CASE WESTERN RESERVE UNIVERSITY

Report on Federal Awards in Accordance With OMB Circular A-133 for the Year Ended June 30, 2012

Entity Identification Number 1-341018992-

CASE WESTERN RESERVE UNIVERSITY

REPORT ON FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133

June 30, 2012

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of dollars	2012	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

CONSOLIDATED STATEMENT OF ACTIVITIES

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

In thousands of dollars	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	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)	$ 2,220	$ 1,744	$ (15,940)	$ 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	(61,830)			

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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

&DVH :HVWHUQ 5HVHUYH 8QLYHUVLW\ - WKH 8QLYHUVLW\ LV DQ 2KLR QRW 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 FRQVLVWHQW ZLWK WKH 8QLYHUVLW\ V PLVVLRQ 8QUHVWULFWHG QHW DVVHWV 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 1 0 0 1 316.63 576CID 14>> I

(Q W L W\ A Ug V 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 8 Q L Y H U V L W\ 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 endowme nt, (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 tiu 123.6ET BT4( )7(g41)7(a)-2(c)-4(c)-4(u)3(m)3trlation

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 $ 6 &) D L U Value Measurements and Disclosures. Fair value is defined under ASC 820as 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

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

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

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 7 K H 8 Q Long term Investments at June 30, 2012 and 2011, were as follows:

	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	11,212	1,150
Limited partnerships and other		
Venture capital	78,338	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

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.

CASE WESTERN RESERVE UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

REPORTS ON COMPLIANCE AND ON THE INTERNAL CONTROL STRUCTURE

Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CASE WESTERN RESERVE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

For the year ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

Finding #2012-1: Unallowable Cost

Research and Development Cluster
Award Contract Number: DMR-0423914
Sponsoring Agency: National Science Foundation
CFDA #: 47.049
Award #: CON500535
Award Year: FY2012

Information on the federal program/Condition/Context
In our testing of cost transfers we identified 1 out of the 60 cost transfers that included an unallowable cost that was charged to a National Science Foundation grant.

Criteria or specific requirement
OMB Circular A-21, Cost Principles for Educational Institutions, defines allowable costs as those that are considered reasonable and necessary for the operation of the institution or the performance of the sponsored agreement.

Questioned Costs
$5,919.89

Cause/Effect
An employee's moving expenses were inadvertently charged via a cost transfer to a Federal R&D project during the start up phase of the project. The cost had previously been charged to a departmental speedtype along with several charges related to the Federal R&D project in advance of the establishment of the Federal R&D project. When the Federal R&D project was established, the costs that were transferred included these unallowable costs.

Recommendation
We recommend that the University exercise more diligence to ensure the proper review and approval process of cost transfers in accordance with its written policy.

Views of responsible officials and planned corrective actions
Management's response is reported in the "Management's Corrective Action Plan" and considered as part of this report.

Management's Corrective Action Plan

Finding #2012-1: Unallowable Cost

Management's Response:
The unallowable moving costs have been transferred to a non-sponsored source. The Office of 5HVHDUFK $GPLQLVWUDWLRQ µ25$¶ ZLOO LQFUHDVH VXSHUYLVLRQ DQG UHYLHZ RI WUDYHO H[SHQVHV WR SUHYHQW VLPLODU WUDQVIHU FRVWV LQ WKH IXWXUH DQG WR HQVXUH WKDW DOO WUDYHO H[SHQVHV DUH DSSURSULDWHO\ FKDUJHG WR VSRQVRUHG SURMHFWV 25$ ZLOO DOVR GHYHORS QHZ HGXFDWLRQDO PDWHULDOV DQG RIIHULQJV WR EHWWHU LQIRUP WKH UHVHDUFK FRPPXQLW\ DERXW DOORZDEOH FRVWV LQFOXGLQJ ZKLFK FRVWV VKRXOG EH FRQVLGHUHG GLUHFW YHUVXV LQGLUHFW transfer costs. In addition, ORA will develop new educational materials and offerings to better inform the research community about allowable costs, including which costs should be considered direct versus indirect.

Responsible area: Assistant Vice President for Research

Signed:

Bradley W. Fralic
University Controller