

**Agendum  
Oakland University  
Board of Trustees Formal Session  
October 4, 2012**

**FINANCIAL STATEMENTS, JUNE 30, 2012 AND 2011**

**A Recommendation**

1. **Division and Department:** Finance and Administration, Controller's Office
2. **Introduction:** The Financial Statements, June 30, 2012 and 2011 for Oakland University (University) have been completed (Attachment A).

The audit opinion of Andrews Hooper and Pavlik P.L.C. (AH&P) states "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America."

AH&P's Board of Trustees Letter (Attachment B) summarizes the audit engagement and required communications and includes a copy of the September 12, 2012 Management Representation Letter which details the representations made by the University Administration to AH&P regarding the audit work performed.

AH&P's Management Letter (Attachment C) includes internal control recommendations and management's responses.

3. **Previous Board Action:** As a result of a competitive bid process, the public accounting firm of AH&P was appointed by the Board of Trustees (Board) on March 7, 2007, and reappointed on January 9, 2008, October 30, 2008, and April 10, 2010; following another competitive bid process, AH&P was reappointed by the Board on March 15, 2011, and March 28, 2012, to conduct annual audits of the University's financial accounting records.
4. **Budget Implications:** The annual financial audits are budgeted for in the General Fund. No budget variances have occurred or are expected.
5. **Educational Implications:** None.
6. **Personnel Implications:** None.

Financial Statements, June 30, 2012 and 2011  
Oakland University  
Board of Trustees Formal Session  
October 4, 2012  
Page 2

7. **University Reviews/Approvals:** The Financial Statements were prepared by the Controller's Office and reviewed by the Vice President for Finance and Administration, and President, audited by AH&P, and presented to the Board's Audit Committee at its October 4, 2012, meeting.

8. **Recommendation:**

RESOLVED, that the Board of Trustees accepts the Financial Statements, June 30, 2012, and 2011, which were audited by the Board's public accounting firm, Andrews Hooper & Pavlik P.L.C.

9. **Attachments:**

- A. Financial Statements, June 30, 2012 and 2011
- B. Board of Trustees Letter
- C. Management Letter

Submitted to the President  
on 9/25, 2012 by



John W. Beaghan  
Vice President for Finance and Administration and  
Treasurer to the Board of Trustees

Recommended on 9/25, 2012  
to the Board for approval by



Gary D. Russi  
President





Oakland University  
**FINANCIAL STATEMENTS**  
June 30, 2012 and 2011



# Oakland University

---

## Board of Trustees

Henry Baskin  
Chair

Michael R. Kramer  
Vice Chair

Monica E. Emerson

Richard A. Flynn

Jacqueline S. Long

Ronald E. Robinson

Mark E. Schlusel

Jayprakash B. Shah

## Executive Officers

Gary D. Russi  
President

Virinder K. Moudgil  
Senior Vice President for Academic Affairs &  
Provost

Susan M. Awbrey  
Interim Senior Vice President for Academic Affairs  
& Provost

Eric D. Barritt  
Vice President for Development, Alumni &  
Community Engagement

John W. Beaghan  
Vice President for Finance & Administration &  
Treasurer to the Board

Rochelle A. Black  
Vice President for Government Relations

Mary Beth Snyder  
Vice President for Student Affairs & Enrollment  
Management

Victor A. Zambardi  
Vice President for Legal Affairs & General  
Counsel & Secretary to the Board

## Financial Administration

James L. Hargett  
Assistant Vice President & Controller

Thomas P. LeMarbe  
Director, Budget & Financial Planning

Gerri Ann Reimann  
Manager, Accounting

Stephen W. Roberts  
Assistant Vice President for Finance



**Oakland University**  
**Contents**  
**June 30, 2012 and 2011**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Management's Discussion and Analysis</b> .....	2-12
<b>Financial Statements</b>	
Statements of Net Assets .....	13
Statements of Revenues, Expenses and Changes in Net Assets .....	14
Statements of Cash Flows.....	15
Notes to Financial Statements.....	16-36

Report of Independent Auditors

Board of Trustees  
Oakland University  
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2012 and 2011. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2-12 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
September 12, 2012



# Oakland University

## Management's Discussion and Analysis

### June 30, 2012 and 2011

---

#### Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University, Oakland or OU) for the fiscal year ended June 30, 2012 with selected comparative information for the year ended June 30, 2011.

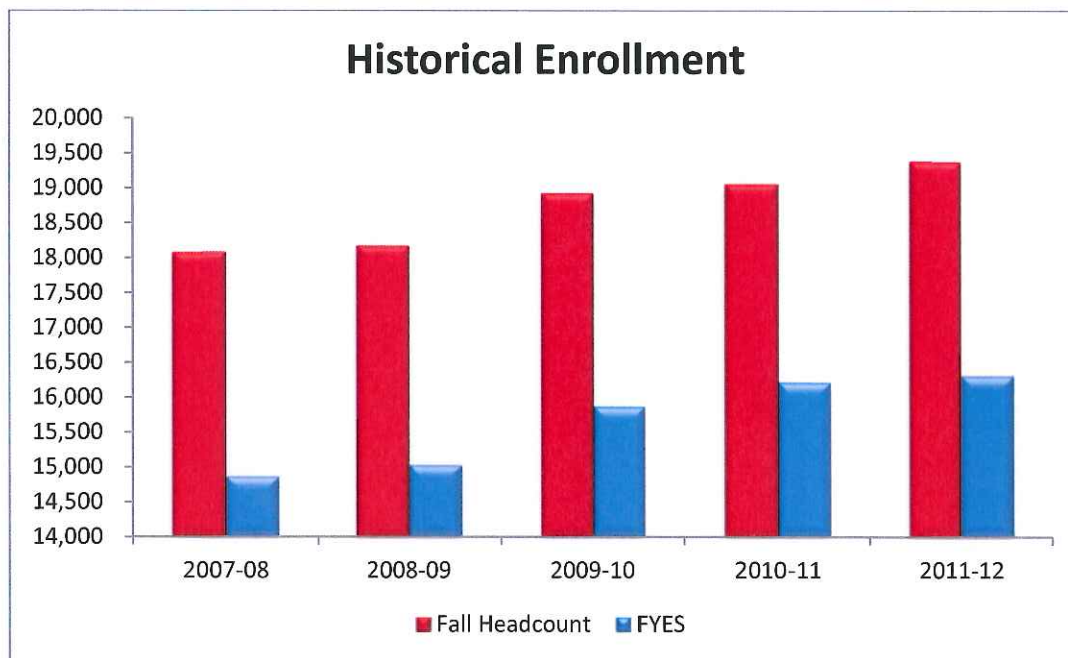
The University is a state-supported institution of over 19,300 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as, programs in continuing education. The University is recognized as one of the country's 83 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 133 baccalaureate degree programs and 128 graduate and certificate programs. The University's student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom. The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

This analysis is designed to focus on current financial activities; it should be read in conjunction with the financial statements and footnotes to the financial statements. This discussion and the financial statements and related footnotes have been prepared by and are the responsibility of University management.

#### Enrollment and Operations Highlights

- In fiscal year 2012, enrollment based on Fiscal Year Equated Students (FYES) increased 0.6% to 16,319.
- Student headcount enrollment for the fall 2011 semester increased 1.7% to a record 19,379. Undergraduate enrollment was 15,838 (81.7%) and graduate enrollment was 3,541 (18.3%).

A five-year summary of historical enrollment is presented below.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

---

- Beginning in the fall of 2012, the School of Nursing (SON) and the School of Health Sciences (SHS) will relocate to a new \$64.6 million, 172,825-square-foot state of the art Human Health Building where they will operate under one roof for the first time in University history, creating an enhanced learning environment that will give students an edge to be better prepared to enter the workforce.
- In spring 2012, the University created "WISE@OU" (Women in Science and Engineering at Oakland University). Supported by a \$518,000 National Science Foundation grant, this project will research faculty experiences, policies, and procedures to assess ways to enhance Oakland as an environment where women and underrepresented minorities thrive.
- In April 2012, the Board of Trustees approved two new undergraduate programs and one new graduate program for the 2012-2013 school year. Graphic design, previously available as a minor, will now be available as a Bachelor of Arts degree. Criminal justice will also be a new major option, in addition to a graduate psychology program.
- In March 2012, Meadow Brook Hall, considered one of the finest Tudor Revival houses in the United States, was named a National Historic Landmark because of its outstanding, grand-scale architecture and the design of the building. Meadow Brook Hall becomes the 35th National Historic Landmark in the State of Michigan.
- In January 2012, the University received its largest single pledge donation in school history of \$21 million. The funds will be divided between the School of Engineering and Computer Science, School of Medicine, women's golf team, campus operations, and capital needs. Of the \$21 million, \$4 million has been received and allocated toward capital enhancements at the Golf and Learning Center, and the remainder is a conditional pledge not recorded in the financial statements.
- In November 2011, Oakland University hosted the Republican Presidential debate. The debate was nationally televised and co-sponsored by CNBC and the Michigan Republican Party. There were several thousand attendees, reporters and community members that descended onto campus in the days leading up to the debate. The event not only showcased Oakland's campus, but provided students with the rare chance to get involved and participate in a national event.
- In October 2011, the Board of Trustees approved the schematic design for the new \$74.6 million Engineering Center. The 127,000 square foot building will serve as the new home of the School of Engineering and Computer Science. The Engineering Center will enhance Oakland University's support of global competitiveness of U.S. alternative energy, health care and biomedical, automotive, defense and other high-tech industries. The State of Michigan committed \$30 million to partially finance the Engineering Center.
- The Oakland University William Beaumont School of Medicine, Michigan's first new M.D.-granting (allopathic) medical school in 47 years welcomed its inaugural class of 50 students in August 2011. More than 3,200 students applied for the 50 positions in the school's first class. The medical school is one of a select few in the country where students will complete all their clinical training within one integrated health care system, Beaumont Health System.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

---

**Overview of the Financial Statements**

This annual report consists of financial statements which have been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The fundamental objective of the financial statements is to provide an overview of the University's economic condition. The statements and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all University assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year. Net assets are displayed in four components – invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted. The difference between total assets and liabilities (net assets) is one indicator of the current financial condition of the University, while the change in net assets serves as a useful indicator of whether the financial position is improving or deteriorating.
- Statement of Revenues, Expenses and Changes in Net Assets. This statement presents the operating results of the University, as well as, nonoperating revenues and expenses. The statement also presents information that shows how the University's net assets have changed during the fiscal year.
- Statement of Cash Flows. This statement presents information about the University's cash receipts and cash payments during its fiscal year. Cash activities are classified in the following categories: operating activities, noncapital financing activities, capital financing activities, and investing activities.

The University's financial statements can be found on pages 13, 14, and 15 of this financial report.

**Notes to the Financial Statements**

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University's notes to the financial statements can be found on pages 16-36 of this financial report.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

**University Financial Statement Summaries**

*University Statements of Net Assets*

The University's net assets are summarized in the following Condensed Statements of Net Assets:

Condensed Statements of Net Assets	June 30,		Change
	2012	2011	
	<i>(in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 73,661	\$ 56,161	31%
Capital assets	312,019	271,045	15%
Other noncurrent assets	198,960	208,817	-5%
Total assets	<u>584,640</u>	<u>536,023</u>	9%
<b>Liabilities</b>			
Current liabilities	48,401	41,008	18%
Noncurrent liabilities	143,193	139,520	3%
Total liabilities	<u>191,594</u>	<u>180,528</u>	6%
<b>Net assets</b>			
Invested in capital assets, net of related debt	193,688	151,828	28%
Restricted nonexpendable	18,726	18,056	4%
Restricted expendable	35,302	39,818	-11%
Unrestricted	145,330	145,793	0%
Total net assets	<u>\$ 393,046</u>	<u>\$ 355,495</u>	11%

The University's total assets were \$584.6 million and \$536.0 million at June 30, 2012 and 2011, respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, library acquisitions, and construction in progress. Capital assets represent 53% and 51% of the University's total assets at June 30, 2012 and 2011, respectively. Capital expenditures totaled \$53.6 million in 2012 and \$37.5 million in 2011. Included in capital expenditures for 2012 were the Human Health Building, the Steve Sharf Clubhouse, campus infrastructure projects, equipment and technology additions, and other campus enhancement projects. Depreciation expense was \$12.6 million in 2012 and \$12.0 million in 2011.

Current assets consist primarily of cash and cash equivalents, and receivables due within one year. Cash and cash equivalents increased \$4.4 million to \$37.1 million at June 30, 2012 largely due to the reallocation of long-term investments. Accounts Receivable increased \$13.7 million to \$23.5 million at June 30, 2012. This is primarily due to a receivable totaling \$12.1 million from the State Building Authority for the capital appropriation related to the Human Health Building.

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$55.5 million at June 30, 2012 and \$56.9 million at June 30, 2011. This decrease in endowment fair market value was primarily due to a decline in the market and spending allocations. The total return, net of fees, on the University's endowment investments was -1.9% for 2012 and 19.7% for 2011. Other long-term investments were \$120.0 million at June 30, 2012 and \$132.7 million at June 30, 2011 and include intermediate-term fixed income and equity securities. The decrease in other long-term investments is due to funding additional capital expenditures, some of which will be reimbursed by the



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

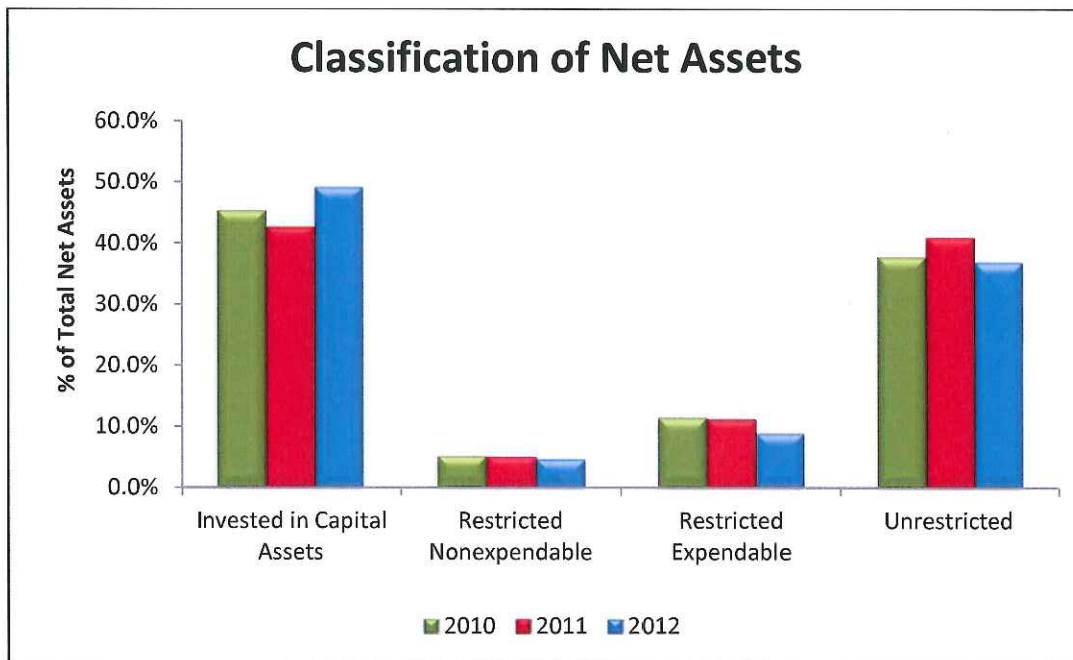
---

State Building Authority and reallocation to cash equivalent investments. The total return on the University's other long-term investments was 1.5% for 2012, and 6.7% for 2011, both net of fees. See "Statements of Cash Flows" section of this report for additional detail.

All investments held by the University can be liquidated to cash within ninety days or less without incurring additional fees, with the exception of the private equity holding and hedge funds.

The University's total liabilities were \$191.6 million at June 30, 2012 and \$180.5 million at June 30, 2011. Current liabilities consist primarily of accounts payable, accrued expenses and deferred revenue. The \$7.4 million increase in current liabilities is attributed primarily to the increase in construction in progress, accounts payable and deferred revenue. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 75% and 77% of the University's total liabilities at June 30, 2012 and 2011, respectively. The \$3.7 million increase in noncurrent liabilities is attributed to the \$6.5 million increase in the fair value of the derivative liability; other postemployment benefits increase of \$1.7 million; offset by a decrease in bonds payable and other liabilities totaling \$3.8 million and \$0.7 million, respectively.

The following graph shows net assets by classification and restriction:



The University's net assets consist of capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted expendable net assets represent assets whose use is restricted by a party independent of the University, including restrictions related to grants, contracts, and gifts. Restricted nonexpendable net assets are gifts that have been received for endowment purposes. Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

---

Unrestricted net assets include funds that the Board of Trustees and University management have designated for specific purposes, as well as, amounts that have been contractually committed for goods and services that have been purchased and not received as of the end of the fiscal year.

The following summarizes the internal Board of Trustees and University management designations of unrestricted net assets:

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 9,457	\$ 8,337
Capital projects and repair reserves	57,729	40,368
Funds designated for departmental use	25,264	24,539
Funds functioning as endowments	26,545	26,907
Gifts and investment income reserves	18,808	27,286
Retirement and insurance reserves	(4,960)	(3,006)
Encumbrances and carryforwards	9,016	9,053
Other unrestricted	3,471	12,309
	<u>\$ 145,330</u>	<u>\$ 145,793</u>

Capital projects and repair reserves consist of the unexpended portion of ongoing capital projects, reserves for plant renewal, and bond sinking funds. The 2012 increase over 2011 is primarily due to increases in funding of bond sinking funds and repair and maintenance reserves, as well as various new capital projects and increases in ongoing capital projects such as classroom and lab renovations.

Funds designated for departmental use consist of specific projects earmarked by various departments.

Funds functioning as endowments were created by the Board of Trustees utilizing University resources. These funds are invested in the endowment pool to achieve long-term growth. The funds consist of endowments for scholarships, excellence in teaching and research, deferred plant renewal, and retirement obligations.

Retirement and insurance reserves include the University's liability recorded to date for other postemployment benefits (OPEB), in addition to this liability; the University has an unrecorded OPEB liability of approximately \$22.7 million as of June 30, 2012. This balance also includes reserves for unemployment and workers compensation for which the University is self-insured.

Gifts and investment income reserves include the University's unrestricted gifts; and realized and unrealized investment income reserves. The decrease for 2012 is predominately due to using these resources to fund bond sinking funds and for University operations.

The decrease in other unrestricted net assets is due to the use of these funds for capital projects and University operations.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

*University Statements of Revenues, Expenses and Changes in Net Assets*

The University's revenues, expenses and changes in net assets are summarized in the following Condensed Statements of Revenues, Expenses and Changes in Net Assets:

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2012	2011	2010	% Change 2012-2011	% Change 2011-2010
		<i>(in thousands)</i>			
<b>Operating revenues</b>					
Net tuition	\$ 149,095	\$ 137,613	\$ 130,318	8%	6%
Grants and contracts	15,236	17,768	15,079	-14%	18%
Auxiliary activities	23,424	22,599	21,304	4%	6%
Departmental activities	5,998	5,470	5,229	10%	5%
Other	269	418	430	-36%	-3%
Total operating revenues	<u>194,022</u>	<u>183,868</u>	<u>172,360</u>	6%	7%
<b>Operating expenses</b>	259,445	243,312	230,941	7%	5%
Operating loss	<u>(65,423)</u>	<u>(59,444)</u>	<u>(58,581)</u>	-10%	-1%
<b>Nonoperating revenues (expenses)</b>					
State appropriations	43,145	50,761	50,691	-15%	0%
Gifts	5,806	4,295	4,126	35%	4%
Investment income	1,471	20,879	17,884	-93%	17%
Distributed to annuity and life income fund beneficiaries	(61)	(60)	(61)	-2%	2%
Interest expense	(4,515)	(4,919)	(4,257)	8%	-16%
Federal grants	21,037	20,038	16,366	5%	22%
Other	146	142	135	3%	5%
Net nonoperating revenues	<u>67,029</u>	<u>91,136</u>	<u>84,884</u>	-26%	7%
Income before other revenues	<u>1,606</u>	<u>31,692</u>	<u>26,303</u>	-95%	20%
Capital appropriations	30,427	-	-	100%	0%
Capital grants and gifts	4,930	1,496	38	230%	3,837%
Additions to permanent endowments	588	1,226	1,054	-52%	16%
Total other revenues	<u>35,945</u>	<u>2,722</u>	<u>1,092</u>	1221%	149%
Increase in net assets	37,551	34,414	27,395	9%	26%
<b>Net assets</b>					
Beginning of year	355,495	321,081	293,686	11%	9%
End of year	<u>\$ 393,046</u>	<u>\$ 355,495</u>	<u>\$ 321,081</u>	11%	11%

Operating revenues were \$194 million in 2012, \$184 million in 2011 and \$172 million in 2010. The 6% increase in 2012 over 2011 was primarily due to increases in tuition revenue, net of scholarship allowances, which was higher due to an enrollment increase in FYES of 0.6% and, effective for the fall 2011 semester, tuition rates increasing by 7.0% for undergraduates and graduates.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

Operating expenses were \$259 million in 2012, \$243 million in 2011 and \$231 million in 2010. The operating expense increase of 7% in 2012 over 2011 resulted from supporting enrollment, expanded research funding, contractual agreements and increases in academic and institutional support.

A breakdown of the University's operating expenses by functional classification follows:

*University Operating Expenses*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% Change 2012-2011</u>	<u>% Change 2011-2010</u>
		<i>(in thousands)</i>			
<b>Education and general</b>					
Instruction	\$ 104,180	\$ 99,012	\$ 93,405	5%	6%
Research	11,252	9,531	8,230	18%	16%
Public service	3,709	2,943	3,303	26%	-11%
Academic support	20,589	19,128	17,099	8%	12%
Student services	18,604	17,368	16,641	7%	4%
Institutional support	32,583	28,752	28,600	13%	1%
Operations and maintenance of plant	18,877	17,891	17,741	6%	1%
Depreciation	12,556	12,040	11,913	4%	1%
Student aid	13,211	12,888	11,225	3%	15%
Total education and general	<u>235,561</u>	<u>219,553</u>	<u>208,157</u>	7%	5%
<b>Auxiliary activities</b>	23,872	23,743	22,766	1%	4%
<b>Other expenses</b>	12	16	18	-25%	-11%
Total operating expenses	<u>\$ 259,445</u>	<u>\$ 243,312</u>	<u>\$ 230,941</u>	7%	5%

Education and general expenses increased 7% in 2012 over 2011 and 5% in 2011 over 2010. The increases are mainly attributable to the inaugural year of the Oakland University William Beaumont School of Medicine (OUWBSM) and an increase in academic program offerings to meet the needs of higher enrollment and contractual agreements.

The increase in Instruction for 2012 is due to a \$4.7 million increase in salaries and fringe benefits related to existing and new academic programs, of which \$1.7 million is associated with the OUWBSM introductory year; Research expansion is the result of new grant funding from the U.S. Department of Agriculture totaling \$0.6 million and increased funding of \$0.7 million from the Department of Education; Academic Support is predominantly due to additional funding for OUWBSM programs of \$0.5 million, \$0.5 million for enhancing Graduate Study and the Center for Excellence in Teaching and Learning, and \$0.3 million for additional library electronic and digital resources; Student Services increase is related to the OUWBSM class preparation; the change in Institutional Support is due to an increase of \$1.9 million in Advertising and Marketing, primarily for Undergraduate recruitment, as well as an increase to University Technology Services licensing and support; and, the increase in Student Aid is the result of additional institutional need and merit based grants, including the new OUWBSM.

The University's operating loss was \$65.4 million in 2012, \$59.4 million in 2011 and \$58.6 million in 2010. Offsetting these losses were net non-operating revenues of \$67.0 million in 2012, \$91.1 million in 2011 and \$84.9 million in 2010.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

Nonoperating revenue is largely comprised of State appropriations, and as reflected in the State's approved appropriation bills, were \$43.1 million in 2012, \$50.8 million in 2011, and \$50.7 million in 2010. The annual appropriation for 2012 decreased \$7.7 million, or 15.2%, due to the State's budgetary reductions.

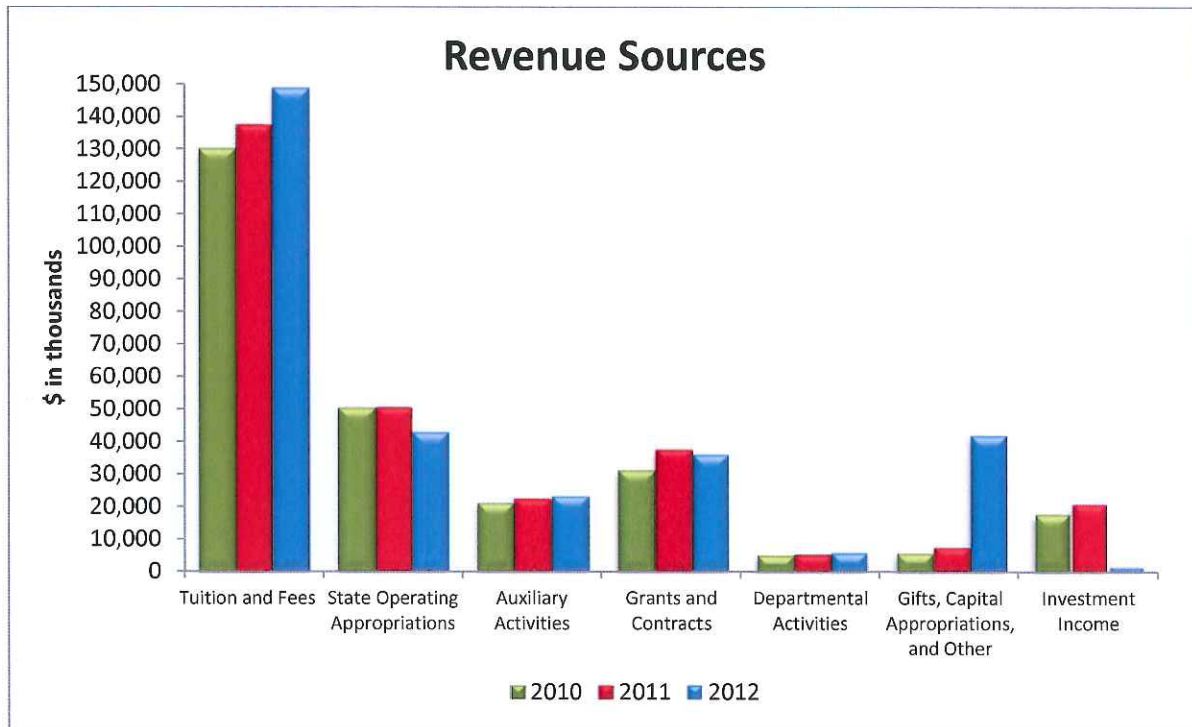
The increase in nonoperating gift revenue of \$1.5 million to \$5.8 million at June 30, 2012 is attributable to a generous gift of \$1.0 million to the Oakland University William Beaumont School of Medicine and non-capital donation of \$0.5 million for the new Steve Sharf Clubhouse.

Due to a fluctuating market compared to 2011, University investments experienced income of \$2.6 million. This gain was offset by a net loss of \$1.1 million in the Endowment investments.

Nonoperating revenues also include \$21.0 million from Federal Pell Grants in 2012. Pell Grant revenue for 2011 and 2010 was \$20.0 million and \$16.4 million, respectively.

Other revenues increased \$33.2 million to \$35.9 million in 2012 primarily due to capital appropriations from the State Building Authority totaling \$30.4 million for the construction of the Human Health Building. Additionally, \$1.4 million in federal grant revenue was received from the Department of Energy for the implementation of "green energy" features in the Human Health Building. The University also received a gift of \$3.5 million to construct the Steve Sharf Clubhouse at the University's Golf & Learning Center.

A graphic illustration of each revenue source is as follows:



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

---

*University Statements of Cash Flows*

The University's cash flows are summarized in the following Condensed Statements of Cash Flows:

**Condensed Statements of Cash Flows**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		<i>(in thousands)</i>	
<b>Cash provided (used) by</b>			
Operating activities	\$ (50,231)	\$ (43,710)	\$ (46,882)
Noncapital financing activities	73,071	78,089	73,808
Capital financing activities	(34,522)	(39,951)	12,894
Investing activities	<u>16,070</u>	<u>(34,743)</u>	<u>(1,270)</u>
Net increase (decrease) in cash	4,388	(40,315)	38,550
 <b>Cash and cash equivalents</b>			
Beginning of year	<u>32,718</u>	<u>73,033</u>	<u>34,483</u>
End of year	<u>\$ 37,106</u>	<u>\$ 32,718</u>	<u>\$ 73,033</u>

The primary cash receipts from operating activities consist of tuition, auxiliary activities, and grant and contract revenues. Cash disbursements primarily include salaries and wages, benefits, supplies, utilities, and scholarships. The increase in net cash used by operating activities reflects the increase in payments to employees, suppliers, and financial aid recipients.

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were \$44.5 million in 2012 and \$50.8 million in 2011. Cash received from Pell Grants increased for the year ended June 30, 2012 and the two preceding years by \$1.0 million, \$5.1 million and \$6.6 million, respectively.

Capital financing activities for 2012 include capital expenditures of \$49.4 million in addition to debt service payments totaling \$8.2 million. Cash disbursements for capital expenditures in 2012 included \$36.7 million for the Human Health Building (the University received \$18.3 million in Capital Appropriations from the State Building Authority and a federal grant of \$1.2 million to partially offset the expense for this project); \$3.5 million for the Steve Sharf Clubhouse (the University received a \$3.5 million gift to fund this project); \$2.6 million for infrastructure, surveillance, lighting, and fire alarm improvements; \$1.1 million for the new Engineering Center; and \$2.7 million and \$0.6 million in equipment and library books, respectively. Capital financing activities for 2011 include capital expenditures of \$33.2 million along with debt service payments of \$8.3 million. Cash disbursements for capital expenditures in 2011 included \$13.8 million for the Human Health Building; \$6.9 million for infrastructure upgrades; \$4.1 million in equipment; and improvements to the Anton/Frankel Center totaling \$1.7 million (the University received a federal grant of \$1.6 million to partially offset the expense for this project). Capital financing activities for 2010 include capital expenditures of \$14.3 million along with debt service payments of \$6.5 million. Cash disbursements for capital expenditures in 2010 included \$2.9 million for the Human Health Building; \$4.2 million in building renovations; \$2.7 million for infrastructure upgrades; \$1.0 million for Katke Cousins irrigation system; and \$2.0 million for equipment. Capital financing activities for 2010 include the issuance of \$33.7 million of Build America Bonds to fund the University's match of the Human Health Building and various infrastructure projects.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2012 and 2011**

---

Cash provided by investing activities during 2012 is the result of investment income and the sale of long term investments exceeding the purchase of long-term investments.

**Commitments**

The estimated cost to complete construction projects in progress is \$109.8 million as of June 30, 2012, due in large part to the new Engineering Center of \$74.6 million. This project is expected to be funded from the State capital appropriation of \$30.0 million and \$44.2 million in proceeds from general revenue bonds issued in August 2012.

**University Credit Rating**

On July 27, 2012, Moody's Investors Service reaffirmed the University's underlying credit rating as A1 - Stable.

**Deferred Plant Renewal**

The University annually surveys its plant to identify deferred plant renewal (previously referred to as deferred maintenance), adding new items and deleting items that were addressed during the year. Each year, general revenues are allocated to address deferred plant renewal items. In addition, the University has established a quasi-endowment that provides investment earnings that are used to address deferred plant renewal needs.

**Factors or Conditions Impacting Future Periods**

Financial and budget planning is directly related to and supportive of the University's mission and operational needs. The ability to plan effectively is influenced by an understanding of the following factors which impact the University's finances.

- State and national economy
- Stability of State appropriations (including performance funding)
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates
- Development of the Oakland University William Beaumont School of Medicine

**Oakland University**  
**Statements of Net Assets**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 37,105,821	\$ 32,718,493
Accounts receivable, net (Note 3)	23,547,067	9,878,346
Appropriations receivable (Note 4)	7,844,548	9,229,328
Pledges receivable, net (Note 5)	2,997,848	2,436,570
Inventories	1,074,003	856,101
Deposits and prepaid expenses	738,694	764,095
Student loans receivable, net (Note 6)	352,863	278,596
Total current assets	<u>73,660,844</u>	<u>56,161,529</u>
Noncurrent assets		
Endowment investments (Note 2)	55,484,599	56,877,139
Other long-term investments (Note 2)	119,982,397	132,725,596
Pledges receivable, net (Note 5)	8,577,961	10,143,613
Student loans receivable, net (Note 6)	1,337,377	1,490,935
Capital assets, net (Notes 7)	312,019,207	271,044,564
Deferred outflow of resources (Note 11)	11,699,073	5,633,484
Other assets (Note 9)	1,878,048	1,947,107
Total noncurrent assets	<u>510,978,662</u>	<u>479,862,438</u>
Total assets	<u>584,639,506</u>	<u>536,023,967</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	22,729,387	15,959,623
Accrued payroll	9,348,921	9,509,721
Long-term liabilities - current portion (Note 10)	4,898,319	4,535,164
Deferred revenue	9,998,022	9,651,598
Deposits	1,426,235	1,352,154
Total current liabilities	<u>48,400,884</u>	<u>41,008,260</u>
Noncurrent liabilities		
Deferred revenue	595,996	804,455
Long-term liabilities (Note 10)	127,730,437	132,050,780
Other postemployment benefits (Note 12)	6,177,345	4,503,870
Derivative instrument liability (Note 11)	8,689,053	2,161,116
Total noncurrent liabilities	<u>143,192,831</u>	<u>139,520,221</u>
Total liabilities	<u>191,593,715</u>	<u>180,528,481</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	193,687,340	151,828,575
Restricted nonexpendable	18,726,070	18,056,555
Restricted expendable	35,302,277	39,817,725
Unrestricted	145,330,104	145,792,631
Total net assets	<u>\$ 393,045,791</u>	<u>\$ 355,495,486</u>

The accompanying notes are an integral part of these financial statements



**Oakland University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>		
Tuition (net of scholarship allowances of \$31,906,000 in 2012 and \$28,702,730 in 2011)	\$ 149,094,773	\$ 137,613,227
Federal grants and contracts	11,824,444	14,524,359
State, local and private grants and contracts	3,412,087	3,243,564
Departmental activities	5,997,526	5,470,049
Auxiliary activities (net of scholarship allowances of \$2,709,161 in 2012 and \$2,514,367 in 2011)	23,423,935	22,598,363
Other operating revenues	269,104	418,236
Total operating revenues	<u>194,021,869</u>	<u>183,867,798</u>
<b>Operating expenses</b>		
Education and general		
Instruction	104,180,089	99,012,123
Research	11,252,501	9,531,111
Public service	3,708,742	2,943,245
Academic support	20,588,635	19,127,494
Student services	18,604,384	17,367,693
Institutional support	32,582,943	28,752,493
Operations and maintenance of plant	18,876,543	17,890,780
Depreciation	12,555,596	12,040,289
Student aid	13,211,307	12,888,164
Auxiliary activities	23,872,123	23,742,562
Other expenses	12,595	15,754
Total operating expenses (Note 16)	<u>259,445,458</u>	<u>243,311,708</u>
Operating loss	<u>(65,423,589)</u>	<u>(59,443,910)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations (Note 4)	43,145,000	50,761,300
Gifts	5,805,973	4,294,656
Investment income (net of investment expenses of \$513,062 in 2012 and \$493,124 in 2011)	1,471,099	20,878,848
Distributions to annuity and life income fund beneficiaries	(60,915)	(59,818)
Interest on capital asset related debt	(4,515,275)	(4,918,933)
Federal grants	21,036,832	20,037,823
Other	146,675	141,921
Net nonoperating revenues	<u>67,029,389</u>	<u>91,135,797</u>
Income before other revenues	<u>1,605,800</u>	<u>31,691,887</u>
Capital appropriations	30,426,772	-
Capital grants and gifts	4,929,415	1,496,753
Additions to permanent endowments	588,318	1,225,850
Total other revenues	<u>35,944,505</u>	<u>2,722,603</u>
Increase in net assets	<u>37,550,305</u>	<u>34,414,490</u>
<b>Net assets</b>		
Beginning of year	355,495,486	321,080,996
End of year	<u>\$ 393,045,791</u>	<u>\$ 355,495,486</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Cash Flows**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Tuition	\$ 147,972,481	\$ 136,863,257
Grants and contracts	15,126,785	17,787,298
Payments to suppliers	(60,121,245)	(54,131,723)
Payments to employees	(169,798,468)	(158,591,065)
Payments for scholarships and fellowships	(13,211,307)	(12,888,164)
Loans issued to students	(258,314)	(198,379)
Collection of loans from students	355,172	321,912
Auxiliary enterprise charges	23,336,759	22,196,585
Other receipts	6,367,117	4,930,448
Net cash used by operating activities (Note 17)	<u>(50,231,020)</u>	<u>(43,709,831)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	44,529,780	50,748,467
Federal direct lending receipts	106,844,417	100,126,137
Federal direct lending disbursements	(106,844,417)	(100,126,137)
Gifts and grants for other than capital purposes	27,953,076	26,115,311
Endowment gifts	588,318	1,225,850
Net cash provided by noncapital financing activities	<u>73,071,174</u>	<u>78,089,628</u>
<b>Cash flows from capital financing activities</b>		
Capital appropriations	18,287,063	-
Capital grants, gifts and other payments	4,783,961	1,496,753
Purchases of capital assets	(49,385,350)	(33,161,086)
Principal paid on capital debt and leases	(3,864,996)	(3,703,537)
Interest paid on capital debt and leases	(4,342,689)	(4,583,442)
Net cash used by capital financing activities	<u>(34,522,011)</u>	<u>(39,951,312)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	67,663,529	117,961,724
Investment income	4,464,487	6,332,505
Purchase of investments	(56,058,831)	(159,036,797)
Net cash provided (used) by investing activities	<u>16,069,185</u>	<u>(34,742,568)</u>
Net increase (decrease) in cash and cash equivalents	4,387,328	(40,314,083)
<b>Cash and cash equivalents</b>		
Beginning of year	32,718,493	73,032,576
End of year	<u>\$ 37,105,821</u>	<u>\$ 32,718,493</u>

The accompanying notes are an integral part of these financial statements



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**1. Significant Accounting Policies**

**Organization**

These financial statements present the financial position, results of operations, and changes in net assets of Oakland University (University). They have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Codification sections applicable on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB Codification sections applicable after November 30, 1989.

Operating revenues represent revenue earned from exchange transactions and consist of tuition, certain grants and contracts, departmental activities, auxiliary activities, and other miscellaneous revenues. Nonoperating revenues include State appropriations, gifts, certain grants, and investment income. When an expense is incurred for which both restricted and unrestricted net assets are available, the University applies the restricted or unrestricted resources at its discretion.

**Cash Equivalents**

The University considers all investments with original maturity of 90 days or less when purchased to be cash equivalents.

**Investments**

Investments are stated at fair market value.

**Derivatives**

The University is party to interest rate swap agreements which are considered to be derivatives and are recorded at fair value on the statement of net assets as long-term assets or liabilities.

**Inventories**

Inventories are stated at the lower of average cost or market. Included in the 2012 inventory are four homes in the Meadow Brook Subdivision owned by the University and valued at \$699,500.

**Physical Properties**

Physical properties are stated at cost or, when donated, at fair market value at the date of gift. A capitalization threshold of \$5,000 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

The following are asset classifications and the respective estimated useful lives:

<u>Classifications</u>	<u>Life</u>
Buildings	40 years
Land improvements and infrastructure	20 years
Library acquisitions	10 years
Equipment and software	7 years

**Revenue Recognition**

Revenues related to the summer and fall semesters are recognized in the fiscal year in which the semesters are predominantly conducted.

Gifts are recognized at the later of the date pledged or when the eligibility requirements of the gifts are met.

Funds are appropriated to the University for operations by the State of Michigan (State) covering the State's fiscal year, October 1 through September 30. The appropriation is for the University's fiscal year ending June 30 and is considered earned.

Revenues are reported net of discounts and allowances.

**Income Tax Status**

The University is classified as a political subdivision of the State of Michigan under Section 115 of the Internal Revenue Code and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**2. Investments and Deposits with Financial Institutions**

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. These investments are administered according to the University's "Pooled Cash Investment Policy." The policy requires that no short-term investment may have a maturity greater than one year and no more than 10% of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of 15 years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at fair market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolios at June 30, 2012 and 2011 do not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire University portfolio.

At June 30, 2012 and 2011 operating cash was invested in a short-term mutual fund, two pooled intermediate-fixed funds and pooled equity funds in the following fair market value amounts. These investments are displayed by category according to their respective duration to describe the level of interest rate risk in this portfolio. This is the risk in a fixed income portfolio that a change in interest rates can affect the fair market value of the portfolio.

<u>June 30, 2012</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>University Operating Pooled Cash</b>					
Swept Money Market Mutual Fund	\$ 32,967,955	\$ 32,967,955	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	44,772,910	4,942,929	19,794,103	13,131,895	6,903,983
JP Morgan Equity Funds Intrepid Equities	34,124,880	-	-	-	34,124,880
WAM Sinking Fund	351,435	-	-	-	351,435
JP Morgan Bond Fund	41,340,227	12,297,102	29,043,125	-	-
Cash with Trustees	5,202,533	5,202,533	-	-	-
Operating Investments	158,759,940	55,410,519	48,837,228	13,131,895	41,380,298
Net cash overdraft	(1,671,722)	(1,671,722)	-	-	-
	<u>\$ 157,088,218</u>	<u>\$ 53,738,797</u>	<u>\$ 48,837,228</u>	<u>\$ 13,131,895</u>	<u>\$ 41,380,298</u>
Cash and cash equivalents	\$ 37,105,821				
Other long-term investments	119,982,397				
	<u>\$ 157,088,218</u>				

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

<u>June 30, 2011</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>University Operating Pooled Cash</b>					
Swept Money Market Mutual Fund	\$ 19,619,433	\$ 19,619,433	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	51,045,530	5,553,754	21,275,777	14,639,857	9,576,142
JP Morgan Equity Funds Intrepid Equities	45,821,774	-	-	-	45,821,774
WAM Sinking Fund	344,799	-	-	-	344,799
JP Morgan Bond Fund	35,861,978	6,562,625	29,299,353	-	-
Cash with Trustees	14,621,594	14,621,594	-	-	-
Operating Investments	167,315,108	46,357,406	50,575,130	14,639,857	55,742,715
Net cash overdraft	(1,871,019)	(1,871,019)	-	-	-
	<u>\$ 165,444,089</u>	<u>\$ 44,486,387</u>	<u>\$ 50,575,130</u>	<u>\$ 14,639,857</u>	<u>\$ 55,742,715</u>
Cash and cash equivalents	\$ 32,718,493				
Other long-term investments	132,725,596				
	<u>\$ 165,444,089</u>				

At June 30, 2012, the Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 8.4 years and an average credit quality of AA-. The weighted-average maturity of a fixed income fund such as the High Quality Bond Fund is one measure of the risk that its market value will change with changes in interest rates.

The University is exposed to foreign currency risk included within the University operating pooled cash investment balance. The current investments that are subject to foreign currency risk consist of the JPMorgan International Opportunities Fund in the amount of \$5,019,672 as of June 30, 2012.

These investments produced net rates of return of 1.5% and 6.7%, respectively, for the years ended June 30, 2012 and 2011.

As of June 30, 2012 and 2011, the University had an investment derivative with the following maturity:

<u>June 30, 2012</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 3,010,020	\$ -	\$ -	\$ -	\$ 3,010,020
<u>June 30, 2011</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 3,472,638	\$ -	\$ -	\$ -	\$ 3,472,638



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The investment derivative was approved by the Board of Trustees (Board). The investment derivative is included with deferred outflow of resources in the Statements of Net Assets. See Note 11 for further disclosures.

The University's endowment investments are administered according to the University's "Endowment Management and Investment Policy". Concentration of credit risk is limited to no more than 1% of the portfolio in any one principal protected structured product or structured equity product. Equity investments are broadly diversified and there is no investment in a single issuer other than the U.S. Government that amounts to more than 5% of the portfolio. The "Endowment Management and Investment Policy" restricts debt investment to "high quality"; "A" to "AAA" rated corporate bonds, U.S. Treasury, and agency securities or issues of supranational organizations and foreign sovereigns and no more than 20% of the fixed-income portfolio may be invested in securities rated less than BBB or that are illiquid.

These investment funds are uninsured and uncollateralized and produced a total net return of -1.9% and 19.7% for the years ended June 30, 2012 and 2011, respectively.

University pooled investment funds consist of the following as of June 30, 2012 and 2011:

<u>June 30, 2012</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>UBS Endowment Investment Pool</b>					
Large Cap Value	\$ 7,529,206	\$ 197,814	\$ -	\$ -	\$ 7,331,392
Large Cap Growth	7,473,310	257,665	-	-	7,215,645
Mid Cap Value	3,022,433	448,910	-	8,660	2,564,863
Mid Cap Growth	2,848,741	85,600	-	-	2,763,141
Small Cap Core	2,659,805	40,527	-	-	2,619,278
Small Cap Growth	659,580	17,272	-	-	642,308
REIT	1,050,672	37,176	-	-	1,013,496
International Value	4,292,726	126,843	-	-	4,165,883
International Core	3,003,821	52,369	-	-	2,951,452
Developing Markets	922,373	-	-	-	922,373
Fixed Income Core	10,683,845	1,028,812	3,207,667	4,804,958	1,642,408
High Yield Bonds	2,729,220	175,207	887,254	1,620,001	46,758
Global Fixed	2,859,946	43	1,460,921	1,398,982	-
Hedge Funds	4,006,473	65	-	-	4,006,408
Commodity Stock Funds	1,423,396	-	-	-	1,423,396
Private Equity	216,630	-	-	-	216,630
Cash	30	30	-	-	-
	<u>55,382,207</u>	<u>2,468,333</u>	<u>5,555,842</u>	<u>7,832,601</u>	<u>39,525,431</u>
Charitable Trusts – Equity Funds	102,392	-	-	-	102,392
	<u>\$ 55,484,599</u>	<u>\$ 2,468,333</u>	<u>\$ 5,555,842</u>	<u>\$ 7,832,601</u>	<u>\$ 39,627,823</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

<u>June 30, 2011</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>UBS Endowment Investment Pool</b>					
Large Cap Value	\$ 7,493,308	\$ -	\$ -	\$ -	\$ 7,493,308
Large Cap Growth	7,239,617	-	-	-	7,239,617
Mid Cap Value	2,964,056	-	-	-	2,964,056
Mid Cap Growth	3,275,998	-	-	-	3,275,998
Small Cap Core	2,663,684	-	-	-	2,663,684
REIT	401,464	-	-	-	401,464
International Value	5,238,069	-	-	-	5,238,069
International Core	4,128,310	-	-	-	4,128,310
Developing Markets	1,027,971	-	-	-	1,027,971
Fixed Income Core	11,690,496	1,402,242	4,918,324	3,911,390	1,458,540
High Yield Bonds	2,530,101	144,562	747,916	1,516,383	121,240
Global Fixed	3,927,585	362	1,994,109	1,933,114	-
Hedge Funds	2,099,759	-	-	-	2,099,759
Commodity Stock Funds	1,929,522	-	-	-	1,929,522
Private Equity	162,876	-	-	-	162,876
Cash	30	30	-	-	-
	<u>56,772,846</u>	<u>1,547,196</u>	<u>7,660,349</u>	<u>7,360,887</u>	<u>40,204,414</u>
Charitable Trusts – Equity Funds	104,293	-	-	-	104,293
	<u>\$ 56,877,139</u>	<u>\$ 1,547,196</u>	<u>\$ 7,660,349</u>	<u>\$ 7,360,887</u>	<u>\$ 40,308,707</u>

The credit quality of the fixed income investments in the portfolio vary with 84.5% of the portfolio carrying a credit rating of A or better and 15.5% of the portfolio rated less than investment grade. Cash items in the portfolio carry credit ratings of A-1, P-1 and F-1.

The University is not exposed to foreign currency risk within the investment balance as of June 30, 2012.

The private equity investment's estimated market value is \$216,630 with a total commitment by the University of \$1,000,000 over a five-year period. Hedge fund investments are estimated at a market value of \$4,006,473. Estimated market values and returns are reviewed by the UBS Alternative Investments U.S. Team through the University's endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for these alternative investments, private equity and hedge funds. These estimated fair values are values provided by external investment managers and advisers as of June 30, 2012. Because alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

The Charitable Trust – Equity Funds are charitable gift annuities. These are arrangements in which donors contribute assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time (typically for the life of the donor or other beneficiary). Annuities payable are established based on the present value of the estimated annuity payouts over the life expectancy of the donor or other beneficiary.

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the University to appropriate an amount of realized and unrealized endowment appreciation as determined to be prudent.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

With the exception of the private equity placement and two hedge funds, the pooled cash and endowment investment pools can be liquidated within ninety days or less at fair market value.

**3. Accounts Receivable**

Accounts receivable consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Tuition	\$ 9,624,494	\$ 7,806,608
Auxiliary enterprises	1,410,398	1,188,224
Contracts and grants	4,198,191	3,916,945
Other receivables	12,879,485	822,707
Total accounts receivable	<u>28,112,568</u>	<u>13,734,484</u>
Less: Allowance for doubtful accounts	(4,565,501)	(3,856,138)
Total accounts receivable, net	<u>\$ 23,547,067</u>	<u>\$ 9,878,346</u>

Capital appropriation is paid to the University on a cost reimbursement basis for the construction of the Human Health Building from the State Building Authority. As of June 30, 2012, the receivable for reimbursement of incurred costs totaled \$12,139,709 and is included in Other Receivables.

**4. Appropriations Receivable**

The annual State operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2012 and 2011, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$7,844,548 and \$9,229,328, respectively.

**5. Pledges Receivable**

Pledges receivable consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<b>Pledges outstanding</b>		
Unrestricted	\$ 19,243	\$ 43,260
Restricted expendable	13,463,070	15,060,743
Total pledges outstanding	<u>13,482,313</u>	<u>15,104,003</u>
Less		
Allowance for doubtful pledges	(103,929)	(101,857)
Present value discount	(1,802,575)	(2,421,963)
Total pledges outstanding, net	<u>11,575,809</u>	<u>12,580,183</u>
Less: Current portion, net	<u>(2,997,848)</u>	<u>(2,436,570)</u>
Noncurrent portion, net	<u>\$ 8,577,961</u>	<u>\$ 10,143,613</u>



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2012 and 2011, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 1% net of discount at June 30, 2012 and 2011.

Payments on pledges receivable at June 30, 2012 are expected to be received in the following years:

Past due	\$ 62,610
Due in one year	2,993,178
Due in two-five years	8,424,025
Thereafter	2,002,500
Total	<u>\$ 13,482,313</u>

Approximately \$10.7 million of the total net pledges outstanding is from a single donor. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2012 and 2011 the University had \$31,439,851 and \$31,084,870, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$31,439,851 in conditional pledges for fiscal year 2012, \$15,000,000 is from a single donor.

**6. Student Loans Receivable**

Student loans receivable consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<b>Student loans</b>		
Federal loan programs	\$ 1,814,236	\$ 1,982,294
University loan funds	123,626	74,692
	<u>1,937,862</u>	<u>2,056,986</u>
Less: Allowance for doubtful loans	(247,622)	(287,455)
Total student loans, net	<u>1,690,240</u>	<u>1,769,531</u>
Less: Current portion, net	(352,863)	(278,596)
Noncurrent portion, net	<u>\$ 1,337,377</u>	<u>\$ 1,490,935</u>

In addition, the University distributed \$106,844,417 and \$100,126,137 for the years ended June 30, 2012 and 2011, respectively, for student loans through the U.S. Department of Education Federal Direct Loan program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements, but are reflected in the University's Statements of Cash Flows.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**7. Capital Assets**

The following tables present the changes in the various capital asset categories for the University for fiscal years 2012 and 2011:

<u>Asset Classification</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2012</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	55,912,367	1,470,634	-	57,383,001
Buildings	300,375,937	8,426,451	-	308,802,388
Equipment	36,479,111	2,695,981	4,843,042	34,332,050
Library acquisitions	26,595,440	618,212	548,665	26,664,987
Construction in progress	34,616,188	50,267,573	9,897,085	74,986,676
Total	<u>458,603,957</u>	<u>63,478,851</u>	<u>15,288,792</u>	<u>506,794,016</u>
Accumulated depreciation				
Land improvements and infrastructure	(20,668,976)	(2,568,989)	-	(23,237,965)
Buildings	(117,265,768)	(6,639,890)	-	(123,905,658)
Equipment	(26,978,364)	(2,485,025)	(4,610,401)	(24,852,988)
Library acquisitions	(22,646,285)	(680,578)	(548,665)	(22,778,198)
Total	<u>(187,559,393)</u>	<u>(12,374,482)</u>	<u>(5,159,066)</u>	<u>(194,774,809)</u>
Total capital assets (net)	<u>\$ 271,044,564</u>	<u>\$ 51,104,369</u>	<u>\$ 10,129,726</u>	<u>\$ 312,019,207</u>

<u>Asset Classification</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2011</u>
Land	\$ 4,324,914	\$ 300,000	\$ -	\$ 4,624,914
Land improvements and infrastructure	46,233,363	9,679,004	-	55,912,367
Buildings	291,659,166	8,716,771	-	300,375,937
Equipment	37,791,239	4,109,378	5,421,506	36,479,111
Library acquisitions	26,249,153	646,552	300,265	26,595,440
Construction in progress	20,591,905	31,270,059	17,245,776	34,616,188
Total	<u>426,849,740</u>	<u>54,721,764</u>	<u>22,967,547</u>	<u>458,603,957</u>
Accumulated depreciation				
Land improvements and infrastructure	(18,344,703)	(2,324,273)	-	(20,668,976)
Buildings	(110,836,983)	(6,428,785)	-	(117,265,768)
Equipment	(29,863,321)	(2,370,823)	(5,255,780)	(26,978,364)
Library acquisitions	(22,167,166)	(779,384)	(300,265)	(22,646,285)
Total	<u>(181,212,173)</u>	<u>(11,903,265)</u>	<u>(5,556,045)</u>	<u>(187,559,393)</u>
Total capital assets (net)	<u>\$ 245,637,567</u>	<u>\$ 42,818,499</u>	<u>\$ 17,411,502</u>	<u>\$ 271,044,564</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**8. State Building Authority**

The University has lease agreements with the State Building Authority (SBA) and the State of Michigan for the School of Education and Human Services Building (Pawley Hall), the Science and Engineering Building, the Business and Technology Building (Elliott Hall) and the Human Health Building. The buildings were financed with SBA revenue bonds, State capital appropriations, and University general revenue bonds.

The SBA bond issues are collateralized by a pledge of rentals to be received from the State pursuant to the lease agreements between the SBA, the State, and the University. During the lease terms, the SBA will hold title to the facilities; the State will make all annual lease payments to the SBA; and the University will pay all operating and maintenance costs of the facilities.

At the expiration of the leases, the SBA has agreed to sell each facility to the University for one dollar. The cost and accumulated depreciation for these facilities is included in the accompanying Statements of Net Assets.

The University broke ground on the Human Health Building in 2010, utilizing \$40 million in State capital appropriations to support construction of the new facility. The University is expected to obtain occupancy permits and begin use of the facility beginning in the Fall Semester 2012.

**9. Cash Surrender Value of Life Insurance Policies**

Included in other assets are the cash surrender value of life insurance policies in the amount of \$994,230 and \$1,014,367 for 2012 and 2011, respectively. The face value of these life insurance policies totaled \$6,148,572 in 2012 and \$6,098,522 in 2011.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**10. Long-Term Liabilities**

Long-term liabilities consist of the following as of June 30, 2012 and 2011:

	<u>Balance June 30, 2011</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 15,968,080	\$ -	\$ 710,538	\$ 15,257,542	\$ 737,903
Bonds payable:					
Variable rate demand bonds, series 1998	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004	25,785,000	-	1,195,000	24,590,000	1,255,000
unamortized premium	782,684	-	98,894	683,790	96,306
unamortized deferral on extinguishment	(854,599)	-	(107,980)	(746,619)	(105,155)
General revenue refunding bonds, series 2008	53,280,000	-	1,270,000	52,010,000	1,335,000
2008 Bonds – deferral	(4,619,428)	-	(234,886)	(4,384,542)	(234,886)
General revenue bonds, series 2009	32,960,000	-	700,000	32,260,000	715,000
Total, note, installment agreement and bonds payable	<u>127,901,737</u>	<u>-</u>	<u>3,631,566</u>	<u>124,270,171</u>	<u>3,799,168</u>
Other liabilities:					
Compensated absences	4,318,537	277,325	-	4,595,862	307,449
Early retirement plan	2,207,892	-	590,890	1,617,002	730,170
Annuities payable and other	423,266	42,493	-	465,759	61,532
Federal portion of Perkins loan program	1,734,512	-	54,550	1,679,962	-
Total other liabilities	<u>8,684,207</u>	<u>319,818</u>	<u>645,440</u>	<u>8,358,585</u>	<u>1,099,151</u>
Total long-term liabilities	<u>\$ 136,585,944</u>	<u>\$ 319,818</u>	<u>\$ 4,277,006</u>	<u>\$ 132,628,756</u>	<u>\$ 4,898,319</u>
Total long-term liabilities	\$ 136,585,944			\$ 132,628,756	
Current portion	4,535,164			4,898,319	
Noncurrent portion	<u>\$ 132,050,780</u>			<u>\$ 127,730,437</u>	

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Current Portion</u>
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 16,666,617	\$ -	\$ 698,537	\$ 15,968,080	\$ 710,538
Bonds payable:					
General revenue bonds, series 1997	1,175,000	-	1,175,000	-	-
Variable rate demand bonds, series 1998	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004	26,925,000	-	1,140,000	25,785,000	1,195,000
unamortized premium	883,696	-	101,012	782,684	98,894
unamortized deferral on extinguishment	(964,890)	-	(110,291)	(854,599)	(107,980)
General revenue refunding bonds, series 2008	53,280,000	-	-	53,280,000	1,270,000
2008 Bonds – deferral	(4,854,314)	-	(234,886)	(4,619,428)	(234,886)
General revenue bonds, series 2009	33,650,000	-	690,000	32,960,000	700,000
Total note, installment agreement and bonds payable	<u>131,361,109</u>	<u>-</u>	<u>3,459,372</u>	<u>127,901,737</u>	<u>3,631,566</u>
Other liabilities:					
Compensated absences	4,239,319	79,218	-	4,318,537	237,577
Early retirement plan	-	2,207,892	-	2,207,892	605,814
Annuities payable and other	429,582	5,329	11,645	423,266	60,207
Federal portion of Perkins loan program	1,801,109	25,779	92,376	1,734,512	-
Total other liabilities	<u>6,470,010</u>	<u>2,318,218</u>	<u>104,021</u>	<u>8,684,207</u>	<u>903,598</u>
Total long-term liabilities	<u>\$ 137,831,119</u>	<u>\$ 2,318,218</u>	<u>\$ 3,563,393</u>	<u>\$ 136,585,944</u>	<u>\$ 4,535,164</u>
Total long-term liabilities	\$ 137,831,119			\$ 136,585,944	
Current portion	<u>3,711,462</u>			<u>4,535,164</u>	
Noncurrent portion	<u>\$ 134,119,657</u>			<u>\$ 132,050,780</u>	

**Note and Installment Purchase Agreement Payable**

In December 2005, the University entered into a general revenue note payable over 264 months in the amount of \$18,253,776 at a fixed rate of interest of 3.785% to finance Phase II of its Energy Service Agreement projects.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

Required annual payments for the notes payable and the installment purchase agreement for the fiscal years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 737,903	\$ 564,784	\$ 1,302,687
2014	766,322	536,365	1,302,687
2015	795,836	506,851	1,302,687
2016	826,487	476,200	1,302,687
2017	858,318	444,369	1,302,687
2018-2022	4,813,652	1,699,780	6,513,432
2023-2027	5,814,810	698,627	6,513,437
2028	644,214	7,131	651,345
Total	<u>\$ 15,257,542</u>	<u>\$ 4,934,107</u>	<u>\$ 20,191,649</u>

**Bonds Payable**

In September 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited obligation revenue variable rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates at June 30, 2012 and 2011 were 0.19% and 0.14%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. On February 1, 2006, the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of \$4,600,000.

In September 2004, the University issued \$31,770,000 of general revenue refunding bonds (2004 Bonds), with an average coupon interest rate of 5.01% and a net original issue premium of \$1,967,000. The proceeds were utilized to refund the Series 1995 general revenue bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. The related loss on early extinguishment of debt of \$2,147,000 has been deferred and will be amortized over the term of the 2004 Bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the subsequent 21 years by approximately \$3,929,000. The refunding resulted in an economic gain of \$2,592,000.

In June 2008, the University issued \$53,280,000 general revenue refunding bonds (2008 Bonds) to refund the 2001 general revenue bonds. The 2008 Bonds are variable rate demand obligations with a maturity date of March 1, 2031. In conjunction with this issue, the University terminated the related 2001 Swap at a termination value of \$4,860,000 paid to the counterparty, and reissued a new 2008 Swap synthetically fixing the rate on the full amount of the issue to 3.373%. The 2001 Swap termination cost has been deferred and will be amortized over the term of the refunding bonds. These bonds will mature on March 1, 2031. The aggregate amount of outstanding principal on the 2001 Bonds which has been defeased was \$48,000,000 as of June 30, 2008.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

In December 2009, the University issued \$33,650,000 general revenue bonds (2009 Bonds) (Taxable – Build America Bonds) to fund a portion of the Human Health Building and several infrastructure projects. The 2009 Bonds were issued in fixed rate mode and include an election by the University to receive payments from the Federal Government under the Build America Bond program created under the American Recovery and Reinvestment Act of 2009. The 2009 Bonds were issued with a final maturity of March 1, 2039. The pricing resulted in a 4.427% true interest cost after adjusting for the Federal interest subsidy.

The following table summarizes debt service requirements for the outstanding bonds payable:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2013	\$ 3,305,000	\$ 3,410,669	\$ 1,655,998	\$ 8,371,667
2014	3,430,000	3,321,551	1,613,492	8,365,043
2015	3,570,000	3,224,955	1,569,553	8,364,508
2016	3,730,000	3,118,362	1,523,703	8,372,065
2017	3,870,000	3,024,651	1,475,943	8,370,594
2018-2022	22,055,000	13,158,302	6,590,084	41,803,386
2023-2027	32,345,000	9,082,835	5,060,013	46,487,848
2028-2032	29,015,000	5,823,685	1,819,019	36,657,704
2033-2037	8,270,000	3,202,987	-	11,472,987
2038-2039	3,870,000	418,275	-	4,288,275
	<u>113,460,000</u>	<u>\$ 47,786,272</u>	<u>\$ 21,307,805</u>	<u>\$ 82,554,077</u>
Less: Deferral on extinguishment, net	<u>(4,447,371)</u>			
	<u>\$109,012,629</u>			

**Other Liabilities**

Accrued compensated absences include accrued vacation and sick pay for University employees.

The Early Retirement Incentive Plan is a 2011 cost containment initiative that provides an incentive for qualifying employees to retire from the University. The benefits are paid monthly to 36 participants' 403(b) accounts over a five year period beginning in 2012. Remaining benefit payments and fees totaling \$1.6 million are to be funded through 2014.

Charitable gift annuities are arrangements in which donors contribute assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time (typically for the life of the donor or other beneficiary). Annuities payable are established based on the present value of the estimated annuity payouts over the life expectancy of the donor or other beneficiary.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**11. Derivatives**

The University adopted the provisions of GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2010. The derivatives are valued using an independent pricing service. The following provides a description of each swap agreement.

**Investment Derivative Instrument:**

**2007 Constant Maturity Swap Agreement**

In June 2007, the University executed a Constant Maturity Swap (CMS) in an initial notional amount of \$34,370,000 effective October 1, 2007, the purpose of which is to reduce interest rates. Under the CMS, the University pays the counterparty the SIFMA Municipal Swap Index and receives 90.39% of the ten-year SIFMA Swap Rate until March 1, 2031. No amounts were paid or received when the CMS was initiated.

The estimated fair value of the CMS at June 30, 2012 and 2011 was \$3,010,020 and \$3,472,368, respectively. These fair values are included as a reduction of the Derivative instrument liability in the Statements of Net Assets with the change in fair value of (\$462,348) and \$609,209 for fiscal years ended June 30, 2012 and 2011, respectively, included in Investment income in the Statements of Revenues, Expenses and Changes in Net Assets. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. At June 30, 2012 the counterparty's credit rating from Moody's Investors Service was Aa3. The CMS includes collateral requirements intended to mitigate credit risk. At June 30, 2012, there is no collateral posting requirements of either the counterparty or the University. Under this agreement the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

In addition, since the rates received and paid by the University are variable rates, the University is exposed to basis risk, which is the risk that arises when variable interest rates are based on different indexes.

The CMS is based on an International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events such as failure to pay and bankruptcy, or termination risk. In addition, the Master Agreement includes additional termination events. If the CMS is terminated, the University may be required to pay an amount equal to the fair value if it is negative. In addition, termination of the CMS would result in the University losing the benefit it is currently receiving related to the CMS payments.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**Hedging Derivative Instrument:**

**2008 Interest Rate Swap Agreement**

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.373% and is based on 67% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. The Notional Amount at June 30, 2012 was \$52,010,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.373%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap at June 30, 2012 and 2011 was (\$11,699,073) and (\$5,633,484), respectively. These fair values are reflected in the Deferred outflow of resources and Derivative instrument liability sections of the Statements of Net Assets. The fair value represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the 2008 Swap is treated as an Effective Hedging Derivative Instrument.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap includes collateral requirements intended to mitigate credit risk. At June 30, 2012 there is no collateral posting requirement by either the counterparty or the University. Collateral posting by the University may be required under the agreement when the fair value exceeds (\$5,000,000) at the University's current credit rating of A1 or zero should the University default. At June 30, 2012 the counterparty's credit rating from Moody's Investors Service was Baa2.

Additionally, the 2008 Swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. The University is also exposed to interest rate risk which is the risk that as the swap index decreases, the University's net payment on the 2008 Swap increases.

The 2008 Swap is based on an International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events such as failure to pay and bankruptcy, or termination risk. In addition, the Master Agreement includes additional termination events. If the 2008 Swap is terminated, the 2008 Bonds will no longer carry a synthetic interest rate, and the University may be required to pay an amount equal to the fair value if it is negative.



**12. Postemployment Benefits Other than Pensions**

**Plan Description**

In addition to the employee benefits discussed in Note 13, the University provides postemployment healthcare benefits to eligible University retirees and their spouses as part of a single-employer defined benefit plan. The plan is administered by the University. Substantially all University employees may become eligible for coverage if they meet retirement eligibility requirements. The net periodic costs are expensed as employees render the services necessary to earn the postemployment benefits. In general, retirees at least 62 years of age with 15 years of service who were hired before July 1, 2005, depending on the employee group, are eligible for medical benefits in accordance with various labor agreements or within the provisions of University policy. Employees with 25 years of service are eligible for retirement at any age. Except for certain prior retirees, the University shares the cost of coverage with retirees, charging the retirees a contribution equal to the excess of the prevailing premium cost of coverage over a stipulated University subsidy amount. Postemployment healthcare benefits are currently provided to 305 retirees and spouses. Certain employees hired after July 1, 2005, depending on the employee group, may be eligible for participation in the University's post employment health care benefits as "access only" for retirees and spouses, at retiree rates, paid in full by the retiree.

**Funding Policy**

The contribution requirements of plan members and the University are established in accordance with various labor agreements or within the provisions of University policy. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2012, the University and plan members receiving benefits contributed \$1,532,758 and \$941,046, respectively, to the plan. Approximately 62% of total premiums were paid by the University with the remaining 38% paid by plan members. Required contributions for plan members range from no cost to \$845 per month for retiree-only coverage, and from no cost to \$2,028 per month for retiree and spouse coverage.

For the year ended June 30, 2011, the University and plan members receiving benefits contributed \$1,521,614 and \$971,649, respectively, to the plan. Approximately 61% of total premiums were paid by the University with the remaining 39% paid by plan members. Required contributions for plan members range from no cost to \$893 per month for retiree-only coverage, and from no cost to \$2,142 per month for retiree and spouse coverage.

**Annual OPEB Cost and Net OPEB Obligation**

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2012 and 2011:

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Annual Required Contribution (ARC)	\$ 3,373,403	\$ 2,447,761
Interest on net OPEB obligation	355,806	315,674
Adjustment to ARC	<u>(522,976)</u>	<u>(467,063)</u>
Annual OPEB cost (expense)	3,206,233	2,296,372
Contributions made	<u>(1,532,758)</u>	<u>(1,521,614)</u>
Increase in net OPEB obligation	1,673,475	774,758
Net OPEB obligation – beginning of year	4,503,870	3,729,112
Net OPEB obligation – end of year	<u>\$ 6,177,345</u>	<u>\$ 4,503,870</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<b>Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2012	\$ 3,206,233	47.8%	\$ 6,177,345
2011	\$ 2,296,372	66.3%	\$ 4,503,870
2010	\$ 2,161,497	66.0%	\$ 3,729,112

**Funded Status and Funding Progress**

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but instead are financed on a pay-as-you-go basis. The University thus far has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board of Trustees approved quasi-endowment valued at approximately \$11.2 million, earnings from which will be used to offset annual postemployment contributions. The University's contribution to the plan for the year ended June 30, 2012 and the two preceding years were \$1,532,758, \$1,521,614, and \$1,427,568 respectively. The funded status of the plan for the year ended June 30, 2012 and the two preceding years is as follows:

**Schedule of Funding Progress**  
**Oakland University Retired Employees Healthcare Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2012	-	\$ 28,874,260	\$ 28,874,260	0.00%	\$ 89,860,606	32.1%
6/30/2011	-	\$ 22,494,968	\$ 22,494,968	0.00%	\$ 86,226,076	26.1%
6/30/2010	-	\$ 21,538,021	\$ 21,538,021	0.00%	\$ 82,604,660	26.1%

The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the Unit Credit Actuarial Cost Method of valuation. The unfunded actuarial accrued liability totaled \$28.9 million as of the June 30, 2012 actuarial valuation date. The unfunded actuarial accrued liability is being amortized over a period of thirty years from the July 1, 2007 valuation date in level dollar payments. Gains and losses are amortized over a period of fifteen years from the valuation date.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**Actuarial Methods and Assumptions**

The actuary chose the Unit Credit Actuarial Cost Method which determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in other postemployment benefit costs. These gains and losses result from the difference between the actual experience under the plan and the experience by the actuarial assumptions. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to expectations and new estimates are made in the future.

Actuarial assumptions included a discount rate of 7.9%, various mortality, turnover and healthcare cost trend rates, an assumption that 80% of subsidized current employees and 50% of access only current employees eligible for medical coverage will elect medical coverage, and an assumption that 70% of future retirees that take coverage elect family coverage. The University will review its assumptions on a bi-annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The University believes that the assumptions utilized in recording its obligations for the plan are reasonable based on its experience.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

**13. Employee Benefits**

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis by employer contributions. Participants may elect to contribute additional amounts to the plan within specified limits. The plans are primarily administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. Contributions by the University for the years ended June 30, 2012 and 2011 were \$13,134,193 and \$12,462,617, respectively.

The University also maintains a noncontributory, defined-benefit retirement plan, which is not open to new participants. The plan is administered by TIAA-CREF. At January 1, 2011, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan was fully funded.

The University provides benefits to eligible employees for unused sick days upon retirement and unused vacation days upon termination. This liability is accounted for as part of accrued compensated absences.

The University is self-insured for workers' compensation and unemployment compensation. Liabilities for claims incurred but not reported under these self-insurance programs have been established.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

---

**14. Liability and Property Insurance**

The University is one of eleven Michigan universities participating in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) which provides insurance coverage for errors and omissions liability, commercial general liability, property loss, automobile liability, and automobile physical damage coverage. M.U.S.I.C. provides coverage for claims in excess of agreed-upon deductibles.

Loss coverages, except for the automobile physical damage program, are structured on a three-layer basis with each member retaining a portion of its losses, M.U.S.I.C. covering the second layer and commercial carriers covering the third. Automobile physical damage coverage is structured on a two-layer basis with no excess coverage from a commercial carrier. Commercial general liability and property coverage are provided on an occurrence basis. Errors and omissions coverage is provided on a claims-made basis.

**15. Contingencies and Commitments**

In the normal course of its activities, the University is a party in various legal actions. Although some actions have been brought for large amounts, the University has not experienced any significant losses or costs. The University and its legal counsel are of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2012, the amount subject to guarantee by the University was \$1,462,271.

The estimated costs to complete construction projects in progress are \$109.8 million as of June 30, 2012, due in large part to the new Engineering Center of \$73.4 million. This \$74.6 million project is expected to be funded from the State Capital Outlay and proceeds from general revenue bonds.

**16. Expenditures by Natural Classification**

Operating expenses by natural classification for the years ended June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Employee compensation and benefits	\$ 170,997,576	\$ 163,147,417
Supplies and other services	62,680,979	55,235,838
Student aid	13,211,307	12,888,164
Depreciation	12,555,596	12,040,289
Total	<u>\$ 259,445,458</u>	<u>\$ 243,311,708</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**17. Cash Flow Statement**

The table below details the reconciliation of the net operating loss to net cash used by operating activities:

	2012	2011
<b>Operating loss</b>	\$ (65,423,589)	\$ (59,443,910)
<b>Adjustments to reconcile net operating loss to net cash used by operating activities</b>		
Depreciation expense	12,555,596	12,040,289
Changes in assets and liabilities:		
Accounts receivable, net	(1,383,558)	(717,790)
Inventories	(217,902)	(343,849)
Deposits and prepaid expense	24,905	(102,293)
Student loans receivable	79,290	108,176
Accounts payable and accrued expenses	2,777,633	1,447,965
Accrued payroll	(160,800)	1,494,485
Compensated absences	(313,565)	2,287,109
Deferred revenue and student fees	137,964	(1,158,459)
Deposits	74,081	(29,715)
Federal portion of student loan program	(54,550)	(66,597)
Other postemployment benefits	1,673,475	774,758
Net cash used by operating activities	<u>\$ (50,231,020)</u>	<u>\$ (43,709,831)</u>

**18. Related Party Transactions**

The Oakland University Foundation is a related party of the University.

Foundation net assets as of June 30, 2012 were as follows:

Assets	\$ 168,544
Net assets	<u>\$ 168,544</u>

The assets remaining are endowment funds. The June 30, 2012 University financial statements do not include the Foundation's assets or activity.

**19. Subsequent Event Disclosures**

The issuance of \$44,155,000 in General Revenue Bonds, Series 2012 occurred August 2012 to partially finance the new Engineering Center. The maturity date is March 2042 with overall level debt service approximating \$3,000,000 per year. Total interest cost is 4.075%.

At June 30, 2012 the University issued a commitment to purchase new golf carts for the Golf and Learning Center operations in August 2012. Financing for this purchase is a lease-purchase agreement in the principal amount of \$512,008 at 1.98% fixed rate of interest. The lease will be payable over a 60 month period at \$7,353 per month and a 61<sup>st</sup> payment of \$102,401 to be paid by the Golf and Learning Center.



2200 North Squirrel Road, Rochester, MI 48309-4401  
[oakland.edu](http://oakland.edu)



Audit Committee of the  
Board of Trustees

Oakland University

*October 4, 2012*



Oakland University  
Audit Committee of the  
Board of Trustees Meeting Agenda

*October 4, 2012*

- ◆ Introduction of Audit Team
  - AHP Representatives
    - Randy Morse – Partner
    - Roger Hitchcock – Partner
    - Jill Catterfeld –Manager
  
- ◆ Financial Highlights
  
- ◆ Audit Committee of the Board of Trustees Letter
  - Services Provided and Reports Issued or in Process
  - Results of 2012 Audit and Review of Significant Accounting Matters
  - Required Communications with the Audit Committee of the Board of Trustees
  - Representation Letter
  
- ◆ Other Questions or Comments

October 4, 2012

Audit Committee of the Board of Trustees  
Oakland University  
Rochester, Michigan

We are pleased to submit this report which summarizes the results of our audit of Oakland University (University) and other matters which we believe would be of interest to you.

### Services Provided and Reports Issued or in Process

In accordance with our engagement letter, AHP provided the following services:

#### Audit Services:

- An audit of the financial statements of the University for the year ended June 30, 2012. – Completed
- An audit in accordance with OMB Circular A-133 and *Government Auditing Standards*. – Completed

#### Nonaudit Services:

- An agreed-upon procedures report as required by the NCAA Financial Audit Guidelines to assist the University in complying with NCAA Bylaw 6.2.3.1. – In Process
- Procedures as required by the State of Michigan related to the inclusion of the University's audited financial statements in the State's comprehensive annual financial report. Additional limited procedures will be required by the State to be performed later in the year, updating our subsequent events procedures through that date. – In Process
- Procedures related to the review of the 2012 990T. – In Process
- Agreed-upon procedures related to the issuance of the General Revenue Bonds, Series 2012 in August 2012. – Completed
- Various consultations with the University. – Ongoing



## Results of 2012 Audit and Review of Significant Matters

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the financial statements. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In addition, SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, sets forth the responsibilities of the auditor to plan and perform the audit to obtain reasonable assurance that financial statements are not materially misstated due to errors or fraud. We have addressed the risk related to fraud by performing inquiries, completing comprehensive checklists, and performing other procedures designed to detect fraud risk factors.

The following summarizes various matters of interest:

### Oakland University William Beaumont School of Medicine Gift

During the 2008/2009 fiscal year, a pledge was received for \$20.0 million from an anonymous donor for the new Oakland University William Beaumont School of Medicine. Since the initial pledge, \$8.0 million of payments have been made toward this pledge (\$2.0 million during each of the last four years). The discounted value of the pledge receivable approximated \$10.2 million at June 30, 2012.

### Allowance for Doubtful Accounts

We performed a detailed analysis of the allowance for doubtful accounts related to accounts receivable, student loan receivables, and pledges receivable. The University determined these allowances were adequate. Based on our testing and review of assumptions made by management, we believe the allowance for doubtful accounts is appropriate at June 30, 2012.

### Capital Appropriations

During the year, the University recorded approximately \$30.4 million in capital appropriations revenue from the State Building Authority related to the construction of the Human Health Building. Capital appropriations are paid to the University on a cost reimbursement basis. At year-end, the University had a receivable for reimbursement of incurred costs of approximately \$12.1 million, which is included in accounts receivable, net, and disclosed in Note 3 of the financial statements.

### Capital Improvement Projects

Construction in progress at June 30, 2012 was approximately \$75.0 million, of which approximately \$59.4 million was related to the Human Health Building.

As of June 30, 2012, it is estimated that the University has approximately \$109.8 million of costs to complete projects, due in large part to the new Engineering Center costs to complete of \$73.4 million.

We have audited significant transactions related to construction in process and believe that such activity is appropriately recorded and disclosed in the financial statements.

#### Derivative Instruments

The University has two interest-rate swap agreements, the purpose of which is to reduce overall interest costs. The Constant Maturity Swap (CMS) is deemed to be an investment; therefore, the change in value of the CMS is recorded in the statement of revenues, expenses and changes in net assets. The second interest-rate swap is a hedging instrument in connection with the 2008 bonds. The fair value and the increase in fair value of this interest-rate swap are recorded in the statement of net assets.

At June 30, 2012, the CMS had a fair value of approximately \$3.0 million and the hedging swap had a fair value of approximately (\$11.7) million.

#### Postemployment Health Benefits

The University offers postemployment health benefits to eligible retirees and spouses. The University is required to record a liability for the actuarially determined benefit obligation. For June 30, 2012, the University recorded an expense of approximately \$3.2 million and made payments of approximately \$1.5 million. The benefit obligation increased by approximately \$1.7 million during the year to approximately \$6.2 million. The total unfunded actuarial accrued liability at June 30, 2012 approximated \$28.9 million.

#### University Net Assets

The net assets of the University increased approximately \$37.6 million or 10.6%. Of this increase, approximately \$1.5 million is investment income; \$5.8 million is nonoperating gifts; \$4.9 million relates to capital grants and gifts; \$30.4 million is in capital appropriations; and a net decrease of \$5.0 million in other operating and nonoperating categories. Included in total net assets are approximately \$145.3 million of unrestricted net assets. Of the \$145.3 million in unrestricted net assets, approximately \$136.3 million has been internally designated for specific purposes by the University.

#### Subsequent Event – Bond Issuance

During August 2012, the University issued \$44,155,000 in General Revenue Bonds, Series 2012, to partially finance the new Engineering Center. The overall debt service approximates \$3.0 million per year. This subsequent event is disclosed in Note 19 in the financial statements.



### Internal Audit Reports

As part of our audit procedures, we reviewed all applicable internal audit reports and matters in progress. These reports and matters have been previously reported to the Board of Trustees by management.

### Independence

We are independent with respect to Oakland University and its related parties.

### Adopted Audit Standards

No new audit standards were applicable that had a material effect on the audit.

### Adopted Accounting Standards

No new accounting standards were adopted for the June 30, 2012 financial statements that had a material effect on the financial statements.

### Recently Issued and Future Accounting and Audit Standards

The following Governmental Accounting Standards Board (GASB) guidance will be applicable to the University for audits subsequent to June 30, 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Applicable June 30, 2013 Year End.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, Applicable June 30, 2013 Year End.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Applicable June 30, 2013 Year End.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Applicable June 30, 2013 Year End.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Applicable June 30, 2014 Year End.

### Required Communications with the Board of Trustees

This section discusses our responsibilities under the Statement on Auditing Standards (SAS) No. 114, *Communication with Those Charged with Governance*. The following excerpts from SAS No. 114 describe the specific matters required to be communicated to you and our responses thereto:



## Our Responsibility under U.S. Generally Accepted Auditing Standards

The auditors' standard report emphasizes that an audit conducted in accordance with auditing standards generally accepted in the United States of America is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Our report dated September 12, 2012 for the June 30, 2012 year end audit follows this format. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

Our responsibility, as described by our professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit does not relieve you or management of your responsibilities.

As part of the audit, we considered the internal control of the University. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our scope letter dated February 9, 2012. No matters came to our attention during our audit that resulted in a change to our timing or scope of our procedures.

## Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the University are described in Note 1 to the financial statements. No new accounting policies were adopted and any changes to the application of existing policies were noted in Note 1. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allowance for doubtful accounts
- Fair market value of investments
- Other postemployment benefits
- Derivative instruments

For each of the estimates listed above, we evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Significant accounting policies
- Investments and deposits with financial institutions
- Bonds payable and interest rate swaps
- Postemployment benefits other than pensions
- Derivative instruments

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no corrected or uncorrected misstatements during the audit.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of the audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2012. A copy is attached for your reference.

#### Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.



Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Communication of Fees for Nonaudit Services

As previously described in this letter, we performed certain nonaudit services at the request of management and the Board of Trustees and documented in an engagement letter. Fees for these services did not exceed the amounts noted in the engagement letter.

Management Letter

We considered the University's internal controls during the course of the audit, and we remained alert for areas where procedures and controls could be improved. We noted no matters involving the internal control over financial reporting and its operation that we would consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Oakland University in a separate letter dated September 12, 2012. A copy is attached for your reference.

\* \* \*

This report is intended solely for the information and use of the Audit Committee of the Board of Trustees, the Board of Trustees, and management of Oakland University and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to respond to any comments or questions you may have concerning this letter or any other aspects of our services to Oakland University.

It has been a pleasure to serve Oakland University during 2012. We would like to express our appreciation for the cooperation and courtesy extended to us by the Audit Committee of the Board of Trustees, the Board of Trustees, and the management and employees of the University and look forward to continuing our association in the future.

Sincerely,

*Andrews Kloopu Pavlik PLC*





Finance and Administration  
Rochester, Michigan 48309-4401

September 12, 2012

Andrews Hooper Pavlik PLC  
691 N. Squirrel Rd., Suite 280  
Auburn Hills, MI 48326

We are providing this letter in connection with your audits of the financial statements of Oakland University (University) as of June 30, 2012 and 2011 and for the years then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the University, and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items with respect to federal award programs are considered material based on the materiality criteria specified in OMB Circular A-133. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity. There are no component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
- 2) We have made available to you all:
  - a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

- b) Minutes of the meetings of any governing body (board, committee, etc.) or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 7) Except as communicated to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse discovered.
- 9) We have a process to track the status of audit findings and recommendations.
- 10) We have provided our views on reported findings, conclusions, recommendations, as well as our planned corrective actions, for the report.
- 11) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 12) The University has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets.
- 13) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the University is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.



- 14) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and, upon your request for such information for a specific federal program, disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 15) There are no:
  - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
  - d) Reservations or designation of fund equity that were not properly authorized and approved.
- 16) The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 17) The University has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 18) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if applicable.
- 19) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
- 20) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 21) Provisions for uncollectible receivables have been properly identified and recorded.
- 22) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value. Physical counts and measurements of inventories were made by competent employees under the supervision of management, and book records were appropriately adjusted after giving recognition to cut-offs for materials received and products shipped/sold.



- 23) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 24) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 25) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 26) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated. Capital assets are evaluated for impairment if a significant or unexpected decline occurs in their service utility. Impairment loss or insurance recoveries have been properly recorded, if applicable.
- 27) Arrangements with financial institutions involving repurchase, reverse repurchase or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
- 28) The methods and significant assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
- 29) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
- 30) Participation in a public entity risk pool have been properly reported and disclosed in the financial statements.
- 31) Amendments to our pension plan or other postretirement benefit plans are not anticipated and the terms of these plans have been properly recorded and fully disclosed in the financial statements.
- 32) We have made you aware of any and all:
  - a) Oral transactions.
  - b) Actions allowed by regulatory agencies that are not documented in writing or by legal references.
  - c) GAAP changes/adoption.
  - d) Lawsuits, regulatory actions, etc.
  - e) IRS examinations or other matters.
  - f) Compliance with IRS arbitrage regulations.
  - g) Pension or OPEB payments made after the University's year-end.
  - h) Termination benefits.
  - i) Uses of specialists.
  - j) Compliance with the debt issuer reporting requirements.

- k) Contributions to employee benefit plans and bonuses not documented in the University's minutes.
  - l) Adjusting journal entries.
- 33) The financial statements and disclosures have been prepared in accordance with the Governmental Accounting Standards Board statements and all applicable statements have been implemented as required.
- 34) Federal advances and the terms of these advances have been properly recorded and disclosed in the financial statements.
- 35) None of the University's investments have permanently declined in value to an amount less than the carrying value in the statement of net assets. Management considers the decline in value of any debt or equity securities to be temporary.
- 36) All funds disbursed from endowed assets have been done so in accordance with the donor's requirements for the use of these funds.
- 37) All deferred compensation agreements have been provided and all deferred compensation accruals have been properly recorded.
- 38) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 39) Provision has been made for any material loss that is probable from environmental remediation liabilities, if applicable. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the financial statements.
- 40) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 41) With respect to the Management's Discussion and Analysis:
- a) We acknowledge our responsibility for presenting the Management's Discussion and Analysis in accordance with accounting principles generally accepted in the United States of America, and we believe the Management's Discussion and Analysis, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Management's Discussion and Analysis have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the Management's Discussion and Analysis is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.



- 42) We agree with the findings of specialists in evaluating the interest rate swaps and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 43) We agree with the findings of specialists in evaluating the GASB 45 OPEB liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 44) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 45) We have provided our GASB 45 actuary all the information necessary to perform the GASB 45 actuarial valuation and we have accurately adopted the provision of GASB 45 in the financial statements and related notes. Also, we have no other postretirement plans that would be subject to GASB 45 that we have not been appropriately recorded and disclosed in the financial statements.
- 46) In regards to any nonattest services performed by you, we have:
- a) Made all management decisions and performed all management functions.
  - b) Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  - c) Evaluated the adequacy and results of the services performed.
  - d) Accepted responsibility for the results of the services.
- 47) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.



- c) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- d) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the supplementary information and the auditor's report thereon.
- e) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
- f) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and, upon your request for such information for a specific federal program, disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- g) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- h) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- i) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j) We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- k) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external

monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

- m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-21, *Cost Principles for Educational Institutions*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- p) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- q) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- r) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- s) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- t) We have charged costs to federal awards in accordance with applicable cost principles.
- u) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- v) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- w) When applicable, we have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- x) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.



- y) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- z) We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by OMB Circular A-133.
- aa) We are responsible for preparing and implementing a corrective action plan for each audit finding.
- bb) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



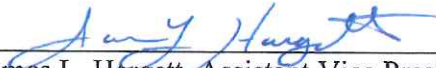
---

Gary D. Russi, President



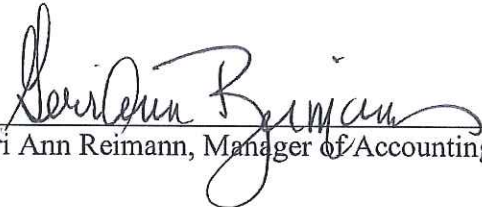
---

John W. Beaghan, Vice President for Finance & Administration  
& Treasurer to the Board



---

James L. Hargett, Assistant Vice President & Controller



---

Gerri Ann Reimann, Manager of Accounting



Mr. John W. Beaghan  
Vice President for Finance and Administration  
and Treasurer to the Board  
Oakland University

In planning and performing our audit of the financial statements of Oakland University (University) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control and other matters as discussed within this letter. Any items reported by the University's Internal Audit Department are not included in this letter.

This communication is intended solely for the information and use of management, the Audit Committee of the Board of Trustees, the Board of Trustees, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
September 12, 2012

## Procurement – Suspension and Debarment Procedures (Circular A-133 Compliance Requirement)

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Based on our testing of a grant, we noted that the University did not check the Excluded Parties List System (EPLS) for the vendor at the time the grant was awarded or before disbursement of funds to the vendor. The University has a process in place at Purchasing, in which all procurements over \$25,000 that are for federal awards are entered into the Visual Compliance system and the vendors are checked daily for inclusion on the EPLS listing through this system. This federal award was granted after the contract with the vendor was in place; therefore, Purchasing was not aware that the vendor needed to be checked against EPLS. It is also noted that for all subaward agreements, EPLS is checked by the Office of Research Administration (ORA) as well as by including appropriate clauses within subaward agreements. This vendor was an isolated instance in which the grant awards were issued after the contract was done through Purchasing.

When brought to the attention of Purchasing, EPLS was subsequently checked and no exceptions were noted.

We recommend that the University implement controls to ensure that in instances such as this, that covered transactions be checked to ensure that they are not on the EPLS listing. The University exposes itself to the risk of having to return grant funds if they are disbursed to parties that are suspended or debarred.

### *Management’s Response:*

#### ***EPLS Screening for Covered Transactions***

We concur with the auditor. The following additional controls have been implemented to prevent such an occurrence in the future. The Purchasing Department has updated their procedures to check for suspension and debarment for all transactions over \$25,000 regardless of the source of funding. In addition, a clause has been added to the “Oakland University General Terms and Conditions for Agreements” to address 2 CFR section 180.300.



### Reporting (Circular A-133 Compliance Requirement)

- The grant agreement requires that quarterly progress reports be filed by the Principal Investigator (PI) with the Department of Energy within 30 days after the quarter-end. We selected 2 of 4 quarterly reports submitted for FY12 for our testing.

We noted that the 1<sup>st</sup> quarter 2012 report was not submitted until June 18, 2012 by the PI; however, it was due within 30 days of the quarter-end (April 30, 2012).

The grant also requires that an annual progress report be filed by the PI with the Department of Energy within 90 days after the fiscal year-end. The annual progress report for the fiscal year ending September 30, 2011 was due by December 31, 2011; however, it was not submitted by the PI until January 29, 2012, which is outside of the 90 day requirement.

Based on discussion with ORA, we noted that any progress reports that are required to be submitted for grants are prepared and filed by the PI. ORA is only notified if the required progress reports are submitted untimely.

We recommend that management implement a procedure to ensure that reports are submitted in a timely manner by the PI as required by the grant agreement.

- The grant agreement requires quarterly ARRA 1512 financial reports to be filed within 10 days after each quarter end. We selected 2 of the 4 quarterly reports prepared and submitted by ORA for fiscal year 2012 for our testing. We noted that for the June 30, 2012 report, there was a difference of \$2,217.52 when comparing the supporting documentation for total subawards disbursed to the amount included on the 1512 report prepared by ORA.

We recommend that ORA maintain adequate supporting documentation for all reports filed and implement a second review of financial reports before they are filed to ensure accuracy.

#### *Management's Response:*

#### **Timely Report Submission by Principal Investigators**

We concur with the auditor. To ensure that reports are submitted in a timely manner by the PI as required by the sponsored agreement, four notifications will be issued to the PI prior to the reporting due date. A report that is not confirmed as received by the sponsor by the 4<sup>th</sup> notice preceding the deadline date will result in a notification that includes the Dean of the school or college, the Controller, as well as the PI. Noncompliance in reporting will result in suspension of the PI's ability to encumber sponsored funds until the delinquency is remedied.

#### **Adequate Report Documentation and Review**

We concur with the auditor. To ensure that adequate supporting documentation is maintained for all reports filed and that a second review is performed, the Office of Research Administration has implemented a reporting checklist. The checklist requires a sign off by a secondary reviewer and is filed with the report. A departmental audit of a file's reporting checklist and appropriate reviewer sign-off will be periodically performed on selected files.



### Subrecipient vs. Vendor Determination (Circular A-133 Compliance Requirement)

Based on discussion with ORA at the time our audit began, it was noted that a firm performing services under this grant was considered a subrecipient. ORA reported the company as a subrecipient on the ARRA 1512 quarterly reports as well. Upon further review of the substance and form of the transaction and based on discussions with management and review of the project budget, it was noted that the company should have not been reported as a subrecipient and should have been treated as a vendor.

We recommend that ORA update future ARRA 1512 reports to reflect that there are no subrecipients for this grant. ORA should also ensure that appropriate procedures are in place at the time of grant inception to make a determination of subrecipient versus vendor and to ensure that it is an appropriate determination.

*Management's Response:*

### **Subrecipient vs. Vendor Determination**

We concur with the auditor. The next ARRA report will be corrected to indicate that there are no subrecipients for this grant. A new Standard Operations Guidance has been developed by the Director of Grants, Contracts and Sponsored Research for the appropriate determination of a subrecipient. Additionally, the guidance describes the procedures to be followed when including a subrecipient in a proposal, implementing a subaward, and managing and closing out the subaward agreement. The procedure includes several substantive considerations that will assure appropriate determination of a subrecipient as defined under OMB Circular A-133.