs for the defined contribution plan are \$18,833 (2011) and \$18,494 (2010).

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 \$100,098 (2011) and \$88,530 (2010).

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 \$16,762.

11. RELATED PARTY TRANSACTION

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University

buildings. The amounts purchased were \$23,108 (2011) and \$23,412 (2010). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

operating revenues and expenses as investment and other income.

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an external swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models

based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy.

At June 30, 2011 the University has six interest rate swap agreements to exchange variable-rate debt for fixed-rate obligations without the exchange of the underlying principal amount. Net payments or receipts under the swap agreements are recorded as adjustments to investment and other income and the incremental expense is disclosed in the table below. Under two agreements in effect at June 30, 2011, the counterparty

pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rates (LIBOR). The following table provides detailed information on the interest rate swaps at June 30, 2011, with comparative fair values for June 30, 2010. The number of swaps is reported based on notional amount. Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the consolidated statements of financial position are as follows:

Notional Amount	Interest Rate	Commencement	Termination Date	Basis	2011	2010
					Level 2 Fair Value	Market Value
\$ 12,615	4.34%	Aug. 12, 2004	Oct.1, 2022	LIBOR	\$ (1,507)	\$ (2,331)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	(2,945)	(3,509)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	(1,799)	(2,237)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	(5,615)	(7,717)
100,000	3.37%	Jan. 2, 2007	Jan. 1, 2012	SIFMA	(1,850)	(4,336)
100,000	3.37%	Jan. 1, 2012	Jan. 1, 2017	SIFMA	(6,855)	(4,708)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					\$ (20,571)	\$ (24,838)

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income. The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than \$20,000. The University had placed \$2,472 (2011) and \$4,767 (2010) into such a fund, which is

shown in Cash and cash equivalents on the consolidated statements of financial position.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was \$6,038 in 2011 and \$6,041 in 2010.

13. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 15, 2011, the date on which the consolidated financial statements were issued.

