

**FINANCIAL STATEMENTS, JUNE 30, 2015 AND 2014**  
**A Recommendation**

1. **Division and Department:** Finance and Administration, Controller's Office
2. **Introduction:** The Financial Statements, June 30, 2015 and 2014 for Oakland University (University) have been completed (Attachment A).

The audit opinion of Andrews Hooper Pavlik P.L.C. (AHP) 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, 2015 and 2014, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America."

AHP's Board of Trustees Letter (Attachment B) summarizes the audit engagement and required communications and includes a copy of the September 14, 2015 Management Representation Letter which details the representations made by the University Administration to AHP regarding the audit work performed.

Representatives from AHP presented the Financial Statements in draft form to the Board of Trustees' Audit Committee at the Committee's October 14, 2015 meeting.

3. **Previous Board Action:** As a result of a competitive bid process, the public accounting firm of AHP 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, AHP was reappointed by the Board on March 15, 2011, March 28, 2012, February 12, 2013, February 24, 2014, and March 6, 2015 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.
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 AHP, and presented to the Board's Audit Committee at its October 14, 2015 meeting.

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Oakland University  
Board of Trustees Formal Session  
October 22, 2015  
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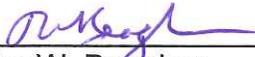
8. **Recommendation:**

RESOLVED, that the Board of Trustees accepts the Financial Statements, June 30, 2015, and 2014, which were audited by the Board of Trustee's public accounting firm, Andrews Hooper Pavlik P.L.C.

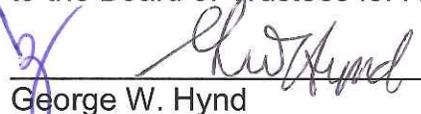
9. **Attachments:**

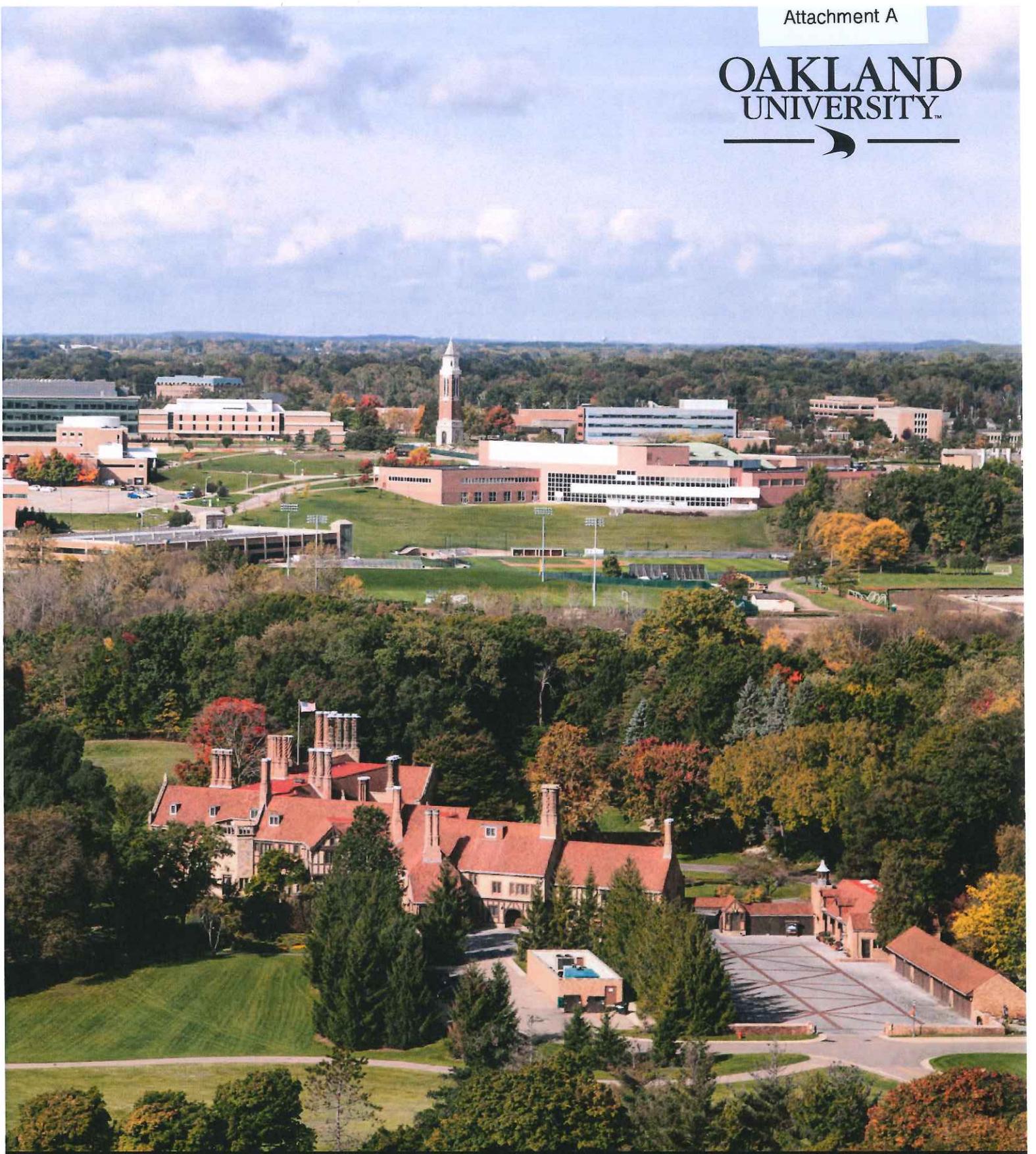
- A. Financial Statements, June 30, 2015 and 2014
- B. Board of Trustees Letter

Submitted to the President  
on 10/9, 2015 by

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

Recommended on 10/19, 2015  
to the Board of Trustees for Approval by

  
\_\_\_\_\_  
George W. Hynd  
President



**FINANCIAL STATEMENTS**  
JUNE 30, 2015 AND 2014

**Oakland University**  
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**Board of Trustees**

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Associate Controller

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## Report of Independent Auditors

Board of Trustees  
Oakland University  
Rochester, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***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, 2015 and 2014, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 be presented to supplement the 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 audits 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2015 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, and 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* in considering the University's internal control over financial reporting and compliance.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
September 14, 2015

# Oakland University

## Management's Discussion and Analysis

### June 30, 2015 and 2014

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#### 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, 2015 with selected comparative information for the years ended June 30, 2015 and 2014.

The University is a state-supported institution of over 20,500 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 90 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 135 baccalaureate degree programs and 135 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.

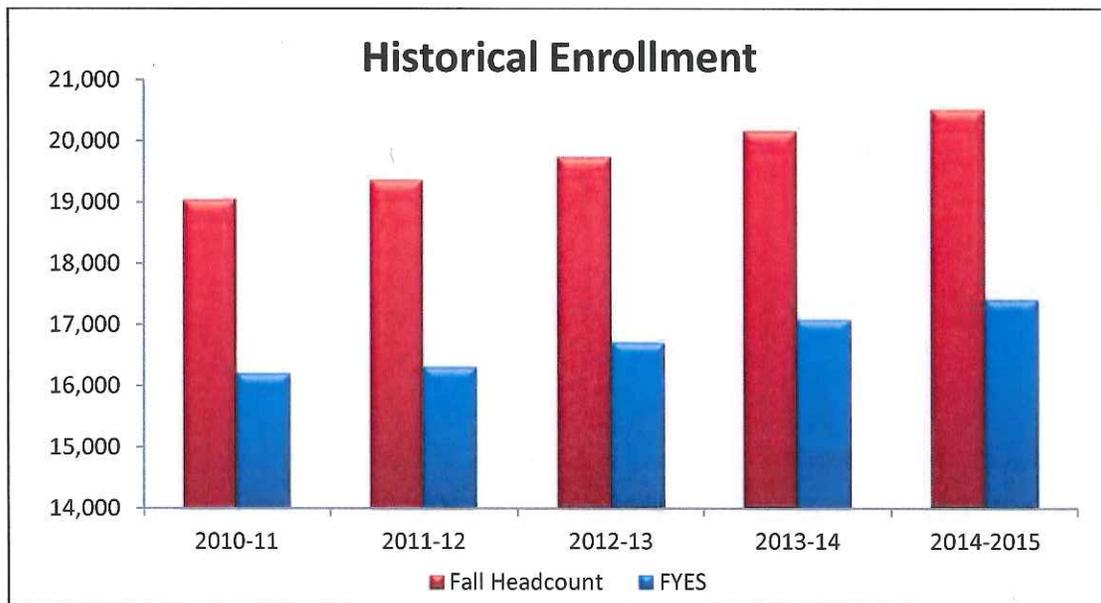
The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

This analysis is designed to focus on current financial activities; it should be read in conjunction with the University's 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 2015, student headcount enrollment for the fall 2014 semester increased 1.7% to a record 20,519. Undergraduate enrollment was 16,935 (83.0%) and graduate enrollment was 3,584 (17.0%).
- Enrollment based on Fiscal Year Equated Students (FYES) increased 1.9% to 17,408.

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



## **Oakland University**

### **Management's Discussion and Analysis**

#### **June 30, 2015 and 2014**

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- In May 2015, Oakland University William Beaumont School of Medicine (OUWBSM) held the commencement ceremony for its charter class. The 47 members of the charter class were selected from more than 3,200 applicants nationwide when the school opened in 2011.
- The OUWBSM has been granted full accreditation by the Liaison Committee on Medical Education (LCME). The LCME, sponsored by the American Medical Colleges and the American Medical Association, is a nationally recognized accrediting authority for medical education programs leading to a medical degree in the United States and Canada.
- In April 2015, Oakland University held the presidential inauguration of George W. Hynd. Dr. Hynd was appointed the sixth president in University history by the Board of Trustees (Board) on July 9, 2014.
- In March 2015, the Board approved the new Master of Science in Nursing- Forensic Nursing Degree and Graduate Certificate in Forensic Nursing; the first university based forensic nursing program in the state of Michigan and one of the few programs in the country.
- The U.S. Green Building Council awarded Oak View Hall, Oakland's new residence hall, the Leadership in Energy and Environmental Design (LEED) Gold certification status. Oak View joins the LEED Platinum certified Human Health Building as a money and resource saving project that has a positive impact on residents, while promoting renewable, clean energy.
- In December 2014, construction and installation of a combined heat and power cogeneration system began at the University's Central Heating Plant. The project will provide electrical power and hot water to the University campus. The hot water produced will be used to heat buildings on campus during cooler months, and will also be used to cool certain campus buildings during summer. The project is being undertaken to provide a comprehensive, long-term infrastructure solution and is expected to provide significant economic, operational, and environmental benefits for the University and significant reduction in energy costs.
- In December 2014, Oakland University surpassed 100,000 alumni. Oakland's alumni population spans all 50 states with nearly 72,000 residing in Michigan.
- Oakland University and the Oakland County Health Division were awarded a \$1.95 million grant from the Centers for Disease Control and Prevention's National Center for Chronic Disease Prevention and Health Promotion. The three-year grant will fund an approach to making the City of Pontiac a healthy, vibrant place to live, work, and play.
- The Eye Research Institute was awarded a \$1.5 million grant from the National Institutes of Health. The grant, funded over a four-year period, will go towards researching age-related cataracts.
- During the fiscal year, Oakland University completed \$37.5 million in campus enhancement projects. The various projects included a \$20.8 million, 1,240 space parking structure, a \$7.9 million renovation and addition to the outdoor recreation and athletic fields, a \$5.1 million, 108,000 square-foot Athletic Dome, a \$2.0 million extension of Library Drive, and a \$1.8 million Facilities Management Building.

# Oakland University

## Management's Discussion and Analysis

### June 30, 2015 and 2014

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- In September 2014, the School of Engineering and Computer Science relocated to the \$74.6 million Engineering Center. The 134,286 square foot facility was financed by the issuance of \$44.6 million in general revenue bonds and \$30.0 million in State Capital Outlay.
- Oakland University opened the doors to Oak View Hall in August 2014. The \$30.0 million housing complex, funded by general revenue bonds, accommodates over 500 freshman and sophomores on campus. Oak View is also home to the University's Honors College, which welcomed over 300 new students—its largest incoming freshman class in history.

#### Overview of the Financial Statements

This annual report consists of financial statements which have been prepared in accordance with Governmental Accounting Standards Board (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 Position. This statement presents information on the University's assets, deferred outflows, liabilities, deferred inflows, and net position (assets plus deferred outflows less liabilities and deferred inflows) as of the end of the fiscal year. Net position is displayed in four components – net investment in capital assets; restricted nonexpendable; restricted expendable; and unrestricted. Net position is one indicator of the current financial condition of the University, while the change in net position serves as a useful indicator of whether the financial position is improving or deteriorating.
- Statement of Revenues, Expenses, and Changes in Net Position. 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 position has 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 15, 16, and 17 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 18-40 of this financial report.

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**Management's Discussion and Analysis**  
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**University Financial Statement Summaries**

***University Statements of Net Position***

The University's net position is summarized in the following Condensed Statements of Net Position:

<b>Condensed Statements of Net Position</b>	<b>June 30,</b>		<b>Change</b>
	<b>2015</b>	<b>2014</b>	
	<i>(in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 73,938	\$ 92,216	-20%
Capital assets, net	489,301	450,643	9%
Other noncurrent assets	217,868	223,790	-3%
Total assets	<u>781,107</u>	<u>766,649</u>	2%
<b>Deferred outflows of resources</b>	13,447	12,463	8%
<b>Liabilities</b>			
Current liabilities	49,291	68,328	-28%
Noncurrent liabilities	260,157	247,064	5%
Total liabilities	<u>309,448</u>	<u>315,392</u>	-2%
<b>Deferred inflows of resources</b>	5,945	4,881	22%
<b>Net position</b>			
Net investment in capital assets	258,454	236,419	9%
Restricted nonexpendable	25,851	23,430	10%
Restricted expendable	41,153	44,791	-8%
Unrestricted	153,703	154,199	0%
Total net position	<u>\$479,161</u>	<u>\$458,839</u>	4%

The University's total assets were \$781.1 million and \$766.6 million at June 30, 2015 and 2014, 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 63% and 59% of the University's total assets at June 30, 2015 and 2014, respectively. Capital expenditures totaled \$57.9 million in 2015 and \$113.9 million in 2014. Included in capital expenditures for 2015 were the cogeneration system at the University's Central Heating Plant, a project consisting of constructing and installing a combined heat and power cogeneration system to provide a significant reduction in the University's future energy costs. Additional capital expenditures include the Athletic Dome, completion of the Engineering Center, campus infrastructure projects, and other campus enhancement projects. Depreciation expense was \$19.2 million in 2015 and \$15.3 million in 2014.

Current assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, and receivables due within one year. Cash and cash equivalents, including restricted cash and cash equivalents, decreased \$13.6 million to \$44.1 million at June 30, 2015 largely due to major construction related expenditures incurred during the year. Accounts receivable decreased \$5.5 million to \$15.5 million at June 30, 2015. This is primarily due to a \$7.9 million decrease in the State Building Authority capital appropriation receivable related to the Engineering Center, offset by an increase in student tuition and financial aid receivable of \$2.4 million. Other current assets of \$14.4 million include State operating appropriation receivable of \$8.8 million and pledges receivable of \$3.1 million.

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**Management's Discussion and Analysis**  
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Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$84.0 million at June 30, 2015 and \$80.6 million at June 30, 2014. The increase in the endowment fair market value was primarily due to favorable outcomes in the market and generous contributions to the Kinsey Professorship and Reddy Eye Research Professorship endowments. The total return, net of fees, on the University's endowment investments was 3.7% for 2015 and 15.8% for 2014. Other long-term investments were \$127.2 million at June 30, 2015 and \$134.9 million at June 30, 2014, and include fixed income and equity securities. The decrease is attributed to the liquidation of pooled investments for the purpose of internally funded construction projects. The total return on the University's other long-term investments was 2.2% for 2015 and 6.9% for 2014, both net of fees. The University's investments are being managed according to Board policies.

Deferred outflows of resources were \$13.4 million at June 30, 2015 and \$12.5 million at June 30, 2014. Deferred outflows of resources consists of the estimated fair value of the 2008 Swap, early extinguishment of debt, and the deferral of swap termination costs for the 2001 Bonds. The increase in the deferred outflows of resources is primarily due to the deferral of the early extinguishment of debt related to the 2009 Bonds that were refunded by the 2014 Bonds.

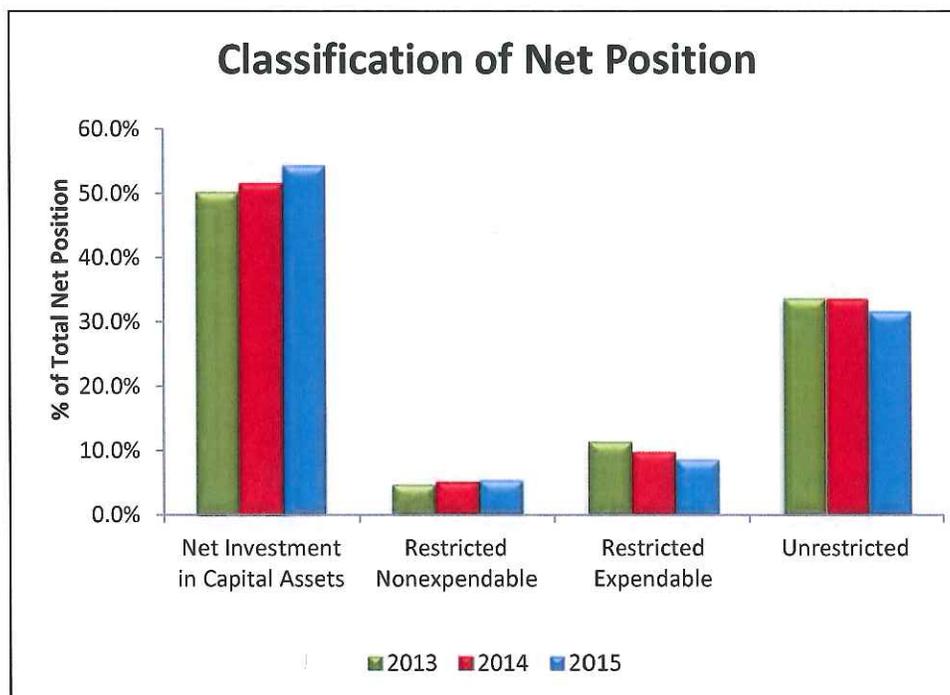
All investments held by the University can be liquidated to cash within 90 days or less without incurring additional fees, with the exception of the private equity holding and hedge funds.

The University's total liabilities were \$309.4 million at June 30, 2015 and \$315.4 million at June 30, 2014. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, and unearned revenue. The \$19.0 million decrease in current liabilities at June 30, 2015 is primarily attributed to the decrease in accounts payable due to reduced construction activity at year end compared to June 30, 2014. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 80% and 78% of the University's total liabilities at June 30, 2015 and 2014, respectively. Noncurrent long-term liabilities increased by \$13.1 million largely due to the issuance of 2014 Certificates of Participation in the amount of \$14.2 million offset by bond payments of \$4.3 million; an increase in unearned revenue by \$2.0 million primarily due to a leasehold improvement project at the Oakland Center; and an increase in other postemployment benefits (OPEB) obligation by \$1.7 million as result of actuarial studies used to determine the cost of the current retiree health insurance benefit program.

Deferred inflows of resources were \$5.9 million at June 30, 2015 and \$4.9 million at June 30, 2014. Deferred inflows of resources consists of the estimated fair value of the 2008 Swap reduced by the estimated fair value of the 2007 Constant Maturity Swap (CMS) investment derivative. The increase in the deferred inflows of resources is primarily due to the reduction in the fair value of the CMS at June 30, 2015.

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**Management's Discussion and Analysis**  
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The following graph shows net position by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net position:

	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 3,637	\$ 3,222
Capital projects and repair reserves	52,491	54,270
Funds designated for departmental use	28,699	28,926
Funds functioning as endowments	17,773	17,929
Gifts and investment income reserves	30,533	27,705
Retirement and insurance reserves	7,946	8,019
Encumbrances and carryforwards	11,991	12,765
Other unrestricted	633	1,363
	<b>\$153,703</b>	<b>\$154,199</b>

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Auxiliary enterprises consist of operating fund balances at year end for the various auxiliary units including Meadow Brook Hall, Golf & Learning Center, Oakland Center, Housing, etc.

Capital projects and repair reserves consist of the unexpended portion of ongoing capital projects, reserves for plant renewal, and bond sinking funds.

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

Funds functioning as endowments were created by the Board 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, and deferred plant renewal.

Gifts and investment income reserves include the University's unrestricted gifts, and realized and unrealized investment income reserves. The increase for 2015 is predominately attributable to investment earnings.

Retirement and insurance reserves include the University's reserves and liability recorded to date for OPEB. The University has an actuarial accrued liability (AAL) of \$35.5 million as of June 30, 2015. The amount of the AAL that is recorded on the financial statements increased \$1.7 million during the year to \$11.1 million. In addition to the recorded liability, the University had an unrecorded AAL of \$24.4 million. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The date of adoption would be for the June 30, 2018 fiscal year, with earlier application encouraged. This final Statement, would require the unrecorded OPEB liability of \$24.4 million to be recorded on the face of the financial statements in the year of implementation.

The retirement and insurance balance also includes reserves for unemployment and workers' compensation for which the University is self-insured.

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
	<i>(in thousands)</i>				
<b>Operating revenues</b>					
Net tuition	\$179,164	\$165,846	\$155,967	8%	6%
Grants and contracts	11,467	13,423	14,395	-15%	-7%
Departmental activities	8,748	7,815	8,664	12%	-10%
Auxiliary activities, net	27,758	24,888	24,113	12%	3%
Other	248	249	249	0%	0%
Total operating revenues	<u>227,385</u>	<u>212,221</u>	<u>203,388</u>	7%	4%
<b>Operating expenses</b>	<u>298,281</u>	<u>282,579</u>	<u>274,948</u>	6%	3%
Operating loss	<u>(70,896)</u>	<u>(70,358)</u>	<u>(71,560)</u>	1%	-2%
<b>Nonoperating revenues (expenses)</b>					
State appropriations	48,384	45,652	44,964	6%	2%
Gifts	4,673	9,649	4,853	-52%	99%
Investment income, net	6,768	22,358	14,685	-70%	52%
Interest expense	(8,994)	(4,398)	(5,789)	105%	-24%
Pell grants	21,879	21,517	20,726	2%	4%
Other	22	565	450	-96%	26%
Net nonoperating revenues	<u>72,732</u>	<u>95,343</u>	<u>79,889</u>	-24%	19%
Income before other revenues	<u>1,836</u>	<u>24,985</u>	<u>8,329</u>	-93%	200%
Capital appropriations	16,603	10,770	10,073	54%	7%
Capital grants and gifts	253	216	7,675	17%	-97%
Additions to permanent endowments	1,630	3,580	965	-54%	271%
Total other revenues	<u>18,486</u>	<u>14,566</u>	<u>18,713</u>	27%	-22%
Increase in net position	<u>20,322</u>	<u>39,551</u>	<u>27,042</u>	-49%	46%
<b>Net position</b>					
Beginning of year	<u>458,839</u>	<u>419,288</u>	<u>392,246</u>	9%	7%
End of year	<u>\$479,161</u>	<u>\$458,839</u>	<u>\$419,288</u>	4%	9%

Operating revenues were \$227.4 million in 2015, \$212.2 million in 2014, and \$203.4 million in 2013. The 7% increase in 2015 over 2014 was primarily due to increases in tuition revenue net of scholarship allowances, which was higher due to an enrollment increase of 1.7% effective for the fall 2014 semester, and tuition rates increasing by an average 3.2% for undergraduates and graduates.

Operating expenses were \$298.3 million in 2015, \$282.6 million in 2014, and \$274.9 million in 2013. The operating expense increase of 6% in 2015 over 2014 resulted from supporting increased enrollment, contractual agreements, and increases in instruction and academic support.

Net position increased \$20.3 million during 2015 and is primarily attributed to nonoperating activities including \$6.8 million of investment income, \$4.7 million in gifts, \$1.6 million of additions to permanent endowments, and \$16.6 million of capital appropriations. Partially offsetting this increase is \$9.0 million in interest expense on capital debt, a 105% increase over 2014. This increase is primarily due to capitalizing interest expense on construction projects in 2014 which were completed and placed in service during 2015. The \$39.6 million increase in 2014 is primarily attributed to nonoperating activities including \$22.4 million of investment income, \$9.6 million in gifts, \$3.6 million of additions to permanent endowments, and \$10.8 million of capital appropriations. Partially offsetting this increase is \$4.4 million in interest expense on capital debt. The increase in 2013 of \$27.0 million is attributable to

**Oakland University**  
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nonoperating activities including \$14.7 million of investment income, \$4.9 million in gifts, \$1.0 million of additions to permanent endowments, \$10.1 million of capital appropriations, and \$7.7 million in capital grants and gifts. The increase is partially offset by \$5.8 million in interest expense on capital debt.

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

*University Operating Expenses*

	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
	<i>(in thousands)</i>				
<b>Education and general</b>					
Instruction	\$120,520	\$114,260	\$110,296	5%	4%
Research	8,744	9,081	10,297	-4%	-12%
Public service	5,132	4,616	4,251	11%	9%
Academic support	32,066	30,213	28,066	6%	8%
Student services	29,476	28,104	28,381	5%	-1%
Institutional support	24,981	24,759	23,345	1%	6%
Operations and maintenance of plant	19,772	20,056	21,021	-1%	-5%
Depreciation	19,229	15,255	13,710	26%	11%
Student aid	13,434	13,719	13,127	-2%	5%
Total education and general	<u>273,354</u>	<u>260,063</u>	<u>252,494</u>	5%	3%
<b>Auxiliary activities</b>	24,922	22,497	22,437	11%	0%
<b>Other expenses</b>	5	19	17	-74%	12%
Total operating expenses	<u>\$298,281</u>	<u>\$282,579</u>	<u>\$274,948</u>	6%	3%

Education and general expenses increased 5% in 2015 over 2014 and 3% in 2014 over 2013. The increases are mainly attributable to an increase in academic program offerings to meet the needs of higher enrollment, contractual agreements, and equipment purchases related to the University's capital expansion programs.

The increase in Instruction for 2015 is due to a \$5.6 million increase in compensation related to existing and new academic programs and \$1.1 million in supplies and services. The decrease in Research is primarily due to reductions in federal funding and the completion of Departmental of Agriculture grants. The Academic Support increase is predominantly due to an increase of \$1.5 million in compensation, which is offset by a decrease in supplies and other expenses. The increase in Student Services is related to an increase of \$1.6 million in compensation and offset by a decrease in supplies and services. The increase in Depreciation for 2015 is largely due to the completion of projects and equipment purchases totaling \$178.5 million placed into service during 2015.

The University's operating loss was \$70.9 million in 2015, \$70.4 million in 2014, and \$71.6 million in 2013. Offsetting these losses were net nonoperating revenues of \$72.7 million in 2015, \$95.3 million in 2014, and \$79.9 million in 2013.

Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$48.4 million in 2015, \$45.7 million in 2014, and \$45.0 million in 2013. The annual appropriation for 2015 increased \$2.7 million, or 5.9%, due to the University's portion of the State's performance funding allocation.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

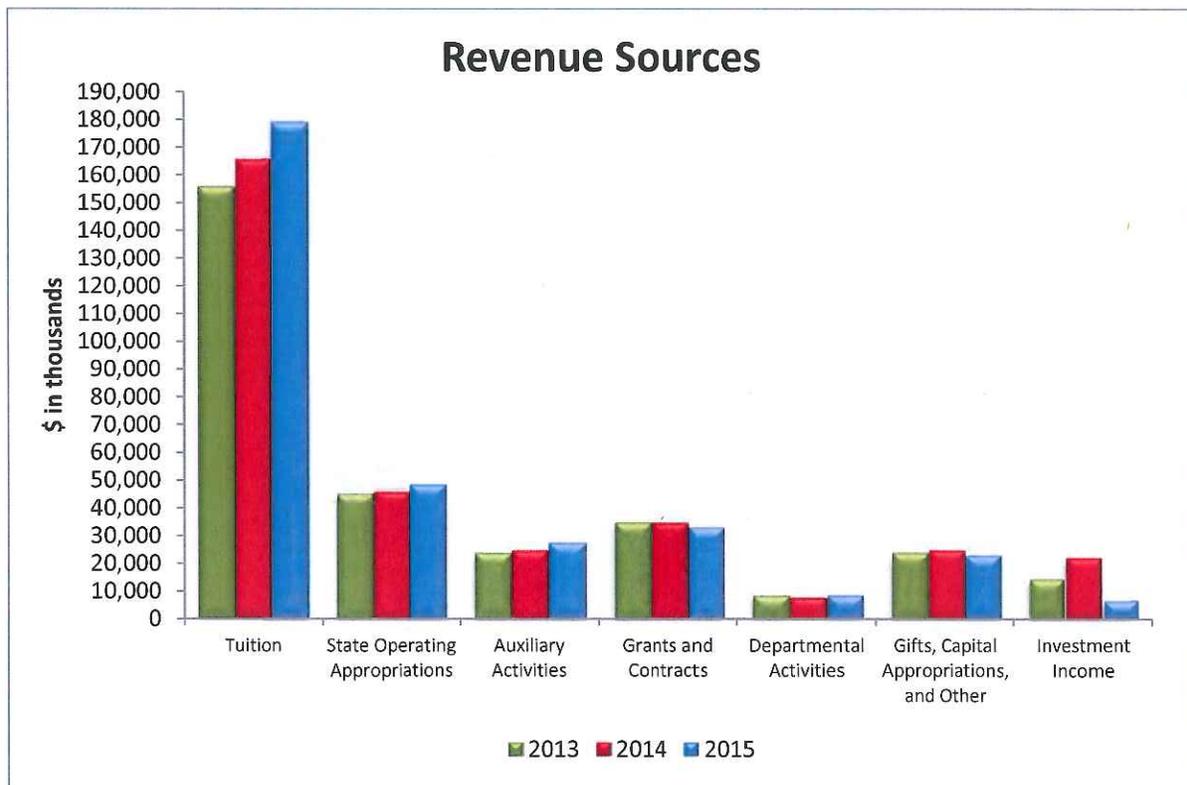
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The University earned \$6.8 million in investment income. This growth is comprised of \$3.7 million, a 2.2% rate of return, in University pooled working capital investments and \$3.1 million, a 3.7% rate of return, in endowment investments.

Nonoperating revenues also include \$21.9 million from Federal Pell Grants in 2015. Pell Grant revenue for 2014 and 2013 was \$21.5 million and \$20.7 million, respectively.

Other revenues increased \$3.9 million to \$18.5 million in 2015 primarily due to capital appropriations totaling \$16.6 million from the State Building Authority for the construction of the Engineering Center, offset by reductions in new endowments and gifts of \$2.0 million.

A graphic illustration of each revenue source is as follows:



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

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*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>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(in thousands)</i>		
<b>Cash provided (used) by</b>			
Operating activities	\$ (48,992)	\$ (59,161)	\$ (52,416)
Noncapital financing activities	77,436	85,689	72,966
Capital financing activities	(53,690)	(104,132)	80,119
Investing activities	<u>11,685</u>	<u>(26,403)</u>	<u>23,859</u>
Net increase (decrease) in cash	(13,561)	(104,007)	124,528
<b>Cash and cash equivalents</b>			
Beginning of year	<u>57,627</u>	<u>161,634</u>	<u>37,106</u>
End of year	<u>\$ 44,066</u>	<u>\$ 57,627</u>	<u>\$ 161,634</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 decrease in net cash used by operating activities is primarily the result of increases in tuition and auxiliary activities that were greater than 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 \$47.9 million in 2015 and \$45.5 million in 2014. Cash received from Pell Grants increased for the years ended June 30, 2015 and 2014 by \$0.4 million and \$0.8 million respectively, and decreased by \$0.3 million in 2013.

Capital financing activities for 2015 include capital expenditures of \$80.1 million, debt service payments in the amount of \$16.3 million, the retirement of the 2009 Bonds for \$30.8 million which were refunded by the 2014 Bonds for \$32.4 million, the issuance of the 2014 Certificates of Participation for \$16.0 million, and \$24.5 million in capital appropriations. Cash disbursements for capital expenditures in 2015 included \$25.4 million for the Engineering Center; \$14.0 million in equipment; \$9.2 million for a new parking structure; \$6.4 million for the Athletic and Recreation Outdoor Complex; \$5.7 million for Oak View, the new student housing complex; \$5.1 million for renovations in North Hamlin, North Foundation and Vandenberg Halls; \$4.4 million for the cogeneration system at the University's Central Heating Plant; \$4.3 million for the Athletic Dome; and \$3.0 million for construction of the Elliott Tower. Capital financing activities for 2014 include capital expenditures of \$95.7 million in addition to debt service payments totaling \$8.8 million. Cash disbursements for capital expenditures in 2014 included \$33.3 million for the Engineering Center; \$21.3 million for Oak View Hall; \$11.5 million for a new parking structure; \$4.1 million in equipment; \$3.8 million for renovations in Hannah and O'Dowd Halls; \$3.2 million for housing infrastructure renovations; \$2.7 million for construction of the Elliott Tower; \$1.4 million for the Facilities Management Building; and \$1.2 million for the Athletic and Recreation Outdoor Complex.

Cash provided by investing activities during 2015 is the result of investment income and the sale of long-term investments exceeding the purchase of long-term investments.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2015 and 2014**

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**Commitments**

The estimated cost to complete construction projects in progress is \$22.0 million as of June 30, 2015, due in large part to the new cogeneration system at the University's Central Heating Plant in the amount of \$8.8 million, the Meadow Brook Road culvert for \$2.0 million, completion of the Engineering Center in the amount of \$2.1 million, and various campus enhancement projects totaling \$9.1 million. The cogeneration system is funded from proceeds through the issuance of 2014 Certificates of Participation. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. The Meadow Brook Road culvert, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

**University Credit Rating**

On December 10, 2014, 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)
- Increased globalization and mobilization of student population
- Program growth and development
- New initiatives
- New and emergent technologies
- Productivity improvements
- Demographics, including number of high school graduates
- Continued development of the Oakland University William Beaumont School of Medicine

**Oakland University**  
**Statements of Net Position**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 30,595,895	\$ 28,509,310
Accounts receivable, net (Note 3)	15,455,692	20,911,240
Appropriations receivable (Note 4)	8,793,474	8,300,292
Pledges receivable, net (Note 5)	3,106,951	2,933,092
Inventories	941,060	913,875
Deposits and prepaid expenses	1,156,692	1,147,638
Student loans receivable, net (Note 6)	417,855	383,109
Restricted cash and cash equivalents (Note 2)	13,470,567	29,117,443
Total current assets	<u>73,938,186</u>	<u>92,215,999</u>
Noncurrent assets		
Endowment investments (Note 2)	84,026,372	80,564,954
Other long-term investments (Note 2)	127,153,135	134,876,282
Pledges receivable, net (Note 5)	4,695,319	6,386,173
Student loans receivable, net (Note 6)	1,472,989	1,467,172
Capital assets, net (Note 7)	489,301,125	450,643,140
Other assets (Note 9)	520,032	495,422
Total noncurrent assets	<u>707,168,972</u>	<u>674,433,143</u>
Total assets	<u>781,107,158</u>	<u>766,649,142</u>
<b>Deferred outflows of resources (Note 11)</b>	<b>13,447,117</b>	<b>12,462,640</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	16,241,522	36,710,233
Accrued payroll	8,025,823	7,895,478
Long-term liabilities - current portion (Note 10)	8,855,482	7,461,983
Unearned revenue	14,009,667	14,584,561
Deposits	2,158,133	1,675,915
Total current liabilities	<u>49,290,627</u>	<u>68,328,170</u>
Noncurrent liabilities		
Unearned revenue	2,023,462	114,780
Long-term liabilities (Note 10)	247,029,674	237,551,882
Other postemployment benefits (Note 12)	11,104,230	9,396,626
Total noncurrent liabilities	<u>260,157,366</u>	<u>247,063,288</u>
Total liabilities	<u>309,447,993</u>	<u>315,391,458</u>
<b>Deferred inflows of resources (Note 11)</b>	<b>5,945,048</b>	<b>4,881,368</b>
<b>Net position</b>		
Net investment in capital assets	258,453,969	236,419,354
Restricted nonexpendable	25,851,409	23,430,032
Restricted expendable	41,152,404	44,790,721
Unrestricted	153,703,452	154,198,849
Total net position	<u>\$ 479,161,234</u>	<u>\$ 458,838,956</u>

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

**Oakland University**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2015 and 2014**

	2015	2014
<b>Operating revenues</b>		
Tuition (net of scholarship allowances of \$46,282,700 in 2015 and \$43,567,100 in 2014)	\$ 179,163,913	\$ 165,846,092
Federal grants and contracts	8,449,846	8,967,888
State, local, and private grants and contracts	3,017,052	4,455,206
Departmental activities	8,747,908	7,814,567
Auxiliary activities (net of scholarship allowances of \$4,288,400 in 2015 and \$3,675,100 in 2014)	27,758,222	24,888,384
Other operating revenues	247,995	248,908
Total operating revenues	<u>227,384,936</u>	<u>212,221,045</u>
<b>Operating expenses</b>		
Education and general		
Instruction	120,519,332	114,260,375
Research	8,744,300	9,080,917
Public service	5,132,379	4,616,277
Academic support	32,065,879	30,212,405
Student services	29,476,275	28,104,403
Institutional support	24,981,169	24,758,938
Operations and maintenance of plant	19,772,002	20,055,817
Depreciation	19,228,595	15,254,784
Student aid	13,434,311	13,718,857
Auxiliary activities	24,921,699	22,497,145
Other expenses	4,811	19,415
Total operating expenses (Note 16)	<u>298,280,752</u>	<u>282,579,333</u>
Operating loss	<u>(70,895,816)</u>	<u>(70,358,288)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations (Note 4)	48,383,800	45,651,600
Gifts	4,673,430	9,649,542
Investment income (net of investment expenses of \$340,409 in 2015 and \$483,967 in 2014)	6,767,826	22,358,185
Interest on capital asset related debt	(8,993,747)	(4,398,419)
Pell grants	21,878,577	21,517,248
Other	21,504	564,856
Net nonoperating revenues	<u>72,731,390</u>	<u>95,343,012</u>
Income before other revenues	<u>1,835,574</u>	<u>24,984,724</u>
Capital appropriations	16,602,906	10,769,781
Capital grants and gifts	253,383	215,837
Additions to permanent endowments	1,630,415	3,580,599
Total other revenues	<u>18,486,704</u>	<u>14,566,217</u>
Increase in net position	<u>20,322,278</u>	<u>39,550,941</u>
<b>Net position</b>		
Beginning of year	458,838,956	419,288,015
End of year	<u>\$ 479,161,234</u>	<u>\$ 458,838,956</u>

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

**Oakland University**  
**Statements of Cash Flows**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Tuition	\$ 178,552,638	\$ 168,250,717
Grants and contracts	10,232,038	11,997,937
Payments to suppliers	(65,853,783)	(70,483,008)
Payments to employees	(196,371,638)	(187,316,324)
Payments for scholarships and fellowships	(13,434,311)	(13,718,857)
Loans issued to students	(333,064)	(422,698)
Collection of loans from students	292,383	313,339
Auxiliary enterprise charges	27,924,888	24,940,830
Other receipts	9,999,399	7,276,815
Net cash used by operating activities (Note 17)	<u>(48,991,450)</u>	<u>(59,161,249)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	47,890,618	45,526,604
Federal direct lending receipts	112,468,123	109,509,951
Federal direct lending disbursements	(112,468,123)	(109,509,951)
Gifts and grants for other than capital purposes	28,065,896	33,281,329
Endowment gifts	1,479,352	6,880,890
Net cash provided by noncapital financing activities	<u>77,435,866</u>	<u>85,688,823</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from capital debt	48,483,717	-
Capital appropriations	24,523,003	-
Capital grants, gifts, and other receipts	499,899	353,090
Purchases of capital assets	(80,066,843)	(95,708,723)
Principal paid on capital debt and leases	(36,573,393)	(4,708,278)
Interest paid on capital debt and leases	(10,556,521)	(4,068,097)
Net cash used by capital financing activities	<u>(53,690,138)</u>	<u>(104,132,008)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	67,057,375	64,675,117
Investment income	7,770,158	10,761,694
Purchase of investments	(63,142,102)	(101,839,263)
Net cash provided (used) by investing activities	<u>11,685,431</u>	<u>(26,402,452)</u>
Net decrease in cash and cash equivalents	<u>(13,560,291)</u>	<u>(104,006,886)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	57,626,753	161,633,639
End of year	<u>\$ 44,066,462</u>	<u>\$ 57,626,753</u>

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

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**1. Significant Accounting Policies**

**Organization**

These financial statements present the financial position, results of operations, and changes in net position of Oakland University (University).

**Basis of Accounting**

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. The statements incorporate all fund groups utilized internally by the University. These statements 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).

**Cash and Cash Equivalents**

The University considers all investments with an original maturity of 90 days or less when purchased to be cash equivalents. Restricted cash and cash equivalents consists of unexpended bond proceeds which are restricted for use as noted in the bond documents.

**Cash Flow Reporting**

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents includes restricted cash.

**Investments**

Investments are stated at fair market value.

**Inventories**

Inventories are stated at the lower of average cost or market. Included in the 2015 inventory are three homes in the Meadow Brook Subdivision owned by the University and valued at a total of \$495,000.

**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. In addition, all equipment under a unit cost of \$5,000 purchased in bulk for a newly constructed building is capitalized and depreciated over 7 years. 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.

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

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**1. Significant Accounting Policies (continued)**

**Deferred Outflows of Resources**

Deferred outflows of resources consists of interest rate swap agreements stated at fair value, deferred amortization on refunding of debt, and the deferral of the swap termination cost for the 2001 Bonds.

**Deferred Inflows of Resources**

Deferred inflows of resources consists of the estimated fair value of the 2008 Swap reduced by the estimated fair value of the 2007 Constant Maturity Swap interest rate agreement.

**Revenue Recognition**

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 of Michigan (State) appropriations, gifts, certain grants, and investment income. When an expense is incurred for which both restricted and unrestricted net position are available, the University applies the restricted or unrestricted resources at its discretion.

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

Revenues are reported net of discounts and allowances.

Scholarship allowance is the difference between the stated charge for tuition and the amount paid by the student or third parties making payments on behalf of the student. Student financial aid such as fee waivers, Pell grants, and scholarship awards are considered to be scholarship allowances if used to pay tuition and room and board. These allowances are netted against tuition and auxiliary revenues in the Statement of Revenues, Expenses, and Changes in Net Position.

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 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.

**Bond Issuance Costs**

Bond issuance costs are expensed when incurred.

**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, 2015 and 2014**

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

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. This pool is administered according to the University's "Working Capital Management and Investment Policy." The working capital portfolio is divided into three investment groups: short-term, intermediate-term, and long-term investments. Short-term investments are immediately available for use and have an average maturity of one year or less. Intermediate-term investments are liquid within five business days or less and have an average maturity of no more than five years. Long-term investments are liquid within 20 business days or less and have average maturities over five years. The long-term investment asset class is limited to 30% of the total investment pool and includes equities. All investment classes are rated investment grade or better by at least one rating agency. Investments in any one entity, except the United States Government or its agencies, may not exceed 5% of the total investment pool. For non-amortizing securities, the maturity of any single debt instrument shall not exceed 15 years. No more than 50% of equity and bond investments are assigned to a single investment manager.

The operating cash portfolio at June 30, 2015 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire investment pool.

The University's working capital investment pool consists of the following as of June 30, 2015 and 2014:

<u>June 30, 2015</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>	<u>N/A</u>
<b>University Operating Pooled Cash</b>						
Cash and Money Market						
Mutual Fund	\$ 30,592,426	\$30,592,426	\$ -	\$ -	\$ -	\$ -
Commonfund						
Intermediate Bond Fund	20,606,267	2,369,721	17,123,808	1,112,738	-	-
High Quality Bond Fund	23,197,125	2,412,501	8,861,302	8,165,388	3,757,934	-
Contingent Asset Portfolio	20,131,800	2,597,002	13,206,461	4,328,337	-	-
Core Equity Fund	23,499,784	-	-	-	-	23,499,784
Strategic Equity Fund	19,894,470	-	-	-	-	19,894,470
JP Morgan Bond Fund	20,717,068	4,802,068	15,264,000	651,000	-	-
Cash with Trustees	13,470,567	13,470,567	-	-	-	-
Operating investments	172,109,507	56,244,285	54,455,571	14,257,463	3,757,934	43,394,254
Net cash overdraft	(889,910)	(899,910)	-	-	-	-
	<u>\$171,219,597</u>	<u>\$55,344,375</u>	<u>\$54,455,571</u>	<u>\$14,257,463</u>	<u>\$3,757,934</u>	<u>\$43,394,254</u>
Cash and cash equivalents	\$ 30,595,895					
Restricted cash and cash equivalents	13,470,567					
Other long-term investments	127,153,135					
	<u>\$171,219,597</u>					

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**2. Investments and Deposits with Financial Institutions (continued)**

June 30, 2014	Total	<1 Year	1-5 years	6-10 years	>10 years	N/A
<b>University Operating Pooled Cash</b>						
Swept Money Market Mutual Fund	\$ 28,296,579	\$28,296,579	\$ -	\$ -	\$ -	\$ -
Commonfund Intermediate Bond Fund	30,335,606	5,278,395	24,602,177	455,034	-	-
Commonfund High Quality Bond Fund	37,358,792	4,696,000	15,470,276	11,323,450	5,869,066	-
Huntington Situs Equity Fund	11,464,198	-	-	-	-	11,464,198
Commonfund Core Equity Fund	29,284,107	-	-	-	-	29,284,107
JP Morgan Bond Fund	27,388,193	5,051,910	21,820,020	516,263	-	-
Cash with Trustees	29,112,100	29,112,100	-	-	-	-
Operating investments	193,239,575	72,434,984	61,892,473	12,294,747	5,869,066	40,748,305
Net cash overdraft	(736,540)	(736,540)	-	-	-	-
	\$192,503,035	\$71,698,444	\$61,892,473	\$12,294,747	\$5,869,066	\$40,748,305
Cash and cash equivalents	\$ 28,509,310					
Restricted cash and cash equivalents	29,117,443					
Other long-term investments	134,876,282					
	\$192,503,035					

The investments are shown by category according to their respective duration to describe the level of interest rate risk in the portfolio. Changes in interest rates over time can impact the market value of the fixed income portion of the portfolio. At June 30, 2015, the JP Morgan Bond Fund had a weighted-average maturity of 2.1 years and an average credit quality of AA+. The Commonfund Intermediate Term Bond Fund had a weighted average maturity of 2.6 years and an average credit quality of AA. The Commonfund Contingent Asset Portfolio had a weighted average maturity of 3.9 years and an average credit quality of AA+. The Commonfund High Quality Bond Fund had a weighted-average maturity of 7.8 years and an average credit quality of A+.

The University's working capital portfolio is not exposed to foreign currency risk as of June 30, 2015.

These investments produced net rates of return of 2.2% and 6.9% for the years ended June 30, 2015 and 2014, respectively.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**2. Investments and Deposits with Financial Institutions (continued)**

As of June 30, 2015 and 2014, the University had an investment derivative with the following maturity:

<b>June 30, 2015</b>	<b>Fair Value</b>	<b>&lt;1 Year</b>	<b>1-5 years</b>	<b>6-10 years</b>	<b>&gt;10 years</b>
Constant Maturity Swap	\$1,966,750	\$ -	\$ -	\$ -	\$1,966,750
<b>June 30, 2014</b>	<b>Fair Value</b>	<b>&lt;1 Year</b>	<b>1-5 years</b>	<b>6-10 years</b>	<b>&gt;10 years</b>
Constant Maturity Swap	\$2,622,626	\$ -	\$ -	\$ -	\$2,622,626

The investment derivative was approved by the Board of Trustees (Board). The investment derivative is included with deferred inflows of resources in the Statements of Net Position. 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. Endowment 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 fixed income investments to "high quality" (primarily 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 3.7% and 15.8% for the years ended June 30, 2015 and 2014, respectively.

University pooled investment funds consist of the following as of June 30, 2015 and 2014:

<b>June 30, 2015</b>	<b>Total</b>	<b>&lt;1 Year</b>	<b>1-5 years</b>	<b>6-10 years</b>	<b>&gt;10 years</b>	<b>N/A</b>
<b>UBS Endowment Investment Pool</b>						
Large Cap Value	\$ 6,653,063	\$ 74,989	\$ -	\$ -	\$ -	\$ 6,578,074
Large Cap Growth	15,683,570	43,802	-	-	-	15,639,768
Mid Cap Value	3,503,878	3	-	-	-	3,503,875
Mid Cap Growth	7,527,230	38	-	-	-	7,527,192
Small Cap Core	5,248,156	89	-	-	-	5,248,067
Small Cap Growth	3,732,350	2	-	-	-	3,732,348
REIT	2,633,856	-	-	-	-	2,633,856
International Value	5,985,267	4,613	-	-	-	5,980,654
International Core	4,680,712	80	-	-	-	4,680,632
Developing Markets	2,919,394	34	-	-	-	2,919,360
Fixed Income Core	6,973,127	228,170	4,038,073	2,316,855	390,029	-
Fixed Income Mutual Fund	2,385,839	596,460	1,789,379	-	-	-
High Yield Bonds	3,045,688	99,380	710,462	2,210,964	24,882	-
Global Fixed	2,889,630	1,502,608	1,387,022	-	-	-
Hedge Funds	7,473,625	138	-	-	-	7,473,487
Energy MLP	328,208	16	-	-	-	328,192
Natural Resources Mutual Fund	1,627,564	1	-	-	-	1,627,563
Private Equity	735,215	-	-	-	-	735,215
	<b>\$84,026,372</b>	<b>\$2,550,423</b>	<b>\$7,924,936</b>	<b>\$4,527,819</b>	<b>\$ 414,911</b>	<b>\$68,608,283</b>

**Oakland University**  
**Notes to Financial Statements**  
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**2. Investments and Deposits with Financial Institutions (continued)**

<u>June 30, 2014</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>	<u>N/A</u>
<b>UBS Endowment Investment Pool</b>						
Large Cap Value	\$ 6,409,454	\$ 337,093	\$ -	\$ -	\$ -	\$ 6,072,361
Large Cap Growth	13,924,186	1,133,639	-	-	-	12,790,547
Mid Cap Value	3,209,086	-	-	-	-	3,209,086
Mid Cap Growth	7,412,369	534,024	-	-	-	6,878,345
Small Cap Core	4,947,169	373,838	-	-	-	4,573,331
Small Cap Growth	3,476,076	-	-	-	-	3,476,076
REIT	1,596,609	-	-	-	-	1,596,609
International Value	5,703,024	2,665	-	-	-	5,700,359
International Core	4,756,228	392,857	-	-	-	4,363,371
Developing Markets	3,201,478	213,478	-	-	-	2,988,000
Fixed Income Core	7,041,707	871,571	3,040,092	2,619,007	511,037	-
Fixed Income Mutual Fund	2,361,548	(11,807)	1,197,305	748,611	427,439	-
High Yield Bonds	3,322,032	388,762	467,954	2,373,151	92,165	-
Global Fixed	3,128,997	1,339,210	1,097,339	580,429	112,019	-
Hedge Funds	5,897,715	1,496,458	-	-	-	4,401,257
Commodity Stock Funds	2,503,256	-	-	-	-	2,503,256
Private Equity	663,429	-	-	-	-	663,429
Money Market Funds	1,010,591	1,010,591	-	-	-	-
	<u>\$80,564,954</u>	<u>\$8,082,379</u>	<u>\$5,802,690</u>	<u>\$6,321,198</u>	<u>\$ 1,142,660</u>	<u>\$59,216,027</u>

The fixed income investments within the Endowment pool have a fair market value of \$15.3 million as of June 30, 2015, with a credit quality that varies; with 80.7% of the securities rated A- or higher, and 19.3% rated BB. Money market funds 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, 2015.

The private equity investment's estimated market value is \$735,215 as of June 30, 2015 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 \$7,473,625 as of June 30, 2015. 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 the private equity and hedge funds. The estimated fair values are provided by external investment managers and advisers as of June 30, 2015. Alternative investments are not readily marketable; therefore, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

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.

With the exception of the private equity holding and four hedge funds, the working capital investment pool and endowment investment pool can be liquidated within 90 days or less at fair market value.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**3. Accounts Receivable**

Accounts receivable consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Tuition	\$ 10,344,777	\$ 8,266,266
Auxiliary enterprises	1,232,140	1,302,076
Contracts and grants	3,314,971	3,019,558
Other receivables	6,350,117	13,437,325
Total accounts receivable	<u>21,242,005</u>	<u>26,025,225</u>
Less: Allowance for doubtful accounts	<u>(5,786,313)</u>	<u>(5,113,985)</u>
Total accounts receivable, net	<u>\$ 15,455,692</u>	<u>\$ 20,911,240</u>

Capital appropriation is paid to the University on a cost reimbursement basis for the construction of the Engineering Center from the State Building Authority. Other Receivables include reimbursement of incurred costs totaling \$2,849,683 and \$10,769,781 for the years ended June 30, 2015 and 2014, respectively. The Engineering Center had accrued expense totaling \$1,752,971 and \$10,548,984 for the years ended June 30, 2015 and 2014, respectively.

**4. Appropriations Receivable**

The annual State operating appropriation paid to the University is made in 11 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, 2015 and 2014, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$8,793,474 and \$8,300,292, respectively.

**5. Pledges Receivable**

Pledges receivable consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<b>Pledges outstanding</b>		
Unrestricted	\$ 38,966	\$ 23,168
Restricted expendable	8,700,567	10,629,152
Total pledges outstanding	<u>8,739,533</u>	<u>10,652,320</u>
Less:		
Allowance for doubtful pledges	(217,849)	(236,904)
Present value discount	(719,414)	(1,096,151)
Total pledges outstanding, net	<u>7,802,270</u>	<u>9,319,265</u>
Less: Current portion, net	<u>(3,106,951)</u>	<u>(2,933,092)</u>
Noncurrent portion, net	<u>\$ 4,695,319</u>	<u>\$ 6,386,173</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2015 and 2014, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 2% net of discount at June 30, 2015 and 2014. Approximately \$5.8 million of the total net pledges outstanding is from a single donor.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**5. Pledges Receivable (continued)**

Payments on pledges receivable at June 30, 2015 are expected to be received in the following years:

Past due	\$ 249,373
Due in one year	2,945,405
Due in two-five years	5,164,755
Thereafter	<u>380,000</u>
Total	<u>\$ 8,739,533</u>

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, 2015 and 2014, the University had \$28,479,336 and \$29,853,304, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$28,479,336 in conditional pledges for fiscal year 2015, approximately \$5.5 million is from a single donor.

**6. Student Loans Receivable**

Student loans receivable consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<b>Student loans</b>		
Federal loan programs	\$1,904,199	\$1,897,313
University loan funds	<u>216,079</u>	<u>190,090</u>
	2,120,278	2,087,403
Less: Allowance for doubtful loans	<u>(229,434)</u>	<u>(237,122)</u>
Total student loans, net	1,890,844	1,850,281
Less: Current portion, net	<u>(417,855)</u>	<u>(383,109)</u>
Noncurrent portion, net	<u>\$1,472,989</u>	<u>\$1,467,172</u>

In addition, the University distributed \$112,468,123 and \$109,509,951 for the years ended June 30, 2015 and 2014, 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**  
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**7. Capital Assets**

The following tables present the changes in the various capital asset categories for the University for fiscal years 2015 and 2014:

<u>Asset Classification</u>	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2015</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	60,268,389	16,355,072	-	76,623,461
Buildings	395,500,599	153,094,348	1,156,326	547,438,621
Equipment	40,282,664	14,253,876	1,834,793	52,701,747
Library acquisitions	27,602,887	432,112	1,769,183	26,265,816
Construction in progress	141,228,786	52,271,280	178,464,640	15,035,426
Total	<u>669,508,239</u>	<u>236,406,688</u>	<u>183,224,942</u>	<u>722,689,985</u>
Accumulated depreciation				
Land improvements and infrastructure	(28,556,391)	(3,085,695)	-	(31,642,086)
Buildings	(140,099,794)	(10,767,138)	(404,714)	(150,462,218)
Equipment	(26,413,361)	(4,180,802)	(1,769,367)	(28,824,796)
Library acquisitions	(23,795,553)	(433,390)	(1,769,183)	(22,459,760)
Total	<u>(218,865,099)</u>	<u>(18,467,025)</u>	<u>(3,943,264)</u>	<u>(233,388,860)</u>
Total capital assets, net	<u>\$ 450,643,140</u>	<u>\$ 217,939,663</u>	<u>\$179,281,678</u>	<u>\$ 489,301,125</u>

<u>Asset Classification</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2014</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	59,739,095	529,294	-	60,268,389
Buildings	377,335,403	18,200,696	35,500	395,500,599
Equipment	37,528,311	4,097,397	1,343,044	40,282,664
Library acquisitions	27,178,245	519,370	94,728	27,602,887
Construction in progress	50,692,808	109,884,520	19,348,542	141,228,786
Total	<u>557,098,776</u>	<u>133,231,277</u>	<u>20,821,814</u>	<u>669,508,239</u>
Accumulated depreciation				
Land improvements and infrastructure	(25,871,126)	(2,685,265)	-	(28,556,391)
Buildings	(131,503,061)	(8,631,253)	(34,520)	(140,099,794)
Equipment	(24,322,347)	(3,208,027)	(1,117,013)	(26,413,361)
Library acquisitions	(23,344,416)	(545,865)	(94,728)	(23,795,553)
Total	<u>(205,040,950)</u>	<u>(15,070,410)</u>	<u>(1,246,261)</u>	<u>(218,865,099)</u>
Total capital assets, net	<u>\$ 352,057,826</u>	<u>\$ 118,160,867</u>	<u>\$ 19,575,553</u>	<u>\$ 450,643,140</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**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 Mathematics and Science Center, the Business and Technology Building (Elliott Hall), the Human Health Building, and the Engineering Center. 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 Position.

**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 \$387,032 and \$362,422 for 2015 and 2014, respectively. The face value of these life insurance policies totaled \$3,033,072 in 2015 and \$2,918,072 in 2014.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**10. Long-Term Liabilities**

Long-term liabilities consist of the following as of June 30, 2015 and 2014:

	Balance June 30, 2014	Additions/ Transfers	Reductions	Balance June 30, 2015	Current Portion
Note and installment purchase agreements payable	\$ 14,213,729	\$ 85,744	\$ 928,393	\$ 13,371,080	\$ 973,656
General revenue bonds:					
Series 2014 bonds	-	28,060,000	860,000	27,200,000	635,000
Unamortized premium	-	4,383,960	236,735	4,147,225	343,210
Series 2013A bonds	57,860,000	-	-	57,860,000	1,035,000
Unamortized premium	6,667,305	-	471,203	6,196,102	472,282
Series 2013B bonds	22,900,000	-	1,715,000	21,185,000	1,730,000
Series 2012 bonds	44,155,000	-	815,000	43,340,000	835,000
Unamortized premium	4,416,653	-	306,455	4,110,198	301,239
Series 2009 bonds	30,815,000	-	30,815,000	-	-
Series 2008 bonds	49,295,000	-	1,440,000	47,855,000	1,500,000
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
2014 Certificates of Participation	-	14,225,000	-	14,225,000	-
Unamortized premium	-	1,729,013	72,849	1,656,164	116,474
Total note, installment agreement, and bonds payable	<u>234,922,687</u>	<u>48,483,717</u>	<u>37,660,635</u>	<u>245,745,769</u>	<u>7,941,861</u>
Other liabilities:					
Compensated absences	4,749,840	330,523	-	5,080,363	381,193
Early retirement plan	126,361	-	126,361	-	-
Annuities payable and other	3,690,936	-	151,063	3,539,873	532,428
Federal portion of Perkins loan program	1,524,041	-	4,890	1,519,151	-
Total other liabilities	<u>10,091,178</u>	<u>330,523</u>	<u>282,314</u>	<u>10,139,387</u>	<u>913,621</u>
Total long-term liabilities	<u>\$245,013,865</u>	<u>\$48,814,240</u>	<u>\$37,942,949</u>	<u>\$255,885,156</u>	<u>\$ 8,855,482</u>
Total long-term liabilities	\$245,013,865			\$255,885,156	
Current portion	7,461,983			8,855,482	
Noncurrent portion	<u>\$237,551,882</u>			<u>\$247,029,674</u>	

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**10. Long-Term Liabilities (continued)**

	Balance June 30, 2013	Additions/ Transfers	Reductions	Balance June 30, 2014	Current Portion
Note and installment purchase agreements payable	\$ 15,102,007	\$ -	\$ 888,278	\$ 14,213,729	\$ 920,229
General revenue bonds:					
Series 2013A bonds	57,860,000	-	-	57,860,000	-
Unamortized premium	7,127,117	-	459,812	6,667,305	471,203
Series 2013B bonds	23,290,000	-	390,000	22,900,000	1,715,000
Series 2012 bonds	44,155,000	-	-	44,155,000	815,000
Unamortized premium	4,718,805	-	302,152	4,416,653	306,456
Series 2009 bonds	31,545,000	-	730,000	30,815,000	745,000
Series 2008 bonds	50,675,000	-	1,380,000	49,295,000	1,440,000
Series 2004 bonds	1,320,000	-	1,320,000	-	-
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
Total note, installment agreement, and bonds payable	<u>240,392,929</u>	<u>-</u>	<u>5,470,242</u>	<u>234,922,687</u>	<u>6,412,888</u>
Other liabilities:					
Compensated absences	4,918,366	-	168,526	4,749,840	391,644
Early retirement plan	884,752	-	758,391	126,361	126,361
Annuities payable and other	390,645	3,731,507	431,216	3,690,936	531,090
Federal portion of Perkins loan program	1,609,217	-	85,176	1,524,041	-
Total other liabilities	<u>7,802,980</u>	<u>3,731,507</u>	<u>1,443,309</u>	<u>10,091,178</u>	<u>1,049,095</u>
Total long-term liabilities	<u>\$248,195,909</u>	<u>\$ 3,731,507</u>	<u>\$ 6,913,551</u>	<u>\$245,013,865</u>	<u>\$ 7,461,983</u>
Total long-term liabilities	\$248,195,909			\$245,013,865	
Current portion	6,588,262			7,461,983	
Noncurrent portion	<u>\$241,607,647</u>			<u>\$237,551,882</u>	

**Note and Installment Purchase Agreements Payable**

In February 2015, the University entered into a lease-purchase agreement in the principal amount of \$85,743 to purchase printing equipment. The lease has a fixed interest rate of 4.94% per annum and requires 48 monthly payments of \$1,972.

In November 2012, the University entered into a lease-purchase agreement in the principal amount of \$169,771 to purchase golf equipment. The lease has a fixed interest rate of 1.98% per annum and requires 48 monthly payments of \$3,679.

In July 2012, the University entered into a lease-purchase agreement in the principal amount of \$512,008 to purchase golf carts. The lease has a fixed interest rate of 1.98% per annum and requires 60 monthly payments of \$7,353 and a balloon payment of \$102,401 due October 2017.

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 interest rate of 3.785% to finance Phase II of its Energy Service Agreement projects.

**Oakland University**  
**Notes to Financial Statements**  
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**10. Long-Term Liabilities (continued)**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 973,656	\$ 485,080	\$ 1,458,736
2017	986,880	449,781	1,436,661
2018	1,015,663	413,091	1,428,754
2019	939,285	377,207	1,316,492
2020	961,357	341,331	1,302,688
2021-2025	5,391,520	1,121,917	6,513,437
2026-2028	3,102,719	153,999	3,256,718
Total	<u>\$13,371,080</u>	<u>\$3,342,406</u>	<u>\$16,713,486</u>

**General Revenue Bonds Payable**

In October 2014, the University issued \$28,060,000 of general revenue refunding bonds (2014 Bonds), with an average coupon interest rate of 4.98% and a net original issue premium of \$4,383,960. The 2014 Bonds were issued with a final maturity date of March 1, 2039. The proceeds were utilized to refund the Series 2009 Taxable-Build America Bonds (2009 Bonds) which funded a portion of the Human Health Building and several infrastructure projects. The advance refunding of the 2009 Bonds was subject to a redemption price equal to 103% of the par value of Bonds redeemed, or \$924,450 to be amortized over the term of the 2014 Bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the remaining 24 year period by approximately \$3,016,000. The refunding will result in an economic gain of \$2,251,000. The aggregate outstanding principal on the 2009 Bonds totaled \$30,815,000, and was redeemed November 28, 2014 leaving a zero balance as of June 30, 2015. The pricing resulted in a 3.56% true interest cost.

In December 2014, the University partnered with UMB Bank to issue Certificates of Participation (2014 Certificates) for \$14,225,000 at a net original issue premium of \$1,729,013. The proceeds will be used to finance the construction and installation of a combined heat and power cogeneration system at the central heating plant on the University's campus. The 2014 Certificates consist of 4 term certificates with maturity dates ranging from July 1, 2022 to July 1, 2031, yield rates ranging from 2.45% to 3.45%. The pricing resulted in a true interest cost of 3.88%. The debt service on the 2014 Certificates will be funded by monthly lease payments the University will make to UMB Bank through July 2031.

In June 2013, the University issued \$57,860,000 general revenue bonds (2013A Bonds), with an average coupon rate of 4.98% and a net original issue premium of \$7,141,047. The proceeds were utilized to fund the construction of Oak View Hall; a facilities management building; a 1,240 space parking structure; road improvements; and an athletic and recreation complex. The 2013A Bonds were issued with a final maturity of March 1, 2043. The pricing resulted in a 4.03% true interest cost.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**10. Long-Term Liabilities (continued)**

In June 2013, the University issued \$23,290,000 of federally taxable general revenue refunding bonds (2013B Bonds), with an average coupon interest rate of 2.99% and final maturity date of May 15, 2026. The proceeds were utilized to refund the Series 2004 general revenue refunding bonds (2004 Bonds). The advance refunding of the 2004 Bonds resulted in a deferral on early extinguishment of \$1,134,224 that will be amortized over the term of the 2013B Bonds. The pricing resulted in a 2.99% true interest cost. The aggregate amount of outstanding principal on the 2004 Bonds which has been defeased was \$22,015,000.

In August 2012, the University issued \$44,155,000 of general revenue bonds (2012 Bonds), with an average coupon interest rate of 4.96% and a net original issue premium of \$4,970,795. The proceeds were utilized to fund a portion of the Engineering Center. The 2012 Bonds were issued with a final maturity of March 1, 2042. The pricing resulted in a 4.08% true interest cost.

In December 2009, the University issued \$33,650,000 general revenue bonds (2009 Bonds) (Taxable – Build America Bonds), with an average coupon rate of 6.80%. The proceeds were used 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 4.43% true interest cost after adjusting for the Federal interest subsidies. In October 2014, the University issued general revenue bonds (2014 Bonds) to refund the remaining \$30,815,000 of the 2009 Bonds, leaving a zero balance as of June 30, 2015.

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 3.37%. The 2001 Swap termination cost has been deferred and will be amortized over the term of the refunding bonds and is recorded as a deferred outflow. 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.

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%. In June 2013, the University issued federally taxable general revenue bonds (2013B Bonds) to refund \$22,015,000 of the 2004 Bonds. The remaining principal balance of \$1,320,000 was paid during fiscal year 2014.

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, 2015 and 2014 were 0.08% and 0.07%, 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

**Oakland University**  
**Notes to Financial Statements**  
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**10. Long-Term Liabilities (continued)**

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.

The following table summarizes debt service requirements for the outstanding bonds payable as of June 30, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2016	\$ 5,735,000	\$ 7,563,487	\$ 1,544,247	\$ 14,842,734
2017	6,100,000	7,458,033	1,494,625	15,052,658
2018	6,390,000	7,310,924	1,442,884	15,143,808
2019	6,700,000	7,161,675	1,389,023	15,250,698
2020	7,050,000	6,977,625	1,332,988	15,360,613
2021-2025	45,465,000	31,456,896	5,739,143	82,661,039
2026-2030	54,195,000	24,249,051	3,274,697	81,718,748
2031-2035	35,435,000	16,659,458	129,244	52,223,702
2036-2040	33,115,000	8,961,500	-	42,076,500
2041-2043	16,080,000	1,491,500	-	17,571,500
	<u>216,265,000</u>	<u>\$119,290,149</u>	<u>\$ 16,346,851</u>	<u>\$351,902,000</u>
Unamortized premium	16,109,689			
	<u>\$232,374,689</u>			

**Other Liabilities**

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

The Early Retirement Incentive Plan was a 2011 cost-containment initiative that provided an incentive for qualifying employees to retire from the University. The benefits were paid monthly to 36 participants' 403(b) accounts over a five-year period which began in 2012. The remaining benefit payment and fees were paid in full as of June 30, 2015.

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.

In September 2013, the University received a charitable gift annuity (CGA) totaling \$7.0 million as a result of realizing a donor's bequest. Based on the life expectancy of the annuitant at the time the CGA was received, the University's obligation, or present value liability, of the annuity payments approximated \$3.7 million. At June 30, 2015, the annuity payable was approximately \$3.2 million.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**11. Deferred Outflows and Inflows of Resources**

**Deferred Outflows**

The University accounts for deferred outflows and inflows of resources in accordance with authoritative guidance. The University recorded deferred outflows of \$13,447,117 at June 30, 2015, which includes \$5,535,319 from an early extinguishment of general revenue bonds, 2013B Bonds, 2009 Bonds, and 2008 Bonds, and a deferral of swap termination costs for the 2001 Bonds; and \$7,911,798 estimated negative fair value of the 2008 Swap. At June 30, 2014, the University recorded deferred outflows of \$12,462,640, which includes \$4,958,646 from an early extinguishment of general revenue bonds, 2013B Bonds and 2008 Bonds and a deferral of swap termination costs for the 2001 Bonds; and \$7,503,994 estimated negative fair value of the 2008 Swap.

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

**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 3.37% 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, 2015 was \$47,855,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.37%. 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, 2015 and 2014 was (\$7,911,798) and (\$7,503,994), respectively. These fair values are reflected in the deferred outflows of resources section of the Statements of Net Position. 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, 2015, 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, 2015, the counterparty's credit rating from Moody's Investors Service was Baa3.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**11. Deferred Outflows and Inflows of Resources (continued)**

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.

**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 was 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, 2015 and 2014 was \$1,966,750 and \$2,622,626, respectively. These fair values are included as a reduction of the deferred inflows of resources section in the Statements of Net Position with the change in fair value of (\$655,876) and (\$544,516) for fiscal years ended June 30, 2015 and 2014, respectively, included in Investment income in the Statements of Revenues, Expenses, and Changes in Net Position. 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, 2015, 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, 2015, there is no collateral posting requirement by 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, 2015 and 2014**

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**11. Deferred Outflows and Inflows of Resources (continued)**

**Deferred Inflows**

The University recorded deferred inflows of resources of \$5,945,048 at June 30, 2015, which includes the estimated negative fair value of the 2008 Swap of \$7,911,798, reduced by the estimated fair value of the University's CMS of \$1,966,750. Deferred inflows of resources at June 30, 2014 were \$4,881,368, which includes the estimated negative fair value of the 2008 Swap of \$7,503,994, reduced by the estimated fair value of the CMS of \$2,622,626.

**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 286 retirees and spouses. Certain employees hired after July 1, 2005, depending on the employee group, may be eligible for participation in the University's postemployment 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, 2015, the University and plan members receiving benefits contributed \$1,614,860 and \$960,915, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from \$24 to \$1,020 per month for retiree-only coverage, and from \$58 to \$2,447 per month for retiree and spouse coverage.

For the year ended June 30, 2014, the University and plan members receiving benefits contributed \$1,590,482 and \$949,493, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from no cost to \$998 per month for retiree-only coverage, and from no cost to \$2,392 per month for retiree and spouse coverage.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**12. Postemployment Benefits Other than Pensions (continued)**

**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 30 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, 2015 and 2014. The amounts are based on the June 30, 2014 actuarial valuation.

	<u>2015</u>	<u>2014</u>
Annual Required Contribution (ARC)	\$ 3,732,363	\$ 3,510,569
Interest on net OPEB obligation	545,004	453,418
Adjustment to ARC	<u>(954,903)</u>	<u>(794,435)</u>
Annual OPEB cost (expense)	3,322,464	3,169,552
Contributions made	<u>(1,614,860)</u>	<u>(1,590,482)</u>
Increase in net OPEB obligation	1,707,604	1,579,070
Net OPEB obligation – beginning of year	<u>9,396,626</u>	<u>7,817,556</u>
Net OPEB obligation – end of year	<u>\$11,104,230</u>	<u>\$ 9,396,626</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 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>
2015	\$3,322,464	48.6%	\$11,104,230
2014	\$3,169,552	50.2%	\$9,396,626
2013	\$3,392,802	51.7%	\$7,817,556

**Oakland University**  
**Notes to Financial Statements**  
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**12. Postemployment Benefits Other than Pensions (continued)**

**Funded Status and Funding Progress**

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but are financed on a pay-as-you-go basis. The University 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-approved, quasi-endowment valued at approximately \$18.1 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, 2015 and the two preceding years were \$1,614,860, \$1,590,482, and \$1,752,591, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

<b>Actuarial Valuation Date as of</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2015	\$ -	\$35,520,230	\$35,520,230	0.00%	\$105,730,414	33.6%
6/30/2014	\$ -	\$34,275,155	\$34,275,155	0.00%	\$99,490,989	34.5%
6/30/2013	\$ -	\$30,291,980	\$30,291,980	0.00%	\$96,189,027	31.5%

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 \$35.5 million as of June 30, 2015. The actuarial valuation is completed on a biannual basis with the last one as of June 30, 2014. 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 15 years from the valuation date.

**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.

**12. Postemployment Benefits Other than Pensions (continued)**

Actuarial assumptions included a discount rate of 5.8%, 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, 2015 and 2014 were \$15,335,419 and \$14,036,777, 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, 2015, the date of the most recent actuarial valuation, the plan had a total liability of approximately \$52,000 and was over funded by approximately \$66,000.

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.

**14. Liability and Property Insurance**

The University is one of 11 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.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**14. Liability and Property Insurance (continued)**

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. The payments made to M.U.S.I.C. and premiums to excess carriers reflect the claims experience of each university.

**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, 2015, the amount subject to guarantee by the University was \$1,865,750.

The estimated costs to complete construction projects in progress is \$22.0 million as of June 30, 2015, due in large part to the new cogeneration system at the University's Central Heating Plant in the amount of \$8.8 million, the Meadow Brook Road culvert for \$2.0 million, completion of the Engineering Center in the amount of \$2.1 million, and various campus enhancement projects totaling \$9.1 million. The cogeneration system is funded from proceeds through the issuance of 2014 Certificates of Participation. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. The Meadow Brook Road culvert, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

**16. Expenditures by Natural Classification**

Operating expenses by natural classification for the years ended June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Employee compensation and benefits	\$198,413,748	\$187,116,284
Supplies and other services	67,204,096	66,489,408
Student aid	13,434,311	13,718,857
Depreciation	19,228,595	15,254,784
Total	<u>\$298,280,750</u>	<u>\$282,579,333</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

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**17. Cash Flow Statement**

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

	<u>2015</u>	<u>2014</u>
<b>Operating loss</b>	<b>\$(70,895,816)</b>	<b>\$(70,358,288)</b>
<b>Adjustments to reconcile net operating loss to net cash used by operating activities</b>		
Depreciation expense	19,228,595	15,254,784
Changes in assets and liabilities:		
Accounts receivable, net	(2,477,612)	(338,951)
Inventories	(27,185)	(217,903)
Deposits and prepaid expense	(9,595)	(12,554)
Student loans receivable	(40,563)	(113,091)
Accounts payable and accrued expenses	1,377,500	(3,775,696)
Accrued payroll	130,345	(852,193)
Compensated absences	204,161	(926,917)
Unearned revenue and student fees	1,333,788	607,958
Deposits	482,218	77,708
Federal portion of student loan program	(4,890)	(85,176)
Other postemployment benefits	1,707,604	1,579,070
Net cash used by operating activities	<u><b>\$(48,991,450)</b></u>	<u><b>\$(59,161,249)</b></u>

**18. Related-Party Transactions**

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

Foundation net assets as of June 30, 2015 were as follows:

Assets	<u><b>\$195,828</b></u>
Net assets	<u><u><b>\$195,828</b></u></u>

The assets remaining are endowment funds. The June 30, 2015 University financial statements do not include the Foundation's assets or activity.



OAKLAND UNIVERSITY

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Audit Committee of the  
Board of Trustees

Oakland University

*October 14, 2015*

Oakland University

Audit Committee of the  
Board of Trustees Meeting Agenda

*October 14, 2015*

- ◆ Introduction of Audit Team
  - AHP Representatives
    - Randy Morse – Partner
    - Gary Robb – Senior
  
- ◆ Financial Highlights
  
- ◆ Audit Committee of the Board of Trustees Letter
  - Services Provided and Reports Issued or in Process
  - Results of 2015 Audit and Review of Significant Accounting Matters
  - The Auditor’s Communication with Those Charged with Governance
  - Representation Letter
  
- ◆ Other Questions or Comments

October 14, 2015

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, 2015. – 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 2015 990T. – In Process.
- Various consultations with the University. – Ongoing.

We have reviewed the services provided and confirm that we are independent of Oakland University and its related parties.

## Results of 2015 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* 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.

The following summarizes various matters of interest noted during our audit:

### Bond Issuances

In October 2014, the University issued \$28,060,000 of general revenue refunding bonds (2014 Bonds). The proceeds were utilized to refund the Series 2009 Taxable-Build America Bonds (2009 Bonds). The advance refunding of the 2009 Bonds were subject to a redemption price equal to 103% of the par value of Bonds redeemed, or \$924,450 to be amortized over the term of the 2014 Bonds. The deferral of the early extinguishment of debt related to the 2009 Bonds were primarily responsible for the increase in the deferred outflows of resources from \$12.5 million at June 30, 2014 to \$13.4 million at June 30, 2015.

In December 2014, the University partnered with UMB Bank to issue Certificates of Participation (2014 Certificates) for \$14,225,000 at a net original issue premium of \$1,729,013. The proceeds will be used to finance the construction and installation of a combined heat and power cogeneration system at the central heating plant on the University's campus. The debt service on the 2014 Certificates will be funded by monthly lease payments the University will make to UMB Bank through July 2031. Although the transaction is structured to resemble a capital lease, the substance of the transaction is more of a bond issuance; therefore, the University has recorded the transaction as the issuance of bonded debt for construction purposes. In addition, approximately \$10,985,393 of the remaining proceeds is included in restricted cash for 2015 on the statements of net position.

### Oakland University William Beaumont School of Medicine Gift

During the 2009 fiscal year, a pledge was received for \$20.0 million from an anonymous donor for the Oakland University William Beaumont School of Medicine. Since the initial pledge, \$14.0 million of payments have been made toward this pledge (\$2.0 million during each of the last seven years). The discounted value of the pledge receivable approximated \$5.5 million at June 30, 2015.

### 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, 2015.

### Capital Appropriations

During the year, the University recorded approximately \$16.6 million in capital appropriations revenue from the State Building Authority (SBA) related to the construction of the Engineering Center. Capital appropriations are paid to the University on a cost reimbursement basis. At June 30, 2015, the University had a receivable outstanding for capital appropriations in the amount of \$2.8 million.

### Capital Improvement Projects

Construction in progress at June 30, 2015 was approximately \$15.0 million, of which approximately \$6.0 million was related to the cogeneration system and approximately \$2.1 million was related to the new dining center provided at the Oakland Center. The remaining \$6.9 million was related to several smaller projects throughout the University. These construction in progress amounts also include capitalized interest for the project through June 30, 2015.

As of June 30, 2015, it is estimated that the University has approximately \$22.0 million of costs to complete projects, due in large part to the new cogeneration system at the University's Central Heating Plant in the amount of \$8.8 million, the Meadow Brook Road culvert for \$2.0 million, completion of the Engineering Center in the amount of \$2.1 million, and various campus enhancement projects totaling approximately \$9.1 million.

We have audited significant transactions related to construction in progress 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 over the long term. The Constant Maturity Swap (CMS) is deemed to be an investment; therefore, the change in value of the CMS is recorded in the Statements of Revenues, Expenses, and Changes in Net Position. The second interest-rate swap is a hedging instrument in connection with the 2008 Bonds. The fair value and the decrease in fair value of this interest-rate swap are recorded in the Statements of Net Position as deferred outflows and inflows of resources.

At June 30, 2015, the CMS had a fair value of approximately \$2.0 million and the hedging swap had a fair value of approximately (\$7.9) million. These amounts would not be recognized unless the Swaps were terminated.

### 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, 2015, the University recorded an expense of approximately \$3.3 million and made payments of approximately \$1.6 million. The recorded actuarial accrued liability increased by approximately \$1.7 million during the year to \$11.1 million. As of June 30, 2015, the total actuarial accrued liability was \$35.5 million with the unrecorded portion of the liability of approximately \$24.4 million.

## University Net Position

The net position of the University increased \$20.3 million during 2015 and is primarily attributed to non-operating activities, including \$6.8 million of investment income, \$4.7 million in gifts, \$1.6 million of additions to permanent endowments, and \$16.6 million of capital appropriations. Partially offsetting this increase is \$9.0 million in interest expense on capital debt. Included in total net position is approximately \$153.7 million of unrestricted net position which has been internally designated by the Board and management for various uses as outlined in the Management's Discussion and Analysis on page 8.

## 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.

## Adopted Audit Standards

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

## Effective Accounting Standards

### GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*

Statement No. 68 requires the University to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to Statement No. 68 requiring the University to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension obligation. The University maintains a noncontributory, defined-benefit retirement plan, which is not open to new participants. At January 1, 2015, the date of the most recent actuarial valuation, the Plan had only 15 participants in the Plan with a total liability of \$51,753 and was overfunded by \$65,588. Therefore, the University did not adopt any of the provisions of Statements No. 68 and No. 71.

## Recently Issued Accounting and Audit Standards

### GASB Statement No. 72, *Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. The University is currently evaluating the disclosures and impact this standard will have on the financial statements when adopted.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this Statement identifies the methods and assumptions that would be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In summary, governments that do not provide OPEB through a trust that meets specified criteria will now report the total OPEB liability related to their employees on the face of the financial statements.

Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The date of adoption for the University would be for the June 30, 2018 fiscal year, with earlier application encouraged.

The Auditor's Communications with Those Charged with Governance

This section discusses our responsibilities under the Statement on Auditing Standards (SAS) No. 122, Section 260, *Communication with Those Charged with Governance*. The following excerpts from SAS No. 122 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 and *Governmental Auditing Standards* is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement and in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our report dated September 14, 2015 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. GAAP. 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 March 6, 2015. 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. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. 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
- Deferred inflows and outflows of resources

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 14, 2015. 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 the Board of Trustees and documented in an engagement letter. Fees for these services did not exceed agreed upon amounts.

Management Letter

We considered the University's internal control 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.

\* \* \*

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, our management letter, or any other aspects of our services to Oakland University.

It has been a pleasure to serve Oakland University during 2015. 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 Hooper Pavlik PLC*



Office of the Vice President  
for Finance and Administration  
and Treasurer to the Board of Trustees

Rochester, Michigan 48309-4498  
(248) 370-2445 Fax: (248) 370-2372

September 14, 2015

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

This representation letter is provided in connection with your audits of the financial statements of Oakland University (University), which comprise the respective financial position as of June 30, 2015 and 2014 and the respective changes in financial position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, 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.

Items with respect to federal award programs are considered material based on the materiality criteria specified in OMB Circular A-133.

We confirm, to the best of our knowledge and belief, as of September 14, 2015, the following representations made to you during your audit:

**Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 6, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

- 2) 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 University 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.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the University is contingently liable, if any, have been properly recorded or disclosed.

#### **Information Provided**

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.

- c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) 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.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 12) We have disclosed to you the results of our risk assessment to determine the risk that the financial statements may be materially misstated as a result of fraud.
- 13) 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.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing the financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- 18) We have reported and disclosed amounts as deferred inflows and outflows in accordance with the provisions of GASB 63 and 65.

**Government-specific**

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 20) 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.
- 21) The University has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.
- 22) 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.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no 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.
- 27) 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.
- 28) 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.
- 29) 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.
- 30) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.

- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 32) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 33) Provisions for uncollectible receivables have been properly identified and recorded.
- 34) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 35) 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.
- 36) 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.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 39) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated. Capital assets have been evaluated for impairment as a result of significant or unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded, if applicable.
- 40) 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.
- 41) 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.
- 42) 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.
- 43) Participation in a public entity risk pool have been properly reported and disclosed in the financial statements.

- 44) 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.
- 45) 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.
- 46) 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.
- 47) Federal advances and the terms of these advances have been properly recorded and disclosed in the financial statements.
- 48) 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.
- 49) All funds disbursed from endowed assets have been done so in accordance with the donor's requirements for the use of these funds.

- 50) All deferred compensation agreements have been provided and all deferred compensation accruals have been properly recorded.
- 51) 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.
- 52) 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.
- 53) 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.
- 54) 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.
- 55) 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.
- 56) 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 have not been appropriately recorded and disclosed in the financial statements.
- 57) 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.

58) With respect to the Schedule of Expenditures of Federal Awards (SEFA):

We acknowledge our responsibility for presenting the SEFA in accordance with accounting principles generally accepted in the United States of America, and we believe the SEFA, 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 SEFA 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. 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 supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

59) 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 SEFA.
- b) We acknowledge our responsibility for presenting the 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.
- c) 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.
- d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA 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.

- e) 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.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for 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.
- g) 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.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) 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 direct and material compliance requirements of federal awards.
- j) 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.
- k) 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.
- l) 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*.

- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) 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.
- o) 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.
- p) 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.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control subsequent to the date as of which compliance was audited.
- r) 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.
- s) We have charged costs to federal awards in accordance with applicable cost principles.
- t) 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.
- u) 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.
- v) 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.
- w) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- x) 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

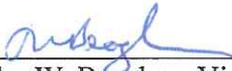
Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- y) We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by OMB Circular A-133.
- z) We are responsible for preparing and implementing a corrective action plan for each audit finding, when applicable.
- aa) 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.



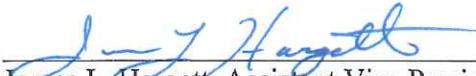
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George W. Hynd, President



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



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James L. Hargett, Assistant Vice President & Controller



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Gerri Ann Reimann, Associate Controller