# 2023 FINANCIAL REPORT

CASE WESTERN RESERVE
UNIVERSITY

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

# DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University (the "University") achieved a new record level of applicants during Fiscal Year 2023 ("FY23") and welcomed 1,553 first year students. Net operating activity was $76 million on a Generally Accepted Accounting Principles ("GAAP") basis. Operating results yielded a $17.0 million operating surplus after reserves and contingencies on the modified cash basis.

## FY23 FINANCIAL HIGHLIGHTS

**Statement of Activities – (GAAP Basis)**

The University's management of its resources produced a net operating activity of $76 million, or a 6.0% operating margin as reflected in the *Statement of Activities* on a GAAP Basis.

Research grants, contracts and related cost recovery continued to grow to $525 million, an increase of $53 million or 11% over FY22. Student auxiliary services increased by $11 million to $83 million. Operating investment returns grew to $37 million in FY23 from $7 million in FY22. Overall, the net operating activity was $76 million, or a 6.0% margin.

**Statement of Operations – Modified Cash Basis**

The FY23 operating surplus was $17.0 million, an 18% increase over FY22. This surplus is higher than the FY23 operating budget, driven by revenue increases in tuition and research. Overall, the University's operating results were better than expected, and $7.5 million was able to be reserved for strategic investments.

The FY23 operating budget maintained the University's disciplined expense management approach. The budget reflected a planned surplus of $14.3 million and included an enhanced 8% salary pool increase and focused strategic investments.

During FY23 sponsored research activity continued to increase and research-related revenue grew by 11%.

**Other Financial Activity**

The University issued $116 million in taxable debt for the construction of new residence halls at 3.3% over 30 years. Cash and cash equivalents remain strong at $353 million. Operating investments grew $313 million to $574 million, and total assets are $4.3 billion. Pension liabilities declined by $9 million to $52 million. Financial ratios continue to reflect the strength and stability of Ohio's largest private research university.

The University maintains a sizable long term investment pool, primarily endowment funds (See *financial statement footnote 7 – Endowment and Similar Funds*). The valuation date of June 30 measures fair market value of the investments each year. At June 30, 2023, the fair market value was $1.96 billion, including an annual return of 7.0%. The 2022 return was (5.7)%.

The University has generated positive net operating activity and a positive operating surplus for 16 consecutive years. See *Selected Financial Data* on page 7 for more information.

The FY24 operating budget includes a 6% salary pool increase to attract and retain faculty and staff. The FY24 budget reflects a planned surplus of $17.0 million and the emphasis remains on focused strategic investment and unrestricted expense management.

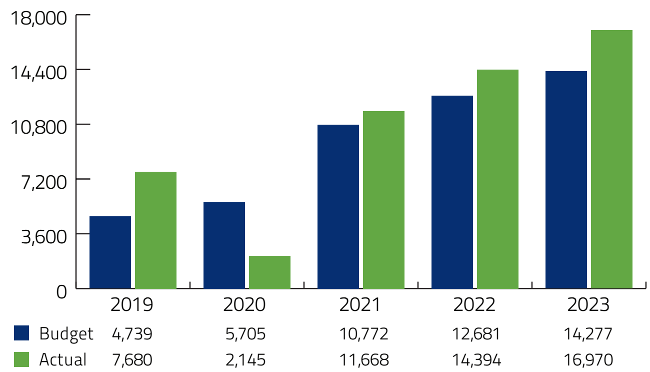
Following are additional comments related to the University's operations and financial results, with *Selected Financial Data* shown on page 7.

# STATEMENT OF OPERATIONS *unaudited*

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

The University produced a total surplus of $17.0 million in FY23, compared to a budgeted surplus of $14.3 million and a $14.4 million surplus in FY22. FY23 marked the sixteenth consecutive year of positive operating results.

**UNIVERSITY SURPLUS**
in thousands of dollars




The FY23 operating results reflect increases in all revenue categories offset by corresponding increases in direct and indirect expenses.

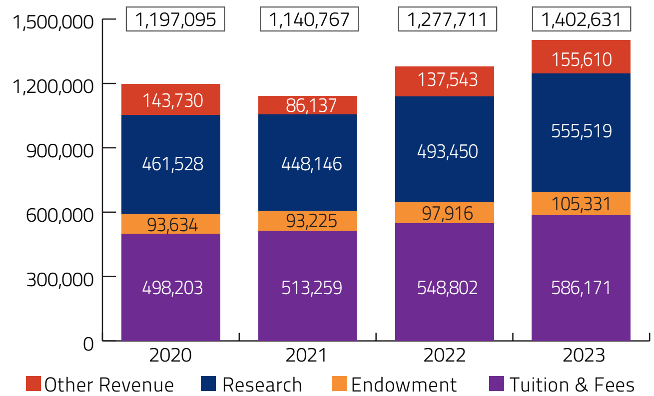
## MANAGEMENT CENTER OPERATING REVENUES

Operating revenues are classified in four categories: Tuition and Fees, Endowment, Research, and Other Revenue. The University reported $1.403 billion in total revenue, a $125 million or 10% increase over FY22.

Gross tuition and fees revenue was $586 million, a $37 million or 7% increase over FY22. Gross undergraduate tuition was $327 million, a $41 million or 14% increase over FY22. The increase is the result of a 5.0% undergraduate rate increase and a 4% increase in undergraduate enrollment. Professional and graduate program gross tuition, along with summer programs and fees, of $259 million, reflects a $4 million decrease from FY22.

Endowment revenue increased 8%. Research revenues (Research & Training, Overhead Recovery, and Restricted Gifts) were $556 million, a $62 million or 13% increase over FY22.

**OPERATING REVENUE**
in thousands of dollars

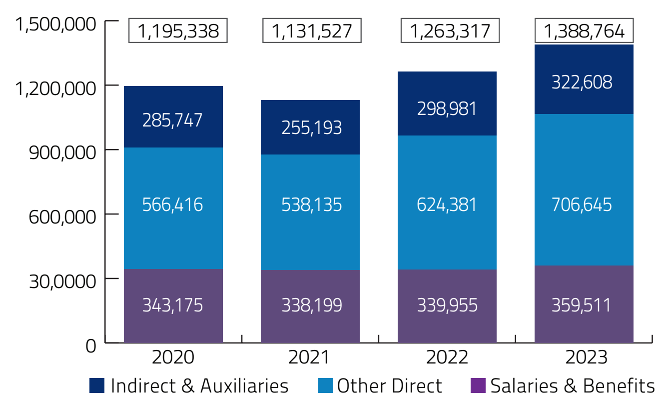



Other revenue was $156 million, an increase of $18 million or 13% over FY22. The increase was primarily $5 million in Auxiliaries and $10 million in Other Income.

## MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $1.389 billion, a $125 million or 10% increase over FY22. Expenses are categorized as Salaries and Benefits, Other Direct, Indirect and Auxiliaries.

**OPERATING EXPENSES**
in thousands of dollars




Salaries and benefits were $360 million, a $20 million or 6% increase over FY22. Other direct expense was $707 million, an $82 million or 13% increase over FY22. Indirect expense and auxiliaries were $323 million, a $24 million or 8% increase over FY22.

# STATEMENT OF ACTIVITIES AND OTHER SUPPORT

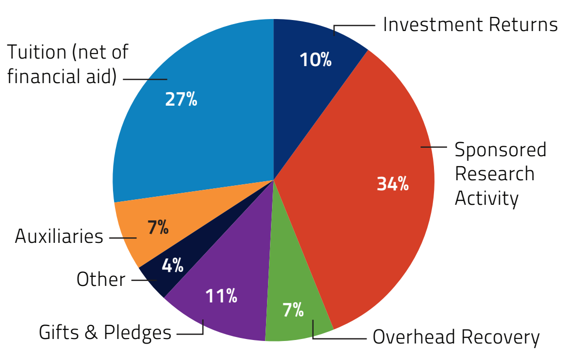
The *Statement of Activities* (GAAP Basis) includes results from the University's operating and non-operating activities which produced a $165 million increase in net assets. Net operating activity contributed $76 million to net assets while net long-term investments activities increased net assets by $147 million. In FY22, operating activity contributed $84 million to net assets.

## OPERATING REVENUES AND OTHER SUPPORT

Total operating revenues and other support were $1.262 billion, an increase of $130 million or 11% over FY22. The components of the University's revenues are shown below and additional detail of operating revenue follows.

**OPERATING REVENUES AND OTHER SUPPORT**

1.262 billion




*Statement of Activities data*

### Tuition income

Gross tuition income of $602 million increased $30 million or 5% over FY22, and includes fees and undergraduate, graduate, summer, and professional tuition. Gross tuition income is offset in part by financial aid awarded; the financial aid offset for FY23 was $265 million, resulting in net tuition of $337 million, or 27% of operating revenues.

The net tuition and fees income of $337 million represents a $7 million or 2% increase over FY22, with increased revenues generated primarily by an increase in tuition rates.

### Investment returns

Investment returns included $73 million in returns distributed from the long-term investment pool, $37 million in returns on operating investments, and $16 million in distributions from funds held in trust by others ("FHBO") for endowment spending. Investment returns, which represent 10% of operating revenues, totaled $126 million, or a 37% increase over FY22.

### Grants and contracts

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

Grants and contracts received for research and training purposes totaled $434 million, including $143 million in CCLCM awards. This amount reflects an increase of $42 million, or 11% over FY22. The total represents 34% of overall University operating revenues.

### Overhead cost recovery

*Facilities and administrative cost recovery* applicable to federally sponsored projects and all other sponsored activity was $91 million in FY23, an $11 million or 13% increase over FY22. Overhead recovery represents 7% of operating revenues.

### Gifts and pledges

Gifts and pledges income was $135 million, an increase of $20 million or 18% over FY22. Gifts and pledges, which represent 11% of operating revenues, are recorded in the appropriate asset category when received.

### Other revenue

Other revenue of $49 million increased $4 million or 8% over FY22. Other revenue represents 4% of operating revenues and includes the *State of Ohio appropriation*, *Organized Activities,* and *Other Sources*.

### Auxiliaries

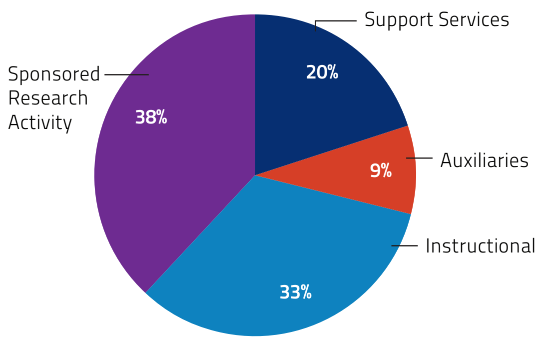
Auxiliaries revenue of $91 million increased $11 million or 14% over FY22 due to the return to normal levels of on-campus activity. Auxiliaries revenue is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $83 million, or "Other," including Rental Properties and Parking, totaling $8 million for FY23. Auxiliaries revenue represents 7% of operating revenues.

## OPERATING EXPENSES

Total expenses of $1.186 billion increased $138 million or 13% over FY22. The components of the University's expenses are shown below and additional detail of operating expenses follows.

### OPERATING EXPENSES

$1.186 million




*Statement of Activities data*

**Instructional costs** of $396 million represents 33% of operating expenses and increased by $33 million or 9% over FY22. Included in direct instructional costs are faculty and staff salaries and benefits.

**Sponsored research activity** of $455 million, represents 38% of operating expenses, increased $42 million or 10% over FY22. Sponsored research activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

**Support services** costs of $231 million, represents 20% of operating expenses, including libraries, student services, and university services, increased $47 million or 25% over FY22. The increase is primarily in university services.

**Auxiliaries** expenses of $105 million represents 9% of operating expenses, increased $17 million or 19% over FY22.

## NON-OPERATING ACTIVITIES

Non-operating activities increased net assets by $89 million, compared to a $225 million decrease in FY22. The FY23 increase includes investment income of $71 million. Pension plan changes other than periodic benefit costs of $16 million are $17 million lower than FY22 and are primarily the result of the change in actuarial gain.

## THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University's investment pool consist of a group of funds, including the endowment funds, funds functioning as endowments (also referred to as *quasi-endowment*), Board-designated funds, and operating funds, that are invested in a broadly diversified portfolio. The total investment return for the investment pool, net of external manager fees, approximated 6.98% (2023) and (5.67)% (2022). Additional detail on the investment pool is shown in *Footnote 7.*

The University's combined endowment, the purpose of which is to generate revenue in perpetuity, is comprised of funds invested and managed by the University, that includes endowment funds and quasi-endowments (referred to as the *endowment pool*) and funds invested and managed outside the University (referred to as *funds held in trust*). The University's combined endowment at June 30, 2023 and 2022 is shown in the table below:

| *(in thousands)* | **2023** | **2022** |
|---|---|---|
| Endowment Pool: | | |
| Donor-restricted | $ 1,486,584 | $ 1,444,007 |
| Donor-purpose restricted | 347,866 | 330,582 |
| Quasi-endowment | 122,163 | 116,119 |
| Funds held in trust | 303,992 | 297,453 |
| **Total combined endowment** | **$ 2,260,605** | **$ 2,188,161** |
| **Change in market value** | **3.31%** | **(7.05)%** |

Activities and total investment return for the combined endowment for the years ended June 30, 2023 and 2022 are shown in the table below:

| *(in thousands)* | **2023** | **2022** |
|---|---|---|
| Beginning combined endowment | $ 2,188,161 | $ 2,354,190 |
| Additions | 28,296 | 76,287 |
| Spending distribution | (89,215) | (84,094) |
| Operating support | (16,855) | (13,071) |
| Appreciation (depreciation) and investment income | 150,218 | (145,151) |
| **Ending combined endowment** | **$ 2,260,605** | **$ 2,188,161** |
| **Combined endowment investment return** | **7.48%** | **(6.69)%** |

## CHANGE IN NET ASSETS

The combined net operating activity of $76 million and net non-operating activity of $89 million resulted in an increase in net assets of $165 million or 6% over FY22.

# STATEMENTS OF FINANCIAL POSITION

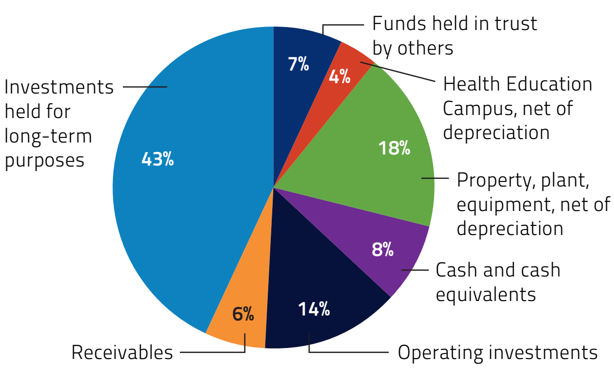
The University's *Statements of Financial Position* reflect total assets of $4.262 billion with a primarily sizable cash and investment balance of $3.05 billion.

## ASSETS

Total assets increased $256 million or 6% over FY22. Total cash and investments of $3.05 billion, including cash and cash equivalents, operating investments, investments held for long-term purposes and funds held in trust by others, combined total 72% of University assets. Property, plant, equipment and books represent an additional $762 million or 18% of assets.

**TOTAL ASSETS**

$4.262 billion




*Statement of Financial Position* data

### Cash and cash equivalents

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

The University's cash position on June 30 was $353 million, a decrease of $199 million from FY22 due to the Century Bond proceeds being invested. Cash equivalents include all highly liquid investments with original purchase maturity of 90 or fewer days, and appropriated endowment income which may be spent on demand.

### Operating investments

The University's operations were supported by $574 million of operational investments in addition to cash and cash equivalents. These investments generally have a maturity of greater than 90 days but may be liquidated on demand. Operating investments increased $313 million or 120% over FY22.

### Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University had $274 million in receivables, which represent 6% of assets. Receivables increased $26 million or 11% over FY22.

### Investments, held for long-term purposes

Long-term investments of $1.819 billion increased $55 million or 3% over FY22. Because a majority of the University's long-term investments are endowments or similar funds, the Board of Trustees' annually-approved endowment spending allocation and support for certain development-related activities had an impact of approximately $89 million on long-term investments in FY23.

### Funds held in trust by others

Funds held in trust by others of $304 million increased $7 million or 2% from FY22.

### Health Education Campus

The University has shared interests in the Health Education Campus ("HEC") with the Cleveland Clinic Foundation. Occupacy began in spring 2019. The University's basis of $149 million is a $3 million or 2% increase over FY22.

### Property, plant, equipment, and books

Property, plant, equipment, and books, net of depreciation, constitute 18% of the University's assets, totaling $762 million for FY23. Net plant assets increased $44 million or 6% over FY22.

## LIABILITIES

Total liabilities of $1,209 billion increased $91 million or 8% over FY22. The increase is comprised of (*in thousands)*:

| | |
|---|---|
| Notes & bonds payable | $ 92,455 |
| Accounts payable | 13,145 |
| Other | (15,039) |
| Increase in liabilities | $ 90,561 |

### Retirement plans

The University provides defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan of 5.45% in FY23 is updated from 5.00% in FY22. The University's accrued pension liability decreased $9 million from FY22, to a total accrued pension liability of $52 million in FY23.

### Debt

Total liability on notes and bonds payable, including the line of credit and unamortized bond premium and issuance costs, increased $92 million over FY22 to $909 million. The increase was primarily due to the issuance of the 2022B Bonds for $116 million and was offset partly by scheduled principal payments.

The University conducted one bond transaction in FY23. There was one debt issuance for $116 million. The debt was issued for the construction of two new residence halls.

The University's entire variable rate debt of $35 million is synthetically fixed with one floating-to-fixed rate swap. During the year two swap contracts expired. The floating rate component of the swap transitioned from a LIBOR-based rate to SOFR-based in FY24.

There were no changes to either the S&P or Moody's credit ratings. A formal review with S&P Global Ratings will take place in FY24.

## NET ASSETS

In FY23, the University's total net assets increased $165 million or 6% over FY22 to $3.05 billion due primarily to positive net operating activity coupled with strong investment income and positive mark-to-market valuation adjustments to long-term investments. Net operating activity increased net assets by $76 million. Net non-operating activity increased net assets by $89 million, including $76 million of net appreciation in long-term investments.

**CHANGE IN NET ASSETS**

| *(in thousands)* | **2023** | **2022** |
|---|---|---|
| Beginning net assets | $ 2,887,990 | $ 3,028,531 |
| Increase (decrease) in net assets | 165,224 | (140,541) |
| **Ending net assets** | **$ 3,053,214** | **$2,887,990** |

### Net assets without donor restrictions

Net assets without donor restrictions increased $64 million or 17% over FY22 to $437 million. Net operating activity added $65 million and net non-operating activity decreased net assets by $1 million.

### Net assets with donor restrictions

Net assets with donor restrictions increased $101 million or 4% over FY22 to $2.616 billion, driven by $61 million in investment income. The University received $105 million of new restricted gifts and pledges and net assets released from restrictions of $95 million is in net operating activity. Non-operating activity increased net assets with donor restrictions by $91 million.

## PROSPECTIVE DISCUSSION

The University expects to maintain a positive operating position as reflected in its FY24 operating budget surplus of $17 million. Senior leadership is focused on its three priorities of elevating academic excellence, growing the research enterprise and enhancing community engagement.

John F. Sideras

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

# SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

| *in thousands of dollars* | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **STATEMENT OF OPERATIONS HIGHLIGHTS – Management View** | | | | |
| Total revenue | $ 1,402,631 | $ 1,277,711 | $ 1,140,767 | $ 1,197,095 |
| Total expense | 1,388,764 | 1,263,317 | 1,131,527 | 1,195,338 |
| Operating margin | 13,867 | 14,394 | 9,240 | 1,757 |
| Retained surplus use | 3,103 | | 2,428 | 388 |
| **Surplus** | **$ 16,970** | **$ 14,394** | **$ 11,668** | **$ 2,145** |
| **STATEMENT OF ACTIVITIES HIGHLIGHTS – GAAP Basis** | | | | |
| Tuition and fees (net of student aid) | $ 336,719 | $ 329,362 | $ 318,662 | $ 302,802 |
| Investment, FHBO, and operational returns | 125,722 | 91,484 | 115,658 | 97,822 |
| Grants and contracts | 434,168 | 391,690 | 351,668 | 364,688 |
| Facilities and administrative cost recovery | 90,510 | 79,994 | 73,334 | 76,856 |
| Gifts and pledges | 135,019 | 114,840 | 151,848 | 110,818 |
| Other revenue | 49,000 | 45,234 | 46,471 | 57,108 |
| Auxiliary services | 90,880 | 79,679 | 43,436 | 65,505 |
| Total operating revenues and other support | 1,262,018 | 1,132,283 | 1,101,077 | 1,075,599 |
| Instructional expenses | 395,945 | 363,047 | 330,401 | 358,200 |
| Sponsored research activity | 454,942 | 412,901 | 372,899 | 385,277 |
| Support services | 230,765 | 184,041 | 187,800 | 189,724 |
| Auxiliary services | 104,697 | 88,074 | 76,733 | 87,961 |
| Total operating expense | 1,186,349 | 1,048,063 | 967,833 | 1,021,162 |
| **Net operating activity** | **$ 75,669** | **$ 84,220** | **$ 133,244** | **$ 54,437** |
| Long-term investment activities | 146,560 | (191,847) | 575,295 | (1,854 |
| Other non-operating activities | (57,005) | (32,914) | (29,408) | (101,763) |
| **Net non-operating activities** | **$ 89,555** | **$ (224,761)** | **$ 545,887** | **$ (103,617)** |
| **Change in net assets** | **$ 165,224** | **$ (140,541)** | **$ 679,131** | **$ (49,180** |
| **FINANCIAL POSITION HIGHLIGHTS** | | | | |
| Cash and cash equivalents | $ 352,722 | $ 551,939 | $ 145,314 | $ 108,276 |
| Operating investments, at market | 574,138 | 260,961 | 287,818 | 232,034 |
| Receivables, net | 273,643 | 247,213 | 269,636 | 244,883 |
| Investments (held for long-term purposes) | 1,819,441 | 1,764,237 | 1,915,558 | 1,535,878 |
| Funds held in trust by others | 303,992 | 297,453 | 349,816 | 280,247 |
| Health Education Campus, net of depreciation | 149,088 | 146,202 | 148,663 | 134,611 |
| Property, plant, equipment, and books, net of depreciation | 761,747 | 717,407 | 736,443 | 719,320 |
| Prepaid expenses and other assets | 27,045 | 20,619 | 19,739 | 19,582 |
| **Total assets** | **$ 4,261,816** | **$ 4,006,031** | **$ 3,872,987** | **$ 3,274,831** |
| **Total liabilities** | **$ 1,208,602** | **$ 1,118,041** | **$ 844,456** | **$ 925,431** |
| **Total net assets** | **$ 3,053,214** | **$ 2,887,990** | **$ 3,028,531** | **$ 2,349,400** |
| **OTHER FINANCIAL INFORMATION** | | | | |
| Net investments (including FHBO), at fair value | $ 2,697,571 | $ 2,322,651 | $ 2,553,192 | $ 2,048,159 |
| Investments payout in support of operations | $ 89,215 | $ 84,094 | $ 81,428 | $ 86,212 |
| Total gifts and pledges (attainment) | $ 183,826 | $ *153,232 | $ 171,766 | $ 167,964 |
| Total gifts – cash basis | $ 121,002 | $ 138,783 | $ 136,288 | $ 135,426 |
| *FY22 attainment net of $22 million pledge write-off | | | | |
| **STUDENTS** | | | | |
| Enrollment** | | | | |
| Undergraduate | 5,943 | 5,705 | 5,334 | 5,286 |
| Post-Baccalaureate | 6,184 | 5,760 | 5,458 | 5,790 |

**Enrollment for fall semester of fiscal year in FTEs

## Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University

### *Opinion*

We have audited the accompanying financial statements of Case Western Reserve University (the "University"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities for the year ended June 30, 2023 and of cash flows for the years ended June 30 2023 and 2022, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, the changes in its net assets for the year ended June 30, 2023, and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Other Matter*

We previously audited the statement of financial position as of June 30, 2022, and the related statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated October 14, 2022, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the financial statements are issued.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the Discussion of Financial Results and Selected Financial Data, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Cleveland, Ohio
October 20, 2023

# STATEMENTS OF FINANCIAL POSITION

| *In thousands of dollars* | June 30 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 352,722 | $ 551,939 |
| Operating investments | 574,138 | 260,961 |
| Accounts and loans receivable, net | 104,752 | 93,487 |
| Pledges receivable, net | 168,891 | 153,726 |
| Prepaid expenses and other assets | 9,658 | 9,979 |
| Right-of-use assets - operating leases | 17,387 | 10,640 |
| Investments, held for long-term purposes | 1,819,441 | 1,764,237 |
| Funds held in trust by others | 303,992 | 297,453 |
| Health Education Campus, net | 149,088 | 146,202 |
| Property, plant, equipment and books, net | 761,747 | 717,407 |
| **TOTAL ASSETS** | **$ 4,261,816** | **$ 4,006,031** |
| | | |
| LIABILITIES AND NET ASSETS | | |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 85,761 | $ 72,616 |
| Deferred income and other liabilities | 81,530 | 91,730 |
| Operating lease obligations | 17,387 | 10,640 |
| Annuities payable | 32,155 | 33,740 |
| Refundable advances | 14,598 | 13,868 |
| Accrued pension liability | 52,025 | 61,327 |
| Notes and bonds payable | 908,909 | 816,454 |
| Refundable federal student loans | 16,237 | 17,666 |
| **TOTAL LIABILITIES** | $ **1,208,602** | **$ 1,118,041** |
| **NET ASSETS** | | |
| Without donor restrictions | $ 437,257 | $ 373,485 |
| With donor restrictions | 2,615,957 | 2,514,505 |
| **TOTAL NET ASSETS** | **$ 3,053,214** | **$ 2,887,990** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 4,261,816** | **$ 4,006,031** |

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

# STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2022

| *In thousands of dollars* | Without Donor Restrictions | With Donor Restrictions | For the year ended June 30 2023 | 2022 |
|---|---|---|---|---|
| OPERATING REVENUES AND OTHER SUPPORT | | | | |
| Student tuition and fees, net of student aid of $265,386 and $242,564, respectively | $ 336,719 | | $ 336,719 | $ 329,362 |
| Investment returns distributed for operations | 72,751 | | 72,751 | 68,183 |
| FHBO returns distributed | 15,871 | $ 593 | 16,464 | 15,911 |
| Investment returns on operating investments | 36,507 | | 36,507 | 7,390 |
| Grants and contracts | 290,843 | | 290,843 | 262,193 |
| CCLCM grants and contracts | 143,325 | | 143,325 | 129,497 |
| Gifts and pledges | 19,617 | 105,121 | 124,738 | 104,099 |
| Contributed non-financial assets | 10,281 | | 10,281 | 10,741 |
| State of Ohio appropriation | 2,590 | | 2,590 | 2,594 |
| Facilities and administrative cost recovery | 90,510 | | 90,510 | 79,994 |
| Organized activities | 12,677 | | 12,677 | 11,781 |
| Other sources | 33,343 | 390 | 33,733 | 30,859 |
| Auxiliary services - students | 82,597 | | 82,597 | 72,017 |
| Auxiliary services - other | 8,283 | | 8,283 | 7,662 |
| Net assets released from restrictions | 95,297 | (95,297) | - | |
| **TOTAL OPERATING REVENUES AND OTHER SUPPORT** | **$ 1,251,211** | **$ 10,807** | **$ 1,262,018** | **$ 1,132,283** |
| OPERATING EXPENSES | | | | |
| Instructional | $ 395,945 | | $ 395,945 | $ 363,047 |
| Sponsored research and training | 279,101 | | 279,101 | 255,301 |
| Other sponsored projects | 32,516 | | 32,516 | 28,103 |
| CCLCM research and training | 143,325 | | 143,325 | 129,497 |
| Libraries | 23,867 | | 23,867 | 20,609 |
| Student services | 37,014 | | 37,014 | 33,290 |
| University services | 169,884 | | 169,884 | 130,142 |
| Auxiliary services - students | 88,300 | | 88,300 | 73,283 |
| Auxiliary services - other | 16,397 | | 16,397 | 14,791 |
| **TOTAL OPERATING EXPENSES** | **$ 1,186,349** | **$ -** | **$ 1,186,349** | **$ 1,048,063** |
| **NET OPERATING ACTIVITY** | **$ 64,862** | **$ 10,807** | **$ 75,669** | **$ 84,220** |
| NON-OPERATING ACTIVITIES | | | | |
| Long-term investment activities | | | | |
| Investment income | $ 10,315 | $ 60,507 | $ 70,822 | $ 207,253 |
| Net appreciation (depreciation) | 29,047 | 46,691 | 75,738 | (399,100) |
| Total long-term investment activities | 39,362 | 107,198 | 146,560 | (191,847) |
| Investment returns distributed for operations | (72,751) | | (72,751) | (68,183) |
| Change in liabilities due under life-income agreements | | 121 | 121 | 2,079 |
| (Loss) gain on disposal of plant assets | (348) | | (348) | 92 |
| Pension plan changes other than periodic benefit costs | 15,973 | | 15,973 | 33,098 |
| Net assets released from restrictions | 16,674 | (16,674) | - | |
| **NET NON-OPERATING ACTIVITY** | **$ (1,090)** | **$ 90,645** | **$ 89,555** | **$ (224,761)** |
| **CHANGE IN NET ASSETS** | **$ 63,772** | **$ 101,452** | **$ 165,224** | **$ (140,541)** |
| Beginning net assets | 373,485 | 2,514,505 | 2,887,990 | 3,028,531 |
| **ENDING NET ASSETS** | **$ 437,257** | **$ 2,615,957** | **$ 3,053,214** | **$ 2,887,990** |

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

# STATEMENTS OF CASH FLOWS

| *In thousands of dollars* | For the year ended June 30 2023 | For the year ended June 30 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 165,224 | $ (140,541) |
| *Adjustments to reconcile change in net assets to net cash provided by operating activities:* | | |
| Depreciation | 75,360 | 68,057 |
| Amortization of bond issuance costs | 396 | 812 |
| Amortization of bond premiums | (5,081) | (5,274) |
| Amortization of right-of-use assets - operating leases | 2,296 | 2,255 |
| Loss on debt refunding and defeasance | | 1,206 |
| Realized and unrealized net (gains) losses on investments | (155,170) | 140,457 |
| Realized and unrealized net (gains) losses on funds held in trust by others | (6,539) | 52,363 |
| Decrease to annuities payable resulting from actuarial adjustments | (121) | (2,079) |
| Gifts of property and equipment | (206) | (23) |
| Loss (gain) on disposal of plant assets | 348 | (92) |
| Contributions for long-term investment | (24,513) | (41,669) |
| (Increase) decrease in accounts and loans receivable, net | (12,191) | 2,727 |
| (Increase) decrease in pledges receivable, net | (15,165) | 16,535 |
| Decrease (increase) in prepaid expenses and other assets | 321 | (274) |
| Increase (decrease) in accounts payable and accrued expenses | 653 | (7,183) |
| Decrease in deferred income and other liabilities | (200) | (6,234) |
| Decrease in operating lease obligations | (2,296) | (2,255) |
| Increase in refundable advances | 730 | 2,164 |
| Decrease in accrued pension liability | (9,302) | (25,771) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **$ 14,544** | **$ 55,181** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Student loans | | |
| Collected | $ 4,578 | $ 6,911 |
| Issued | (3,652) | (3,750) |
| Increase in cash for long-term investment | (1,002) | (1,582) |
| Proceeds from the sale of investments | 1,401,080 | 1,131,887 |
| Purchase of investments | (1,614,291) | (1,094,166) |
| Increase in Health Education Campus | (17,573) | (11,751) |
| Proceeds from the sale of plant assets | 183 | 274 |
| Purchases of property, plant, equipment and books | (102,846) | (43,235) |
| **NET CASH USED FOR INVESTING ACTIVITIES** | **$ (333,523)** | **$ (15,412)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in federal advances for student loans | $ (1,429) | $ (2,667) |
| Contributions for long-term investment | 15,278 | 24,094 |
| Proceeds from the sale of investments received as gifts | 10,237 | 19,157 |
| Proceeds from notes and bonds payable | 115,893 | 470,723 |
| Repayment of notes and bonds payable | (18,753) | (142,153) |
| Increase to annuities payable resulting from new gifts | 621 | 27 |
| Decrease to annuities payable resulting from payments | (2,085) | (2,325) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **$ 119,762** | **$ 366,856** |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **$ (199,217)** | **$ 406,625** |
| Cash and cash equivalents, beginning of year | 551,939 | 145,314 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 352,722** | **$ 551,939** |
| SUPPLEMENTAL DATA: | | |
| Interest paid in cash | **$ 39,482** | **$ 16,978** |
| Construction-in-progress payments included in accounts payable | **18,053** | **5,562** |
| Noncash activity: | | |
| Commencement of new operating lease obligation | **10,194** | **3,840** |
| Write-off of existing operating lease obligation | **1,150** | **979** |

*The accompanying notes are an integral part of the 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 financial statements of the University as of June 30, 2023 and 2022, and for the years then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, the accompanying financial statements have been prepared on the accrual basis of accounting.

**Net Asset Categories**

Standards for external financial reporting by not-for-profit organizations require that resources be classified for reporting purposes into two net asset categories according to donor-imposed restrictions (Note 17):

**Without Donor Restrictions** are those net assets not subject to donor-imposed restrictions. All revenues, gains and losses that are not restricted by donors are included in this classification. All operating expenses are reported as decreases in net assets without donor restrictions.

Contributions not subject to donor-imposed restrictions and donor-restricted contributions that are received and either spent, or deemed spent, for the restricted purpose within the same year are reported as increases to net assets without donor restrictions.

Net assets without donor restrictions include certain funds that are Board-designated as functioning as endowment and a liquidity reserve.

**With Donor Restrictions** are those net assets subject to donor-imposed time or purpose restrictions that are expected to be met and those subject to donor-imposed perpetual restrictions. These net assets include donor-restricted endowment, unconditional pledges, certain funds restricted for capital projects, split-interest agreements, and interests in perpetual trusts held by others.

For donor-imposed time or purpose restrictions, the University meets such donor restrictions through the passage of time, the appropriation of endowment earnings, placing gift-funded capital projects into service, and/or the University incurring expenses. When such restrictions are met, the related net assets are reported as *Net assets released from restrictions* in the statement of activities.

**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 net assets without donor restrictions or with donor restrictions depending upon the donor's intent.

Contributions restricted for the acquisition of land, buildings and equipment are reported as revenues with donor restrictions. These contributions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions.

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 4).

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

Government and private grant contracts are reviewed to determine whether they constitute an exchange transaction or a contribution, and whether conditions are present that would affect the timing of revenue recognition. Those determined to be contributions without conditions will have revenue recognized in the period the grant or contract is entered into and those determined to have conditions will have revenue recognized once the condition has been met. The University had conditional government grants of $299,948 as of June 30, 2023. Those determined to be exchange transactions will have revenue recognized when the performance obligations of the grant or contract funding have been met. Sponsored support for which restrictions are met in the same year are reflected in revenues without donor restrictions. Any payment received prior to qualifying expenses being incurred is recorded as a refundable advance. Once recognition is allowed, projects funded by grants and contracts that incur expenses prior to payment receipts are recorded as revenue with a corresponding receivable.

**Investment Returns on Operating Investments**

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

**Cash and Cash Equivalents**

The University considers all highly liquid investments with an original maturity of 90 days or 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. The University maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The University periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

**Operating Investments**

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

**Leases**

The University determines if an arrangement is a lease at inception. The University has both leases under which it is obligated as a lessee and leases for which it is a lessor. Operating leases as a lessee are included in *Right-of-use assets – operating leases* and *Operating lease obligations* in the statements of financial position. Right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term and discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date. The value of an option to extend a lease is reflected to the extent it is reasonably certain management will exercise that option.

**Investments**

Investments (Note 8) are made within guidelines authorized by the University's Board of Trustees ("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 Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability, i.e., an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national securities exchanges. As a practical expedient, the alternative investments, which are not readily marketable, are carried at estimated fair values based on the University's proportional share of the net asset value of the total fund as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers including 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. The fair value of investments valued at net asset value as a practical expedient are excluded from the fair value hierarchy.

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

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

> *Level 1* – Quoted unadjusted prices in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and volume to produce pricing information on an ongoing

basis. Market price data are generally obtained from exchange or dealer markets.

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

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

**Collections**

The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, their value is not reflected in the University's 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, 2023 and 2022.

Income received from funds held in trust by others is classified as net assets with donor restrictions until those amounts are appropriated and expended by the University. Income appropriated within the same year earned/received is classified as without donor restrictions. Unrealized changes in the fair value of investments are shown as net unrealized appreciation or depreciation in net assets with donor restrictions.

**Health Education Campus**

The University currently has shared interests in the Health Education Campus ("HEC") with the Cleveland Clinic Foundation ("CCF"). Commencing in fiscal year 2014, the University and CCF began a joint effort to raise funds for the construction of the HEC project. Occupancy of the HEC, which includes an academic building and separate dental clinic, began in spring 2019 and the University's basis is determined on cash transfers toward the HEC project. Upon the completion of fundraising and final funding of the project, the parties are committed to joint ownership of the above described properties (Note 9).

**Fixed Assets**

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

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

**Split-Interest Agreements**

The University has split-interest agreements consisting primarily of pooled income funds, charitable gift annuities and charitable remainder unitrusts and annuities. Contributions are recognized at the date the trusts and annuities are established, net of a liability for the present value of the estimated future cash outflows to beneficiaries, using a discount rate of 3.87% and 3.13% for June 30, 2023 and 2022, respectively. These assets are invested and payments are made to donors and beneficiaries in accordance with the respective agreements.

**Allocation of Certain Expenses**

The statement of activities presents expenses by function. Some expenses – such as depreciation, amortization, and expenses related to the operation of the physical plant – are allocated by square footage. Interest expense is allocated to the functions that derive the greatest benefit from the facilities financed (Note 16).

**Retirement Plans**

The University accounts for its defined benefit postretirement plan in accordance with ASC 715, "Compensation – Retirement Benefits." The University recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statements of financial position in the year in which the change occurs, with an offsetting impact to net assets without donor restriction.

**Use of Estimates**

Financial statements using U.S. GAAP rely on estimates. At June 30, management makes certain estimates and assumptions, which affect assets and liabilities, disclosures of contingent assets and liabilities, and reported revenues and expenses during the period. Actual results may differ from these estimates.

**Comparative Information**

The statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2022, from which it was derived.

**Income Taxes**

The University is exempt from federal income tax to the extent provided under section 501(c) (3) of the Internal Revenue Code ("IRC"). The University is classified as an organization that is not a private foundation under section 509(a) of the IRC, and as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax; however, it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2023 and 2022. 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, 2023 and 2022.

**Revenue Recognition**

The University appropriately reflects the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Significant judgments, such as the timing of satisfaction of performance obligation and associated transaction prices, may be required in the recognition of revenue, and certain economic factors, such as varying student class sizes, may affect revenue recognized in future years. Student tuition and fees are recorded as revenues during the year the related academic services are provided and are displayed net of student aid on the statement of activities. Student tuition and fees received in advance of services provided are recorded as deferred income. The University's significant revenue sources, shown in disaggregated form, for the fiscal years ended June 30, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| STUDENT TUITION AND FEES | | |
| Undergraduate tuition | $ 340,134 | $ 303,759 |
| Less: Student aid | (186,833) | (168,060) |
| | 153,301 | 135,699 |
| Graduate and professional tuition | 251,062 | 255,916 |
| Less: Student aid | (78,553) | (74,504) |
| | 172,509 | 181,412 |
| Fees | 10,909 | 12,251 |
| **TOTAL NET STUDENT TUITION AND FEES** | **$ 336,719** | **$ 329,362** |
| AUXILIARY SERVICES REVENUE | | |
| Food Services | $ 25,479 | $ 21,404 |
| Housing and greek life | 49,262 | 43,247 |
| Health services | 6,980 | 6,547 |
| Parking | 5,570 | 5,303 |
| Other | 3,589 | 3,178 |
| **TOTAL AUXILIARY SERVICES REVENUES** | **$ 90,880** | **$ 79,679** |

**New Pronouncements**

In June 2016, the FASB issued ASU 2016-13: "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. The University is evaluating the impact this will have on financial statements for the fiscal year ending June 30, 2024, the first year in which the standard is effective.

16 | NOTES TO THE FINANCIAL STATEMENTS - *in thousands of dollars*

In March 2020, the FASB issued ASU 2020-04: "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The standard provides temporary optional expedients and exceptions to U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Inter-Bank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The original standard was effective March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06: "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." The updated standard expanded the temporary optional expedients and exceptions to U.S. GAAP guidance noted above as the UK Financial Conduct Authority ("FCA") announced in March 2021 that the intended cessation date of the overnight 1-, 3-, 6-, and 12-month tenors of USD LIBOR would be June 30, 2023, which was beyond the prior sunset date of Topic 848. The updated standard is now effective through December 31, 2024. The University is evaluating the impact this will have on the financial statements for the fiscal year ending June 30, 2025.

In June 2022, the FASB issued ASU 2022-03: "Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." The standard looks to clarify guidance when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and to introduce new disclosure requirements. The standard is effective for fiscal years beginning after December 31, 2024. The University is evaluating the impact this will have on financial statements for the fiscal year ending June 30, 2026, the first year in which the standard is effective.

## 2. LIQUIDITY

The University manages its financial assets and liquidity resources in order to provide cash for payment of general expenditures, such as operating expenses, construction costs, and obligations related to debt. Financial assets classified below as available for general expenditure within one year are those that are considered both convertible to cash and free of donor-imposed and/or contractual restrictions that would limit or prevent the use of such cash to fund general expenditures.

As of June 30, 2023 and 2022, the University's financial assets and liquidity resources available for general expenditure within one year are as follows:

| | 2023 | 2022 |
|---|---|---|
| Financial assets available within one year: | | |
| Cash and cash equivalents | $ 352,722 | $ 551,939 |
| Operating investments | 349,916 | 45,791 |
| Accounts and notes receivable, net | 65,473 | 54,720 |
| Expected pledge payments available for operations | 19,530 | 18,681 |
| Other assets | 857 | 978 |
| Fiscal year 2024 and 2023 pooled endowment and similar funds spending allocation, respectively | 76,500 | 73,700 |
| **TOTAL FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR** | **$ 864,998** | **$ 745,809** |
| Liquidity resources: | | |
| Committed lines of credit (Note 11) | 50,000 | 125,000 |
| **TOTAL FINANCIAL ASSETS AND LIQUIDITY RESOURCES AVAILABLE WITHIN ONE YEAR** | **$ 914,998** | **$ 870,809** |

Additionally, the University has Board-designated funds of $210,014 and $215,157, including a liquidity reserve of $87,851 and $99,038, as of June 30, 2023 and 2022, respectively. Although the University does not intend to spend from these investment funds, other than amounts appropriated by the Board for fiscal year 2024, amounts from its Board-designated funds could be made available, if necessary.

In June 2022, the University issued Series 2022C taxable century bonds. The net proceeds of $346,812 were included in cash equivalents as of June 30, 2022. As of June 30, 2023, $63,540 were included in ***Cash and cash equivalents*** and $241,274 were in ***Operating investments***. The bonds were issued for strategic purposes including partial funding for a new interdisciplinary science and engineering building and the creation of an internal bank to fund various strategic initiatives.

In addition to the financial assets above, a significant portion of the University's annual expenditures will be funded by current year operating revenues including tuition, grant and contract income and auxiliary services income. The University's cash flows have seasonal variations during the year primarily attributable to student billings and the concentration of contributions received at calendar and fiscal year ends. As part of the University's liquidity management, the University invests cash in excess of daily requirements in various short-term investment instruments.

Under the University's cash management policies, cash received from endowment spending related to either funds functioning as endowment or donor-restricted endowments is available for general expenditure. Endowment spending distributed from donor-restricted endowments is reflected in the University's net assets with donor restrictions until the expenditures actually are incurred; such expenditures are funded by available liquidity resources at the time they are paid.

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

## 3. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2023 and 2022 were as follows:

| | 2023 | 2022 |
|---|---|---|
| ACCOUNTS RECEIVABLE, NET | | |
| Grants, contracts and others | $ 64,370 | $ 52,432 |
| Students | 3,190 | 3,002 |
| STUDENT LOANS, NET | 37,192 | 38,053 |
| **ACCOUNTS AND LOANS RECEIVABLE, NET** | **$ 104,752** | **$ 93,487** |

| | | |
|---|---|---|
| Allowance for doubtful accounts: | | |
| Accounts receivable | $ 8,813 | $ 7,443 |
| Loans receivable | $ 1,240 | $ 1,283 |

The student loans receivable is subject to significant restrictions and, accordingly, is not practicable to determine the fair value of such amounts.

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

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

Management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category.

Management believes that the allowance for doubtful accounts at June 30, 2023 is adequate to absorb credit losses inherent in the portfolio as of that date.

## 4. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting based on the market rate to the present value of expected future cash flows. The discount rate utilized for fiscal 2023 and 2022 was 5%.

Unconditional promises to give at June 30, 2023 and 2022 are expected to be realized in the following periods:

| | 2023 | 2022 |
|---|---|---|
| Less than one year | $ 58,604 | $ 87,296 |
| Between one year and five years | 117,546 | 83,227 |
| More than five years | 29,941 | 10,356 |
| | 206,091 | 180,879 |
| Less: Discount | (13,326) | (5,967) |
| Less: Allowance | (23,874) | (21,186) |
| **TOTAL PLEDGES RECEIVABLE, NET** | **$ 168,891** | **$ 153,726** |

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 to be prudent and reasonable. Management believes that the allowance for doubtful accounts at June 30, 2023 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2023 and 2022 had the following restrictions:

| | 2023 | 2022 |
|---|---|---|
| Department programs and activities | $ 65,634 | $ 63,582 |
| Endowments for scholarships and department programs and activities | 52,010 | 71,373 |
| Building construction | 51,247 | 18,771 |
| **TOTAL PLEDGES RECEIVABLE, NET** | **$ 168,891** | **$ 153,726** |

Uncollectible pledges totaling $28,173 (2023) and $7,054 (2022) were written off against the allowance for uncollectible pledges. The University had unsecured related party pledges of $14,602 (2023) and $5,490 (2022) and conditional pledge commitments totaling $19,026 (2023) and $19,359 (2022).

## 5. LEASING

The University is committed to minimum annual rent payments under several operating leases for educational and commercial space through fiscal year 2038. The components of lease expense are as follows:

| LEASE COST | 2023 | 2022 |
|---|---|---|
| Operating lease expense | $ 4,065 | $ 2,632 |
| Short-term lease expense | 1,361 | 595 |
| Sublease income | | (500) |
| **TOTAL LEASE EXPENSE** | **$ 5,426** | **$ 2,727** |

| OTHER INFORMATION: | | |
|---|---|---|
| Weighted-average remaining lease term in years – operating leases | 8.8 years | 9.8 years |
| Weighted-average discount rate – operating leases | 3.69% | 3.01% |

Payments due include options to extend operating leases through fiscal year 2038 and are summarized below as of June 30, 2023:

| Year | |
|---|---|
| 2024 | $ 4,280 |
| 2025 | 2,474 |
| 2026 | 2,489 |
| 2027 | 2,505 |
| 2028 | 1,288 |
| Thereafter | 7,317 |
| | 20,353 |
| Less: amounts representing interest | (2,966) |
| **TOTAL OPERATING LEASE OBLIGATION** | **$ 17,387** |

The University is the lessor in one lease for commercial space through fiscal year 2041 and 13 leases for commercial space through fiscal year 2024. Future minimum rental revenue due is summarized below as of June 30, 2023:

| Year | |
|---|---|
| 2024 | $ 1,032 |
| 2025 | 1,032 |
| 2026 | 1,032 |
| 2027 | 1,032 |
| 2028 | 1,032 |
| Thereafter | 12,897 |
| **TOTAL** | **$ 18,057** |

## 6. LONG-TERM INVESTMENTS

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

The University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (Note 7). The University's long-term investments at June 30, 2023 and 2022 were as follows:

| | 2023 | 2022 |
|---|---|---|
| Equity securities | $ 396,039 | $ 373,142 |
| Fixed-income securities | 371,405 | 88,886 |
| Limited partnerships and Other | | |
| Venture capital | 21,557 | 26,200 |
| Private equity | 857,441 | 834,174 |
| Real estate | 55,207 | 53,780 |
| Absolute return | 666,085 | 622,869 |
| Other | 25,764 | 26,066 |
| Equity real estate | 81 | 81 |
| **TOTAL INVESTMENTS** | **$ 2,393,579** | **$ 2,025,198** |

| | 2023 | 2022 |
|---|---|---|
| Operating investments | $ 574,138 | $ 260,961 |
| Investments, held for long-term purposes | 1,819,441 | 1,764,237 |
| **TOTAL INVESTMENTS** | **$ 2,393,579** | **$ 2,025,198** |

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## 7. ENDOWMENT AND SIMILAR FUNDS

### Endowment Funds

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

The state of Ohio has enacted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA stipulates that unless directed otherwise in the gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure by the institution. Accordingly, the following items are recorded as net assets with donor restrictions:

- 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

### Similar Funds

The Board has designated certain funds to function as endowments and has co-invested as such. Donor purpose-restricted funds were not given to the University with the understanding that the gift amount would be maintained in perpetuity; these funds are classified as net assets with donor restrictions. Even though the Board has elected to treat these funds in the same fashion as an endowment fund, at its option, the Board may elect to change that treatment and spend these funds in accordance with the intentions of the donor, if any, without the constraints of the University endowment spending formula. All other Board-designated funds are classified as net assets without donor restrictions and include quasi-endowments and a liquidity reserve (Note 17).

The breakdown of these classifications are:

| **June 30, 2023** | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowments | | $ 1,486,584 | $ 1,486,584 |
| Purpose-restricted funds functioning as endowments | | 347,866 | 347,866 |
| Board-designated funds | $ 122,163 | | 122,163 |
| **TOTAL ENDOWMENT AND SIMILAR FUNDS** | **$ 122,163** | **$ 1,834,450** | **$ 1,956,613** |

| **June 30, 2022** | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowments | | $ 1,444,007 | $ 1,444,007 |
| Purpose-restricted funds functioning as endowments | | 330,582 | 330,582 |
| Board-designated funds | $ 116,119 | | 116,119 |
| **TOTAL ENDOWMENT AND SIMILAR FUNDS** | **$ 116,119** | **$ 1,774,589** | **$ 1,890,708** |

### 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.

The pool is accounted for on a dollarized method of accounting similar to a money market fund and accounted for on an account basis. The total investment return for the pooled investments, net of external manager fees, approximated 6.98% (2023) and (5.67)% (2022).

**Spending Policy**

The Board has approved an endowment spending policy for pooled investments based on a rolling ten-year and twelve-quarter average methodology. This approach takes into consideration the long-term effect of total return, spending, university support and inflation. The objective of this 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.

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves both a dollar allocation and spending rate, based on beginning market value, for the following year's operating budget. The fiscal year 2023 and 2022 pooled endowment and similar funds spending allocation and rate approved by the Investment Committee of the Board were $73,700 at a rate of 4.80% and $68,700 at a rate of 4.70%, respectively. As new funds, which have met the criteria of the endowment spending policy, are continuously added to the pooled endowment and similar funds throughout the fiscal year, the actual dollar amount allocated to spend will most likely increase from the approved dollar allocation. The fiscal year 2023 and 2022 actual amount allocated was $77,226 and $69,274, respectively.

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

For years where actual investment return exceeds actual approved spending, the difference remains in net assets with donor restrictions; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. Both fiscal years 2023 and 2022 pooled endowment and similar funds distribution were funded from a combination of current year investment income and prior year accumulated realized gains.

In addition to the general distribution described above, the Board has authorized a supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution totaled $12,535 in 2023 and $9,564 in 2022.

Changes in endowment and similar funds net assets for fiscal year 2023 and 2022 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2021** | **$ 104,147** | **$ 1,900,227** | **$ 2,004,374** |
| Investment income | 10,451 | 168,599 | 179,050 |
| Realized and unrealized losses | (17,516) | (283,304) | (300,820) |
| TOTAL INVESTMENT RETURN | (7,065) | (114,705) | (121,770) |
| Contributions | 22,965 | 53,322 | 76,287 |
| Current year expenditures | (3,928) | (64,255) | (68,183) |
| **ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2022** | **$ 116,119** | **$ 1,774,589** | **$ 1,890,708** |
| Investment income | 5,062 | 61,766 | 66,828 |
| Realized and unrealized gains | 2,784 | 40,748 | 43,532 |
| TOTAL INVESTMENT RETURN | 7,846 | 102,514 | 110,360 |
| Contributions | 1,954 | 26,342 | 28,296 |
| Current year expenditures | (3,756) | (68,995) | (72,751) |
| **ENDOWMENT AND SIMILAR FUNDS NET ASSETS, JUNE 30, 2023** | **$ 122,163** | **$ 1,834,450** | **$ 1,956,613** |

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Occasionally, the fair market value of assets associated with individual donor-restricted endowment funds falls below the value of the original gift amounts. These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments and additions, and authorized appropriation that was deemed prudent. The aggregate deficiencies in fair value relative to historical cost for underwater endowments as of June 30 were as follows:

| | 2023 | 2022 |
|---|---|---|
| Aggregate historical value | $ 50,497 | $ 66,501 |
| Aggregate fair value | 47,247 | 61,514 |
| **AGGREGATE DEFICIENCY** | **$ (3,250)** | **$ (4,987)** |

## 8. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2023 and 2022 by the ASC 820 valuation hierarchy are as follows:

| **June 30, 2023** | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Net Asset Value | Total |
|---|---|---|---|---|---|
| INVESTMENTS | | | | | |
| Equity securities | $ 308,028 | $ 54 | | $ 87,957 | $ 396,039 |
| Fixed-income securities | 348,129 | 23,276 | | | 371,405 |
| Limited partnerships and Other | | | | | |
| Venture capital | | | | 21,557 | 21,557 |
| Private equity | | | | 857,441 | 857,441 |
| Real estate | | | | 55,207 | 55,207 |
| Absolute return | | | | 666,085 | 666,085 |
| Other | | | $ 19,863 | 5,901 | 25,764 |
| Equity real estate | | | 81 | | 81 |
| **TOTAL INVESTMENTS** | **$ 656,157** | **$ 23,330** | **$ 19,944** | **$ 1,694,148** | **$ 2,393,579** |
| **FUNDS HELD IN TRUST BY OTHERS** | **$ -** | **$ -** | **$ 303,992** | **$ -** | **$ 303,992** |
| PENSION PLAN ASSETS | | | | | |
| Cash and cash equivalents | $ 6,799 | | | | $ 6,799 |
| Equity securities | 122,410 | | | | 122,410 |
| Fixed-income securities | 42,601 | $ 2,503 | | | 45,104 |
| Limited partnerships and Other | | | | | |
| Absolute return | | | | $ 20,816 | 20,816 |
| Other | | | | 12,724 | 12,724 |
| Equity real estate | | | | 7,856 | 7,856 |
| **TOTAL PENSION PLAN ASSETS (Note 12)** | **$ 171,810** | **$ 2,503** | **$ -** | **$ 41,396** | **$ 215,709** |
| **ASSETS AT FAIR VALUE** | **$ 827,967** | **$ 25,833** | **$ 323,936** | **$ 1,735,544** | **$ 2,913,280** |
| Interest rate swaps payable (Note 15) | $ - | $ 3,876 | $ - | $ - | $ 3,876 |
| **LIABILITIES AT FAIR VALUE** | **$ -** | **$ 3,876** | **$ -** | **$ -** | **$ 3,876** |

| June 30, 2022 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Net Asset Value | Total |
|---|---|---|---|---|---|
| INVESTMENTS | | | | | |
| Equity securities | $ 297,277 | $ 54 | | $ 75,811 | $ 373,142 |
| Fixed-income securities | 58,255 | 30,631 | | | 88,886 |
| Limited partnerships and Other | | | | | |
| Venture capital | | | | 26,200 | 26,200 |
| Private equity | | | | 834,174 | 834,174 |
| Real estate | | | | 53,780 | 53,780 |
| Absolute return | | | | 622,869 | 622,869 |
| Other | | | $ 18,835 | 7,231 | 26,066 |
| Equity real estate | | | 81 | | 81 |
| **TOTAL INVESTMENTS** | **$ 355,532** | **$ 30,685** | **$ 18,916** | **$ 1,620,065** | **$ 2,025,198** |
| **FUNDS HELD IN TRUST BY OTHERS** | **$ -** | **$ -** | **$ 297,453** | **$ -** | **$ 297,453** |
| PENSION PLAN ASSETS | | | | | |
| Cash and cash equivalents | $ 3,566 | | | | $ 3,566 |
| Equity securities | 111,829 | | | | 111,829 |
| Fixed-income securities | 38,770 | $ 2,042 | | | 40,812 |
| Limited partnerships and Other | | | | | |
| Absolute return | | | | $ 26,299 | 26,299 |
| Other | | | | 14,082 | 14,082 |
| Equity real estate | | | | 12,606 | 12,606 |
| **TOTAL PENSION PLAN ASSETS (Note 12)** | **$ 154,165** | **$ 2,042** | **$ -** | **$ 52,987** | **$ 209,194** |
| **ASSETS AT FAIR VALUE** | **$ 509,697** | **$ 32,727** | **$ 316,369** | **$ 1,673,052** | **$ 2,531,845** |
| Interest rate swaps payable (Note 15) | $ - | $ 6,112 | $ - | $ - | $ 6,112 |
| **LIABILITIES AT FAIR VALUE** | **$ -** | **$ 6,112** | **$ -** | **$ -** | **$ 6,112** |

**Level 3 Investment Information**

Investments included in Level 3 consist primarily of the University's funds held in trust by others that are assets held and administered by outside trustees from which the University derives income or residual interest. The University's interests are reported at estimated fair value, based on the value of the underlying assets, which approximates the present value of future income from these trusts.

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

| | Equity Real Estate | Other | Funds Held by Others | Total |
|---|---|---|---|---|
| **June 30, 2021** | **$ 81** | **$ 43,587** | **$ 349,816** | **$ 393,484** |
| Investment income | | 13,860 | | 13,860 |
| Unrealized losses | | (13,838) | (52,363) | (66,201) |
| Settlements | | (24,689) | | (24,689) |
| Transfers | | (85) | | (85) |
| **June 30, 2022** | **$ 81** | **$ 18,835** | **$ 297,453** | **$ 316,369** |
| Investment income | | 121 | | 121 |
| Unrealized gains | | 755 | 6,539 | 7,294 |
| Settlements | | (480) | | (480) |
| Transfers | | 632 | | 632 |
| **June 30, 2023** | **$ 81** | **$ 19,863** | **$ 303,992** | **$ 323,936** |

The net realized and unrealized gains and losses in the table above are included in the University's statement of activities in one of two financial statement lines: *Investment income* or *Net (depreciation) appreciation.*

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

The University is permitted under U.S. GAAP to estimate the fair value of an investment at the measurement date using the reported net asset value ("NAV") without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with U.S. GAAP. The University's investments in equity securities, certain venture capital, certain private equity, real estate and certain hedge funds in the absolute return portfolio are fair value 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 U.S. GAAP. The University has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

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

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

| Category | Redemption Frequency | Redemption Notice Period | Fair Value | Unfunded Commitments |
|---|---|---|---|---|
| Equity securities (a) | monthly, quarterly, annually | 30–90 days | $ 87,957 | |
| Limited partnerships and Other | | | | |
| Venture capital (b) | see below | | 21,557 | $ 79,609 |
| Private equity (c) | see below | | 857,441 | 92,750 |
| Real estate (d) | see below | | 55,207 | 67,733 |
| Absolute return (e) | monthly, quarterly, annually | 30–90 days | 686,901 | 23,660 |
| Other (f) | see below | | 18,625 | |
| Equity real estate (g) | quarterly | 30–90 days | 7,856 | |
| **TOTAL** | | | **$ 1,735,544** | **$ 263,752** |

(a) ***Equity securities*** include funds invested in equity securities domiciled in the United States and countries outside of the United States including developed and emerging markets. Approximately 87% of the net asset value is accessible within one year.

(b) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(c) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 7-12 years.

(d) ***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. It is estimated that the underlying investments within the funds would be fully liquidated over the next 5-7 years.

(e) ***Absolute return*** includes hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top-down macro-economic analysis or bottom-up company or theme specific analysis; managers may shift portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds, but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the absolute return category from monthly, quarterly, annually, and up to a maximum of three years for traditional hedge fund vehicles and 5-10 years for private credit vehicles. Approximately 35% of the net asset value in this asset class is accessible within one year or less and 78% within three years. Over the course of the last twenty four months less liquid, private credit funds with 5-10 year hold periods have been added to the portfolio for diversification purposes. The private credit funds have reduced the liquidity in the absolute return asset class, but portfolio liquidity is still maintained at manageable levels.

(f) ***Other*** includes various investments that do not fall within the other categories listed. Examples would include liquid multi-asset strategy investments with 5–10 year hold periods.

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

The valuations for the venture capital, private equity and real estate investments have been estimated using the managers' fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. As these investments age in duration, distributions will be received from these funds as the underlying properties, and portfolio companies, are sold at the market.

## 9. HEALTH EDUCATION CAMPUS

In fiscal year 2014, the University and CCF began a joint effort to raise funds for the construction of the HEC project estimated to be approximately $509,000 as of June 30, 2023. The University and CCF have entered into an agreement with a perpetual term to provide for the operation and joint use of the HEC, which includes an academic building and a separate dental clinic. The HEC provides a unified educational space for programs of the School of Medicine, including the Cleveland Clinic Lerner College of Medicine ("CCLCM"), the School of Dental Medicine and the Frances Payne Bolton School of Nursing. Occupancy occurred in spring 2019. CCF provided interim funding of the construction costs, while the University and CCF collaborate on fundraising to cover the capital costs of the HEC. As the total costs of the HEC, were not raised by 2020, the University has agreed to provide up to $50,000 over the five-year period beginning in 2021, of which $30,000 was paid as of June 30, 2023. Components of the HEC are as follows:

| | 2023 | 2022 |
|---|---|---|
| Cash transferred to CCF and gift-in-kind | $ 145,079 | $ 127,506 |
| Less: Accumulated depreciation | (15,991) | (11,304) |
| | $ 129,088 | $ 116,202 |
| University obligation | 20,000 | 30,000 |
| **TOTAL HEALTH EDUCATION CAMPUS, NET** | **$ 149,088** | **$ 146,202** |

The University has pledges receivable for the HEC project of $6,477 (2023) and $14,128 (2022).

As the University occupies approximately 83% of the HEC, but has only transferred cash and gifts for approximately 29% of the total estimated HEC project costs, the University has free use of a portion of the HEC. The University recorded contribution revenue for the free use of space and the corresponding expense of $10,075 (2023) and $10,718 (2022) in the statement of activities.

## 10. PROPERTY, PLANT, EQUIPMENT AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 10 to 30 years for land improvements, 10 to 50 years for building and building improvements, 5 to 15 years for equipment, and 10 years for books. Components of property, plant, equipment and books are as follows:

| | 2023 | 2022 |
|---|---|---|
| Land and land improvements | $ 88,109 | $ 77,257 |
| Building and building improvements | 1,505,603 | 1,409,965 |
| Equipment and software | 387,566 | 361,554 |
| Library books | 48,079 | 47,272 |
| Construction-in-progress | 104,062 | 130,188 |
| | 2,133,419 | 2,026,236 |
| Less: Accumulated depreciation | (1,371,672) | (1,308,829) |
| **TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET** | **$ 761,747** | **$ 717,407** |

The above assets include $552,401 leased from the Ohio Higher Educational Facility Commission ("OHEFC"). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. The corresponding liability is included in *Notes and bonds payable* on the statements of financial position.

Capitalized interest added to construction-in-progress was $10,980 (2023) and $1,233 (2022).

The expected cost to complete construction-in-progress was $197,585 as of June 30, 2023.

Depreciation expense included in the statement of activities was $75,360 (2023) and $68,057 (2022).

## 11. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

| | | Interest Rate(s) | Maturity | 2023 | 2022 |
|---|---|---|---|---|---|
| OHEFC revenue notes and bonds[1]: | | | | | |
| Fixed-rate bonds: | Series 2006 | 5.25% | 2023-2027 | $ 6,840 | $ 18,055 |
| | Series 2012A | 5.00% | 2023-2024 | 3,450 | 6,735 |
| | Series 2013A | 5.00% | 2023-2024 | 12,935 | 12,935 |
| | Series 2015A | 5.00% | 2023-2030 | 15,730 | 17,775 |
| | Series 2016 | 3.00–5.00% | 2023-2041 | 114,680 | 114,680 |
| | Series 2018 | 4.00–5.00% | 2023-2031 | 83,380 | 85,030 |
| | Series 2019B | 5.00% | 2032-2041 | 30,550 | 30,550 |
| | Series 2019C | 1.63% | 2027-2035 | 35,815 | 35,815 |
| | Series 2021A | 4.00% | 2026-2045 | 28,455 | 28,455 |
| Variable-rate bonds: | Series 2021B | 1.14–4.24%[2] | 2027 | 35,000 | 35,000 |
| Taxable Notes Payable[3]: | Series 2022A | 2.58% | 2037 | 56,040 | 56,040 |
| | Series 2022B | 3.30% | 2053 | 115,915 | |
| Taxable Bonds Payable: | Series 2022C | 5.41% | 2122 | 350,000 | 350,000 |
| Compass Group USA, Inc. | | -n/a- | 2023–2030 | 5,019 | 5,576 |
| **TOTAL LIABILITY** | | | | **$ 893,809** | **$ 796,646** |
| Line of credit | | | | | |
| Unamortized bond premium | | | | 20,968 | 26,050 |
| Unamortized bond issuance cost | | | | (5,868) | (6,242) |
| **TOTAL NOTES AND BONDS PAYABLE** | | | | **$ 908,909** | **$ 816,454** |

[1] *Terms of the respective bonds are disclosed in the year of issuance.*
[2] *The OHEFC Series 2021B beginning and ending rate – the weighted average is 2.52%.*
[3] *Taxable Notes Payable includes bonds from New York Life and the Century Bonds.*

In October 2021, the University entered into a taxable note agreement with New York Life ("NY Life"). The NY Life 2022A notes were issued to refinance a portion of the OHEFC non-taxable 2013A ($5,369) and 2016 ($49,731) bonds. Deferred financing fees of $940 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the notes issued were $56,040. The earliest redemption date for the notes is December 2029.

In December 2021, the OHEFC Series 2021A (fixed rate) and 2021B (variable rate) bonds were issued to refinance the balance of the OHEFC Series 2019A bonds in the amount of $33,460 and $34,700, respectively. Deferred financing fees of $271 (2021A) and $300 (2021B) were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bonds were $33,731 (2021A) and $35,000 (2021B). The earliest optional redemption date for the 2021A bonds is December 2031 and the 2021B bonds have a mandatory tender in December 2026.

In June 2022, the University issued the Series 2022C taxable century bonds in the amount of $346,812. The Series 2022C century bonds were issued to finance the acquisition, construction, renovation and equipping of various facilities and finance the construction of a new interdisciplinary science and engineering building. Deferred financing fees of $3,188 were paid and the unamortized balance is a reduction to *Notes and bonds payable*. The total amount of the bonds issued were $350,000. The 2022C century bonds are subject to a bullet maturity in December 2121 and an optional make-whole redemption prior to December 2121.

In August 2022, the University entered into a taxable note agreement with NY Life. The NY Life 2022B notes were issued for the construction of two new residence halls. The total amount of the notes issued were $115,915. The earliest redemption date for the notes is December 2052.

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The University has committed revolving lines of credit with two financial institutions in the amount of $150,000 to finance working capital. The $25,000 line was renewed in January 2023 and is subject to review and renewal in January 2024. The $75,000 line was renewed in March 2022 and is subject to review and renewal in March 2024. The remaining $50,000 was renewed in September 2023 and is subject to review and renewal in September 2024. The amount outstanding was $0 (2023) and $0 (2022).

The University has one uncommitted line of credit with a financial institution in the amount of $50,000 to provide short-term liquidity to the investment pool. The line was renewed in January 2022 and is subject to review and renewal in January 2024. The line was not utilized during the fiscal year.

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

| Year | Total Scheduled Principal Payments |
|---|---|
| 2024 | $ 20,718 |
| 2025 | 18,673 |
| 2026 | 18,503 |
| 2027 | 18,418 |
| 2028 | 18,288 |
| Thereafter | 799,209 |
| **TOTAL** | **$ 893,809** |

## 12. RETIREMENT PLANS

The University has both defined benefit and defined contribution pension plans for its employees. In accordance with provisions of the Employee Retirement Income Security Act of 1974, the University has established a trust to hold plan assets for its defined benefit plan. The funded status of the University's defined benefit plan is as follows:

| | 2023 | 2022 |
|---|---|---|
| Funded status at June 30 of prior fiscal year | $ (61,327) | $ (87,098) |
| Service cost | (6,771) | (8,532) |
| Interest cost | (13,590) | (10,550) |
| Expected return on assets | 16,434 | 16,525 |
| Actuarial gain | 13,229 | 24,910 |
| Employer contributions | | 3,418 |
| **FUNDED STATUS AT JUNE 30** | **$ (52,025)** | **$ (61,327)** |
| Accumulated benefit obligation | $ 267,598 | $ 270,265 |

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

| | 2023 | 2022 |
|---|---|---|
| Net periodic benefit cost | $ 6,671 | $ 10,745 |
| Employer contributions | | 3,418 |
| Benefits paid | 9,720 | 11,301 |

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

| | |
|---|---|
| 2024 | $ 9,535 |
| 2025 | 10,376 |
| 2026 | 10,981 |
| 2027 | 12,094 |
| 2028 | 12,770 |

Amounts expected to be paid between 2029 and 2033 total $76,829. The University's estimated employer contribution for the defined benefit plan in fiscal 2024 will depend on the results of the July 1, 2023 actuarial valuation and is estimated to be $16,473.

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

| | 2023 | 2022 |
|---|---|---|
| BENEFIT OBLIGATION | | |
| Discount rate | 5.45% | 5.00% |
| Rate of compensation increase | 2.25% | 2.25% |
| Measurement date | 6/30/23 | 6/30/22 |
| Census date | 7/1/22 | 7/1/21 |
| NET PERIODIC BENEFIT COST | | |
| Discount rate | 5.00% | 3.25% |
| Expected return on plan assets | 7.50% | 7.50% |
| Rate of compensation increase | 2.25% | 2.25% |

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

The investment objective for the defined benefit plan is to maximize total return with tolerance for slightly above average risk, in order to meet the obligations that the University has to its plan beneficiaries. To accomplish this objective, the University has established a broadly-diversified target asset allocation strategy that includes equity investments (54%), fixed income (20%), absolute return strategies (combination of fixed income and equity securities) (10%), private credit (6%), real estate (5%), and cash (5%). 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:

| | 2023 | 2022 |
|---|---|---|
| Equity securities | 54% | 54% |
| Fixed-income securities | 25% | 25% |
| Real estate | 5% | 5% |
| Other | 16% | 16% |
| **TOTAL ASSET ALLOCATION** | **100%** | **100%** |

The amounts recognized in the University's statements of financial position and in net assets without donor restrictions related to the defined benefit plan are as follows:

| | 2023 | 2022 |
|---|---|---|
| Benefit obligation at June 30 | $ 267,734 | $ 270,521 |
| Fair value of plan assets at June 30 | 215,709 | 209,194 |
| **NET LIABILITY** | **$ (52,025)** | **$ (61,327)** |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Accumulated actuarial losses | 49,421 | 65,394 |
| **AMOUNT RECOGNIZED AS REDUCTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS** | **$ 49,421** | **$ 65,394** |

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

| | 2023 | 2022 |
|---|---|---|
| Change in actuarial gain | $ (15,973) | $ (33,098) |
| **TOTAL GAIN RECOGNIZED, NET ASSETS WITHOUT DONOR RESTRICTIONS** | **(15,973)** | **(33,098)** |
| Service cost | 6,771 | 8,532 |
| Interest cost | 13,590 | 10,550 |
| Expected return on assets | (16,434) | (16,525) |
| Net loss amortization | 2,744 | 8,188 |
| **Net periodic benefit cost** | **6,671** | **10,745** |
| **TOTAL GAIN RECOGNIZED, STATEMENT OF ACTIVITIES** | **$ (9,302)** | **$ (22,353)** |

Benefit plan costs for the defined contribution plan are $25,954 (2023) and $24,620 (2022).

## 13. COMMITMENTS AND CONTINGENCIES

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

In May 2002, the University entered into an agreement with CCF to form a new medical education and research program, 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 $143,325 (2023) and $129,497 (2022).

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

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 $500 per occurrence. The University believes its reserves for self-insured risks and the deductible portion of insured risks are sufficient.

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## 14. RELATED PARTY TRANSACTIONS

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase steam, chilled water, and other utilities for several University buildings. The amounts purchased were $18,416 (2023) and $19,995 (2022). No obligation associated with this agreement is recorded in the accompanying financial statements.

In February 2022, the Medical Center Company approved an additional energy efficiency grant in the amount of $723 of which $723 was used. The payback terms related to this project are 36 months beginning February 2023. The obligation related to this project recorded in *Deferred income and other liabilities* is $643 (2023) and $0 (2022).

## 15. DERIVATIVES

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

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an independent swap consultant that uses the mid-market levels, as of the close of business, to value the agreements. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions and the University's credit worthiness. The University's interest rate swap arrangements have inputs that can generally be corroborated by market data and are classified as Level 2 in the fair value hierarchy. Under one agreement in effect at June 30, 2023, the counterparty pays a variable interest rate equal to a percentage of the one-month LIBOR.

The following table provides detailed information on the interest rate swap at June 30, 2023, with comparative fair values for June 30, 2022. Information related to the interest rate swap agreements and the liability recognized in the statements of financial position in *Deferred income and other liabilities* are as follows:

| Notional Amount | Interest Rate | Commencement | Termination Date | Basis | 2023 Level 2 Fair Market Value | 2022 Level 2 Fair Market Value |
|---|---|---|---|---|---|---|
| $ 3,320 | 4.34% | Aug. 12, 2004 | Oct. 1, 2022 | LIBOR | | $ (31) |
| 15,000 | 3.60% | Sept. 25, 2002 | Sept. 25, 2022 | LIBOR | | (100) |
| 35,000 | 3.81% | Aug. 4, 2004 | Aug. 1, 2034 | LIBOR | $ (3,876) | (5,981) |
| **TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY** | | | | | **$ (3,876)** | **$ (6,112)** |

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as *Investment income.* The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000. The University had placed $0 (2023 and 2022) into such a fund.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $580 (2023) and $2,603 (2022).

## 16. NATURAL AND FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are reported in the statement of activities by functional categories and include allocations of depreciation expense, interest on indebtedness and plant operation and maintenance costs.

Operating expenses by nature and function are summarized as follows for the years ended June 30, 2023 and 2022:

| **June 30, 2023** | Instructional | Sponsored projects | Libraries | Student services | University services | Auxiliaries | Total operating expenses |
|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 208,990 | $ 167,249 | $ 6,138 | $ 17,810 | $ 58,498 | $ 11,513 | $ 470,198 |
| Fringe benefits | 63,637 | 41,675 | 1,996 | 5,644 | 19,573 | 3,630 | 136,155 |
| Other operating expense | 82,224 | 211,449 | 4,862 | 10,558 | 63,665 | 43,019 | 415,777 |
| Allocations | | | | | | | |
| Depreciation | 16,888 | 14,637 | 6,231 | 1,193 | 14,635 | 21,776 | 75,360 |
| Interest | 2,911 | 4,914 | 791 | 377 | 3,192 | 16,316 | 28,501 |
| Plant operations and maintenance | 21,295 | 15,018 | 3,849 | 1,432 | 10,321 | 8,443 | 60,358 |
| **TOTAL** | **$ 395,945** | **$ 454,942** | **$ 23,867** | **$ 37,014** | **$ 169,884** | **$ 104,697** | **$1,186,349** |

| **June 30, 2022** | Instructional | Sponsored projects | Libraries | Student services | University services | Auxiliaries | Total operating expenses |
|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 196,817 | $ 154,591 | $ 5,369 | $ 16,449 | $ 52,310 | $ 10,598 | $ 436,134 |
| Fringe benefits | 58,375 | 36,319 | 1,700 | 5,062 | 16,941 | 3,266 | 121,663 |
| Other operating expense | 70,656 | 189,512 | 3,505 | 9,123 | 43,501 | 35,506 | 351,803 |
| Allocations | | | | | | | |
| Depreciation | 15,667 | 15,133 | 6,220 | 1,316 | 7,250 | 22,471 | 68,057 |
| Interest | 1,337 | 3,152 | 294 | 145 | 1,535 | 9,375 | 15,838 |
| Plant operations and maintenance | 20,195 | 14,194 | 3,521 | 1,195 | 8,605 | 6,858 | 54,568 |
| **TOTAL** | **$ 363,047** | **$ 412,901** | **$ 20,609** | **$ 33,290** | **$ 130,142** | **$ 88,074** | **$1,048,063** |

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## 17. NET ASSETS

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

| | 2023 | 2022 |
|---|---|---|
| **Without donor restrictions:** | | |
| Board-designated: | | |
| Quasi-endowments | $ 122,163 | $ 116,119 |
| Liquidity reserve | 87,851 | 99,038 |
| TOTAL BOARD-DESIGNATED | 210,014 | 215,157 |
| Unrestricted | 227,243 | 158,328 |
| **TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS** | **$ 437,257** | **$ 373,485** |
| | | |
| **With donor restrictions:** | | |
| Endowments | $ 1,486,584 | $ 1,444,007 |
| Split-interest agreements | 20,526 | 17,319 |
| Other for purpose or time: | | |
| Purpose-restricted funds functioning as endowments | 347,866 | 330,582 |
| Pledges receivable | 159,575 | 142,267 |
| Funds held in trust by others | 309,391 | 302,259 |
| Student loan funds | 40,465 | 40,105 |
| Purpose-restricted funds | 251,550 | 237,966 |
| | 1,108,847 | 1,053,179 |
| | | |
| **TOTAL NET ASSETS WITH DONOR RESTRICTIONS** | **$ 2,615,957** | **$ 2,514,505** |

## 18. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through October 20, 2023, the date on which the financial statements were issued.

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UMC_5084-01_2023