

# **Oakland University**

**Financial Statements**

**June 30, 2006 and 2005**

**Oakland University**  
**Contents**  
**June 30, 2006 and 2005**

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	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Management’s Discussion and Analysis</b> .....	2–12
<b>Management’s Discussion and Analysis of the Oakland University Foundation</b> .....	12–14
<b>Financial Statements</b>	
Statements of Net Assets .....	15
Statements of Net Assets of the Oakland University Foundation.....	16
Statements of Revenues, Expenses and Changes in Net Assets .....	17
Statements of Changes in Net Assets of the Oakland University Foundation .....	18
Statements of Cash Flows .....	19
Notes to Financial Statements.....	20–39

## **Report of Independent Auditors**

To the Board of Trustees of  
Oakland University

In our opinion, the accompanying consolidated statements of net assets and the related consolidated statement of revenues, expenses and changes in net assets, consolidated statements of changes in net assets and cash flows present fairly, in all material respects, the financial position of Oakland University and Oakland University Foundation (collectively referred to as the "University") at June 30, 2006 and 2005, and its consolidated revenues, expenses and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis ("MD&A") on pages 2 to 14 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

September 5, 2006

# **Oakland University**

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

### **June 30, 2006 and 2005**

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#### **Introduction**

Following is management's discussion and analysis of the financial activities of Oakland University (University) for the fiscal year ended June 30, 2006 with selected comparative information for the year ended June 30, 2005. In accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Oakland University Foundation (Foundation) is reported as a component unit of Oakland University in this report.

The University is a state-supported institution of more than 17,300 students offering a diverse set of academic programs, from baccalaureate to doctoral levels as well as programs in continuing education. The University currently offers 114 baccalaureate degree programs and 87 graduate and certificate programs and is recognized as one of the country's doctoral research-intensive universities.

The Foundation is a not-for-profit corporation operated to encourage, promote and support the University.

During 2006, the University Board of Trustees and the Foundation Board of Directors agreed to transfer substantially all of the Foundation's assets and liabilities to the University in order to consolidate the endowments, and reduce redundancies and inefficiencies.

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

The order of presentation of the following discussion and analysis will first be directed to the University and then the Foundation. Since this analysis is designed to focus on current financial activities, it should be read in conjunction with the financial statements and footnotes to the financial statements. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of University management.

#### **Oakland University**

The following discussion and analysis pertains to the University, the primary institution.

#### **Enrollment and Operations Highlights**

- In Fiscal 2006, enrollment based on Fiscal Year Equated Students (FYES) increased 3.0% to 14,245.
- Student headcount enrollment for the Fall 2005 semester increased 2.6% to 17,339. Undergraduate enrollment was 13,448 (77.6%) and graduate enrollment was 3,891 (22.4%).

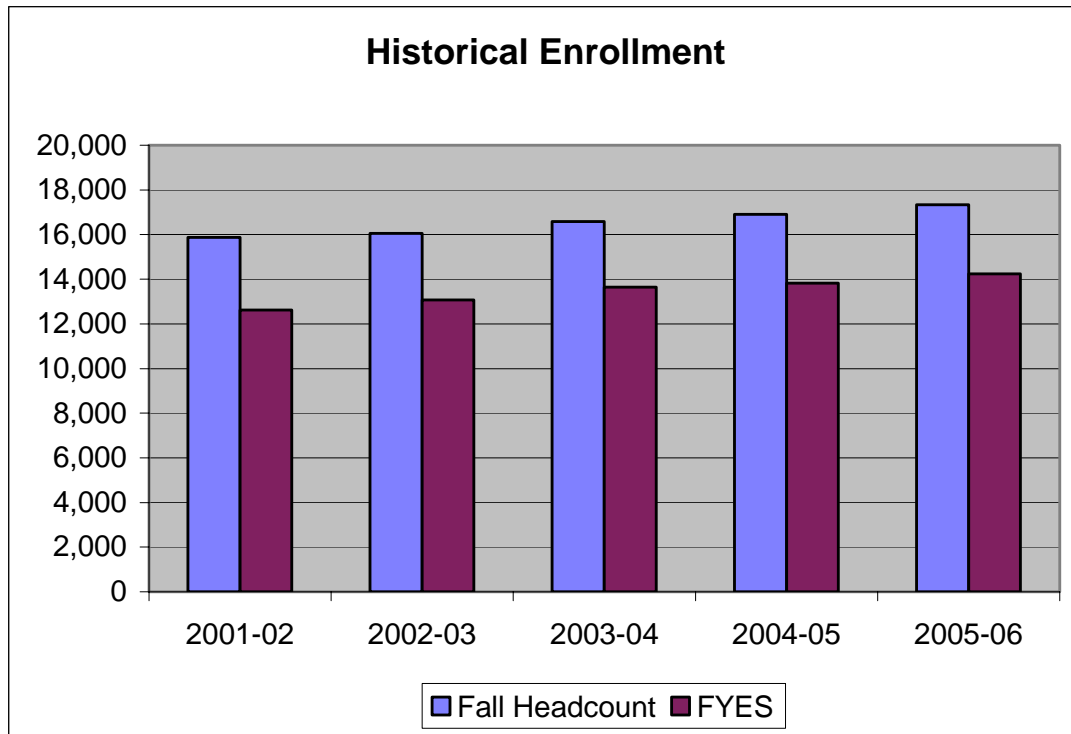
# Oakland University

## Management's Discussion and Analysis

### June 30, 2006 and 2005

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



- All mandatory fees (general services, recreation center, student activity, and course) paid by students were eliminated beginning with the Winter 2006 semester.
- Agreements were signed with several energy specialists to upgrade campus infrastructure resulting in mechanical, electrical and architectural enhancements throughout campus. The projects will span over the next two years with an estimated cost of over \$18 million.
- The State's first concurrent enrollment program, "Macomb at Oakland", began accepting applications for the Fall 2006 semester.
- Renovation of thirteen classrooms on the first floor of South Foundation Hall was completed. The classrooms have been modernized and equipped with enhanced technology amenities. Each classroom has been upgraded to a level III technology classroom.
- Work continues on a \$7 million project to repair and restore Meadow Brook Hall. The project is funded by a gift from the Matilda R. Wilson Fund. Meadow Brook Hall is the fourth largest historic house museum in the United States. Matilda and Alfred Wilson donated their 1500-acre Meadow Brook estate, including the Hall, in 1957 to establish Oakland University.
- The newly renovated Vandenberg Hall dining center opened in Fall 2005, upon the completion of a \$1.3 million construction project. The renovated dining center provides late-evening dining, numerous seating configurations and styles, areas to accommodate groups and a more aesthetically pleasing food service environment.

# Oakland University

## Management's Discussion and Analysis

### June 30, 2006 and 2005

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#### Overview of the Financial Statements

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

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

The University's financial statements can be found on pages 15, 17, and 19 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 20-36 of this financial report.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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**University Financial Statement Summaries**

*University Statements of Net Assets*

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

<b>Condensed Statements of Net Assets</b> <i>(in thousands)</i>	<b>June 30,</b>		<b>Change</b>
	<b>2006</b>	<b>2005</b>	
<b>Assets</b>			
Current assets	\$ 55,960	\$ 47,712	17%
Capital assets	234,205	231,536	1%
Other noncurrent assets	110,408	77,361	43%
Total assets	400,573	356,609	12%
<b>Liabilities</b>			
Current liabilities	27,897	24,546	14%
Noncurrent liabilities	110,051	89,231	23%
Total liabilities	137,948	113,777	21%
<b>Net assets</b>			
Invested in capital assets, net of related debt	144,713	143,751	1%
Restricted nonexpendable	11,637	5,287	120%
Restricted expendable	27,466	26,030	6%
Unrestricted	78,809	67,764	16%
Total net assets	\$ 262,625	\$ 242,832	8%

The University's total assets were \$401 million and \$357 million at June 30, 2006 and 2005, respectively. Included in the University's total assets for fiscal 2006 is \$13.7 million which was transferred from the Foundation. Current assets consist primarily of cash and cash equivalents, and receivables due within one year.

The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment and construction in progress. Capital assets represent 58% and 65% of the University's total assets at June 30, 2006 and 2005, respectively. Capital expenditures totaled \$14.4 million in 2006 and \$6.9 million in 2005. Included in capital expenditures for 2006 was \$3.4 million for the Meadow Brook Hall renovation project along with \$2.6 million for the University's energy services projects. Depreciation expense was \$12 million in 2006 and 2005.

Other non-current assets consist primarily of endowment and other long-term investments. Endowment investments were \$32.3 million at June 30, 2006 and \$18.8 million at June 30, 2005. The increase in the endowment was primarily from the transfer of \$12.6 million from the Foundation's assets to the University. The total return on the University's endowment investments was 8.3% for 2006 and 9.5% for 2005. Distributions were paid to endowment beneficiary funds at the rate of 4.5% in 2006 and 2005. Other long-term investments were \$74.0 million at June 30, 2006 and \$54.4 million at June 30, 2005 and include intermediate-term fixed income and equity securities. The total return on the University's other long-term investments was 3.8% for 2006 and 3.6% for 2005. The increase in other long-term investments during 2006 resulted primarily from investing proceeds from the 2005 general revenue note. See "Statements of Cash Flows" section of this report for additional detail.

# Oakland University

## Management's Discussion and Analysis

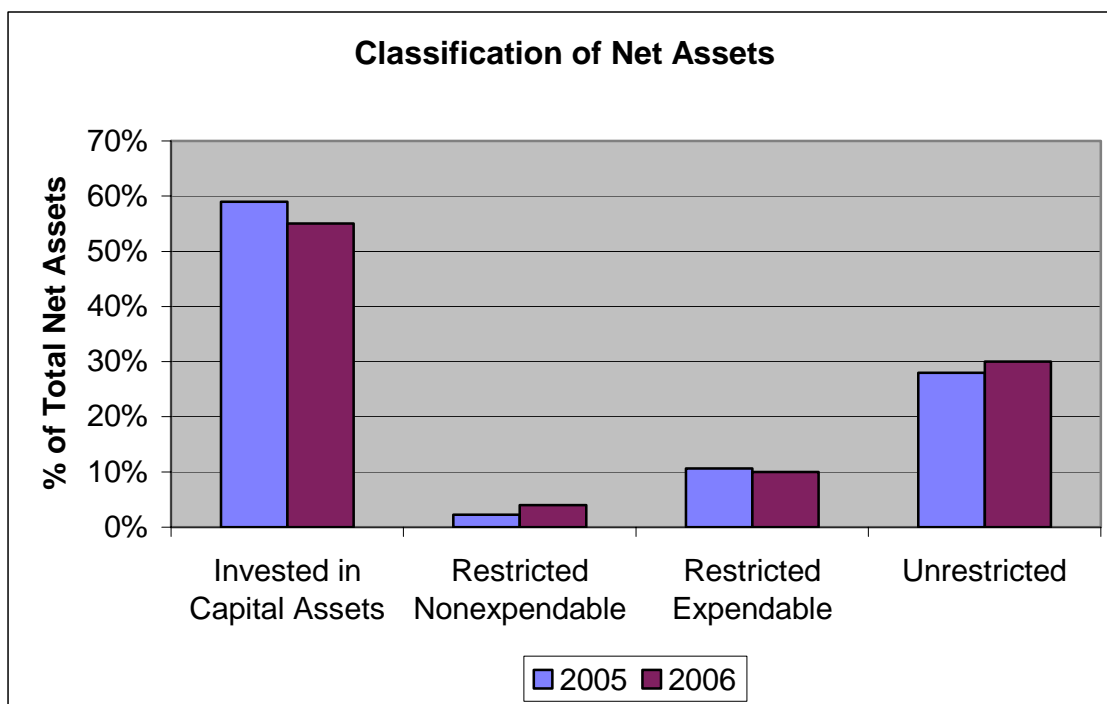
### June 30, 2006 and 2005

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The University's total liabilities were \$138 million at June 30, 2006 and \$114 million at June 30, 2005. Non-current liabilities are comprised primarily of bonds and notes payable and represented 80% and 78% of the University's total liabilities at June 30, 2006 and 2005, respectively. The liability increase was primarily from two transactions; 1) in December 2005, the University entered into a general revenue note payable over 264 months in the amount of \$18.3 million to finance Phase II of its Energy Saving Agreement projects, and 2) the transfer to the University of the Foundation's 1998 Loan Agreement, proceeds from which were used to finance the University's golf course project, in the amount of \$4.6 million.

Current liabilities consist primarily of accounts payable, accrued expenses, and deferred revenue. The \$3.4 million increase in current liabilities relates primarily to the increase in year-end payroll accruals and construction project accounts payable from year to year.

The following graph shows net assets by classification and restriction:



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

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



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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The following summarizes the internal designations of unrestricted net assets:

<i>(in thousands)</i>	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
Auxiliary enterprises	\$ 2,843	\$ 3,513
Capital projects and repair reserves	17,455	18,744
Funds designated for departmental use	18,777	13,493
Funds functioning as endowments	10,925	7,207
Institutional reserves	17,840	16,469
Retirement and insurance reserves	6,631	5,230
Other unrestricted	4,338	3,108
	<u>\$ 78,809</u>	<u>\$ 67,764</u>

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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

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

<b>Condensed Statements of Revenues, Expenses and Changes in Net Assets</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>% Change 2006-2005</b>	<b>% Change 2005-2004</b>
<i>(in thousands)</i>					
<b>Operating revenues</b>					
Net tuition and fees	\$ 89,641	\$ 78,897	\$ 75,682	14%	4%
Grants and contracts	14,953	14,981	16,149	0%	-7%
Auxiliary activities	18,833	19,439	19,191	-3%	1%
Departmental activities	6,751	6,583	5,556	3%	18%
Other	459	365	338	26%	8%
Total operating revenues	<u>130,637</u>	<u>120,265</u>	<u>116,916</u>	9%	3%
Operating expenses	<u>176,665</u>	<u>162,978</u>	<u>159,389</u>	8%	2%
Operating loss	(46,028)	(42,713)	(42,473)	8%	1%
<b>Nonoperating revenues (expenses)</b>					
State appropriations	51,531	48,734	46,634	6%	5%
Gifts	4,253	4,745	3,875	-10%	22%
Investment income	5,410	4,589	4,962	18%	-8%
Interest expense	(4,491)	(4,222)	(4,300)	6%	-2%
Distributed to annuity and life income fund beneficiaries	<u>(39)</u>	<u>-</u>	<u>-</u>	100%	0%
Net nonoperating revenues	<u>56,664</u>	<u>53,846</u>	<u>51,171</u>	5%	5%
Income (loss) before other revenues	10,636	11,133	8,698	-4%	28%
Capital appropriations	-	319	696	-100%	-54%
Capital grants and gifts	333	358	6,415	-7%	-94%
Additions to permanent endowments	170	69	41	146%	68%
Transfer to Meadow Brook Theatre Ensemble	-	-	(55)	0%	(1)
Consolidation of Oakland University Foudnation	<u>8,654</u>	<u>-</u>	<u>-</u>		
Total other revenues	<u>9,157</u>	<u>746</u>	<u>7,097</u>	1127%	-89%
Increase in net assets	19,793	11,879	15,795	67%	-25%
<b>Net assets</b>					
Beginning of year	<u>242,832</u>	<u>230,953</u>	<u>215,158</u>	5%	7%
End of year	<u>\$ 262,625</u>	<u>\$ 242,832</u>	<u>\$ 230,953</u>	8%	5%

The University's operating revenues were \$131 million in 2006, \$120 million in 2005 and \$117 million in 2004. The 9% increase in 2006 over 2005 was primarily due to increases in tuition and fee revenue, net of scholarship allowances which was higher due to FYES enrollment increasing by 3% and, effective Fall 2005 semester, tuition and fee rates increasing by 9.53% for undergraduates and 9.72% for graduates. Effective Winter 2006 semester, the University implemented a major restructuring of its tuition and fee rates. The restructuring eliminated all mandatory student fees (general services, recreation center, student activity, and course) with a corresponding increase in tuition only rates; 2.6% undergraduates and 6.0% graduates. The restructuring also included an offsetting 6.7% increase in financial aid expenditures, resulting in a net cost reduction for students of \$41 on a per FYES basis. The 3% increase in operating

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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revenues in 2005 over 2004 was also primarily due to increased enrollment of 1.4% and tuition and fee increases of 2.4% undergraduate and 3.4% graduate.

Auxiliary activity revenues decreased 3% in 2006 compared to 2005. During 2006 mandatory student fees, including the recreation center fee, were eliminated and included in tuition resulting in a reduction in auxiliary activity revenues. Excluding the impact from the elimination of the recreation center fee, auxiliary activity revenue increased 4.6% in 2006 which was primarily due to higher enrollment.

Operating expenses were \$177 million in 2006, \$163 million in 2005 and \$159 million in 2004. Operating expense increases of 8% in 2006 over 2005 resulted from several growing program initiatives, contractual agreements and increases in healthcare and utility costs. Operating expenses increased a modest 2% in 2005 compared with 2004 reflecting budget containment efforts.

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

**University Operating Expenses**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>% Change 2006-2005</b>	<b>% Change 2005-2004</b>
<b>Education and general</b>					
Instruction	\$ 72,161	\$ 66,921	\$ 64,280	8%	4%
Research	6,743	6,738	6,587	0%	2%
Public service	1,542	1,192	927	29%	29%
Academic support	11,619	10,623	9,911	9%	7%
Student services	12,650	11,416	11,134	11%	3%
Institutional support	20,422	19,251	18,494	6%	4%
Operation and maintenance of plant	13,327	11,624	12,269	15%	-5%
Depreciation	11,773	11,994	11,986	-2%	-
Student aid	6,539	4,806	4,907	36%	-2%
Total education and general	<u>156,776</u>	<u>144,565</u>	<u>140,495</u>	8%	3%
<b>Auxiliary activities</b>	19,852	18,390	18,889	8%	-3%
<b>Other expenses</b>	37	23	5	61%	360%
Total operating expenses	<u>\$ 176,665</u>	<u>\$ 162,978</u>	<u>\$ 159,389</u>	8%	2%

Education and general expenses increased 8% in 2006 over 2005 and 3% in 2005 over 2004. The increase in 2006 is mainly attributable to an increase in academic program offerings to meet the needs of the higher enrollment and contractual agreements.

The University's operating loss was \$46.0 million in 2006, \$42.7 million in 2005 and \$42.5 million in 2004. Offsetting these losses were net nonoperating revenues of \$56.7 million in 2006, \$53.8 million in 2005 and \$51.1 million in 2004.

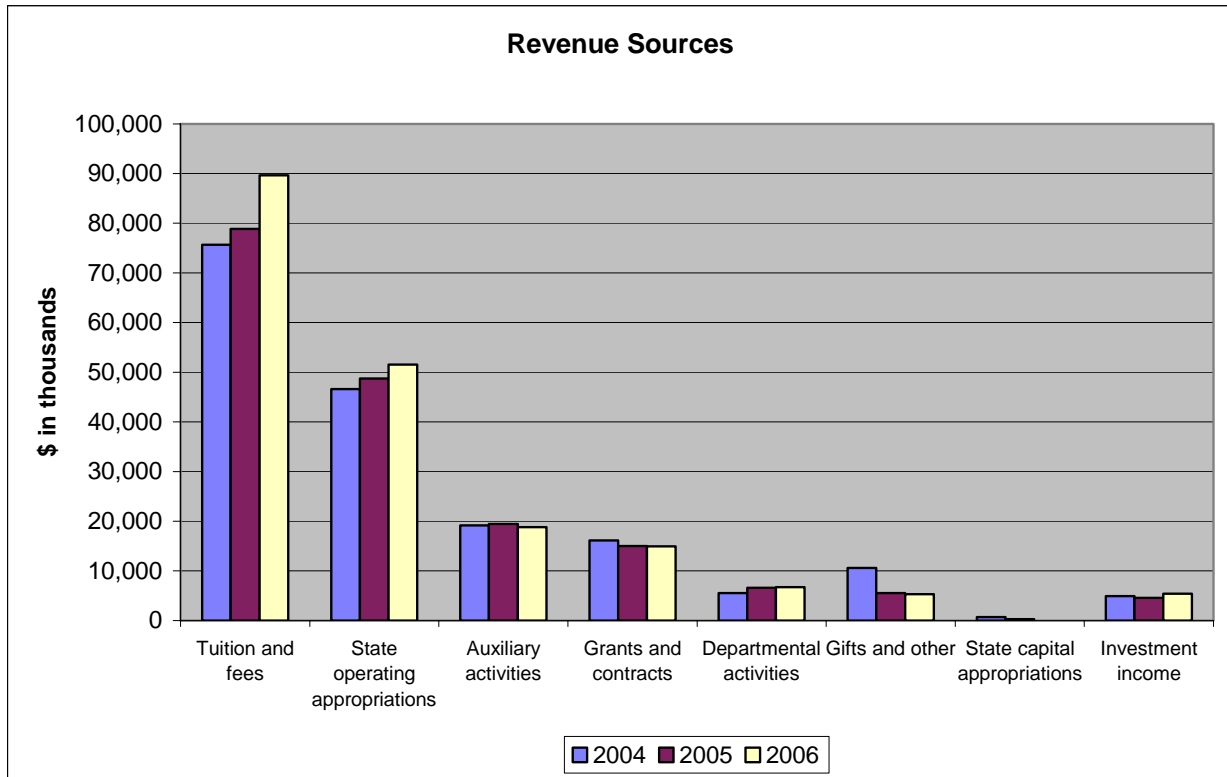
Total enacted base State appropriations, as reflected in the State's approved appropriation bills, were \$50.7 million in 2006, \$48.1 million in 2005, \$49.1 million in 2004. Comparatively, the actual revenue received was \$51.5 million in 2006, \$48.7 million in 2005, and \$46.6 million in 2004. Over the three fiscal years, due to mid-year appropriation reductions, the University has received \$1.1 million less than the enacted amounts.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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Other revenues were \$9.2 million in 2006, \$0.7 million in 2005 and \$7.1 million in 2004. Included in other revenues in 2006 is the transfer of net assets from the Foundation of \$8.7 million. Included in other revenues in 2004 is the \$7 million pledge from the Matilda R. Wilson Fund to help restore Meadow Brook Hall. The pledge has been recorded at its discounted present value.

A graphic illustration of each revenue source is as follows:



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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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**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Cash provided (used) by</b>			
Operating activities	\$ (33,462)	\$ (28,682)	\$ (29,959)
Noncapital financing activities	54,186	53,897	51,491
Capital financing activities	595	(12,013)	(17,327)
Investing activities	<u>(15,366)</u>	<u>(16,951)</u>	<u>1,245</u>
Net increase (decrease) in cash	5,953	(3,749)	5,450
<b>Cash and cash equivalents</b>			
Beginning of year	<u>28,553</u>	<u>32,302</u>	<u>26,852</u>
End of year	<u>\$ 34,506</u>	<u>\$ 28,553</u>	<u>\$ 32,302</u>

The primary cash receipts from operating activities consist of tuition and fees, auxiliary activities, and grant and contracts revenues. Cash disbursements include salaries and wages, benefits, supplies, utilities and scholarships. The overall decrease in net cash used by operations reflects the increase in tuition and fee revenue together with the timing of payments to suppliers and employees from year to year.

State appropriations are the primary source of noncapital financing. Noncapital State appropriation cash receipts were \$50 million in 2006 and \$49 million in 2005.

Capital financing activities for 2006 include the issuance of \$18.3 million of a note payable to finance infrastructure upgrades and improvements. Capital financing activities for 2006 also includes capital expenditures of \$13.8 million and debt service payments of \$7.4 million. Capital financing activities for 2005 includes the issuance of \$31.8 million of general revenue refunding bonds. As indicated above, the proceeds were used to refund series 1995 general revenue bonds totaling \$31.3 million. Capital financing activities for 2005 also include capital expenditures of \$6.4 million and debt service and refinancing payments of \$38.9 million.

Cash used in investing activities during 2006 relates to investment purchases in excess of sales, maturities and investment income. The University's other long-term investments increased by \$19.7 million during the year, primarily from the investment of proceeds from the 2005 general revenue note payable. Cash and cash equivalents increased by \$6.0 million due to operations. Cash from investing activities in 2005 includes investment income and proceeds from sales of investments.

**Commitments**

The estimated costs to complete construction projects in progress is \$21.5 million as of June 30, 2006. These projects have been funded from private gifts, proceeds from general revenue notes and other University funds.

# **Oakland University**

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

### **June 30, 2006 and 2005**

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#### **University Credit Rating**

In connection with its September 2004 issuance of refunding bonds, Oakland University's underlying credit rating by Moody's Investors Service was reaffirmed at A2. All of the University's bonded debt is also fully insured, enhancing its credit ratings on its debt issues.

#### **Deferred Maintenance**

The University surveys its deferred maintenance annually adding new items and deleting ones that were addressed during the year. Each year, general revenue funds are allocated to address deferred maintenance items. In addition, the University has established a quasi endowment that provides investment earnings that are also used to address deferred maintenance 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
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates

#### **The Oakland University Foundation**

The following discussion and analysis pertains to the Oakland University Foundation, a component unit of Oakland University.

#### **Overview of the Financial Statements**

The fundamental objective of the Foundation financial statements is to provide an overview of assets held in support of Oakland University. The various statements (prepared on an accrual basis) and their primary purpose are described below.

- Statement of Net Assets. This statement presents information on all Foundation assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year.
- Statement of Changes in Net Assets. This statement presents a summary of additions and deductions to net assets and the change in the Foundation's net assets for the year.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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**Foundation Financial Statement Summaries**

*Foundation Statements of Net Assets*

The Foundation's net assets are presented in the following Statements of Net Assets:

	2006	2005	Change
<b>Assets</b>			
Cash and cash equivalents	\$ 2,781	\$ 280,100	(99)%
Pledges receivable, net	-	1,636,562	(100)%
Endowment investments	299,249	11,871,464	(97)%
Other investments	-	636,754	(100)%
Other assets	-	691,561	(100)%
Total assets	302,030	15,116,441	(98)%
<b>Liabilities</b>			
Due to Oakland University	-	19,704	(100)%
Bonds payable	-	4,600,000	(100)%
Other liabilities	63,254	476,812	(87)%
Total liabilities	63,254	5,096,516	(99)%
<b>Net assets</b>			
Restricted nonexpendable	184,817	6,254,779	(97)%
Restricted expendable	51,178	2,876,604	(98)%
Unrestricted	2,781	888,542	(100)%
Total net assets	\$ 238,776	\$ 10,019,925	(98)%

As a result of the agreement between the University Board of Trustees and the Foundation Board of Directors, substantially all of the Foundation's assets and liabilities (\$8.7 million, net) have been transferred to the University. The assets remaining are endowments and a charitable gift annuity. The liability remaining is the annuity payable. Under the terms of the gift annuity agreement between the donor and the Foundation, the Foundation is obligated to pay a fixed sum of money for the duration of the donors' life from annuity funds contributed by the donor and held by the Foundation.

The Foundation's net assets consist primarily of restricted nonexpendable net assets and restricted expendable net assets. Restricted nonexpendable net assets are gifts that have been received for endowment purposes. Restricted expendable net assets represent assets whose use is restricted by a party independent of the Foundation.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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*Foundation Statements of Changes in Net Assets*

The Foundation's additions, deductions and changes in net assets are summarized in the following Condensed Statements of Changes in Net Assets:

	2006	2005	2004	% Change 2006-2005	% Change 2005-2004
<b>Additions</b>					
Gifts and other income	\$ 69,035	\$ 2,295,961	\$ 1,912,517	(97)%	20 %
Investment income	905,893	847,063	1,573,772	7 %	(46)%
Total additions	974,928	3,143,024	3,486,289	(69)%	(10)%
<b>Deductions</b>					
General support to Oakland University	-	411,509	694,841	(100)%	(41)%
Transfers to Oakland University	423,770	1,238,532	776,524	(66)%	59 %
Other expenses	302,175	353,298	337,793	(14)%	5 %
Uncollectible pledge write-off, net	1,376,464				
Transfer of net assets to Oakland University	8,653,668				
Total deductions	10,756,077	2,003,339	1,809,158	437 %	11 %
Change in net assets	(9,781,149)	1,139,685	1,677,131	(958)%	(32)%
<b>Net assets</b>					
Beginning of year	10,019,925	8,880,240	7,203,109	13 %	23 %
End of year	\$ 238,776	\$ 10,019,925	\$ 8,880,240	(98)%	13 %

Gifts and other income represent primarily pledges of gifts and cash gifts made to the Foundation. Investment income primarily represents realized and unrealized gains in endowment and other investments. General support activities include expenses to support the development program of the University as approved by the Foundation Board of Directors. Uncollectible pledge write-offs, net, represents the write-off of uncollectible pledges as a part of the transition agreement between the University and Foundation.

Transfers to Oakland University represent gifts received by the Foundation that were restricted for specific University purposes and unrestricted gifts received by the Foundation that were transferred to the University at the discretion of the Foundation Board of Directors. Other expenses include operating expenses of the Foundation, such as supplies and services, debt service, interest expense, and distribution to annuity and life income fund beneficiaries.

Fiscal 2006 additions and deductions represent transactions during the period prior to the effective date of the aforementioned agreement between the University and the Foundation.

The Foundation's financial statements can be found on pages 16 and 18 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 notes to the financial statements can be found on pages 36-39 of this financial report.



**Oakland University**  
**Statements of Net Assets**  
**June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 34,506,390	\$ 28,552,902
Accounts receivable, net (Note 3)	7,017,862	4,953,034
Appropriation receivable (Note 4)	9,415,201	7,901,763
Pledges receivable, net (Note 5)	3,643,340	5,216,172
Inventories	251,693	315,592
Deposits and prepaid expenses	608,340	358,486
Student loans receivable, net (Note 6)	516,755	413,927
Total current assets	<u>55,959,581</u>	<u>47,711,876</u>
Noncurrent assets		
Endowment investments (Note 2)	32,299,356	18,755,874
Other long-term investments (Note 2)	74,014,529	54,359,153
Pledges receivable, net (Note 5)	432,333	1,458,788
Student loans receivable, net (Note 6)	1,829,664	1,654,720
Capital assets, net (Notes 7 and 8)	234,204,658	231,536,007
Other assets (Note 9)	1,832,875	1,132,694
Total noncurrent assets	<u>344,613,415</u>	<u>308,897,236</u>
Total assets	<u>\$ 400,572,996</u>	<u>\$ 356,609,112</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,310,852	\$ 4,403,263
Accrued payroll	8,402,718	7,822,905
Long-term liabilities - current portion (Note 10)	5,828,413	5,578,356
Deferred revenue and student fees	6,276,681	5,299,267
Deposits	2,078,237	1,442,983
Total current liabilities	<u>27,896,901</u>	<u>24,546,774</u>
Noncurrent liabilities		
Deferred revenue	1,936,219	1,274,471
Long-term liabilities (Note 10)	108,114,721	87,956,228
Total noncurrent liabilities	<u>110,050,940</u>	<u>89,230,699</u>
Total liabilities	<u>137,947,841</u>	<u>113,777,473</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	144,713,038	143,750,727
Restricted nonexpendable	11,636,843	5,287,607
Restricted expendable	27,465,874	26,029,609
Unrestricted	78,809,400	67,763,696
Total net assets	<u>\$ 262,625,155</u>	<u>\$ 242,831,639</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Net Assets of the Oakland University Foundation**  
**(Component Unit)**  
**June 30, 2006 and 2005**

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	2006	2005
<b>Assets</b>		
Cash and cash equivalents on deposit at		
Oakland University	\$ 2,781	\$ 280,100
Prepaid expenses	-	8,115
Pledges receivable, net (Note 18)	-	1,636,562
Investments (Note 19)	299,249	12,508,218
Cash surrender value of insurance policies (Note 20)	-	683,446
Total assets	<u>302,030</u>	<u>15,116,441</u>
<b>Liabilities</b>		
Due to Oakland University	-	19,704
Accounts payable	-	1,017
Bonds payable (Note 21)	-	4,600,000
Annuities payable (Note 22)	63,254	475,795
Total liabilities	<u>63,254</u>	<u>5,096,516</u>
<b>Net assets</b>		
Restricted nonexpendable	184,817	6,254,779
Restricted expendable	51,178	2,876,604
Unrestricted	2,781	888,542
Total net assets	<u>\$ 238,776</u>	<u>\$ 10,019,925</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2006 and 2005**

	2006	2005
<b>Operating revenues</b>		
Tuition and fees (net of scholarship allowances of \$8,511,270 in 2006 and \$7,556,837 in 2005 )	\$ 89,640,568	\$ 78,896,982
Federal grants and contracts	13,256,326	13,150,923
State, local and private grants and contracts	1,697,055	1,830,546
Departmental activities	6,750,978	6,582,952
Auxiliary activities (net of scholarship allowances of \$821,786 in 2006 and \$768,798 in 2005 )	18,833,214	19,438,910
Other operating revenues	458,462	365,115
Total operating revenues	<u>130,636,603</u>	<u>120,265,428</u>
<b>Operating expenses</b>		
Education and general		
Instruction	72,161,331	66,920,789
Research	6,742,764	6,738,080
Public service	1,541,925	1,191,740
Academic support	11,619,077	10,622,707
Student services	12,649,824	11,416,514
Institutional support	20,422,482	19,251,267
Operations and maintenance of plant	13,327,115	11,624,025
Depreciation	11,772,605	11,993,725
Student aid	6,538,820	4,805,874
Auxiliary activities	19,852,346	18,390,375
Other expenses	36,446	23,057
Total operating expenses (Note 11)	<u>176,664,735</u>	<u>162,978,153</u>
Operating loss	<u>(46,028,132)</u>	<u>(42,712,725)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations (Note 4)	51,530,500	48,733,901
Gifts	4,253,181	4,745,251
Investment income (net of investment expenses of \$239,203 in 2006 and \$184,311 in 2005)	5,410,306	4,589,263
Distributions to annuity and life income fund beneficiaries	(39,158)	-
Interest on capital asset related debt	(4,490,713)	(4,222,114)
Net nonoperating revenues	<u>56,664,116</u>	<u>53,846,301</u>
Income (loss) before other revenues	10,635,984	11,133,576
Capital appropriations	-	317,754
Capital grants and gifts	333,517	357,569
Additions to permanent endowments	170,347	69,393
Transfer of net assets from the Oakland University Foundation (Note 16)	8,653,668	-
Total other revenues	<u>9,157,532</u>	<u>744,716</u>
Increase in net assets	19,793,516	11,878,292
<b>Net assets</b>		
Beginning of year	<u>242,831,639</u>	<u>230,953,347</u>
End of year	<u>\$ 262,625,155</u>	<u>\$ 242,831,639</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Changes in Net Assets of the**  
**Oakland University Foundation**  
**(Component Unit)**  
**Year Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Additions</b>		
Gifts and other income	\$ 69,035	\$ 2,295,961
Investment income, less investment expense of \$8,793 in 2006 and \$10,929 in 2005	905,893	847,063
Total additions	<u>974,928</u>	<u>3,143,024</u>
<b>Deductions</b>		
General support to Oakland University	-	411,509
Transfers to Oakland University, gifts	423,770	1,238,532
Supplies, services and other	161,967	181,533
Interest expense	84,339	81,831
Distributions to annuity and life income fund beneficiaries	55,869	89,934
Uncollectible pledge write-offs, net	1,376,464	-
Transfer of net assets to Oakland University (Note 16)	8,653,668	-
Total deductions	<u>10,756,077</u>	<u>2,003,339</u>
Change in net assets	(9,781,149)	1,139,685
<b>Net assets</b>		
Beginning of year	<u>10,019,925</u>	<u>8,880,240</u>
End of year	<u>\$ 238,776</u>	<u>\$ 10,019,925</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Cash Flows**  
**Year Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 88,081,629	\$ 79,217,279
Grants and contracts	15,402,194	15,692,429
Payments to suppliers	(38,133,179)	(32,290,330)
Payments to employees	(119,121,334)	(112,538,517)
Payments for scholarships and fellowships	(6,538,820)	(4,805,874)
Loans issued to students	(828,675)	(475,005)
Collection of loans from students	530,838	526,045
Auxiliary enterprise charges	18,699,217	19,045,300
Other receipts	8,446,430	6,946,813
Net cash used by operating activities (Note 12)	<u>(33,461,700)</u>	<u>(28,681,860)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	50,017,062	49,143,610
Federal direct lending receipts	43,699,923	39,300,122
Federal direct lending disbursements	(43,699,923)	(39,300,122)
Gifts and grants for other than capital purposes	3,939,819	4,683,941
Endowment gifts	170,347	69,393
Transfer from the Oakland University Foundation	59,433	-
Net cash provided by noncapital financing activities	<u>54,186,661</u>	<u>53,896,944</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from capital debt	18,253,776	32,192,282
Capital appropriations	-	385,015
Capital grants, gifts and other payments	3,579,828	659,873
Purchases of capital assets	(13,832,906)	(6,382,706)
Principal paid on capital debt and leases	(3,114,779)	(34,897,251)
Interest paid on capital debt and leases	(4,290,916)	(3,970,169)
Net cash provided (used) by capital financing activities	<u>595,003</u>	<u>(12,012,956)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	36,932,558	11,478,420
Investment income	3,876,132	2,156,488
Purchase of investments	(56,175,166)	(30,586,462)
Net cash provided (used) by investing activities	<u>(15,366,476)</u>	<u>(16,951,554)</u>
Net increase (decrease) in cash and cash equivalents	5,953,488	(3,749,426)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>28,552,902</u>	<u>32,302,328</u>
End of year	<u>\$ 34,506,390</u>	<u>\$ 28,552,902</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**1. Significant Accounting Policies**

**Organization**

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

The University follows the “business-type” activities requirements of GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, which provides that the following sections be included in the University’s annual financial report:

- Management’s discussion and analysis
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the University
- Notes to the financial statements

The Oakland University Foundation (Foundation) was incorporated to encourage, promote and support Oakland University. Effective July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14* (GASB 39). Pursuant to GASB 39, the Foundation is reported in these financial statements as a component unit of the University and its footnote information is included on pages 36-40.

In addition, see Footnote 16 for details of Related Party Transactions between the University and the Foundation.

**Basis of Accounting**

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB pronouncements issued after November 30, 1989.

In the year ended June 30, 2005, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which establishes more comprehensive disclosure requirements regarding risks of deposits and investments. Implementation of this statement in 2005 had no effect on the University’s net assets.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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The University has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, and GASB Statement No. 47, *Accounting for Termination Benefits* as of the fiscal year ended June 30, 2006 with no net effect on the current financial statements.

Operating revenues of the University consist of tuition and fees, grants and contracts, departmental activities, auxiliary activities and other miscellaneous revenues. Transactions related to capital financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating income. When an expense is incurred for which both restricted and unrestricted net assets are available, the University applies the restricted or unrestricted resources at its discretion.

**Cash Equivalents**

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

**Investments**

Investments are stated at fair market value. Total return includes ordinary income as well as realized and unrealized gains and losses.

**Inventories**

Inventories are stated at the lower of average cost or market.

**Physical Properties**

Physical properties are stated at cost or, when donated, at fair market value at the date of gift. A capitalization threshold of \$2,500 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred.

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

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

**Revenue Recognition**

Revenues related to the Summer session have been deferred to the subsequent fiscal year in which the session is predominantly conducted.

Operating revenues represent revenue earned from exchange transactions. The University's nonoperating revenues include State appropriations, gifts, investment income, and capital appropriations. Gifts are recognized at the later of the date pledged or when the eligibility requirements of the gifts are met.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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Funds are appropriated to the University for operations by the State of Michigan covering the State's fiscal year, October 1 through September 30. The sums appropriated, however, were for the University's fiscal year ending June 30 and are paid in eleven monthly installments from October through August. Therefore, the July and August payments are recorded as part of appropriations receivable.

Revenues are reported net of discounts and allowances.

**Income Tax Status**

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

**Reclassifications**

Certain fiscal year 2005 balances have been reclassified to conform with the current year presentation.

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

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. These investments are administered according to the Oakland University Board of Trustees' "Pooled Cash Investment Policy". The policy requires that no short-term investment may have a maturity greater than one year and no more than ten percent of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of fifteen years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolio at June 30, 2006 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire University portfolio.

At June 30, 2006 and 2005 operating cash was invested in a short-term mutual fund, a pooled intermediate-fixed fund and a pooled equity fund in the following market value amounts. These investments are displayed by category according to their respective duration to describe the level of interest rate risk in this portfolio. This is the risk in a fixed income portfolio that a change in interest rates can affect the market value of the portfolio.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

University pooled cash consists of the following as of June 30, 2006 and 2005:

<b>June 30, 2006</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>University Pooled Cash</b>					
Dreyfus Money Market Mutual Fund	\$ 33,427,855	\$ 33,427,855	\$ -	\$ -	\$ -
Munder Bond Fund					
Government Securities	24,074,175	4,264,412	18,583,574	1,226,189	-
Corporate Bonds, Notes	10,803,697	1,311,352	9,441,732	50,613	-
Asset-Backed and Cash	10,715,379	5,798,527	4,916,852	-	-
Munder Treasuries	13,531,589	13,531,589	-	-	-
Munder Equity Fund					
Equities	10,244,432	-	-	-	10,244,432
Mutual Funds	1,789,308	-	-	-	1,789,308
Asset-Backed and Cash	294,632	294,632	-	-	-
Operating cash investments	104,881,067	58,628,367	32,942,158	1,276,802	12,033,740
Net cash overdraft	(1,150,862)	(1,150,862)	-	-	-
	<u>\$ 103,730,205</u>	<u>\$ 57,477,505</u>	<u>\$ 32,942,158</u>	<u>\$ 1,276,802</u>	<u>\$ 12,033,740</u>
OU Cash and Cash Equivalents	\$ 34,506,390				
OUF Cash and Cash Equivalents	2,781				
Other Long-Term Investments	74,014,529				
Invested In Endowments	(4,793,495)				
	<u>\$ 103,730,205</u>				
<b>June 30, 2005</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>University Pooled Cash</b>					
Dreyfus Money Market Mutual Fund	\$ 28,721,184	\$ 28,721,184	\$ -	\$ -	\$ -
Munder Bond Fund					
Government Securities	26,458,167	4,436,100	18,496,952	3,525,115	-
Corporate Bonds, Notes	8,634,552	673,337	6,812,582	1,148,633	-
Asset-Backed and Cash	4,515,316	2,138,834	2,376,482	-	-
Munder Treasuries	-	-	-	-	-
Munder Equity Fund					
Equities	9,161,645	-	-	-	9,161,645
Mutual Funds	1,581,410	-	-	-	1,581,410
Asset-Backed and Cash	58,440	58,440	-	-	-
Operating cash investments	79,130,714	36,027,895	27,686,016	4,673,748	10,743,055
Net cash overdraft	(493,499)	(493,499)	-	-	-
	<u>\$ 78,637,215</u>	<u>\$ 35,534,396</u>	<u>\$ 27,686,016</u>	<u>\$ 4,673,748</u>	<u>\$ 10,743,055</u>
OU Cash and Cash Equivalents	\$ 28,552,902				
OUF Cash and Cash Equivalents	280,100				
Other Long-Term Investments	54,359,153				
Investment in Endowments	(4,554,940)				
	<u>\$ 78,637,215</u>				

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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The University is exposed to foreign currency risk included within the investment balance. The current investments that are subject to foreign currency risk consist of the Munder Funds in the amount of \$1,336,625 as of June 30, 2006.

These investments produced net rates of return of 3.8% and 3.6% for the years ended June 30, 2006 and 2005, respectively.

The Endowment, consisting of the Commonfund investment funds is administered according to the University Board of Trustees' "Investment Policy for Endowments" and is invested in two broadly diversified mutual funds, equity index, equities and bonds. While there is no policy restriction with regard to concentration of credit risk, the two mutual funds do follow their own limiting guidelines. The Investment Policy for Endowments restricts debt investment to "high quality" that of "A" to "AAA" rated corporate bonds, U.S. Treasury and agency securities or issues of supranational organizations and foreign sovereigns.

These investment funds are uninsured and uncollateralized and produced a total net return of 8.3% and 9.5% for the years ended June 30, 2006 and 2005, respectively.

University pooled investment funds consist of the following as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
<b>University Pooled Investment Funds</b>		
Commonfund Multi-Strategy Equity Fund	\$ 17,112,296	\$ 16,747,223
Commonfund Equity Index Fund	12,256,061	-
Commonfund Multi-Strategy Bond Fund	7,179,673	6,430,591
Pooled investment funds	<u>36,548,030</u>	<u>23,177,814</u>
Other investments	133,000	133,000
	<u>\$ 36,681,030</u>	<u>\$ 23,310,814</u>
World Asset Management Aggregate Bond Index Fund	6,595	-
World Asset Management Large Cap Index Fund	55,963	-
World Asset Management Mid Cap Index Fund	6,713	-
World Asset Management Small Cap Index Fund	3,732	-
Income Fund of America	149,346	-
Vanguard Wellington Fund	113,370	-
Other	76,102	-
	<u>\$ 37,092,851</u>	<u>\$ 23,310,814</u>
Restricted cash and cash equivalents	\$ 32,299,356	\$ 18,755,874
Other long-term investments excluded from pooled cash	4,793,495	4,554,940
	<u>\$ 37,092,851</u>	<u>\$ 23,310,814</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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At June 30, 2006 the Commonfund Multi-Strategy Bond Fund had a weighted average maturity of 7.9 years and an average quality of AA. The weighted average maturity of a fixed income fund such as the Commonfund Multi-Strategy Bond Fund is one measure of the risk that its market value will change with a change in interest rates.

During the year, \$12,968,595 in investments were transferred from the Foundation to the University. This transfer is reflected primarily in the Pooled Investment Funds.

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

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

**3. Accounts Receivable**

Accounts receivable consist of the following as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Tuition and fees	\$ 4,897,141	\$ 3,589,987
Auxiliary enterprises	1,740,522	1,425,313
Contracts and grants	2,080,013	1,463,960
Other receivables	798,825	254,797
Total accounts receivable	<u>9,516,501</u>	<u>6,734,057</u>
Less: Allowance for doubtful accounts	<u>(2,498,639)</u>	<u>(1,781,023)</u>
Total accounts receivable, net	<u>\$ 7,017,862</u>	<u>\$ 4,953,034</u>

**4. Appropriation Receivable**

The annual State operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued as of the end of its fiscal year the payments to be received in July and August. As of June 30, 2006 and 2005, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$9,415,201 and \$7,901,763, respectively.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**5. Pledges Receivable**

Pledges receivable consist of the following as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
<b>Pledges outstanding</b>		
Unrestricted	\$ 192,395	\$ 90,000
Restricted expendable	4,317,125	7,185,965
Total pledges outstanding	<u>4,509,520</u>	<u>7,275,965</u>
Less		
Allowance for doubtful pledges	(349,344)	(160,448)
Present value discount	(84,503)	(440,557)
Total pledges outstanding, net	<u>4,075,673</u>	<u>6,674,960</u>
Less: Current portion	<u>(3,643,340)</u>	<u>(5,216,172)</u>
	<u>\$ 432,333</u>	<u>\$ 1,458,788</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2006 and 2005, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 30% and 23% net of discount at June 30, 2006 and 2005, respectively.

Payments on pledges receivable at June 30, 2006 are expected to be received in the following years ended June 30:

Past Due	\$ 113,525
Due in one year	3,807,667
Due in two-five years	528,328
Thereafter	<u>60,000</u>
Total	<u>\$ 4,509,520</u>

In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2006 and 2005 the University had \$18,812,105 and \$2,191,946, respectively in conditional pledge commitments receivable not included in the accompanying financial statements. The increase in fiscal year 2006 is primarily due to conditional pledges transferred from the Foundation totaling \$16,164,870 (see Footnotes 16 and 18).

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**6. Student Loans Receivable**

Student loans receivable consist of the following as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
<b>Student loans</b>		
Federal loan programs	\$ 2,585,362	\$ 2,335,196
University loan funds	18,688	19,567
	<u>2,604,050</u>	<u>2,354,763</u>
Less: Allowance for doubtful loans	(257,631)	(286,116)
Total student loans, net	<u>2,346,419</u>	<u>2,068,647</u>
Less: Current portion	(516,755)	(413,927)
	<u>\$ 1,829,664</u>	<u>\$ 1,654,720</u>

In addition, the University distributed \$43,699,923 and \$39,300,122 for the years ended June 30, 2006 and 2005, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

**7. Capital Assets**

The following tables present the changes in the various capital asset categories for Oakland University for fiscal years 2006 and 2005:

<b>Asset Classification</b>	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Reductions/ Transfers</b>	<b>Balance June 30, 2006</b>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	28,124,354	563,800	-	28,688,154
Buildings	270,943,195	3,312,121	-	274,255,316
Equipment	39,940,466	2,566,097	1,205,199	41,301,364
Library acquisitions	23,386,364	748,968	147,404	23,987,928
Construction in progress	1,603,069	7,709,346	454,492	8,857,923
Total	<u>368,322,362</u>	<u>14,900,332</u>	<u>1,807,095</u>	<u>381,415,599</u>
Accumulated depreciation				
Land improvements and infrastructure	(9,709,352)	(1,317,298)	-	(11,026,650)
Buildings	(78,923,075)	(6,432,567)	-	(85,355,642)
Equipment	(30,014,471)	(2,915,317)	(1,126,616)	(31,803,172)
Library and acquisitions (net)	(18,139,457)	(1,033,424)	(147,404)	(19,025,477)
Total	<u>(136,786,355)</u>	<u>(11,698,606)</u>	<u>(1,274,020)</u>	<u>(147,210,941)</u>
Total capital assets (net)	<u>\$231,536,007</u>	<u>\$ 3,201,726</u>	<u>\$ 533,075</u>	<u>\$234,204,658</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

Asset Classification	Balance June 30, 2004	Additions	Reductions/ Transfers	Balance June 30, 2005
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	27,221,912	902,442	-	28,124,354
Buildings	269,594,890	1,348,305	-	270,943,195
Equipment	39,268,559	2,931,013	2,259,106	39,940,466
Library acquisitions	22,673,904	811,180	98,720	23,386,364
Construction in progress	657,804	1,588,009	642,744	1,603,069
Total	<u>363,741,983</u>	<u>7,580,949</u>	<u>3,000,570</u>	<u>368,322,362</u>
Accumulated depreciation				
Land improvements and infrastructure	(8,475,282)	(1,234,070)	-	(9,709,352)
Buildings	(72,484,518)	(6,438,557)	-	(78,923,075)
Equipment	(29,091,808)	(3,091,405)	(2,168,742)	(30,014,471)
Library and acquisitions (net)	(17,079,511)	(1,158,666)	(98,720)	(18,139,457)
Total	<u>(127,131,119)</u>	<u>(11,922,698)</u>	<u>(2,267,462)</u>	<u>(136,786,355)</u>
Total capital assets (net)	<u>\$236,610,864</u>	<u>\$ (4,341,749)</u>	<u>\$ 733,108</u>	<u>\$231,536,007</u>

The Meadow Brook Subdivision, consisting of 55 houses, was originally developed to assist faculty to find housing near the University campus. The land is owned by the University with individual lots leased to University faculty and staff who constructed and own the houses. As of June 30, 2006, the University owns four houses valued at \$906,400. The value of the University owned houses is included in Buildings in the tables above. The value of the land is included in Land in the tables above.

**8. State Building Authority**

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

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

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

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

Included in Other assets are the cash surrender value of life insurance policies in the amount of \$1,045,723 and \$273,564 for 2006 and 2005, respectively. At June 30, 2006 and 2005, the face value of these life insurance policies totaled \$5,385,500 and \$1,055,000, respectively.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

During fiscal year 2006 the Foundation transferred insurance policies to the University which had a cash surrender value of \$765,374 at June 30, 2006, (\$716,905 at the time of transfer) and a face value of \$4,330,500.

**10. Long-Term Liabilities**

Long-term liabilities consist of the following as of June 30, 2006 and 2005:

	Balance June 30, 2005	Additions/ Transfers	Reductions	Balance June 30, 2006	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 2,778,320	\$ 18,253,776	\$ 1,189,779	\$ 19,842,317	\$ 1,224,435
Bonds payable					
General revenue bonds, series 1995	835,000	-	835,000	-	-
General revenue bonds, series 1997	6,555,000	-	1,000,000	5,555,000	1,000,000
Variable rate demand bonds, series 1998 (transfer from the Foundation)	-	4,600,000	-	4,600,000	-
General revenue bonds, series 2001	48,000,000	-	-	48,000,000	-
General revenue refunding bonds, series 2004	31,120,000	-	90,000	31,030,000	980,000
unamortized premium	1,733,891	29,808	241,552	1,522,147	236,697
unamortized deferral on extinguishment	(1,893,203)	(32,547)	(263,746)	(1,662,004)	(258,445)
Total, note, installment agreement and bonds payable	89,129,008	22,851,037	3,092,585	108,887,460	3,182,687
Other liabilities:					
Compensated absences	2,485,325	160,401	-	2,645,726	2,645,726
Annuities payable and other (transfer from the Foundation)	-	475,408	-	475,408	-
Federal portion of Perkins loan program	1,920,251	45,947	31,658	1,934,540	-
Total other liabilities	4,405,576	681,756	31,658	5,055,674	2,645,726
Total long-term liabilities	<u>\$ 93,534,584</u>	<u>\$ 23,532,793</u>	<u>\$ 3,124,243</u>	<u>\$ 113,943,134</u>	<u>\$ 5,828,413</u>
Total long-term liabilities	\$ 93,534,584			\$ 113,943,134	
Current Portion	5,578,356			5,828,413	
Noncurrent Portion	<u>\$ 87,956,228</u>			<u>\$ 108,114,721</u>	

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

	Balance June 30, 2004	Additions/ Transfers	Reductions	Balance June 30, 2005	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 3,488,289	\$ 422,282	\$ 1,132,251	\$ 2,778,320	\$ 1,189,779
Bonds payable					
General revenue bonds, series 1995	32,950,000	-	32,115,000	835,000	835,000
General revenue bonds, series 1997	7,555,000	-	1,000,000	6,555,000	1,000,000
General revenue bonds, series 2001	48,000,000	-	-	48,000,000	-
General revenue refunding bonds, series 2004	-	31,770,000	650,000	31,120,000	90,000
unamortized premium	-	1,966,549	232,658	1,733,891	236,697
unamortized deferral on extinguishment	-	(2,147,239)	(254,036)	(1,893,203)	(258,445)
Total, note, installment agreement and bonds payable	91,993,289	32,011,592	34,875,873	89,129,008	3,093,031
Other liabilities:					
Compensated absences	2,354,480	130,845	-	2,485,325	2,485,325
Federal portion of Perkins loan program	1,948,814	59,102	87,665	1,920,251	-
Total other liabilities	4,303,294	189,947	87,665	4,405,576	2,485,325
Total long-term liabilities	\$ 96,296,583	\$ 32,201,539	\$ 34,963,538	\$ 93,534,584	\$ 5,578,356
Total long-term liabilities	\$ 96,296,583			\$ 93,534,584	
Current Portion	5,248,237			5,578,356	
Noncurrent Portion	\$ 91,048,346			\$ 87,956,228	

**Note and Installment Purchase Agreement Payable**

In March, 2003 the University issued a general revenue note payable in the amount of \$4,819,949 to fund the repayment of its capital lease dated March 18, 1997 and to fund an e-mail system upgrade project. The note has a fixed interest rate of 2.75% per annum, requires monthly payments of \$98,506, and is scheduled to be paid off in July, 2007.

In February, 2005 the University entered into an installment purchase agreement note in the amount of \$422,282 to purchase golf carts. The note has a fixed interest rate of 4.49% per annum, requires monthly payments of \$12,703 during the golf season (May – October) and a balloon payment of \$95,400 due November, 2009.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 1,224,435	\$ 724,762	\$ 1,949,197
2008	471,982	699,310	1,171,292
2009	703,007	675,900	1,378,907
2010	790,626	645,571	1,436,197
2011	684,187	618,500	1,302,687
2012-2016	3,837,087	2,676,350	6,513,437
2017-2021	4,635,136	1,878,296	6,513,432
2022-2026	5,599,166	914,271	6,513,437
2027-2031	1,896,691	57,340	1,954,031
Total	<u>\$19,842,317</u>	<u>\$ 8,890,300</u>	<u>\$28,732,617</u>

**Bonds Payable**

In June 1995, the University issued general revenue bonds in the amount of \$37,000,000 to provide funds for a student recreation and athletics center. The bonds maturing in 2007 through 2026 were defeased and refunded in September 2004. The remaining bonds bear an interest rate of 6.0% and matured May 15, 2006. In September 1997, the University issued general revenue bonds in the amount of \$11,650,000 to provide funds for various campus improvement projects. The bonds bear interest rates from 4.6% to 5.1% and mature at various dates through 2011.

On September 24, 1998, on behalf of the 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 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, 2006 and 2005 were 4.03% and 2.35%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. On February 1, 2006 the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation Loan was transferred to the University in the amount of \$4,600,000.

In August 2001, the University issued general revenue bonds in the amount of \$48,000,000 to provide for various campus improvement projects. The bonds are variable rate demand obligations and mature March 1, 2031.

In September 2004, the University issued \$31,770,000 of General Revenue Refunding 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 Series 1995 General Revenue Bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. The related loss

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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on early extinguishment of debt of \$2,147,000 has been deferred and will be amortized over the term of the refunding bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the next 21 years by approximately \$3,929,000. The refunding results in an economic gain of \$2,592,000. A trust account has been established for the defeasement of the refunded 1995 bonds. The assets and liabilities of this account are not recorded as assets nor liabilities in the financial statements of the University. At June 30, 2006, the aggregate amount of outstanding principal on these bonds which have been defeased is \$31,320,000.

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 1,980,000	\$ 4,069,548	\$ 6,049,548
2008	2,080,000	3,995,598	6,075,598
2009	2,160,000	3,914,848	6,074,848
2010	2,265,000	3,806,973	6,071,973
2011	2,315,000	3,693,723	6,008,723
2012-2016	12,315,000	16,709,225	29,024,225
2017-2021	15,530,000	16,591,928	32,121,928
2022-2026	24,360,000	8,967,197	33,327,197
2027-2031	26,180,000	3,221,569	29,401,569
	<u>89,185,000</u>	<u>\$ 64,970,609</u>	<u>\$ 154,155,609</u>
Less: Deferral on extinguishment, net	(139,857)		
	<u>\$ 89,045,143</u>		

Interest includes payments and receipts under the swap agreement at the synthetic fixed rate of 4.62%. The variable rate paid on the bonds was 3.72% in June 2006.

**Interest Rate Swap Agreement**

In connection with the General Revenue Bonds, Series 2001 issue, the University entered into an interest rate swap agreement in an initial notional amount of \$34,370,000 effective July 1, 2001. The agreement swaps the University's variable rate for a fixed rate of 4.62%. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 4.62%. No amounts were paid or received when the swap was initiated.

The University is currently making payments under the swap agreement. The estimated fair value of the interest rate swap at June 30, 2006 was a liability of \$1,052,277. The fair value represents the estimated amount that the University would pay to terminate the swap, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB, these amounts are not required to be included in the accompanying statements.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. Additionally, the 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. As these rates change, the overall synthetic rate on the bonds may change. The swap agreement includes collateral requirements intended to mitigate the credit risk.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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The swap agreement uses the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events such as failure to pay and bankruptcy. In addition, the Master Agreement includes additional termination events. If the swap is terminated, the variable rate bonds will no longer carry a synthetic interest rate and the University may be required to pay an amount equal to the swap's fair market, if it is negative.

**Other Liabilities**

Compensated absences include accrued vacation for University employees.

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. Annuities payable for the University include \$492,397 transferred from the Foundation.

**11. Expenditures by Natural Classification**

Operating expenses by natural classification for the years ended June 30, 2006 and 2005 are summarized as follows:

	<b>2006</b>	<b>2005</b>
Employee compensation and benefits	\$ 119,841,844	\$ 113,759,286
Supplies and other services	38,511,466	32,419,268
Student aid	6,538,820	4,805,874
Depreciation	11,772,605	11,993,725
Total	<u>\$ 176,664,735</u>	<u>\$ 162,978,153</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**12. Cash Flow Statement**

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

	<b>2006</b>	<b>2005</b>
<b>Operating loss</b>	\$ (46,028,132)	\$ (42,712,725)
<b>Adjustments to reconcile net operating loss to net cash used by operating activities</b>		
Depreciation expense	11,772,605	11,993,725
Changes in assets and liabilities		
Accounts receivable, net	(2,064,828)	894,011
Inventories	63,899	(64,078)
Deposits and prepaid expense	(251,075)	(162,549)
Student loans receivable	(277,772)	44,440
Accounts payable and accrued expenses	314,388	193,016
Accrued payroll	579,813	1,089,924
Compensated absences	140,697	130,845
Deferred revenue and student fees	1,639,162	(234,867)
Deposits	635,254	174,961
Federal portion of student loan program	14,289	(28,563)
Net cash used by operating activities	<u>\$ (33,461,700)</u>	<u>\$ (28,681,860)</u>

**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 and 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, 2006 and 2005 were \$9,301,792 and \$8,903,164, 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, 2005, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan were fully funded.

The University provides termination benefits resulting from unused sick days upon retirement which are funded and paid from the Retirement and Insurance Fund.

In addition to the above retirement plans the University provides certain post-employment health care plans to many of its regular, full time employees. Substantially any or all of the employees in these groups may become eligible for one of these plans if they reach retirement age while working at the University.

These retiree health care benefits are currently provided for 322 people including retired employees, spouses and survivors. The benefits received by those who retired after May 1, 1994 are included in the University’s various health care plans and a capped payment of a portion of the

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

---

health care plan premium is paid by the University. Those who retired prior to May 1, 1994, 85 people including retired employees, spouses and survivors, receive the full premium payment as provided for in their earlier agreements with the University. The University recognizes the cost of providing these benefits on a pay-as-you-go basis, which is included in annual operating expenses. The pay-as-you-go cost of all post-employment health care benefits amounted to \$1,263,384 and \$1,183,513 for the fiscal years ended June 30, 2006 and 2005, respectively.

Employees hired after July 1, 2005 for one employee group and July 1, 2006 for three other employee groups, will be eligible for participation in the University's post employment health care benefits as "access only" for retirees and spouses, at retiree rates, paid in full by the retiree.

Certain organizations are required to record the estimated present value of other post-employment benefits (OPEB) as a liability in their financial statements. The University is not required to do so at this time but will be required to do so by GASB 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, in its financial statements covering the financial reporting period ending June 30, 2008. As a result, the University is studying actuarial assumptions and estimates to make a determination regarding its full OPEB liability before the required disclosure date.

Other than this post-employment health care benefit, the University has no other post-employment benefits costs which would require disclosure under the new reporting standards.

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

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

**15. Contingencies and Commitments**

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

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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The University is the guarantor on certain residential mortgages in the University's Meadow Brook Subdivision. As of June 30, 2006, the amount subject to guarantee by the University was \$2,380,961.

The estimated costs to complete construction projects in progress are \$21,472,112 as of June 30, 2006. These projects have been funded from private gifts, proceeds from general revenue notes, and other University funds.

**16. Related Party Transactions**

Effective February 1, 2006, the University Board of Trustees and the Foundation Board of Directors entered into a Transition Agreement Between The Oakland University Foundation and Oakland University (Transition Agreement). This Transition Agreement calls for the transfer of substantially all of the Foundation's assets and liabilities to the University. Net assets transferred, as detailed below, amount to \$8,653,668. Conditional pledges amounting to \$16,164,870 were also transferred to the University. The cash surrender value of the life insurance policies transferred from the Foundation to the University totaled \$4,330,500.

Summary of net assets transferred from the Foundation to the University:

<b>Assets</b>	
Cash	\$ 59,433
Prepaid Expenses	1,132
Investments	12,968,595
Cash surrender value of life insurance policies	716,905
Total assets transferred	<u>13,746,065</u>
<b>Liabilities</b>	
Annuities payable	492,397
Bond payable	4,600,000
Total liabilities transferred	<u>5,092,397</u>
<b>Net assets transferred</b>	<u><u>\$8,653,668</u></u>

Under the original 1997 agreement between the Foundation and the University and based on the approval of the Board of Directors of the Foundation, general support was provided to the University for the development program. The amount provided for the year ended June 30, 2005, was \$411,059.

**17. Organization and Significant Accounting Policies of the Oakland University Foundation (Component Unit)**

The Oakland University Foundation was incorporated in May 1958 to encourage, promote and support Oakland University.

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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The Foundation follows the fiduciary fund requirements of GASB Statement No. 35, *Basic Financial Statements and Managements Discussion and Analysis for Public Colleges and Universities*, which provides that the following components be included in the Foundation's annual financial report:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets and statement of changes in net assets for the entity as a whole
- Notes to the financial statements

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting. Investments and gifts are recorded at fair market value.

**Cash Equivalents**

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

**Tax Status**

The Internal Revenue Service has ruled that the Foundation qualifies for exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation is not a private foundation within the meaning of IRC Section 509(a)(3).

**18. Pledges Receivable of the Oakland University Foundation (Component Unit)**

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2005, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 25% net of discount at June 30, 2005.

The composition of pledges receivable at June 30, 2005 is summarized as follows:

	<b>2005</b>
<b>Pledges outstanding</b>	
Unrestricted	\$ 1,508,835
Restricted expendable	880,307
	2,389,142
Less:	
Allowance for doubtful pledges	546,948
Present value discount	205,632
	\$ 1,636,562

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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In accordance with the Transition Agreement between the University and the Foundation, all outstanding pledge receivable balances, after write-off of uncollectible pledges, were transferred to the University in 2006.

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, 2005, the Foundation had \$16,164,870, respectively in conditional pledge commitments receivable, consisting primarily of bequests, that are not included in the accompanying financial statements. These bequests were also transferred to the University.

**19. Investments of the Oakland University Foundation (Component Unit)**

The Foundation's investments are invested according to its Board of Director's "Investment Policy for Endowment" which requires that each investment manager's equity portfolio have more than 20 positions and no purchase would cause a position in their portfolio to exceed 5% of the issues outstanding, 5% of the portfolio at cost or 8% of the portfolio at market. Fixed income and cash equivalent guidelines require credit quality of "A" or better, a duration of +(-) 20% of the Lehman Brothers Aggregate Bond Index, and no position in any one issuer can exceed 8% of the portfolio at market or 5% of the portfolio at cost.

The policy calls for investment in various index mutual funds. These investment funds are uninsured and uncollateralized and produced a total net return of 7.2% for the years ended June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, investments consisted of the following:

	<b>2006</b>	<b>2005</b>
World Asset Management Aggregate Bond Index Fund	\$ 26,026	\$ 2,426,372
World Asset Management Large Cap Index Fund	220,832	8,490,532
World Asset Management Mid Cap Index Fund	26,491	843,201
World Asset Management Small Cap Index Fund	14,720	408,843
Income Fund of America	-	147,620
Vanguard Wellington Fund	-	108,958
Other	11,180	82,692
	<u>\$ 299,249</u>	<u>\$ 12,508,218</u>

During the year, \$12,968,595 in investments were transferred from the Foundation to the University.

The World Asset Management aggregate Bond Index Fund has an Interest Rate Risk calculated to an average maturity of 7.03 years.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as the Board of Directors determines is prudent.



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**20. Cash Surrender Value of Insurance Policies of the Oakland University Foundation (Component Unit)**

The cash surrender value of insurance policies reflects the current cash value of donated insurance policies where the Foundation is named as the sole beneficiary. The cash surrender value of these policies at June 30, 2005, was \$683,446 and the face value of the insurance policies totaled \$4,380,500. During fiscal year 2006, cash surrender values and face values of life insurance policies totaling \$716,905 and \$4,330,500, respectively were transferred to the University.

**21. Bonds Payable of the Oakland University Foundation (Component Unit)**

On July 2, 1998, the Foundation entered into an agreement with the University to finance and manage construction of a new golf course on University land. The Foundation's effort was intended to provide the University with a golfing facility to enhance its educational and recreational programs and an opportunity for future revenue development. The golf course was completed in September of 2000, and all improvements became the property of the University upon completion.

On September 24, 1998 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 golf course project. The Foundation executed a Loan Agreement within this transaction which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. The bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture.

On February 1, 2006, the University Board of Trustees and the Foundation Board of Directors agreed to transfer substantially all of the Foundation's assets and liabilities to the University. As a result, the Foundation's Loan Agreement relating to this bond issue was transferred to the University in the amount of \$4,600,000.

**22. Annuities Payable of the Oakland University Foundation (Component Unit)**

Charitable gift annuities are arrangements in which donors contribute assets to the Foundation in exchange for a promise by the Foundation 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. Annuities payable for fiscal year 2005 totaled \$475,795. During fiscal year 2006, annuities payable totaling \$492,397 were transferred to the University.