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## ERN RESERVE UNIVERSITY

Federal Awards In Accordance  
Circular A-133 For the Year Ended  
2006

entification  
N 1-341018992-A1

CASE WESTERN RESERVE UNIVERSITY  
REPORT ON FEDERAL AWARDS IN ACCORDANCE  
WITH OMB CIRCULAR A-133

June 30, 2006

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**FINANCIAL**



CASE WESTERN RESERVE UNIVERSITY  
Balance Sheet  
June 30, 2006 and 2005  
(in thousands)

|   | <u>June 30, 2006</u> | Restated<br>June 30, 2005 |
|---|----------------------|---------------------------|
| <b>Assets</b>                               |                      |                           |
| Cash and temporary investments              | \$ 111,907           | \$ 61,954                 |
| Accounts and loans receivable, net          | 130,229              | 127,340                   |
| Securities pledged under lending agreements | 91,812               | 50,578                    |
| Pledges receivable, net                     | 67,272               | 63,237                    |
| Prepaid expenses and other assets           | 15,116               | 15,948                    |
| Intangible assets                           | 2,028                | 2,493                     |
| Investments                                 | 1,395,630            | 1,419,948                 |
| Property, plant, equipment and books, net   | 822,029              | 770,906                   |
| Funds held in trust by others               | 295,404              | 281,778                   |
| <b>Total assets</b>                         | <u>\$ 2,931,427</u>  | \$ 2,794,182              |
| <b>Liabilities</b>                          |                      |                           |
| Accounts payable and accrued expenses       | \$ 55,788            | \$ 68,212                 |
| Deferred income and deposits                | 27,825               | 25,973                    |
| Payable under securities lending agreements | 93,874               | 52,530                    |
| Annuities payable                           | 51,685               | 49,995                    |
| Refundable advances                         | 8,423                | 7,785                     |
| Minimum pension liability                   | 7,509                | 24,811                    |
| Bonds and notes payable                     | 619,263              | 594,234                   |
| Refundable federal student loans            | 17,271               | 18,395                    |
| <b>Total liabilities</b>                    | <u>881,638</u>       | 841,935                   |
| <b>Net Assets</b>                           |                      |                           |
| Unrestricted                                | 1,202,264            | 1,127,435                 |
| Temporarily restricted                      | 46,921               | 40,284                    |
| Permanently restricted                      | 800,604              | 784,528                   |
| <b>Total net assets</b>                     | <u>2,049,789</u>     | 1,952,247                 |
| <b>Total liabilities and net assets</b>     | <u>\$ 2,931,427</u>  | \$ 2,794,182              |

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

CASE WESTERN RESERVE UNIVERSITY

Statement of Activities

For the Year Ended June 30, 2006

(with summarized financial information for the year ended June 30, 2005)

(in thousands)

|   | Unrestricted | Temporarily Restricted | Permanently Restricted | Year Ended<br>June 30, 2006 | Year Ended<br>June 30, 2005 |
|---|--------------|------------------------|------------------------|-----------------------------|-----------------------------|
| <b>Operating revenues</b>                                 |              |                        |                        |                             |                             |
| Student tuition and fees                                  | \$ 228,752   |                        |                        | \$ 228,752                  | \$ 203,062                  |
| Less: Student aid   | (89,661)     |                        |                        | (89,661)                    | (77,066)                    |
|   | 139,091      |                        |                        | 139,091                     | 125,996                     |
| Endowment income  | 74,874       |                        | \$ 335                 | 75,209                      | 81,070                      |
| Grants and contracts                                      | 253,769      |                        |                        | 253,769                     | 253,438                     |
| CCLCM grants and contracts                                | 86,075       |                        |                        | 86,075                      | 68,382                      |
| Gifts and pledges   | 21,473       | 18,508                 | 2,927                  | 42,908                      | 55,373                      |
| State of Ohio appropriation                               | 3,900        |                        |                        | 3,900                       | 3,962                       |
| Facilities and administrative cost recovery               | 67,045       |                        |                        | 67,045                      | 66,612                      |
| Organized activities                                      | 9,019        |                        |                        | 9,019                       | 8,677                       |
| Other sources   | 30,853       |                        | 414                    | 31,267                      | 13,296                      |
| Auxiliary services  | 31,554       |                        |                        | 31,554                      | 25,884                      |
| Net assets released from restrictions                     | 12,142       | (11,871)               | (271)                  | -                           | -                           |
| Total operating revenues                                  | 729,795      | 6,637                  | 3,405                  | 739,837                     | 702,690                     |
| <b>Operating expenses</b>                                 |              |                        |                        |                             |                             |
| Instructional   | 242,435      |                        |                        | 242,435                     | 208,740                     |
| Sponsored research and training                           | 232,730      |                        |                        | 232,730                     | 226,766                     |
| Other sponsored projects                                  | 33,651       |                        |                        | 33,651                      | 42,102                      |
| CCLCM grants and contracts                                | 86,075       |                        |                        | 86,075                      | 68,382                      |
| Libraries   | 20,708       |                        |                        | 20,708                      | 19,796                      |
| Student services  | 20,719       |                        |                        | 20,719                      | 20,695                      |
| University services                                       | 84,975       |                        |                        | 84,975                      | 94,100                      |
| Auxiliary enterprises - students                          | 32,878       |                        |                        | 32,878                      | 23,947                      |
| Auxiliary enterprises - other                             | 25,864       |                        |                        | 25,864                      | 15,403                      |
| Total operating expenses                                  | 780,035      | -                      | -                      | 780,035                     | 719,931                     |
| Net operating (deficit) revenues                          | (50,240)     | 6,637                  | 3,405                  | (40,198)                    | (17,241)                    |
| <b>Non-operating revenues and expenses</b>                |              |                        |                        |                             |                             |
| Investment and other income (loss)                        | 113,296      |                        | 12,248                 | 125,544                     | 37,964                      |
| Net appreciation in the fair market value of investments  | 3,420        |                        | 710                    | 4130                        | 52,500                      |
| Actuarial adjustment to annuities payable                 |              |                        | (287)                  | (287)                       | 1,492                       |
| (Loss) gain on disposal of plant assets                   | (797)        |                        |                        | (797)                       | 778                         |
| Disposal of interest in subsidiary                        |              |                        |                        | -                           | (398)                       |
| Adjustment for minimum pension liability                  | 16,837       |                        |                        | 16,837                      | (14,739)                    |
| Non-operating revenues, net                               | 132,756      | -                      | 12,671                 | 145,427                     | 77,597                      |
| Increase in net assets before effect of accounting change | 82,516       | 6,637                  | 16,076                 | 105,229                     | 60,356                      |



## Part 2 – Summary of Significant Accounting Policies and Terms

This part explains the accounting practices the University uses in its financial statements.

### Basis of Accounting Presentation

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

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

### Net Asset Categories

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

- **Unrestricted net assets** have no donor-imposed restrictions. They are available for any purpose consistent with the University's mission.
- **Temporarily restricted net assets** are subject to specific donor-imposed restrictions that must be met by University actions or through the passage of time.
- **Permanently restricted net assets** are subject to donor-imposed restrictions that the University must honor in perpetuity. Usually, donors allow part or all of the income to be used for a designated purpose.

### Cash and Temporary Investments

Investments with a maturity of three months or less when purchased are reported as temporary investments (i.e., cash equivalents) unless they are part of long-term investment pools.



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

**Contributions** | Contributions (including unconditional pledges) are recognized as either temporarily restricted or permanently restricted net assets when donors' commitments are received. Conditional pledges become revenue when the conditions are substantially met. Gifts whose restrictions are met in the same fiscal year in which they are received are reported with unrestricted contribution revenues.

**Grants and Contracts (Government and Private)** | Revenues from government and private grants and contracts are recognized as earned in accordance with the terms of the contract. Any government revenue received before it is expended is recorded as a refundable advance. Expenses incurred for government grants before revenue is received are recorded as receivables.

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

**Funds Held in Trust by**

Case Western Reserve University

Consolidated Financial Statements for the Year Ending June 30, 2006







**NOTE E**      Bonds and notes payable are as follows:  
**Bonds and**  
**Notes Payable**



**NOTE G**  
**Retirement**  
**Plans**

The University has both defined benefit and defined contribution pension plans for its employees. The funded status of the University's **defined benefit plan** is as follows:

|                                      | 2006        | 2005        |
|--------------------------------------|-------------|-------------|
| Benefit obligation at June 30        | \$ 83,265   | \$ 91,584   |
| Fair value of plan assets at June 30 | 71,399      | 61,291      |
| Funded status                        | \$ (11,866) | \$ (30,293) |

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**NOTE G**  
**Retirement**  
**Plans**  
*(continued)*

The University is required to recognize an additional minimum pension liability.

|             |                           | 2006     | 2005   |
|-------------|---------------------------|----------|--------|
| NOTE G      | Defined benefit plan      |          |        |
| Retirement  | Benefit cost              | \$ 5,712 | 4,064  |
| Plans       | Employer contributions    | 7,621    | 10,183 |
| (continued) | Benefit paid              | 2,837    | 2,150  |
|             | Defined contribution plan |          |        |
|             | Employer contrib          |          |        |

**NOTE I**  
**Related Party**  
**Transaction**  
**(Utilities)**

**NOTE K  
Recently  
Issued  
Accounting  
Pronounce-  
ments**

In 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for the University as of and for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, of the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of

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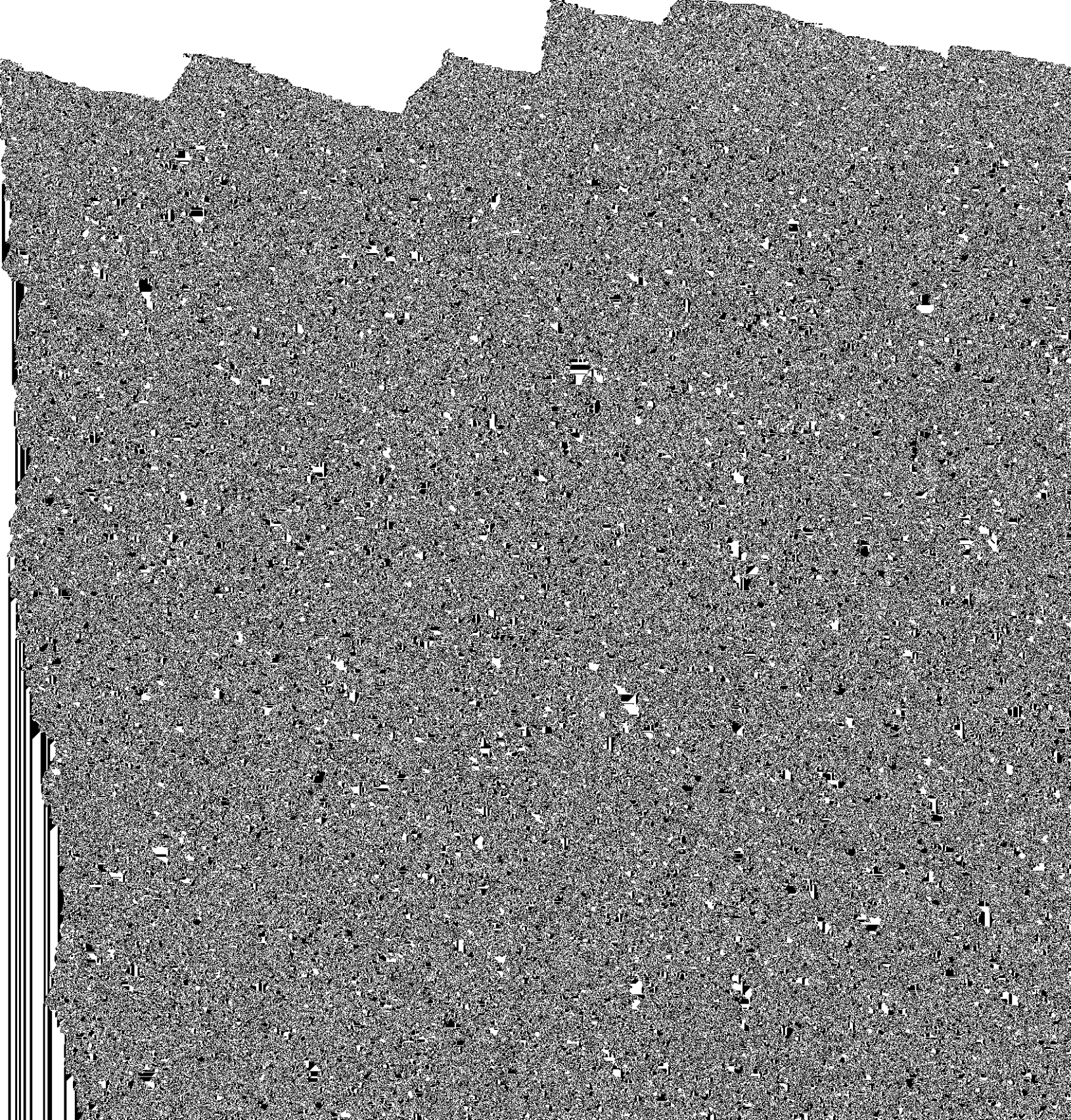




CASE WESTERN RESERVE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2006

Catalog of  
Federal Pass Through













CASE WESTERN RESERVE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL FUNDS

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CASE WESTERN RESERVE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS











CASE WESTERN RESERVE UNIVERSITY

CASE WESTERN RESERVE UNIVERSITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

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3. Indirect Costs:

The University recovers indirect costs by means of final indirect cost rates. The final rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The final rate effective for the period July 1, 2005 to June 30, 2006 for on-campus research and for the CCLCM is 54.5% of modified total direct costs. The base rates for off-campus research for the same period vary depending upon the location of the research. The base rates for off-campus research at University Hospitals of Cleveland and Cleveland MetroHealth Medical Center for the same period is also 54.5%. The base rate for all other off-campus research for the same period is 26%. The negotiated predetermined indirect cost rates were finalized based on an agreement dated June 1, 2005.

4. Loan Advances:

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins, Nursing, Health Profession Student and Disadvantaged Students Loan Programs for the year ended June 30, 2006:

|  | CFDA<br>Numbers | Advances     | Outstanding<br>Balances |
|--|-----------------|--------------|-------------------------|
| Perkins Loan Program                         | 84.038          | \$ 3,088,249 | \$ 15,947,124           |
| Nursing Student Loan Program                 | 93.364          | \$ 201,380   | \$ 493,028              |
| Health Professional Student Loan Program/PCL | 93.342          | \$ 502,500   | \$ 2,590,482            |
| Loan for Disadvantaged Students              | 93.342          | \$ -         | \$ 126,945              |

The Perkins Loan administrative cost allowance totalled \$275,000 for the year ended June 30, 2006.

5. Federal Family Education Loan Program:

During the year ended June 30, 2006, the University received the following loan amounts under the Federal Family Education Loan Program (FFELP) (which includes Stafford Loans, unsubsidized Stafford Loans, and Parents Plus Loans for Undergraduate Students):

CASE WESTERN RESERVE UNIVERSITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

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5. Federal Family Education Loan Program, Continued:

|                                       | CFDA<br>Numbers | Amounts       |
|---------------------------------------|-----------------|---------------|
| Federal Family Education Loan Program | 84.032          | \$ 53,911,961 |

**REPORTS ON COMPLIANCE AND ON THE  
INTERNAL CONTROL STRUCTURE**



*PRICEWA*

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provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the University in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "E. P. ...", is written over a horizontal line. The signature is somewhat stylized and difficult to decipher.

October 20, 2006



Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-2.

### **Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on the major federal programs that are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

This report is intended solely for the information and use of the University's Board of

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



CASE WESTERN RESERVE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
for the year ended June 30, 2006

**Section II - Financial Statement Findings**

No current year findings:





CASE WESTERN RESERVE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2006

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Views of responsible officials and planned corrective actions, Continued

transfers to be posted on a timely basis and provides information regarding procedures and tools available to reduce the volume of cost transfers. The policy has been posted on the University's web-site and distributed to all responsible personnel. Responsible Person: Paul Frey, Associate Controller. Deadline: December 31, 2006.

CASE WESTERN RESERVE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
for the year ended June 30, 2006

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**Section III - Federal Award Findings and Questioned Costs**

**Finding #06-2: Inventory of Equipment Not Performed**

**Information on the federal program/Condition/Context**

The University last completed a physical inventory of equipment in 2004.

**Criteria or specific requirement**

OMB Circular A-110, paragraph 34(f)(3) requires physical inventories of equipment purchased with federal funds to be performed at least once in a two year cycle. In addition, OMB Circular A-21, Section J 14 G requires that an inventory be taken at least once during a two year period of all equipment for which depreciation is included in the indirect cost calculations.

**Cause/Effect**

The University did not have the resources available to complete the inventory of equipment. The effect is that the records of equipment may be inaccurate and may not meet applicable compliance criteria.

