FINANCIAL REPORT

2012

CASE WESTERN RESERVE
UNIVERSITY
EST. 1826

DISCUSSION OF FINANCIAL RESULTS

Case Western Reserve University continued to build on the solid financial resource base during fiscal year 2012 ("FY12"). The University's net operating activities were positive, working capital initiatives successful, and philanthropic efforts reached new and historic levels.

The FY12 financial plan again centered on enhancing core operating performance, increasing working capital resources, and growing momentum throughout a comprehensive capital campaign. The results were a $36 million or 4% operating margin, a $28 million increase in working capital, and a new record for annual attainment of $138 million. Capital expenditures continue to reflect targeted investments, supplemented by philanthropy. There are no current plans for additional debt.

Below are additional comments related to the University's operations and financial results.

FY12 FINANCIAL HIGHLIGHTS

Solid core operating performance

The University's stewardship of resources produced net operating income of $36 million, a 4% operating margin. A proactive financial management plan reflected a balanced budget in FY12 with a planned $2 million surplus. Actual results of a $6.4 million surplus reflect revenue diversity in a wide array of academic programs attracting high quality students to a leading research university. Both net operating activity and operating surpluses have been positive in all of the last five years, as well as outperforming annual budgets. Management is committed to continuing sustainable operating improvements.

Increased working capital resources

The University implemented several strategic initiatives to enhance working capital. Working capital from operating, financing, and investing activities all increased in FY12, improving liquidity by $28 million over FY11. This increase was during a period of two extraordinary cash outlays to fund pension obligations and increased interest rate swap collateral requirements totaling over $40 million.

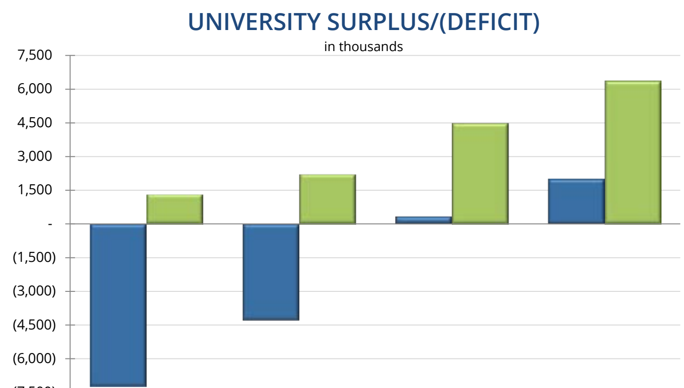
Record-breaking capital campaign

The University benefitted from the generous support of its donors. During FY12, the University announced a capital campaign with a $1 billion goal. The attainment achieved in FY12 totaled $138 million, an historic level and represents a 10% increase over the previous record-setting year of FY11. The University received gifts from over 17,000 donors, totaling $92 million as reported on a cash basis. Realized gifts and pledges of $62 million are reported in the financial statements on an accrual basis.

STATEMENT OF OPERATIONS

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

The University produced an operating surplus of $6.4 million in FY12, compared to a budget of $2.0 million and a $4.5 million surplus in FY11.



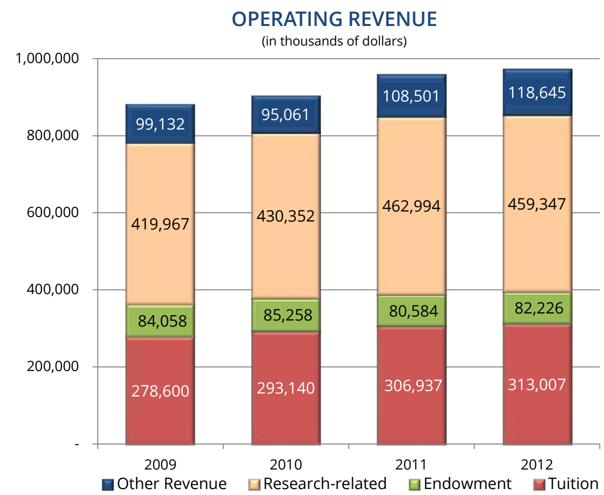
	2009	2010	2011	2012
Budget	(7,226)	(4,278)	332	2,000
Actual	1,336	2,226	4,499	6,375

The FY12 operating results were achieved without use of a Board-designated contingency fund of $8.2 million which is retained for use in subsequent years.

The operating surplus has increased in absolute dollars in each of the last five years. In addition, the surplus has exceeded plan in each year as well.

MANAGEMENT CENTER OPERATING REVENUES

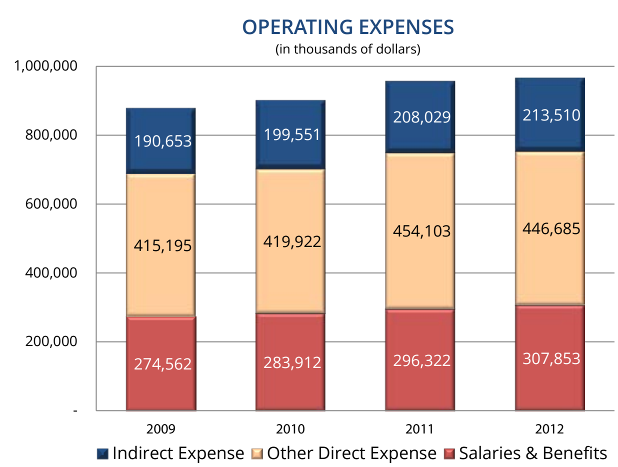
Operating revenues are classified in four categories: tuition, endowment, research-related, and other. The University reported $973 million in revenue, a $14 million or 1% increase from FY11.



All categories with the exception of research-related increased over FY11. Research-related declined slightly due to the end of federal stimulus funding made available through the American Recovery and Reinvestment Act of 2009.

MANAGEMENT CENTER OPERATING EXPENSES

Operating expenses were $968 million, a $10 million or 1% increase from FY11. Functional expenses are classified as salaries and benefits, other direct, and indirect expenses.



Salaries and benefits and indirect expenses increased due to inflationary increases, largely salary-related. Other direct expenses of $447 million declined $7 million or 2% due to the related decline in research activity mentioned previously, and due to operating efficiencies.

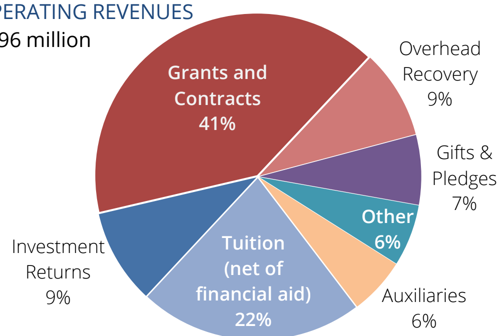
CONSOLIDATED STATEMENT OF ACTIVITIES

The Statement of Activities includes consolidated results from operating and non-operating activities of the University to produce change in net assets. In FY12, operating activity contributed $36 million to net assets.

OPERATING REVENUES

Total operating revenues were $896 million, a $24 million or 3% drop from FY11. The components of the University's revenues are shown below; additional detail of operating revenue follows.

OPERATING REVENUES
$896 million



Statement of Activities data

Tuition Income

Gross tuition income of $318 million, including fees and undergraduate, graduate, summer, and professional tuition, increased $8 million or 3% over FY11. Gross tuition income is offset in part by financial aid awarded; the financial aid offset for FY12 was $118 million, resulting in net tuition of $200 million or 22% of operating revenues.

The net tuition income of $200 million increased $12 million or 6% over FY11, with increased revenues realized in graduate and summer programs.

Investment Returns

Investment Returns included $61 million in returns distributed from the long-term investment pool, $10 million in returns on operating investments, and $13 million in distributions from funds held by others (FHBO) for endowment spending. Investment returns in operations, which represent 9% of operating revenue, totaled $84 million, a decrease of $21 million or 20% from FY11.

The majority of the decline was from returns on operating investments, which were down $23 million from FY11. This decrease was offset in part by a 6% or $1 million increase in returns from FHBO and $1 million increase in long-term investment returns distributed for operations.

Grants and contracts

Grant and contract revenue includes both awards for Case Western Reserve University and also its affiliates, most notably the Cleveland Clinic Lerner College of Medicine ("CCLCM").

Grants and contracts received for research and training purposes of $364 million, including $98 million in CCLCM awards, decreased $5 million or less than 2% from FY11. The total represents 41% of University operating revenue. The decrease corresponds with research operating expenses.

Overhead cost recovery

The facilities and administrative cost recovery applicable to federally sponsored projects and all other sponsored activity was $80 million in FY12 with no change from FY11. Overhead recovery constituted 9% of operating revenue.

Gifts & Pledges

Gifts & Pledges income of $62 million was down $16 million or 20% from historic FY11 levels due to a number of one-time gifts being realized in FY11. As compared to FY10, however, Gifts & Pledges income, 7% of operating revenues, was up $7 million.

Other Revenue

Other revenue of $55 million, an increase of nearly $5 million or 9% over FY11, constituted 6% of revenue. Other revenue was provided by the State of Ohio appropriation, Organized activities, and Other sources.

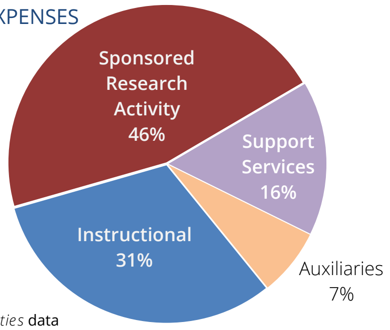
Auxiliaries

Auxiliary services income of $51 million, which was 6% of operating revenues, increased $2 million or 3% over FY11. Auxiliary income is categorized as either "Student," which is largely Housing, Food, and Health Services, totaling $40 million, or "Other," including Rental Properties and Parking, totaling $11 million for FY12.

OPERATING EXPENSES

Total expenses of $860 million increased $6 million or less than1% over FY11. The components of the University's expenses are shown; additional detail of operating expenses follows.

OPERATING EXPENSES
$860 million



Statement of Activities data

Instructional costs of $270 million, which comprise 31% of operating expenses, increased by $9 million or 3% over FY11. Included in direct instructional costs are faculty and staff salaries and benefits, including a merit increase pool for faculty and staff of 2% over FY11.

Sponsored Research Activity of $395 million, representing 46% of operating expenses, increased by $372 thousand, less than 1% over FY11. Sponsored Research Activity includes sponsored research and training, other sponsored projects, and CCLCM research and training expenses.

Support Services costs of $135 million, or 16% of operating expenses, including Library, Student Services, and University Services, increased $883 thousand or less than 1% over FY11.

Auxiliaries expenses of $59 million, which constitute 7% of operating expenses, decreased by $3 million or 6% from FY11. The reduction in expenses, when coupled with the 3% increase in revenue, resulted in a net position of $5 million better than FY11 for Auxiliaries.

NON-OPERATING ACTIVITIES

Non-operating activity decreased net assets $185 million due to slightly negative investment returns and significant pension plan costs.

Long-term Investment Activities

Long-term investment activities realized $10 million in investment gains and $18 million in interest and dividends on $1.5 billion in investment assets. These gains were more than offset by expenses of $10 million and a year-end mark to market adjustment of $34 million.

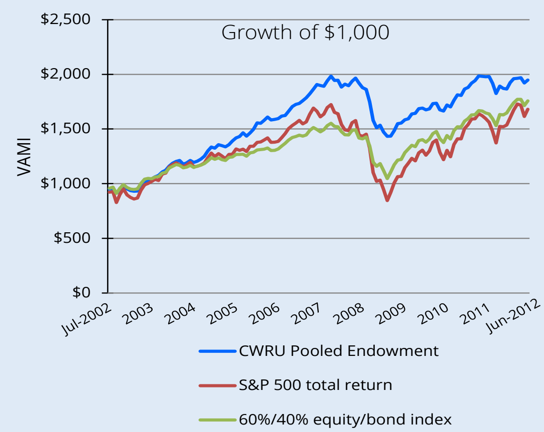
Other Non-Operating Activities

Other non-operating activities, including pension plan changes, changes in liabilities due under life-income agreements, and loss on disposal of plant assets, resulted in a $63 million loss in net assets.

THE UNIVERSITY'S ENDOWMENT

Case Western Reserve University manages its endowment of generous donor contributions through employing active risk management strategies designed to protect and grow portfolio value in today's world of volatile markets. Like the University itself, the investment horizon is in essence perpetual, while investment, liquidity, and spending distribution policies are grounded in daily operational needs. These dual goals call for a balance of aggressiveness and caution, diligence and diversification. The pooled endowment ('the pool") asset allocation uses the risk management tool of diversification, each category distinguished by expected response to change in economic growth, inflation, and interest rates.

The overriding goal is to build a portfolio that does well on both an absolute and a relative basis in a variety of economic and inflationary environments – an approach known as outcome-driven investing. The success of this strategy can be seen in the value-added monthly performance of $1,000 in the CWRU endowment pool as compared to a S&P 500 and a 60% S&P500/40% Barclays Aggregate bond index for a 10-year period ending June 30, 2012.



In addition to the pool, the University benefits from other endowed assets, mostly trusts and deferred gifts. These funds held by others are externally invested and managed. As of June 30, these other assets helped bring the University's total investments' market value to $1.60 billion.

Most significant in this other non-operating activity was a $56 million pension plan liability incurred from an historic 1.5% decline in the pension plan discount rate.

CHANGE IN NET ASSETS

The combined net operating activity of $36 million and net non-operating activity of -$185 million resulted in total net assets of $1.825 billion, a decrease of $149 million or 8%.

CHANGE IN NET ASSETS

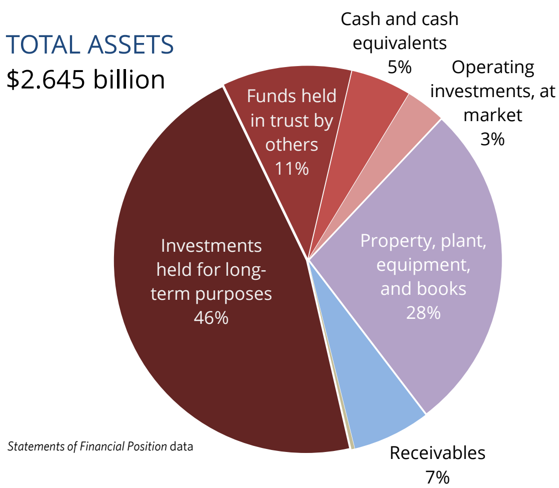
(in millions)		2012		2011
Beginning net assets	$	**1,973,541**	$	1,725,158
Increase/(decrease) in net assets		**(148,892)**		248,383
Ending net assets	$	**1,824,649**	$	**1,973,541**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The University's Statements of Financial Position reflect total assets of $2.645 billion, primarily a sizable cash and investment balance of $1.736 billion, the cash portion of which increased liquidity over FY11.

ASSETS

Total cash and investments of $1.736 billion, including cash and cash equivalents, operating investments, long-term investments, and funds held by others, combined are 66% of University assets. Property, plant, equipment and books represent an additional $731 million or 28% of assets. Total assets declined 3% or $95 million over FY11 due to an investment mark-to-market adjustment at June 30, 2012.



Statements of Financial Position data

Cash and Cash Equivalents

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

The University's cash position at June 30 was $134 million, an increase of $28 million or 26% over FY11. Cash equivalents include all highly liquid investments with original purchase maturity of 90 days or less and appropriated endowment income which may be spent on demand.

Operating Investments, at market

The University's operations were supported by $87 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 were up 12% or $9 million over FY11 totals.

Receivables

Receivables include net accounts and loans receivable as well as net pledges receivable. In total, the University has $172 million in receivables, 6% of assets. Receivables were down $12 million or 7% from FY11.

Investments held for long-term purposes

Long-term investments of $1.23 billion decreased $92 million or 7% from FY11. Because the majority of the University's long-term investments are endowments or similar funds, the Board of Trustees' annually-designated endowment spending allocation had an impact of approximately $70 million on long-term investments in FY12. This endowment spending was only partially offset by investment earnings of approximately $13 million, and was coupled with a mark-to-market adjustment for unrealized gains of $34 million.

Funds Held By Others

Funds held in trust by others of $286 million decreased 4% or $12 million from FY11.

Property, Plant, Equipment, and Books

Property, plant, equipment, and library books, net of depreciation, constitute 28% of the University's assets, totaling $731 million for FY12. Net plant assets decreased $15 million or 2% from FY11.

LIABILITIES

Total liabilities increased over FY11 to $821 million, a $54 million or 7% increase from FY11 totals.

Retirement Plans

The University provides both defined benefit and defined contribution pension plans for its faculty and staff. The pension plan discount rate for the defined benefit plan decreased from 6.0% to 4.5% in FY12. This decrease caused the University's accrued pension liability position to increase by $41 million over FY11, to a total accrued pension liability of $63 million in FY12.

Debt

Scheduled debt service payments made during FY12 decreased the liability on notes and bonds payable by $10 million to $560 million.

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

NET ASSETS

Total net assets of the University declined in FY12 by $149 million or 8% from FY11 to $1.825 billion.

Unrestricted Net Assets

Unrestricted net assets of $147 million decreased $69 million from FY11. Net operating activity increased $11 million, while net non-operating activity decreased $80 million, for a net change of $69 million. Valuation adjustments for both pension liability and investments account for the decrease.

Temporarily Restricted Net Assets

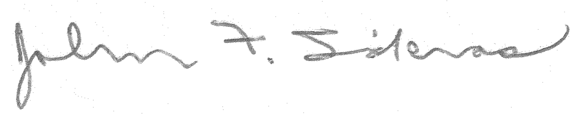
Temporarily restricted net assets decreased $89 million to $794 million. The University received $37 million of new temporarily restricted gifts and pledges in FY12, which were offset by a year-end market valuation adjustment of $31 million and $61 million in assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets increased $9 million to $884 million during FY12. The majority of the increase was due to the receipt of $23 million in new gifts and pledges, which were partially offset by $10 million in long-term investment activity losses and a change in liabilities due under life-income agreements of $4 million.

PROSPECTIVE DISCUSSION

The University expects to continue to build on its solid financial base as reflected in its budgeted surplus of $5 million for fiscal year 2013. Strategic capital projects are supported through restricted gifts and a new $1 billion dollar campaign through 2016 is well underway. The incoming undergraduate class, the Class of 2016, is the largest and most academically accomplished in the University's history. Finally, senior leadership is committed to continuous operating performance improvements, thereby strengthening the University's financial position through a disciplined and well-executed strategic plan.



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

SELECTED FINANCIAL DATA *unaudited*

Fiscal Years Ended June 30

	2012	2011	2010	2009
	(in thousands of dollars)			
STATEMENT OF OPERATIONS HIGHLIGHTS				
Tuition	$ **313,007**	$ 306,937	$ 293,140	$ 278,600
Endowment Revenue	**82,226**	80,584	85,258	84,058
Research-Related Revenue	**459,347**	462,994	362,495	419,967
Other Revenue	**118,645**	108,501	162,918	99,132
Total Revenue	$ **973,225**	$ **959,016**	$ **903,811**	$ **881,757**
Salaries and Benefits	**307,853**	296,322	311,689	274,562
Other Direct Expense	**446,685**	454,103	392,145	415,195
Indirect Expenses	**213,510**	208,029	199,551	190,653
Total Expense	$ **968,048**	$ **958,454**	$ **903,385**	$ **880,410**
Operating Margin	$ **5,177**	$ **562**	$ **426**	$ **1,347**
Retained Surplus Use/(Contribution)	**1,198**	3,937	1,800	(11)
Surplus	$ **6,375**	$ **4,499**	$ **2,226**	$ **1,336**
CONSOLIDATED STATEMENT OF ACTIVITIES HIGHLIGHTS				
Tuition and Fees (net of student aid)	$ **199,709**	$ 188,078	$ 174,927	$ 167,034
Investment, FHBO, and operational returns	**84,165**	105,188	89,002	93,928
Grants and Contracts	**364,197**	369,007	349,475	360,395
Facilities and Administrative cost recovery	**79,607**	79,742	75,705	67,687
Gifts and Pledges	**62,165**	77,878	54,627	52,492
Other Revenue	**55,205**	50,424	43,784	52,786
Auxiliary Services	**51,006**	49,449	45,517	46,278
Total Operating Revenues	$ **896,054**	$ **919,788**	$ **833,037**	$ **840,600**
Instructional Expenses	**269,966**	261,461	253,578	241,929
Sponsored Research Activity	**395,327**	394,955	375,141	378,006
Support Services	**135,463**	134,580	130,355	123,402
Auxiliary Services	**58,975**	62,414	58,781	59,090
Total Operating Expenses	$ **859,731**	$ **853,410**	$ **817,855**	$ **802,427**
Net Operating Activity	$ **36,323**	$ **66,378**	$ **15,182**	$ **38,173**
Long-term Investment Activities	**(60,933)**	233,577	76,368	(368,987)
Other non-operating activity	**(124,282)**	(51,572)	(76,241)	(133,213)
Net Non-Operating activity	$ **(185,215)**	$ **182,005**	$ **127**	$ **(502,200)**
Change in Net Assets	$ **(148,892)**	$ **248,383**	$ **15,309**	$ **(464,027)**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS				
Cash and cash equivalents	$ **133,905**	$ 105,900	$ 102,998	$ 97,959
Operating investments, at market	**87,304**	77,914	64,205	
Receivables	**171,807**	183,870	148,607	158,630
Investments (held for long-term purposes)*	**1,229,017**	1,321,428	1,161,596	1,207,168
Funds held in trust by others	**285,756**	297,768	255,729	220,656
Property, plant, equipment, and books, net of depreciation	**730,637**	745,260	770,248	795,088
Prepaid expenses and other assets	**6,979**	8,424	9,258	16,314
Total Assets	$ **2,645,405**	$ **2,740,564**	$ **2,512,641**	$ **2,495,815**
Total Liabilities	$ **820,756**	$ **767,023**	$ **787,483**	$ **785,966**
Total Net Assets	$ **1,824,649**	$ **1,973,541**	$ **1,725,158**	$ **1,709,849**
OTHER FINANCIAL INFORMATION				
Total Investments (including FHBO) at year end	$ **1,602,077**	$ 1,697,110	$ 1,481,530	$ 1,409,000
Investments payout in support of operations	**74,159**	72,536	79,106	93,928
As a % of total expenses	**8%**	8%	9%	11%
Total gifts and pledges (attainment)	$ **138,362**	$ 126,211	$ 115,529	$ 108,707
Total gifts - cash basis	**91,763**	86,189	80,855	80,073

REPORT OF INDEPENDENT AUDITORS

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Report of Independent Auditors

To the Board of Trustees
Case Western Reserve University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Case Western Reserve University (the "University") as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's June 30, 2011 financial statements, and in our report dated October 15, 2011, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 29, 2012

PricewaterhouseCoopers LLP, 200 Public Square, 18th Floor, Cleveland, OH 44114-2301
T: (216) 875 3000, F: (216) 566 7846, www.pwc.com/us

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of dollars	For the year ended June 30 2012		For the year ended June 30 2011	
ASSETS				
Cash and cash equivalents	**$**	**133,905**	$	105,900
Operating investments, at market		**87,304**		77,914
Accounts and loans receivable, net		**102,681**		121,680
Pledges receivable, net		**69,126**		62,190
Prepaid expenses and other assets		**6,979**		8,424
Investments, held for long-term purposes		**1,229,017**		1,321,428
Funds held in trust by others		**285,756**		297,768
Property, plant, equipment and books, net		**730,637**		745,260
TOTAL ASSETS	**$**	**2,645,405**	**$**	**2,740,564**
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	**$**	**66,376**	$	57,834
Deferred income and other liabilities		**61,120**		49,416
Annuities payable		**41,454**		40,623
Refundable advances		**5,449**		6,503
Accrued pension liability		**63,291**		22,582
Notes and bonds payable		**559,978**		570,179
Refundable federal student loans		**23,088**		19,886
TOTAL LIABILITIES	**$**	**820,756**	**$**	**767,023**
NET ASSETS				
Unrestricted	**$**	**146,716**	$	215,901
Temporarily restricted		**793,989**		883,118
Permanently restricted		**883,944**		874,522
TOTAL NET ASSETS	**$**	**1,824,649**	**$**	**1,973,541**
TOTAL LIABILITIES AND NET ASSETS	**$**	**2,645,405**	**$**	**2,740,564**

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

CONSOLIDATED STATEMENT OF ACTIVITIES

with summarized financial information for the year ended June 30, 2011

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	For the year ended June 30 2012	For the year ended June 30 2011
OPERATING REVENUES					
Student tuition and fees	$ 317,861			**$ 317,861**	$ 309,499
Less: Student aid	(118,152)			**(118,152)**	(121,421)
	199,709			**199,709**	188,078
Investment returns distributed for operations	60,366	$ 304	$ 163	**60,833**	59,934
FHBO returns distributed	13,326			**13,326**	12,602
Investment returns on operating investments	10,006			**10,006**	32,652
Grants and contracts	265,888			**265,888**	268,909
CCLCM grants and contracts	98,309			**98,309**	100,098
Gifts & pledges	2,539	36,959	22,667	**62,165**	77,878
State of Ohio appropriation	2,744			**2,744**	3,262
Facilities and administrative cost recovery	79,607			**79,607**	79,742
Organized activities	11,927			**11,927**	11,395
Other sources	39,895		639	**40,534**	35,789
Auxiliary services - students	39,858			**39,858**	38,742
Auxiliary services - other	11,148			**11,148**	10,707
Net assets released from restrictions	35,103	(36,745)	1,642	**-**	-
TOTAL OPERATING REVENUES	**$ 870,425**	**$ 518**	**$ 25,111**	**$ 896,054**	**$ 919,788**
OPERATING EXPENSES					
Instructional	269,966			**269,966**	261,461
Sponsored research and training	269,865			**269,865**	267,767
Other sponsored projects	27,153			**27,153**	27,090
CCLCM research and training	98,309			**98,309**	100,098
Libraries	22,279			**22,279**	22,122
Student services	22,780			**22,780**	21,886
University services	90,404			**90,404**	90,572
Auxiliary services - students	47,446			**47,446**	50,482
Auxiliary services - other	11,529			**11,529**	11,932
TOTAL OPERATING EXPENSES	**$ 859,731**	**$ -**	**$ -**	**$ 859,731**	**$ 853,410**
NET OPERATING ACTIVITY	**$ 10,694**	**$ 518**	**$ 25,111**	**$ 36,323**	**$ 66,378**
NON-OPERATING ACTIVITIES					
Long-term investment activities					
Investment (loss) income	$ (20,004)	$ 2,720	$ 1,744	**$ (15,540)**	$ 71,590
Net (depreciation) appreciation	(2,148)	(31,233)	(12,012)	**(45,393)**	161,987
Total long-term investment activities	(22,152)	(28,513)	(10,268)	**(60,933)**	233,577
Long-term investment income and gains distributed for operations	(60,366)	(304)	(163)	**(60,833)**	(59,934)
Change in liabilities due under life-income agreements			(4,472)	**(4,472)**	(2,315)
Loss on disposal of plant assets	(1,680)			**(1,680)**	(6)
Pension plan changes other than periodic benefit costs	(55,655)			**(55,655)**	10,390
Other non-operating activity	(1,642)			**(1,642)**	293
Net assets released from restrictions	61,616	(60,830)	(786)	**-**	-
NET NON-OPERATING ACTIVITY	**$ (79,879)**	**$ (89,647)**	**$ (15,689)**	**$ (185,215)**	**$ 182,005**
CHANGE IN NET ASSETS	**$ (69,185)**	**$ (89,129)**	**$ 9,422**	**$ (148,892)**	**$ 248,383**
Beginning Net Assets	215,901	883,118	874,522	**1,973,541**	1,725,158
ENDING NET ASSETS	**$ 146,716**	**$ 793,989**	**$ 883,944**	**$ 1,824,649**	**$ 1,973,541**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (148,892)	$ 248,383
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	63,356	65,364
Amortization of bond issuance costs	98	128
Amortization of bond premiums	(755)	(732)
Increase in capital appreciation notes	1,044	1,452
Net unrealized depreciation (appreciation) in the fair market value of investments	34,371	(119,688)
Realized gains on investments	(6,897)	(96,276)
Increase to annuities payable resulting from actuarial adjustments	4,472	2,315
Gifts of property and equipment	(377)	(495)
Receipt of contributed securities	(3,429)	(3,731)
Loss on disposal of plant assets	1,680	6
Contributions restricted for long-term investment	(20,729)	(18,840)
Decrease (increase) in accounts and loans receivable, net	19,938	(24,769)
Increase in pledges receivable, net	(6,936)	(9,528)
Decrease in prepaid expenses and other assets	1,346	706
Decrease (increase) in funds held in trust by others	12,012	(42,039)
Increase in accounts payable and accrued expenses	8,450	584
Increase (decrease) in deferred income and other liabilities	11,705	(3,923)
Decrease in refundable advances	(1,055)	(85)
Increase (decrease) in accrued pension liability	40,709	(9,320)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 10,111	$ (10,488)
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans		
Collected	$ 6,899	$ 6,274
Issued	(7,839)	(7,240)
Proceeds from the sale of investments	2,713,818	2,962,458
Purchase of investments	(2,654,842)	(2,916,302)
Proceeds from the sale of plant assets	1,005	2,126
Purchases of property, plant, equipment and books	(50,948)	(41,912)
NET CASH PROVIDED BY INVESTING ACTIVITIES	$ 8,093	$ 5,404
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in federal advances for student loans	$ 3,202	$ 2,976
Contributions restricted for long-term investment	20,729	18,840
Proceeds from short-term debt	15,000	-
Repayment of short-term debt	(15,000)	-
Repayment of notes and bonds payable	(10,489)	(9,839)
Increase to annuities payable resulting from new gifts	1,147	1,258
Decrease to annuities payable resulting from payments	(4,788)	(5,249)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 9,801	$ 7,986
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 28,005	$ 2,902
Cash and cash equivalents, beginning of year	105,900	102,998
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 133,905	$ 105,900
SUPPLEMENTAL DATA:		
Interest paid in cash	$ 16,968	$ 15,334
Noncash investing activities:		
Contributions of securities and other noncash assets	3,806	4,226
Change in accounts payable for fixed assets	93	101

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Case Western Reserve University (the "University") is an Ohio not-for-profit corporation that operates a private research university in Cleveland, Ohio. The consolidated financial statements of the University as of June 30, 2012, and for the year then ended, as well as summarized information for the year ended June 30, 2011, have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly-owned subsidiaries.

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

Net Asset Categories

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

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

- All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts, investment returns on unrestricted funds designated to function as endowment, recovery of facility and administrative costs from grants and contracts, and auxiliary services revenues.
- Revenues related to sponsored research and other sponsored program agreements which are considered exchange transactions.
- Unrestricted funds functioning similar to endowment and related investment returns.
- Gifts with donor-imposed restrictions, if the restriction is anticipated to be met within the current fiscal year of the University.
- Investments in plant assets.
- All expenses of the University.

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

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

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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 958, "Not for Profit

Entities," in August 2008. The standard provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and expands disclosures about an organization's endowment (both donor restricted and board designated funds). The University's Board of Trustees ("the Board") has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

Contributions

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

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

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

Grants and Contracts (Government and Private)

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

Investment Returns on Operating Investments

Beginning in fiscal 2011, the University 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.

Operating Investments, at Market

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

Investments

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

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

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

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

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

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

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

Collections

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

Funds Held in Trust by Others

Funds held in trust by others are assets held and administered by outside trustees from which the University derives income or residual interest. Funds held in trust by others are reported at their fair value as of June 30, 2012 and 2011, which approximates the present value of the future income flows from these funds.

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

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 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.

Asset Retirement Obligations

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

Allocation of Certain Expenses

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

Retirement Plans

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

Use of Estimates

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

Comparative Information

The consolidated statement of activities includes prior year summarized comparative information in total, but not by net asset category. Such information does not include enough detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ending June 30, 2011, from which it was derived.

Income Taxes

The University is exempt from federal income tax to the extent provided under section 501(c)(3) of the Internal Revenue Code. The University is classified as an organization that is not a private foundation under section 509(a) of the Internal Revenue Code because it is described in sections 509(a)(l) and 170(b)(l)(A)(ii) and, as such, gifts to the University qualify for deduction as charitable contributions. The University is exempt from federal income tax, however; it is required to pay federal income tax on unrelated business income. The University did not have any material income tax liabilities for the years ended June 30, 2012 and 2011. 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, 2012 and 2011.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation.

2. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable of the University at June 30, 2012 and 2011, in thousands of dollars, were as follows:

	2012	2011
ACCOUNTS RECEIVABLE, NET		
Grants, contracts and others	**$ 49,414**	$ 69,051
Students	**1,934**	2,697
STUDENT LOANS, NET	**51,333**	49,932
ACCOUNTS AND LOANS RECEIVABLE, NET	**$ 102,681**	**$ 121,680**
Allowances for doubtful accounts:		
Accounts receivable	**$ 3,496**	$ 3,322
Loans receivable	**$ 2,076**	$ 1,751

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 losses to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for doubtful accounts at June 30, 2012 is adequate to absorb credit losses inherent in the portfolio as of that date.

3. PLEDGES RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Multi-year pledges are recorded after discounting to the present value of expected future cash flows. Unconditional promises to give at June 30, 2012 and 2011, are expected to be realized in the following periods:

	2012	2011
In one year or less	**$ 11,173**	$ 9,327
Between one year and five years	**55,015**	45,567
More than five years	**13,805**	18,521
	79,993	73,415
Less: Discount	**(6,911)**	(7,584)
Less: Allowance	**(3,956)**	(3,641)
TOTAL PLEDGES RECEIVABLE, NET	**$ 69,126**	**$ 62,190**

Management follows a similar approach as described in Note 2 for accounts and loans receivable in evaluating the adequacy of the allowance for doubtful accounts for pledges receivable. Management considers the allowance for doubtful accounts losses to be prudent and reasonable. Management believes that the allowance for doubtful accounts at June 30, 2012 is adequate to absorb any uncollectible pledges as of that date.

Pledges receivable at June 30, 2012 and 2011, had the following restrictions:

	2012	2011
Department programs and activities	**$ 32,277**	$ 26,011
Endowments for scholarships and department programs and activities	**18,270**	17,337
Building construction	**18,579**	18,842
TOTAL PLEDGES RECEIVABLE, NET	**$ 69,126**	**$ 62,190**

Pledges have been discounted at the market rate. Uncollectible pledges totaling $4,042 (2012) and $2,314 (2011) were written off against the allowance for uncollectible pledges.

The University had conditional pledge commitments totaling $48,048 (2012) and $40,891 (2011).

4. LONG TERM INVESTMENTS

The University holds long term investments for permanently restricted endowment funds, donor restricted funds, annuity assets, Board designated funds and excess operating assets that are able to be invested in longer term investments. The University invests through traditional investments as well as operating an investment pool that works similar to a mutual fund (see Note 5). The University's long term investments at June 30, 2012 and 2011, were as follows:

	2012	2011
Operating investments, at market	**$ 87,304**	$ 77,914
Investments, held for long term purposes	**1,229,017**	1,321,428
TOTAL INVESTMENTS	**$ 1,316,321**	**$ 1,399,342**

	2012	2011
Cash & cash equivalents	**$ 53,799**	$ 207,530
Domestic stocks	**68,117**	56,716
International securities	**36,444**	41,686
Bonds		
Government and municipal	**28,503**	13,816
Corporate	**26,947**	30,164
Mutual funds	**183,080**	186,435
Derivatives	**11,217**	1,150
Limited partnerships and other		
Venture capital	**78,331**	77,945
Private equity	**267,556**	278,205
Hedge funds	**412,188**	359,101
Other	**48,521**	44,244
Equity real estate	**101,618**	102,350
TOTAL INVESTMENTS	**$ 1,316,321**	**$ 1,399,342**

The investments were held for the following purposes:

	2012	2011
Endowment	**$ 911,980**	$ 964,548
Donor restricted funds	**247,219**	295,186
University investments	**97,499**	78,661
Annuities	**51,450**	52,673
Funds held for the benefit of others	**7,856**	7,971
Agency funds	**317**	303
TOTAL INVESTMENTS	**$ 1,316,321**	**$ 1,399,342**

5. ENDOWMENT AND SIMILAR FUNDS

Endowment Funds

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

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 permanently restricted net assets:

- The original value of initial gifts donated to the permanent endowment.
- The original value of subsequent gifts to the permanent endowment.
- For those endowment funds with donor-specified reinvestment provisions, accumulations to the permanent endowment made in accordance with the gift instrument at the time the accumulation is added to the fund.

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

Similar Funds

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Donor restricted endowment funds	$ (20,079)	$ 452,087	$ 531,255	**$ 963,263**	$ 1,016,382
Donor temporarily restricted funds	-	260,630	-	**260,630**	283,637
TOTAL ENDOWMENT AND SIMILAR FUNDS	**$ (20,079)**	**$ 712,717**	**$ 531,255**	**$ 1,223,893**	**$ 1,300,019**

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.

18 | NOTES TO THE FINANCIAL STATEMENTS – in thousands of dollars

Prior to 2012, a unit market value for the pool was used to account for pooled transactions. The unit market value at June 30, 2011 was $41.68 (2011); however, beginning in fiscal year 2012, the pool is accounted for on a dollarized method of accounting similar to a money market fund where each unit is worth $1 and accounted for on a per endowment or account basis. The total investment return for the pooled investments, net of external manager fees, approximated -1.58% (2012) and 18.82% (2011).

Spending Policy

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

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

Specific appropriation for expenditure of funds under the policy occurs each spring when the Board approves the operating budget for the following year. The fiscal 2012 pooled endowment and similar funds spending allocation approximated 4.76% of beginning market value totaling $63,769. For fiscal 2011, pooled endowment and similar funds spending allocation was $2.015 per unit totaling $63,846.

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

For years where actual investment return exceeds actual approved spending, the difference remains in temporarily restricted net assets; years in which the actual endowment and similar funds return is less than distributions under the policy, the shortfall is covered by realized returns from prior years. The fiscal 2012, pooled endowment and similar funds distribution was funded from a combination of current year investment income and prior year accumulated realized gains. For fiscal 2011, pooled endowment and similar funds distribution was funded from current year investment income.

In addition to the general distribution described above, the Board has authorized a temporary supplemental distribution of previously reinvested income and realized appreciation to support certain development-related activities. This distribution, which is slated to phase out by 2015, totaled $7,900 in both 2012 and 2011.

Changes in endowment and similar funds net assets for fiscal year 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Endowment and similar funds net assets, beginning of year	$ (8,018)	$ 797,937	$ 510,100	**$ 1,300,019**	$ 1,154,155
Investment income	-	12,523	163	**12,686**	16,256
Realized and unrealized gains	-	(32,292)	-	**(32,292)**	182,702
TOTAL INVESTMENT RETURN	-	(19,769)	163	**(19,606)**	198,958
Contributions	-	1,215	21,655	**22,870**	23,396
Current year withdrawals	-	(8,241)	(663)	**(8,904)**	(6,532)
Current year expenditures	-	(70,486)	-	**(70,486)**	(69,958)
Reclassification of deficits in donor-designated funds	(12,061)	12,061	-	**-**	-
ENDOWMENT AND SIMILAR FUNDS NET ASSETS, END OF YEAR	**$ (20,079)**	**$ 712,717**	**$ 531,255**	**$ 1,223,893**	**$ 1,300,019**

Occasionally, the fair market value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift amounts. When deficits exist in donor-restricted funds, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $20,079 (2012) and $8,018 (2011). These deficits resulted from unfavorable market fluctuations that occurred after the investment of recently established endowments, and authorized appropriation that was deemed prudent.

Of the amount classified as temporarily restricted endowment net assets, $452,087 (2012) and $514,300 (2011) represents the portion of perpetual endowment funds subject to time and purpose restrictions under Ohio's enacted version of UPMIFA.

20 | NOTES TO THE FINANCIAL STATEMENTS – in thousands of dollars

6. FAIR VALUE MEASUREMENTS

Financial instruments carried at fair market value as of June 30, 2012 and 2011 by the ASC 820 valuation hierarchy are as follows:

June 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 46,979	$ 6,820	$ -	**$ 53,799**
Domestic stocks	27,238	11,355	29,524	**68,117**
International securities	10	25,026	11,408	**36,444**
Bonds				
Government and municipal	-	28,503	-	**28,503**
Corporate	-	26,947	-	**26,947**
Mutual funds	174,413	8,435	232	**183,080**
Derivatives	-	11,217	-	**11,217**
Limited partnerships and other				
Venture capital	-	-	78,331	**78,331**
Private equity	-	-	267,556	**267,556**
Hedge funds	-	79,309	332,879	**412,188**
Other	146	391	47,984	**48,521**
Equity real estate	213	-	101,405	**101,618**
TOTAL INVESTMENTS	**$ 248,999**	**$ 198,003**	**$ 869,319**	**$ 1,316,321**
FUNDS HELD IN TRUST BY OTHERS	**-**	**-**	**$ 285,756**	**$ 285,756**
PENSION PLAN ASSETS (Note 9)				
Cash & cash equivalents	$ 13,448	$ -	$ -	**$ 13,448**
Mutual funds	46,237	-	-	**46,237**
Limited partnerships and Other				
Hedge funds	-	55,071	5,092	**60,163**
Other	-	-	383	**383**
Equity real estate	-	-	4,814	**4,814**
TOTAL PENSION PLAN ASSETS (Note 10)	**$ 59,686**	**$ 55,071**	**$ 10,289**	**$ 125,046**
ASSETS AT FAIR VALUE	**$ 308,685**	**$ 253,074**	**$ 1,165,364**	**$ 1,727,123**
Interest rate swaps payable	$ -	$ 34,038	$ -	**$ 34,038**
LIABILITIES AT FAIR VALUE	**$ -**	**$ 34,038**	**$ -**	**$ 34,038**

June 30, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
INVESTMENTS				
Cash & cash equivalents	$ 48,432	$ 159,098	$ -	**$ 207,530**
Domestic stocks	28,928	11,263	16,525	**56,716**
International securities	96	31,037	10,553	**41,686**
Bonds				
Government and municipal	5	13,811	-	**13,816**
Corporate	4,956	25,208	-	**30,164**
Mutual funds	156,791	29,488	156	**186,435**
Derivatives	-	1,150	-	**1,150**
Limited partnerships and other				
Venture capital	-	-	77,945	**77,945**
Private equity	-	-	278,205	**278,205**
Hedge funds	-	101,289	257,812	**359,101**
Other	146	74	44,024	**44,244**
Equity real estate	213	-	102,137	**102,350**
TOTAL INVESTMENTS	**$ 239,567**	**$ 372,418**	**$ 787,357**	**$ 1,399,342**
FUNDS HELD IN TRUST BY OTHERS	**-**	**-**	**$ 297,768**	**$ 297,768**
PENSION PLAN ASSETS (Note 9)				
Cash & cash equivalents	$ 1,759	$ -	$ -	**$ 1,759**
Mutual funds	42,619	-	-	**42,619**
Limited partnerships and Other				
Hedge funds	-	-	53,358	**53,358**
Other	-	-	2,215	**2,215**
Equity real estate	-	-	4,334	**4,334**
TOTAL PENSION PLAN ASSETS (Note 10)	**$ 44,378**	**$ -**	**$ 59,907**	**$ 104,285**
ASSETS AT FAIR VALUE	**$ 283,945**	**$ 372,418**	**$ 1,145,032**	**$ 1,801,395**
Interest rate swaps payable	$ -	$ 20,571	$ -	**$ 20,571**
LIABILITIES AT FAIR VALUE	**$ -**	**$ 20,571**	**$ -**	**$ 20,571**

Level 2 Investment Information

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

Level 3 Investment Information

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

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

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

	Mutual Funds & Domestic Stocks	Int'l Securities	Venture Capital	Private Equity	Hedge Funds	Equity Real Estate	Other & Funds Held by Others	Total
Beginning balance, July 1, 2011	$ 16,681	$ 10,553	$ 77,945	$ 278,205	$ 311,170	$ 106,471	$ 344,007	**$1,145,032**
Realized gains (losses) and investment income	(1,154)	-	2,300	17,902	4,291	1,792	661	**25,792**
Unrealized gains (losses)	11,383	855	387	(12,058)	110	3,188	(15,401)	**(11,536)**
Purchases	7,355	-	13,668	36,078	127,000	11,897	8,776	**204,774**
Settlements	(4,509)	-	(15,969)	(52,571)	(51,242)	(17,129)	(3,920)	**(145,340)**
Transfers out of Level 3	-	-	-	-	(53,358)	-	-	**(53,358)**
ENDING BALANCE, JUNE 30, 2012	**$ 29,756**	**$ 11,408**	**$ 78,331**	**$ 267,556**	**$ 337,971**	**$ 106,219**	**$ 334,123**	**$1,165,364**

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

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

As a practical matter, the University is permitted under U.S. generally accepted accounting principles ("US GAAP") to estimate the fair value of an investment at the measurement date using the reported net asset value ("NAV") without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real estate and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

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

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

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Stocks (a)	$ 39,898		quarterly, annually	45 - 90 days
International Securities (b)	35,887		monthly, quarterly	30 - 90 days
Corporate Bonds (c)	15,808		monthly	30 days
Limited partnerships and other				
Venture capital (d)	78,331	$ 20,948		
Private equity (e)	267,556	68,003	quarterly, annually	
Hedge funds (f)	352,708	-	monthly, quarterly, annually	30 - 90 days
Other (g)	47,984	33,494		
Equity real estate (h)	101,405	53,297		
TOTAL	**$ 939,577**	**$ 175,742**		

(a) Domestic stocks include equity securities domiciled in the United States. Fund liquidity is daily, monthly, quarterly, semi-annual, annual, and up to a maximum period of two years. Approximately 53% of domestic equity exposure is accessible within six months or less; with 26% accessible on a daily basis. Approximately 14% of the net asset value in this class has a lock up period of February 1, 2013.

(b) International securities include equity securities domiciled in countries outside of the United States including developed and emerging markets.

Approximately 48% of the net asset value can be accessed on a daily basis after October of 2012, 16% can be accessed on a quarterly basis, and the remaining balance over a period of 1-3 years, most of which being accessible over the next 1-2 years.

(c) Corporate bonds include funds that invest in fixed income securities in Fortune 500 companies. 1/3 of the fund may be liquidated every 30 days.

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

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

(f) Hedge funds includes hedge fund investments across a multitude of strategies including long/short equity, long/short commodity, global macro, multi-strategy, event-driven, credit, fund of hedge funds, and emerging markets. The vast majority of these investments are U.S. based, but some may invest internationally. Investment managers may make investment decisions based on top down macroeconomic analysis or bottom up company or theme specific analysis; managers may shift portfolios from net long to net short positioning but on balance tend to carry a net long exposure within their portfolios. The estimated fair values of the investments are received on a monthly basis from the fund administrators. Final valuations are typically received around mid-month for most funds but in some instances funds will report final valuations on a quarterly basis in accordance with the reporting period specified in the fund legal documents. Fund liquidity varies across the hedge fund category from monthly, quarterly, annually, and up to a maximum period of three years. Approximately 33% of the net asset value in this class has a lock up period ranging from three to fourteen months from June 30, 2012

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

(h) Equity real estate includes private real estate funds that invest primarily in the United States. Some of these private partnerships also make investments internationally, primarily in Europe, India and Brazil. The private funds make investments in various real estate types, such as office, industrial, retail and multi-family properties. The valuations for these investments have been estimated using the manager's fair market values, which have been vetted to make sure they meet the ASC 820 guidelines. These investments can never be redeemed with the funds. As these investments age in duration, distributions will be received from these funds as the underlying properties are sold in the market. It is estimated that the underlying investments within the funds would be fully liquidated over the next 5-7 years.

Derivative Information

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

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

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

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

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

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

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

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

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

Commodity risk – refers to the uncertainties of future market values and the size of future income caused by fluctuation in the prices of commodities (energy, agricultural, precious and industrial metals) due to demand/supply imbalances.

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

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

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

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

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

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

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

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

Futures: An Equity Index Future is a standardized obligation to buy or sell a market index, at a certain date in the future (settlement date), at a specified price (futures price). Equity Index Futures are typically cash-settled. Trading Medium: Exchange A single clearing house (e.g., Options Clearing Corporation, for the Chicago Board Options Exchange) is the counterparty to both parties involved in the contract. Futures trade a premium or discount to the cash index level based on the following theoretical formula: Futures Fair Value = Cash Index Value + Expected Interest Income prior to contract expiry - Expected Dividend Income prior to contract expiry – Expected Lending Income prior to contract expiration. The value of a futures contract converges to that of the underlying index at expiration. The investor posts an initial margin and a maintenance margin which represents a small portion of the overall notional value (usually 12%-18% of the notional value). Collateral between the counterparties is exchanged daily based on the mark to market performance of the futures contract. Used to gain beta exposure to an index on the long side and to hedge out beta exposure on the short side. Used primarily as a manager replacement strategy.

Total Return Swap (TRS): A TRS is a non-standardized agreement whereby one party makes periodic cash payments based on a set rate (e.g., LIBOR) while another party makes periodic cash payments based on the total return of an underlying index. The total return payer agrees to pay the total return of the underlying index to the total return receiver. The total return receiver agrees to receive future total return, and pay periodic payments to the total return payer. Trading Medium: Over-The-Counter (OTC).

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

Options: Options or Option structures are non-standardized agreements whereby one party makes or receives one payment at the time of initial transaction to/from a counterparty and may make or receive a second payment to/from the counterparty at the expiration date of the agreement based on an individual option or a combination of individual options. Trading Medium: Over-The-Counter (OTC). Transacted via ISDA/CSA agreement between counterparties. Subject to counterparty credit risk; if collateral is posted between parties, counterparty credit risk can be mitigated. Options/Option structures allow investors to customize the risk/return profile of existing portfolios. For example: Investors who are underweight equities and have a moderately positive outlook can obtain enhanced equity exposure by capping returns with or without a leveraged payoff. More bearish investors can opt for downside protection to reduce risk. Collateral between the counterparties is exchanged daily based on the mark to market performance of the Option or Option Structure. At maturity the Option or Option structure is cash settled. Prior to maturity, Options/Option structures may trade above or below their intrinsic value due to various factors such as time, volatility, interest rates, skew, delta, gamma etc. The value eventually converges to intrinsic value at maturity. Used for beta replacement strategies, alpha strategies or hedging strategies.

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

			2012		
Location	Derivative Type	Notional Amount	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value
Investments					
	Total return swaps	$ 107,264	$ -	$ 4,902	$ -
	Options (over-the-counter)	26,363	-	5,864	-
	Interest rate hedges	78,187	-	316	-
	Yield curve hedges	145,471	-	135	-
TOTAL DERIVATIVES, 2012			**$ -**	**$ 11,217**	**$ -**

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

The following table provides detailed information on the effect the derivatives had on the overall performance of the investment portfolio which is reflected in the consolidated statement of activities:

Location	Derivative Type	2012	2011
Investment Income			
	Options (over the counter)	**$ (27,738)**	$ 48,254
	Futures contracts	**(10,255)**	27,029
		$ (37,993)	**$ 75,283**
Unrealized gains (losses)			
	Options (over the counter)	**$ (4,613)**	$ (1,133)
	Total return swaps	**(2,866)**	230
		$ (7,479)	**$ (903)**
EFFECT OF DERIVATIVES		**$ (45,472)**	**$ 74,380**

7. PROPERTY, PLANT, EQUIPMENT, AND BOOKS

Property, plant, equipment and books are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of 40 years for buildings, 5 to 12 years for equipment, and 10 years for books.

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

	2012	2011
Land and land improvements	**$ 38,359**	$ 38,875
Building and building improvements	**1,137,051**	1,129,256
Equipment and software	**266,343**	284,847
Library books	**37,067**	35,865
Construction-in-progress	**27,818**	7,898
	1,506,638	**1,496,741**
Less: accumulated depreciation	**(776,001)**	(751,481)
TOTAL PROPERTY, PLANT, EQUIPMENT AND BOOKS, NET	**$ 730,637**	**$ 745,260**

The above assets include $492,376 leased from the Ohio Higher Education Facility Commission (OHEFC). The University may purchase each of the leased assets for a nominal amount at the end of the lease period. Therefore, these assets have been capitalized and are included in the above listing. Also included in the University's consolidated financial statements is the obligation for related bonds issued by the OHEFC.

Depreciation expense included in the Statement of Activities is $63,356 (2012) and $65,364 (2011).

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8. NOTES AND BONDS PAYABLE

Notes and bonds payable are as follows:

		Interest Rate	Maturity	2012	2011
Ohio Higher Education Facility Commission revenue notes and bonds:	Series 1988	7.85 - 7.90%	2011-2013	**$ 12,334**	$ 17,821
	Series 1990	6.50 - 7.13%	2011-2020	**11,650**	11,650
	Series 1994	6.00 - 6.25%	2014-2018	**20,000**	20,000
	Series 1997	4.90 - 6.25%	2011-2014	**5,105**	6,525
	Series 2001	Variable	2011-2022	**12,200**	12,615
	Series 2002A	Variable	2023-2031	**64,875**	64,875
	Series 2004A	3.625 - 5.00%	2016-2034	**75,670**	75,670
	Series 2006	3.75 - 5.25%	2012-2044	**82,490**	82,490
	Series 2008A	Variable	2030-2044	**60,000**	60,000
	Series 2008B	Variable	2030-2044	**67,500**	67,500
	Series 2008C	4.00 - 5.00%	2014-2033	**50,490**	50,490
U.S. Government housing bonds:	Series 1966	3.00 - 3.50%	2011-2016	**535**	665
	Series 1971	3.00%	2011-2016	**-**	535
Ohio Higher Education Facility Commission commercial paper:		.25 - .43%	2030	**63,000**	63,000
Ohio Higher Education Facility Commission capital lease:		6.75%	2011-2018	**467**	543
		4.12%	2011-2018	**5,205**	5,890
Compass Group USA, Inc.		-n/a-	2011-2019	**2,400**	2,850
HUD Loan:	Part A	4.96%	2011-2041	**12,082**	12,268
	Part B	5.33%	2011-2041	**4,163**	4,224
TOTAL LIABILITY				**550,166**	**559,611**
Unamortized Bond Premium					
Ohio Higher Education Facility Commission:	Series 2004A			**1,703**	1,860
	Series 2006			**6,487**	6,909
	Series 2008C			**1,622**	1,799
TOTAL UNAMORTIZED BOND PREMIUM				**$ 9,812**	**$ 10,568**
TOTAL NOTES AND BONDS PAYABLE				**$ 559,978**	**$ 570,179**

The fair market value of the University's notes and bonds payable is approximately $578,290 (2012) and $575,020 (2011). These values were estimated utilizing the discounted future cash outflows at rates for similar debt.

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

The Ohio Higher Education Facility Commission (OHEFC) authorized a $63,000 tax-exempt commercial paper program in February 2000 to provide construction funds for several approved capital projects and to refinance earlier projects. In November 2008, the OHEFC authorized a $27,000 expansion of that program, to a total size of $90,000, to provide funding for future projects. The University has issued no additional commercial paper pursuant to the $27,000 of new authority, and the amount outstanding under this program as of June 30 is $63,000, with maturities not exceeding 270 days from the issuance date. All commercial paper issued under the terms of the program must mature no later than February 1, 2030. The annualized interest cost and credit facility expense for this program was 0.83% (2012) and 0.97% (2011).

The University has total revolving lines of credit in the amount of $60,000 with two financial institutions of $30,000 each to finance working capital. Both lines are subject to review and renewal annually. There were no amounts outstanding at June 30, 2012.

In May 2008, the OHEFC series 2008 bonds were issued to refinance the OHEFC series 2004B bonds. The amount refinanced was $177,826. The variable portion of the debt is supported by two lines of credit with financial institutions. The unamortized balance of deferred financing fees is included in prepaid expenses and other assets. The balance was $1,242 (2012) and $1,284 (2011).

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

Year	Scheduled Principal Payments	Outstanding VRDO's	Total Maximum Principal Payments
2013	$ 11,351	$ 111,915	**$ 123,266**
2014	11,182	48,915	**60,097**
2015	11,755	48,915	**60,670**
2016	12,593	28,915	**41,508**
2017	13,434	28,915	**42,349**
Thereafter	489,851	(267,575)	**222,276**
TOTAL	**$ 550,166**	**$ -**	**$ 550,166**

The University has letter of credit agreements, standby bond purchase agreements and a liquidity agreement with various financial institutions to purchase the University's variable rate demand obligations ("VRDO's") and commercial paper if they cannot be remarketed. Outstanding VRDO's in the above table represent amounts payable in the event that bonds are tendered but not successfully remarketed.

Interest expense, including those amounts for interest rate swap agreements (Note 12), was $21,090 (2012) and $22,812 (2011).

Certain borrowing agreements require that the University comply with certain covenants. The University is in compliance with these provisions as of June 30, 2012.

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9. RETIREMENT PLANS

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

	2012	2011
Benefit obligation at June 30	**$ 188,337**	$ 126,867
Fair value of plan assets at June 30	**125,046**	104,285
FUNDED STATUS AT JUNE 30	**$ (63,291)**	**$ (22,582)**
Accumulated benefit obligation	**$ 186,742**	$ 125,983

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

	2012	2011
Net periodic benefit cost	**$ 6,167**	$ 5,486
Employer contributions	**21,113**	4,416
Benefits paid	**3,681**	5,192

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

Fiscal 2013	$	4,377
Fiscal 2014	$	5,047
Fiscal 2015	$	4,961
Fiscal 2016	$	5,706
Fiscal 2017	$	6,058

Amounts expected to be paid between 2018 and 2022 total $39,217. The University's estimated employer contribution for the defined benefit plan in fiscal 2013 will depend on the results of the July 1, 2012 actuarial valuation and is estimated to be $9,200.

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

	2012	2011
BENEFIT OBLIGATION		
Discount rate	**4.50%**	6.00%
Rate of compensation increase	**4.25%**	4.25%
Measurement date	**6/30/12**	6/30/11
Census date	**7/1/11**	7/1/10
NET PERIODIC BENEFIT COST		
Discount rate	**6.00%**	6.25%
Expected return on plan assets	**8.50%**	8.50%
Rate of compensation increase	**4.25%**	4.25%

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. The expected return on equities was computed utilizing a valuation framework that projected future returns based on current equity valuations rather than historical returns. Management estimated the rate by which the plan assets would outperform the market in the future based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on equities compared to past periods.

The investment objective for the defined benefit plan is to maximize total return with tolerance for slightly above average risk, in order to meet the obligations that the University has to its plan beneficiaries. To accomplish this objective, the University has established a broadly-diversified asset allocation strategy that includes absolute return strategies (combination of fixed income and equity securities) (50%), equity investments (30%), bonds and cash (16%), and real estate (4%). 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:

	2012	2011
Equity securities	**60.00%**	63.00%
Fixed income securities	**25.00%**	31.00%
Real estate	**4.00%**	4.00%
Other	**11.00%**	2.00%
TOTAL ASSET ALLOCATION	**100.00%**	**100.00%**

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

	2012	2011
STATEMENT OF FINANCIAL POSITION		
NET LIABILITY	**$ (63,291)**	**$ (22,582)**
UNRESTRICTED NET ASSETS		
Prior service costs	**$ 160**	$ 398
Actuarial losses	**83,555**	27,662
AMOUNT RECOGNIZED AS REDUCTION OF UNRESTRICTED NET ASSETS	**$ 83,715**	**$ 28,060**

The estimated amortization of prior year service costs expected in fiscal 2013 totals $160.

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

	2012	2011
Change in actuarial losses	**$ 55,893**	$ (10,104)
Amortization of prior service cost	**(238)**	(286)
TOTAL (GAIN) LOSS RECOGNIZED, UNRESTRICTED NET ASSETS	**55,655**	(10,390)
Net periodic benefit cost	**6,167**	5,486
Employer contributions	**(21,113)**	(4,416)
TOTAL (GAIN) LOSS RECOGNIZED, STATEMENT OF ACTIVITIES	$ 40,709	$ (9,320)

Benefit plan costs for the defined contribution plan are $19,499 (2012) and $18,833 (2011).

10. COMMITMENTS AND CONTINGENCIES

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

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

In May 2002, the University entered into an agreement with the Cleveland Clinic Foundation ("CCF") to form a new medical education and research program, the Cleveland Clinic Lerner College of Medicine ("CCLCM"). Beginning in 2004, research grants from the National Institutes of Health to support work by CCF-based investigators were awarded to and administered through the University by CCLCM, which operates as an academic unit of the School of Medicine. Expenditures for research conducted under this joint agreement totaled $98,309 (2012) and $100,098 (2011).

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

The expected cost to complete construction in progress is approximately $19,825.

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11. RELATED PARTY TRANSACTION

In 1998, the University entered into a thirty-year agreement with the Medical Center Company (a cooperative utility company formed by and serving institutions in the University Circle area) to purchase chilled water and other utilities for several University buildings. The amounts purchased were $21,998 (2012) and $23,108 (2011). No obligation associated with this agreement is recorded in the accompanying consolidated financial statements.

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

The University follows accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements, including derivatives. The University's interest rate swaps are valued by an 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.

At June 30, 2012 the University has five interest rate swap agreements. Net payments or receipts under the swap agreements are recorded as adjustments to investment and other income and the incremental expense is disclosed in the table below. Under one agreement in effect at June 30, 2012, the counterparty pays the University a variable interest rate equal to the Securities Industry and Financial Markets Association (SIFMA) index, and under four other agreements, the counterparty pays a variable interest rate equal to a percentage of the one month London Interbank Offered Rate (LIBOR).

The following table provides detailed information on the interest rate swaps at June 30, 2012, with comparative fair values for June 30, 2011. The number of swaps is reported based on notional amount. Information related to the interest rate swap agreements to which the University is a party, including the associated OHEFC borrowing, where applicable, and the liability recognized in the consolidated statements of financial position in deferred income and other liabilities are as follows:

Notional Amount	Interest Rate	Commencement	Termination Date	Basis	2012	2011
					Level 2 Fair Market Value	
$ 12,200	4.34%	Aug. 12, 2004	Oct.1, 2022	LIBOR	**$ (2,646)**	$ (1,507)
15,000	4.43%	Jun. 5, 2002	Jun. 5, 2022	LIBOR	**(4,321)**	(2,945)
15,000	3.60%	Sept. 25, 2002	Sept. 25, 2022	LIBOR	**(3,254)**	(1,799)
35,000	3.81%	Aug. 4, 2004	Aug. 1, 2034	LIBOR	**(11,795)**	(5,615)
100,000	3.37%	Jan. 3, 2012	Jan. 1, 2017	SIFMA	**(12,022)**	-
100,000	3.37%	Jan. 2, 2007	Jan. 1, 2012	SIFMA	**-**	(1,850)
100,000	3.37%	Jan. 1, 2012	Jan. 1, 2017	SIFMA	**-**	(6,855)
TOTAL INTEREST RATE SWAP AGREEMENT LIABILITY					**$ (34,038)**	**$ (20,571)**

Changes in the fair value of derivative instruments are recorded in non-operating revenues and expenses as investment and other income. The provisions of the swap agreements require that on a weekly basis the University place into an escrow fund collateral sufficient to limit the counter-party's financial exposure to the University to no more than $20,000. The University had placed $17,796 (2012) and $2,472 (2011) into such a fund, which is shown in Cash and cash equivalents on the consolidated statements of financial position.

Interest expense recorded for the swap agreements in the non-operating activities for the year ended June 30 was $6,161 in 2012 and $6,038 in 2011.

13. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through September 29, 2012, the date on which the consolidated financial statements were issued. As of the issuance of these financial statements, the University has begun the underwriting process to issue up to $30 million of State of Ohio Higher Education Facility Revenue Refunding Bonds. The bond proceeds will be placed into escrow to refund certain portions of certain outstanding State of Ohio Higher Educational Facility Revenue Bonds Series 2004A as well as portions of obligations under a Master Lease and Sublease in the Ohio Higher Education Facility Commission capital lease. All proceeds will be used for refinancing and will not be used for additional spending or placed on the statement of financial position. This issuance is expected to be concluded in the 2nd quarter of Fiscal Year 2013.

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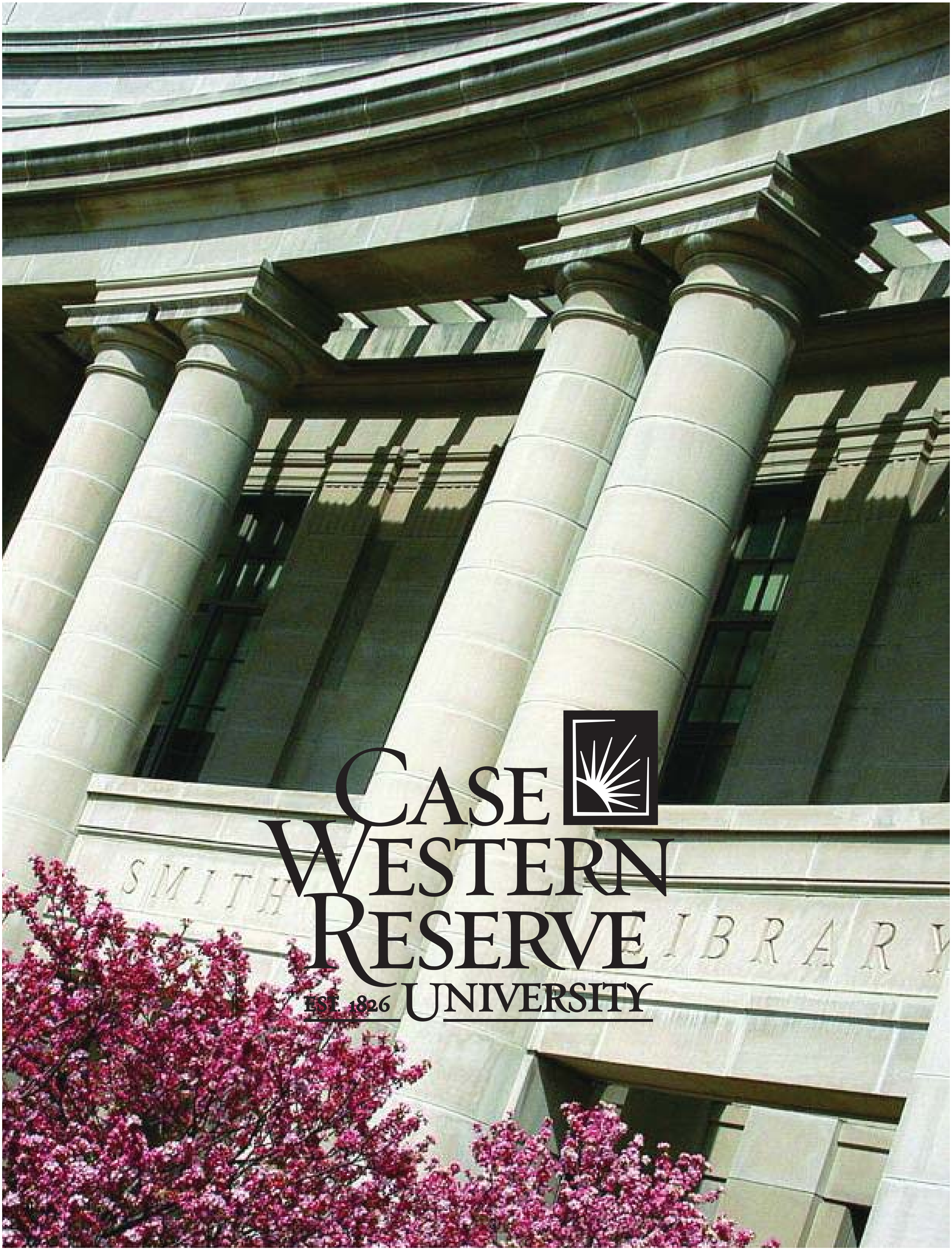
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