

**Oakland University
Financial Statements**

June 30, 2008 and 2007

Oakland University

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Oakland University
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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the year ended June 30, 2008 and 2007. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2008 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 2 to 13 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 this supplemental information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
September 3, 2008

Oakland University

Management's Discussion and Analysis

June 30, 2008 and 2007

Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University) for the fiscal year ended June 30, 2008 with selected comparative information for the year ended June 30, 2007.

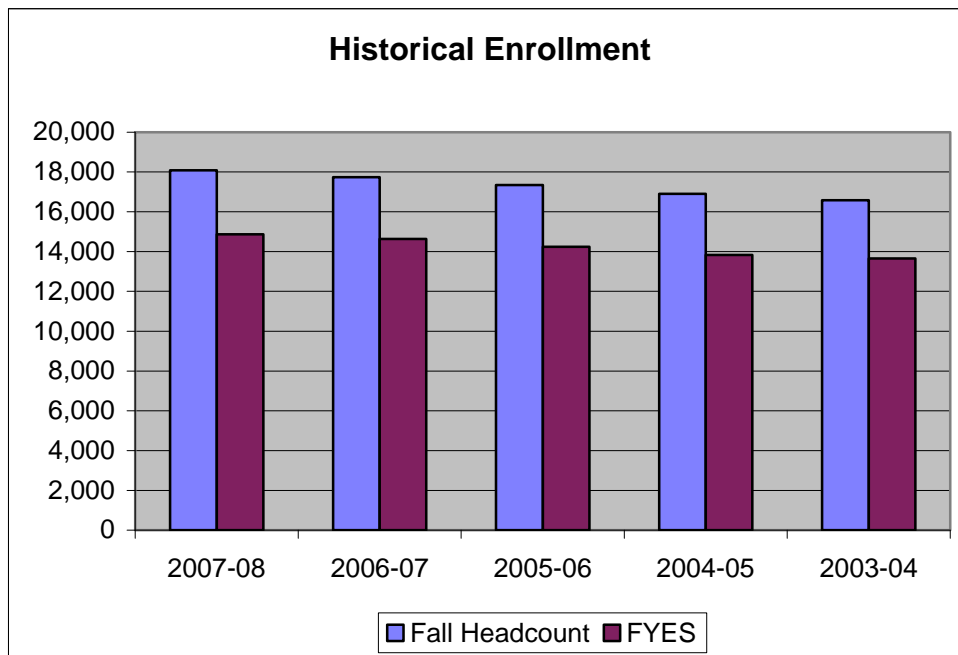
The University is a state-supported institution of over 18,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels as well as programs in continuing education. The University currently offers 127 baccalaureate degree programs and 99 graduate and certificate programs. The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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

Enrollment and Operations Highlights

- In Fiscal 2008, enrollment based on Fiscal Year Equated Students (FYES) increased 1.6% to 14,870.
- Student headcount enrollment for the fall 2007 semester increased 1.9% to 18,082. Undergraduate enrollment was 14,090 (77.9%) and graduate enrollment was 3,992 (22.1%).

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



- Oakland University is recognized as one of the country's 83 doctoral research-intensive universities by the Carnegie Foundation for the Advancement of Teaching. 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.

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- The State of Michigan awarded \$2 million to the School of Nursing for its Accelerated Second Degree in Nursing. Through grant support, over 180 nurses will be prepared to meet the growing demand in this field.
- Pending accreditation, the Oakland University William Beaumont School of Medicine is targeted to admit its charter class in 2010. The school will produce physicians who are patient-centered and who can navigate advances in science and technology. The school is expected to generate hundreds of new jobs and bring hundreds of millions of dollars into the region's economy.
- The OU INCubator, a SmartZone business incubator formed in partnership with Oakland County, Rochester Hills and the Michigan Economic Development Corporation, has retained 70 employees, created 17 new jobs, and received \$424,000 in external grants and corporate sponsorships in 2008. The incubator also launched a technology-based collaboratory with a decision support system for use by early stage companies.
- The University's comprehensive campaign, "Innovation and Opportunity --- The Campaign for Oakland University," has raised \$93 million toward the goal of \$110 million by 2010. The funds play a critical role in the development of new academic programs, endowments for faculty positions, facility expansions and student scholarships.
- Three new degrees were approved by the Board of Trustees during fiscal year 2008. These degree programs include a Ph.D. in Electrical and Computer Engineering; a Bachelor of Arts, with a major and minor in Writing and Rhetoric; and a Bachelor of Arts major in Japanese.
- Oakland University's Fastening and Joining Research Institute (FAJRI) has received more than \$5 million in funding (over a six-year period) to collaborate with the U.S. Army TACOM in order to improve the safety, reliability and quality of mechanically fastened, joined and bonded assemblies. This collaboration will help improve safety, combat readiness and mobility of legacy vehicles.
- Crittenton Hospital Medical Center has created a \$2 million endowed professorship in Oakland University's School of Nursing, kicking off a partnership between the two institutions that will change the clinical education and training of nursing students.
- Beginning spring 2008, the University merged its spring and summer terms into one extended summer semester. This will provide students with greater flexibility in scheduling and increased opportunities to complete required courses.
- The University values the use of technology and the Board of Trustees has approved the investment of \$2 million for Oakland University's instructional labs and \$1.4 million for the Kresge Library Technology Center.

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

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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 14, 15, and 16 of this financial report.

As a result of an 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) were transferred to the University in fiscal year 2006. The remaining Foundation assets are endowments totaling \$185,243 and are included in the University's footnotes.

The University has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), as of fiscal year ended June 30, 2008. Prior to GASB 45, the University followed a "pay-as-you-go" accounting approach in which the cost of benefits were reported after the employee retired. With the implementation of GASB 45, the University is required to recognize the costs of other postemployment benefits in the accounting periods the benefits are earned rather than when benefits are paid or provided. The annual expense and liability associated with other postemployment benefits includes an estimate of the benefits attributed to services received from employees in the current year in addition to an amortization component related to past service costs.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University's notes to the financial statements can be found on pages 16-35 of this financial report.

Oakland University
Management's Discussion and Analysis
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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:

Condensed Statements of Net Assets	June 30,		Change
	2008	2007	
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 54,050	\$ 58,190	-7%
Capital assets	243,384	245,576	-1%
Other noncurrent assets	133,116	115,627	15%
Total assets	<u>430,550</u>	<u>419,393</u>	3%
Liabilities			
Current liabilities	29,870	32,580	-8%
Noncurrent liabilities	111,026	111,546	0%
Total liabilities	<u>140,896</u>	<u>144,126</u>	-2%
Net assets			
Invested in capital assets, net of related debt	140,887	143,428	-2%
Restricted nonexpendable	14,921	12,478	20%
Restricted expendable	31,505	30,492	3%
Unrestricted	102,341	88,869	15%
Total net assets	<u>\$ 289,654</u>	<u>\$ 275,267</u>	5%

The University's total assets were \$431 million and \$419 million at June 30, 2008 and 2007, respectively. 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 57% and 59% of the University's total assets at June 30, 2008 and 2007, respectively. Capital expenditures totaled \$10.3 million in 2008 and \$23.8 million in 2007. Included in capital expenditures for 2008 were several energy service and other campus improvement projects. Depreciation expense was \$12.0 million in 2008 and \$11.5 million in 2007.

Current assets consist primarily of cash and cash equivalents, and receivables due within one year. Cash and cash equivalents were \$33.8 million at June 30, 2008 and \$43.8 million at June 30, 2007. The University's change in investment strategy to establish a larger long-term investment portfolio resulted in a decrease in cash and cash equivalents with a corresponding increase in other long-term investments as noted below.

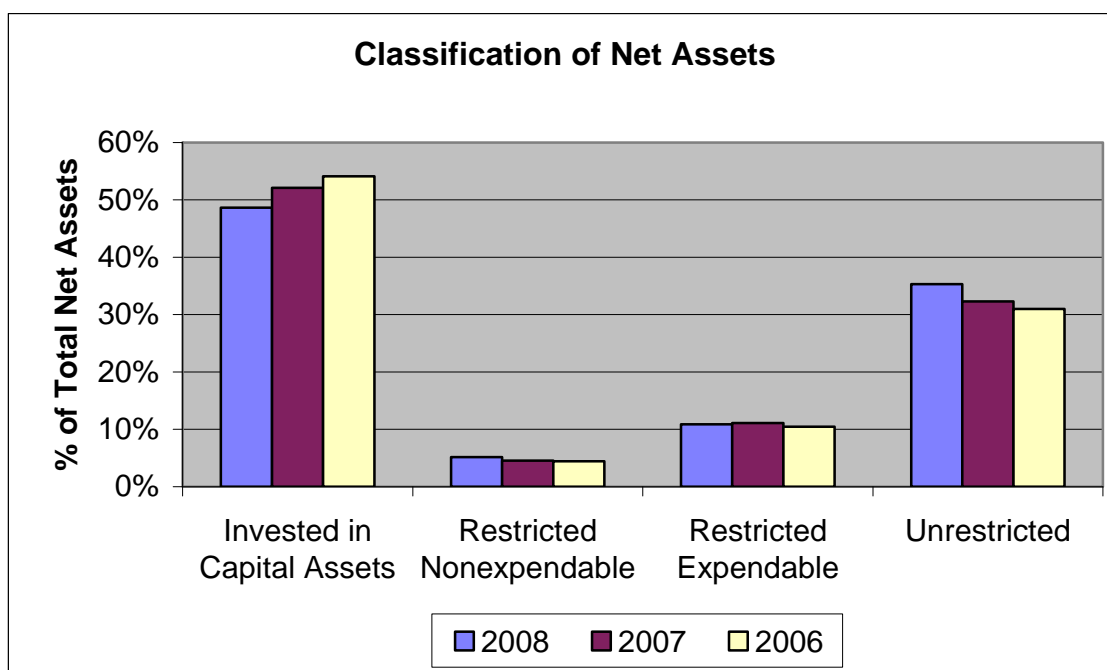
Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$50.5 million at June 30, 2008 and \$43.0 million at June 30, 2007. This increase in endowments was primarily due to a Board approved transfer of \$6.6 million from pooled cash to the endowment for other postemployment benefits, as well as gifts to the permanent endowment. The total return, net of fees, on the University's endowment investments was 0.3% for 2008 and 18.3% for 2007. This change was due to the state of the economy and market conditions. Distributions were paid to endowment beneficiary funds at the rate of 4.5% in 2008 and 2007. Other long-term investments were

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\$77.9 million at June 30, 2008 and \$68.3 million at June 30, 2007 and include intermediate-term fixed income and equity securities. The increase in other long-term investments is a direct result of the change in the University’s investment strategy to establish a larger long-term investment portfolio. The total return on the University’s other long-term investments was 2.5% for 2008, and 7.4% for 2007, both net of fees. See “Statements of Cash Flows” section of this report for additional detail.

The University’s total liabilities were \$141 million at June 30, 2008 and \$144 million at June 30, 2007. Current liabilities consist primarily of accounts payable, accrued expenses, and deferred revenue. The \$2.7 million decrease in current liabilities relates primarily to the decrease in construction in progress and accounts payable from year to year. Noncurrent liabilities are comprised primarily of bonds and notes payable and represented 79% of the University’s total liabilities at June 30, 2008 and 77% at June 30, 2007.

The following graph shows net assets by classification and restriction:



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

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

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The following summarizes the internal designations of unrestricted net assets:

	June 30,	
	2008	2007
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 4,474	\$ 2,120
Capital projects and repair reserves	25,956	15,315
Funds designated for departmental use	20,773	18,731
Funds functioning as endowments	24,471	17,937
Institutional reserves	23,022	22,411
Retirement and insurance reserves	446	8,250
Other unrestricted	3,199	4,105
	\$ 102,341	\$ 88,869

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University Statements of Revenues, Expenses and Changes in Net Assets

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2008	2007	2006	% Change 2008-2007	% Change 2007-2006
	<i>(in thousands)</i>				
Operating revenues					
Net tuition and fees	\$ 111,941	\$ 100,171	\$ 89,641	12%	12%
Grants and contracts	13,068	11,001	9,724	19%	13%
Auxiliary activities	20,071	19,115	18,833	5%	1%
Departmental activities	5,846	7,873	6,751	-26%	17%
Other	430	481	459	-11%	5%
Total operating revenues	151,356	138,641	125,408	9%	11%
Operating expenses	204,034	192,701	176,665	6%	9%
Operating loss	(52,678)	(54,060)	(51,257)	-3%	5%
Nonoperating revenues (expenses)					
State appropriations	56,697	46,614	51,531	22%	-10%
Gifts	4,474	4,126	4,253	8%	-3%
Investment income	2,523	14,485	5,410	-83%	168%
Distributed to annuity and life income fund beneficiaries	(92)	(91)	(39)	1%	133%
Interest expense	(5,681)	(5,038)	(4,491)	13%	12%
Pell grants	6,597	5,403	5,229	22%	3%
Other	2	125	-	-98%	-
Net nonoperating revenues	64,520	65,624	61,893	-2%	6%
Income before other revenues	11,842	11,564	10,636	2%	9%
Capital grants and gifts	34	178	333	-81%	-47%
Additions to permanent endowments	2,497	840	170	197%	394%
Consolidation of Oakland University Foundation	14	60	8,654	-77%	-99%
Total other revenues	2,545	1,078	9,157	136%	-88%
Increase in net assets	14,387	12,642	19,793	14%	-36%
Net assets					
Beginning of year	275,267	262,625	242,832	5%	8%
End of year	\$ 289,654	\$ 275,267	\$ 262,625	5%	5%

The University's operating revenues were \$151 million in 2008, \$139 million in 2007 and \$125 million in 2006. The 9% increase in 2008 over 2007 was primarily due to increases in tuition revenue, net of scholarship allowances, which was higher due to enrollment increasing by 1.6% and, effective fall 2007 semester, tuition rates increasing by 13.96% for undergraduates and 14.13% for graduates. The relatively high tuition rate increases were necessary, in part, due to the continued instability of state appropriation

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funding. The 26% decrease in departmental activities was due to the return of approximately \$1.1 million in orientation fees to students registered for the fall 2007 and winter 2008 terms.

Auxiliary activity revenues increased 5.0% in 2008 compared to 2007, which was primarily due to higher enrollment and increased housing rates.

Operating expenses were \$204 million in 2008, \$193 million in 2007 and \$177 million in 2006. Operating expense increase of 6% in 2008 over 2007 resulted from the continuation of several growing program initiatives, contractual agreements and increases in healthcare and utility costs. Operating expenses increased 9% in 2007 compared with 2006.

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

University Operating Expenses

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u> <u>2008-2007</u>	<u>% Change</u> <u>2007-2006</u>
	<i>(in thousands)</i>				
Education and general					
Instruction	\$ 83,703	\$ 78,503	\$ 72,161	7%	9%
Research	7,113	6,622	6,743	7%	-2%
Public service	2,217	2,189	1,542	1%	42%
Academic support	13,221	12,983	11,619	2%	12%
Student services	15,078	13,985	12,650	8%	11%
Institutional support	24,775	23,345	20,422	6%	14%
Operation and maintenance of plant	15,216	14,977	13,327	2%	12%
Depreciation	12,025	11,505	11,773	5%	-2%
Student aid	7,794	6,259	6,539	25%	-4%
Total education and general	<u>181,142</u>	<u>170,368</u>	<u>156,776</u>	6%	9%
Auxiliary activities	22,886	22,290	19,852	3%	12%
Other expenses	6	43	37	-86%	16%
Total operating expenses	<u>\$ 204,034</u>	<u>\$ 192,701</u>	<u>\$ 176,665</u>	6%	9%

Education and general expenses increased 6% in 2008 over 2007 and 9% in 2007 over 2006. The increases are 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 \$52.7 million in 2008, \$54.1 million in 2007 and \$51.3 million in 2006. Offsetting these losses were net nonoperating revenues of \$64.5 million in 2008, \$65.6 million in 2007 and \$61.9 million in 2006.

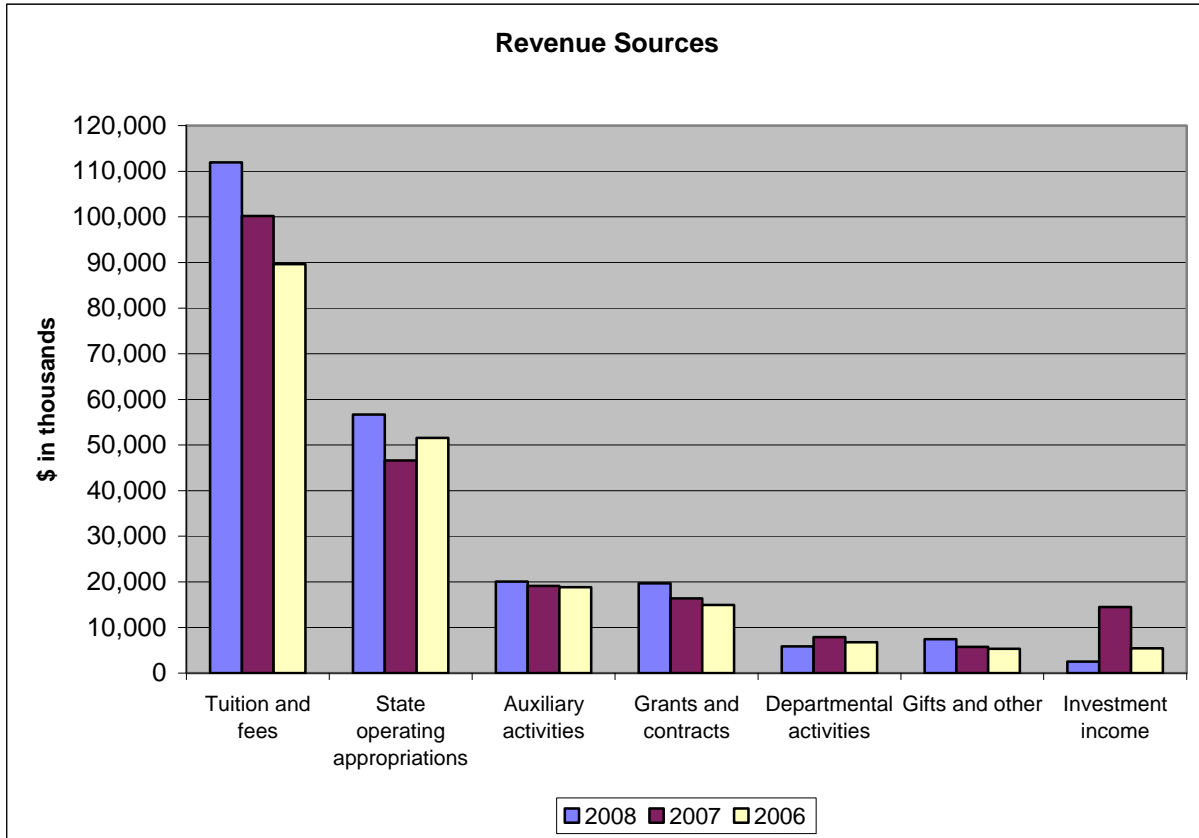
Total enacted base State appropriations, as reflected in the State's approved appropriation bills, were \$51.9 million in 2008, \$52.4 million in 2007, \$50.7 million in 2006. State appropriation revenue for fiscal year 2008 reflects receipt of the \$4.8 million fiscal year 2007 "delayed" August payment which was received in October 2007.

Nonoperating revenues also include \$6.6 million for Pell Grant revenue in 2008. Pell Grant revenue for 2007 and 2006 was \$5.4 and \$5.2 million, respectively.

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Other revenues were \$2.5 million in 2008, \$1.1 million in 2007 and \$9.2 million in 2006. Included in other revenues in 2006 is the transfer of net assets from the Foundation of \$8.7 million.

A graphic illustration of each revenue source is as follows:



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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>2008</u>	<u>2007</u>	<u>2006</u>
		<i>(in thousands)</i>	
Cash provided (used) by			
Operating activities	\$ (39,312)	\$ (37,497)	\$ (38,691)
Noncapital financing activities	63,764	62,335	59,415
Capital financing activities	(20,183)	(24,889)	595
Investing activities	<u>(14,338)</u>	<u>9,380</u>	<u>(15,366)</u>
Net increase (decrease) in cash	(10,069)	9,329	5,953
Cash and cash equivalents			
Beginning of year	<u>43,835</u>	<u>34,506</u>	<u>28,553</u>
End of year	<u>\$ 33,766</u>	<u>\$ 43,835</u>	<u>\$ 34,506</u>

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

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were \$51.0 million in 2008 and \$52.3 million in 2007. In addition, cash received from endowment gifts increased by \$1.4 million in 2008.

Capital financing activities for 2008 include the issuance of \$53.3 million of General Revenue Variable Rate Demand Refunding Bonds (2008 Bonds). The 2008 Bonds refunded the 2001 General Revenue Bonds (2001 Bonds) in the amount of \$48.0 million and \$4.9 million in swap termination fees and related expenses. In addition, cash expended for capital acquisitions for 2008 was \$13.2 million, including \$5.4 million for energy service projects and \$3.1 million for equipment. Debt service payments for 2008 were \$61.0 million (\$53.3 million for the refunding of the 2001 Bonds). Capital financing activities for 2007 include capital expenditures of \$19.4 million, including \$9.9 million for energy service projects, \$2.4 million for Meadowbrook Hall renovation and \$2.8 million for equipment, along with debt service payments of \$8.3 million. Capital financing activities for 2006 include the issuance of \$18.3 million of a note payable, capital expenditures of \$13.8 million, including \$2.5 million for energy service projects, \$3.5 million for Meadowbrook Hall renovation and \$2.6 million for equipment, and debt service payments of \$7.4 million.

Cash used in investing activities during 2008 relates to purchases in excess of sales, maturities, and investment income which are a direct result of the University's change in investment strategy to establish a larger long-term investment portfolio.

Cash and cash equivalents decreased by \$10.1 million primarily due to investing activities.

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Commitments

The estimated cost to complete construction projects in progress is \$11.9 million as of June 30, 2008. These projects have been funded from private gifts, proceeds from general revenue notes and other University funds.

University Credit Rating

In connection with its June 2008 issuance of refunding bonds, Oakland University's underlying credit rating by Moody's Investors Service was reaffirmed at A2. All of the University's debt is fully insured or supported by letters of credit, enhancing the credit ratings on the debt.

Deferred Plant Renewal

The University surveys its deferred plant renewal (previously referred to as 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 plant renewal items. In addition, the University has established a quasi-endowment that provides investment earnings that are also 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
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates
- Development of the Oakland University William Beaumont School of Medicine

Oakland University
Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 33,766,330	\$ 43,835,146
Accounts receivable, net (Note 3)	8,081,874	6,722,290
Appropriations receivable (Note 4)	9,442,344	3,733,508
Pledges receivable, net (Note 5)	975,041	1,510,207
Inventories	853,761	1,183,347
Deposits and prepaid expenses	667,462	731,727
Student loans receivable, net (Note 6)	263,054	473,277
Total current assets	<u>54,049,866</u>	<u>58,189,502</u>
Noncurrent assets		
Endowment investments (Note 2)	50,450,072	43,036,944
Other long-term investments (Note 2)	77,888,638	68,307,328
Pledges receivable, net (Note 5)	1,036,045	455,332
Student loans receivable, net (Note 6)	1,876,295	1,871,915
Capital assets, net (Notes 7 and 8)	243,384,115	245,576,124
Other assets (Note 9)	1,865,177	1,955,898
Total noncurrent assets	<u>376,500,342</u>	<u>361,203,541</u>
Total assets	<u>\$ 430,550,208</u>	<u>\$ 419,393,043</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,730,047	\$ 8,669,504
Accrued payroll	8,018,237	10,132,792
Long-term liabilities - current portion (Note 10)	2,964,418	2,912,998
Deferred revenue and student fees	10,834,499	8,613,790
Deposits	1,322,777	2,250,840
Total current liabilities	<u>29,869,978</u>	<u>32,579,924</u>
Noncurrent liabilities		
Deferred revenue	2,696,672	3,376,858
Long-term liabilities (Note 10)	106,890,224	108,169,404
Other postemployment benefits (Note 11)	1,439,080	-
Total noncurrent liabilities	<u>111,025,976</u>	<u>111,546,262</u>
Total liabilities	<u>140,895,954</u>	<u>144,126,186</u>
Net assets		
Invested in capital assets, net of related debt	140,887,268	143,427,714
Restricted nonexpendable	14,921,213	12,477,616
Restricted expendable	31,505,048	30,491,956
Unrestricted	102,340,725	88,869,571
Total net assets	<u>\$ 289,654,254</u>	<u>\$ 275,266,857</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues		
Tuition and fees (net of scholarship allowances of \$13,898,382 in 2008 and \$10,614,204 in 2007)	\$ 111,941,248	\$ 100,171,354
Federal grants and contracts	8,143,419	7,375,916
State, local and private grants and contracts	4,924,187	3,625,001
Departmental activities	5,845,657	7,872,861
Auxiliary activities (net of scholarship allowances of \$1,271,548 in 2008 and \$1,088,903 in 2007)	20,071,220	19,114,951
Other operating revenues	429,667	481,409
Total operating revenues	<u>151,355,398</u>	<u>138,641,492</u>
Operating expenses		
Education and general		
Instruction	83,703,554	78,503,107
Research	7,113,168	6,622,356
Public service	2,216,832	2,189,294
Academic support	13,220,664	12,982,950
Student services	15,077,650	13,985,337
Institutional support	24,774,771	23,344,495
Operations and maintenance of plant	15,216,611	14,976,555
Depreciation	12,024,830	11,505,358
Student aid	7,793,753	6,258,689
Auxiliary activities	22,886,567	22,290,385
Other expenses	5,689	42,628
Total operating expenses (Note 12)	<u>204,034,089</u>	<u>192,701,154</u>
Operating loss	<u>(52,678,691)</u>	<u>(54,059,662)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	56,697,300	46,613,599
Gifts	4,473,533	4,126,422
Investment income (net of investment expenses of \$320,337 in 2008 and \$245,583 in 2007)	2,523,240	14,484,615
Distributions to annuity and life income fund beneficiaries	(91,892)	(91,025)
Interest on capital asset related debt	(5,681,165)	(5,037,788)
Pell grants	6,597,347	5,402,616
Other	2,476	125,375
Net nonoperating revenues	<u>64,520,839</u>	<u>65,623,814</u>
Income before other revenues	<u>11,842,148</u>	<u>11,564,152</u>
Capital grants and gifts	34,277	177,697
Additions to permanent endowments	2,496,665	839,740
Transfer of net assets from the Oakland University Foundation	14,307	60,113
Total other revenues	<u>2,545,249</u>	<u>1,077,550</u>
Increase in net assets	<u>14,387,397</u>	<u>12,641,702</u>
Net assets		
Beginning of year	<u>275,266,857</u>	<u>262,625,155</u>
End of year	<u>\$ 289,654,254</u>	<u>\$ 275,266,857</u>

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Cash Flows
Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Tuition and fees	\$ 112,409,591	\$ 101,984,324
Grants and contracts	13,033,153	11,730,945
Payments to suppliers	(44,904,202)	(45,564,236)
Payments to employees	(137,486,744)	(128,390,971)
Payments for scholarships and fellowships	(7,793,753)	(6,258,689)
Loans issued to students	(124,049)	(584,673)
Collection of loans from students	352,261	582,401
Auxiliary enterprise charges	20,029,491	20,390,293
Other receipts	5,172,166	8,613,922
Net cash used by operating activities (Note 13)	<u>(39,312,086)</u>	<u>(37,496,684)</u>
Cash flows from noncapital financing activities		
State appropriations	50,988,464	52,295,292
Federal direct lending receipts	57,422,492	49,721,588
Federal direct lending disbursements	(57,422,492)	(49,721,588)
Gifts and grants for other than capital purposes	10,279,564	9,197,079
Endowment gifts	2,496,665	839,740
Transfer from the Oakland University Foundation	-	2,781
Net cash provided by noncapital financing activities	<u>63,764,693</u>	<u>62,334,892</u>
Cash flows from capital financing activities		
Proceeds from capital debt	53,280,000	107,364
Capital grants, gifts and other payments	796,475	2,687,661
Purchases of capital assets	(13,244,161)	(19,408,913)
Principal paid on capital debt and leases	(50,577,776)	(3,216,961)
Interest paid on capital debt and leases	(10,437,763)	(5,058,565)
Net cash used by capital financing activities	<u>(20,183,225)</u>	<u>(24,889,414)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	89,278,035	33,602,151
Investment income	16,853,925	5,403,512
Purchase of investments	(120,470,158)	(29,625,701)
Net cash used by investing activities	<u>(14,338,198)</u>	<u>9,379,962</u>
Net increase (decrease) in cash and cash equivalents	<u>(10,068,816)</u>	<u>9,328,756</u>
Cash and cash equivalents		
Beginning of year	43,835,146	34,506,390
End of year	<u>\$ 33,766,330</u>	<u>\$ 43,835,146</u>

The accompanying notes are an integral part of these financial statements

Oakland University

Notes to Financial Statements

June 30, 2008 and 2007

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 statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows
- Notes to the financial statements

The Oakland University Foundation (Foundation) was incorporated in 1958 to encourage, promote and support the 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 only in the notes to the financial statements. See Footnote 17 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.

The University has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), as of fiscal year ended June 30, 2008, as presented in Note 11.

The University has implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, and GASB

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, as of fiscal year ended June 30, 2008 with no net effect on the current financial statements.

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

Cash Equivalents

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

Investments

Investments are stated at fair market value. 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. Included in inventory are homes (three in 2008 and four in 2007) in the Meadow Brook Subdivision owned by the University and valued at \$564,000 at June 30, 2008 and \$906,000 at June 30, 2007.

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:

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

Revenue Recognition

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

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

Funds are appropriated to the University for operations by the State of Michigan (State) covering the State's fiscal year, October 1 through September 30. The sums appropriated, however, were for the University's fiscal year ending June 30 and are generally paid in eleven monthly installments

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

from October through August. Therefore, the July 2007 and 2008 and August 2008 payments are recorded as part of appropriations receivable. The August 2007 payment was not recorded as a receivable for the year end June 30, 2007 (see Note 4).

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 2007 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 University's "Pooled Cash Investment Policy." The policy requires that no short term investment may have a maturity greater than one year and no more than 10% of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of 15 years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolio at June 30, 2008 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, 2008 and 2007 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, 2008 and 2007

<u>June 30, 2008</u>	<u>Total</u>	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>> 10 Years</u>
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 34,162,467	\$ 34,162,467	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	60,683,713	-	-	60,683,713	-
JP Morgan Equity Funds Intrepid Equities	17,886,940	-	-	-	17,886,940
WAM Treasuries	188,897	-	-	-	188,897
US Bank Money Market	3,613	3,613	-	-	-
Operating cash investments	112,925,630	34,166,080	-	60,683,713	18,075,837
Net cash overdraft	(1,270,662)	(1,270,662)	-	-	-
	<u>\$ 111,654,968</u>	<u>\$ 32,895,418</u>	<u>\$ -</u>	<u>\$ 60,683,713</u>	<u>\$ 18,075,837</u>
Cash and cash equivalents	\$ 33,766,330				
Other long-term investments	77,888,638				
	<u>\$ 111,654,968</u>				
<u>June 30, 2007</u>	<u>Total</u>	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>> 10 Years</u>
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 44,075,943	\$ 44,075,943	\$ -	\$ -	\$ -
Munder Bond Fund					
Government Securities	25,071,186	5,212,594	19,034,336	824,256	-
Corporate Bonds, Notes	9,277,464	1,998,823	7,278,641	-	-
Asset-Backed and Cash	13,965,698	2,415,467	11,355,765	194,466	-
Munder Treasuries	6,347,819	6,347,819	-	-	-
Munder Equity Fund					
Equities	12,264,744	-	-	-	12,264,744
Mutual Funds	2,630,005	-	-	-	2,630,005
WAM Sinking Fund	78,320	-	-	-	78,320
Operating cash investments	113,711,179	60,050,646	37,668,742	1,018,722	14,973,069
Net cash overdraft	(1,568,705)	(1,568,705)	-	-	-
	<u>\$ 112,142,474</u>	<u>\$ 58,481,941</u>	<u>\$ 37,668,742</u>	<u>\$ 1,018,722</u>	<u>\$ 14,973,069</u>
Cash and cash equivalents	\$ 43,835,146				
Other long-term investments	68,307,328				
	<u>\$ 112,142,474</u>				

At June 30, 2008 the Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 9.4 years and an average credit of AA+. The weighted-average maturity of a fixed income fund such as the High Quality Bond Fund is one measure of the risk that its market value will change with changes in interest rates.

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

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 JP Morgan International Opportunities Funds in the amount of \$2,801,212 as of June 30, 2008.

Operating pooled cash investments produced net rates of return of 2.5% and 7.5%, respectively, for the years ended June 30, 2008 and 2007.

The University's endowment investments are administered according to the University's "Investment Policy for Endowment." While there is no policy restriction with regard to concentration of credit risk, these 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 "Investment Policy for Endowments" restricts debt investment to "high quality," "A" to "AAA" rated corporate bonds, U.S. Treasury, and agency securities or issues of supranational organizations and foreign sovereigns. These endowment investment funds are uninsured and uncollateralized and produced a total net return of 0.3% and 18.3% for the years ended June 30, 2008 and 2007, respectively.

University pooled endowment investment funds consist of the following as of June 30, 2008 and 2007:

June 30, 2008	Total	< 1 Year	1-5 Years	6-10 Years	> 10 Years
UBS Endowment Investment Pool					
Large Cap Value	\$ 6,252,482	\$ -	\$ -	\$ -	\$ 6,252,482
Large Cap Growth	5,799,010	-	-	-	5,799,010
Mid Cap Value	2,753,663	-	-	-	2,753,663
Mid Cap Growth	2,280,607	-	-	-	2,280,607
Small Cap Core	2,085,249	-	-	-	2,085,249
REIT	2,016,468	-	-	-	2,016,468
International Value	5,217,617	-	-	-	5,217,617
International Core	3,287,525	-	-	-	3,287,525
Fixed Income Core	1,487,174	379,139	471,814	172,422	463,799
High Yield Bonds	2,389,854	23,782	807,339	1,535,693	23,040
Taxable Fixed Income	5,361,907	-	3,108,205	1,394,579	859,123
Global Fixed	1,026,741	-	-	1,026,741	-
Global Fixed	1,016,282	-	-	1,016,282	-
Domestic Fixed Income	455,283	-	455,283	-	-
Domestic Fixed Income	470,378	-	-	-	470,378
Cash	8,074,078	8,074,078	-	-	-
Broad Commodities	79,590	-	-	-	79,590
Accruals	145,583	145,583	-	-	-
	<u>\$ 50,199,491</u>	<u>\$ 8,622,582</u>	<u>\$ 4,842,641</u>	<u>\$ 5,145,717</u>	<u>\$ 31,588,551</u>
Charitable Trusts - Equity Funds	248,460	-	-	-	248,460
Trust Check - In Transit	2,121	2,121	-	-	-
	<u>\$ 50,450,072</u>	<u>\$ 8,624,703</u>	<u>\$ 4,842,641</u>	<u>\$ 5,145,717</u>	<u>\$ 31,837,011</u>

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

<u>June 30, 2007</u>	<u>Total</u>	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>> 10 Years</u>
Commonfund Investment Pool					
Multi-Strategy Bond Fund	\$ 11,680,624	\$ -	\$ -	\$ 11,680,624	\$ -
Multi-Strategy Equity Fund	31,062,216	-	-	-	31,062,216
	<u>\$ 42,742,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,680,624</u>	<u>\$ 31,062,216</u>
Charitable Trusts - Equity Funds	294,104	-	-	-	294,104
	<u>\$ 43,036,944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,680,624</u>	<u>\$ 31,356,320</u>

The credit quality of the endowment fixed income investments in the portfolio vary with 60% of the portfolio carrying a credit rating of AA/Aa2 or better. Cash items in the portfolio carry credit ratings of A-1, P-1 and F-1.

The University is exposed to foreign currency risk included within the endowment investment balance. The current investments that are subject to foreign currency risk in the endowment portfolio amount to \$10,548,129 as of June 30, 2008.

The Charitable Trusts – Equity Funds are charitable gift annuities. These are arrangements in which donors contribute assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time (typically for the life of the donor or other beneficiary).

For donor restricted endowments, the Uniform 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.

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Tuition and fees	\$ 7,499,486	\$ 5,711,907
Auxiliary enterprises	1,422,267	1,601,773
Contracts and grants	2,184,634	1,877,048
Other receivables	355,142	552,129
Total accounts receivable	<u>11,461,529</u>	<u>9,742,857</u>
Less: Allowance for doubtful accounts	(3,379,655)	(3,020,567)
Total accounts receivable, net	<u>\$ 8,081,874</u>	<u>\$ 6,722,290</u>

4. Appropriations Receivable

Consistent with State legislation, the University has accrued for the final two fiscal 2008 State operating appropriation payments to be received in July and August. As of June 30, 2008 and 2007, the accrual of the State operating appropriation payments created an appropriation receivable

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

of \$9,442,344 and \$3,733,508, respectively. The University's year-end accrual as of June 30, 2007 reflects the July 2007 payment less a base operations reduction of \$1,031,000 as signed into law via Public Act 17 of 2007. The August 2007 payment of \$4,764,400 was delayed by Executive Order 2007-3 and Public Act 17 of 2007. Because there was no appropriated commitment by the State to honor the August 2007 payment, the amount was not recognized as revenue or a receivable at June 30, 2007. The delayed August 2007 payment of \$4,764,000 was received by the University and recognized as revenue in October 2007.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Pledges outstanding		
Unrestricted	\$ 53,167	\$ 128,210
Restricted expendable	2,573,091	2,172,038
Total pledges outstanding	<u>2,626,258</u>	<u>2,300,248</u>
Less		
Allowance for doubtful pledges	(387,744)	(251,069)
Present value discount	(227,428)	(83,640)
Total pledges outstanding, net	<u>2,011,086</u>	<u>1,965,539</u>
Less: Current portion, net	<u>(975,041)</u>	<u>(1,510,207)</u>
Non-current portion, net	<u>\$ 1,036,045</u>	<u>\$ 455,332</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2008 and 2007, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 16% and 11% net of discount at June 30, 2008 and 2007, respectively.

Payments on pledges receivable at June 30, 2008 are expected to be received in the following years ended June 30:

Past due	\$ 545,845
Due in one year	634,108
Due in two-five years	1,216,305
Thereafter	<u>230,000</u>
Total	<u>\$ 2,626,258</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, 2008 and 2007 the University had \$34,823,707 and \$22,269,207, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$34,823,707 in conditional pledges for fiscal year 2008, \$15,000,000 is from a single donor.

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Student loans		
Federal loan programs	\$ 2,415,844	\$ 2,627,491
University loan funds	40,975	19,300
	<u>2,456,819</u>	<u>2,646,791</u>
Less: Allowance for doubtful loans	(317,470)	(301,599)
Total student loans, net	2,139,349	2,345,192
Less: Current portion, net	(263,054)	(473,277)
Non-current portion, net	<u>\$ 1,876,295</u>	<u>\$ 1,871,915</u>

In addition, the University distributed \$57,422,492 and \$49,721,588 for the years ended June 30, 2008 and 2007, 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 the University for fiscal years 2008 and 2007:

<u>Asset Classification</u>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2008</u>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	29,455,299	13,083,448	-	42,538,747
Buildings	274,793,113	2,955,413	-	277,748,526
Equipment	42,179,570	3,051,944	2,805,800	42,425,714
Library acquisitions	24,666,641	815,769	194,451	25,287,959
Construction in progress	26,883,318	6,385,208	15,992,921	17,275,605
Total	<u>402,302,855</u>	<u>26,291,782</u>	<u>18,993,172</u>	<u>409,601,465</u>
Accumulated depreciation				
Land improvements and infrastructure	(12,310,088)	(1,980,525)	-	(14,290,613)
Buildings	(91,755,228)	(6,328,454)	-	(98,083,682)
Equipment	(32,679,415)	(2,672,581)	(2,293,649)	(33,058,347)
Library acquisitions	(19,982,000)	(997,159)	(194,451)	(20,784,708)
Total	<u>(156,726,731)</u>	<u>(11,978,719)</u>	<u>(2,488,100)</u>	<u>(166,217,350)</u>
Total capital assets (net)	<u>\$ 245,576,124</u>	<u>\$ 14,313,063</u>	<u>\$ 16,505,072</u>	<u>\$ 243,384,115</u>

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

<u>Asset Classification</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2007</u>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	28,688,154	767,145	-	29,455,299
Buildings	274,255,316	1,444,197	906,400	274,793,113
Equipment	41,301,364	2,796,988	1,918,782	42,179,570
Library acquisitions	23,987,928	766,003	87,290	24,666,641
Construction in progress	8,857,923	19,492,088	1,466,693	26,883,318
Total	<u>381,415,599</u>	<u>25,266,421</u>	<u>4,379,165</u>	<u>402,302,855</u>
Accumulated depreciation				
Land improvements and infrastructure	(11,026,650)	(1,283,438)	-	(12,310,088)
Buildings	(85,355,642)	(6,399,586)	-	(91,755,228)
Equipment	(31,803,172)	(2,731,710)	(1,855,467)	(32,679,415)
Library acquisitions	(19,025,477)	(1,043,813)	(87,290)	(19,982,000)
Total	<u>(147,210,941)</u>	<u>(11,458,547)</u>	<u>(1,942,757)</u>	<u>(156,726,731)</u>
Total capital assets (net)	<u>\$ 234,204,658</u>	<u>\$ 13,807,874</u>	<u>\$ 2,436,408</u>	<u>\$ 245,576,124</u>

8. State Building Authority

The University has lease agreements with the State Building Authority (SBA) and the State 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 capital appropriations.

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

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

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 \$1,121,905 and \$1,104,053 for 2008 and 2007, respectively. At June 30, 2008 and 2007, the face value of these life insurance policies totaled \$5,360,500 and \$5,385,500, respectively.

Oakland University
Notes to Financial Statements
June 30, 2008 and 2007

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2008 and 2007:

	Balance June 30, 2007	Additions/ Transfers	Reductions	Balance June 30, 2008	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 18,712,720	\$ -	\$ 497,776	\$ 18,214,944	\$ 729,823
Bonds payable					
General revenue bonds, series 1997	4,555,000	-	1,075,000	3,480,000	1,125,000
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	30,050,000	-	1,005,000	29,045,000	1,035,000
unamortized premium	1,255,150	8,544	173,352	1,090,342	104,114
unamortized deferral on extinguishment	(1,370,475)	(9,329)	(189,280)	(1,190,524)	(113,681)
General revenue refunding bonds, series 2008	-	53,280,000		53,280,000	-
2008 Bonds - deferral	-	(5,324,087)		(5,324,087)	(234,886)
Total, note, installment agreement and bonds payable	<u>105,802,395</u>	<u>47,955,128</u>	<u>50,561,848</u>	<u>103,195,675</u>	<u>2,645,370</u>
Other liabilities:					
Compensated absences	2,921,211	1,343,826	-	4,265,037	247,708
Annuities payable and other (transfer from the Foundation)	456,822	126,400	99,387	483,835	71,340
Federal portion of Perkins loan program	1,901,974	42,554	34,433	1,910,095	-
Total other liabilities	<u>5,280,007</u>	<u>1,512,780</u>	<u>133,820</u>	<u>6,658,967</u>	<u>319,048</u>
Total long-term liabilities	<u>\$ 111,082,402</u>	<u>\$ 49,467,908</u>	<u>\$ 50,695,668</u>	<u>\$ 109,854,642</u>	<u>\$ 2,964,418</u>
Total long-term liabilities	\$ 111,082,402			\$ 109,854,642	
Current portion	2,912,998			2,964,418	
Noncurrent portion	<u>\$ 108,169,404</u>			<u>\$ 106,890,224</u>	

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	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions/</u> <u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 19,842,317	\$ 107,364	\$ 1,236,961	\$ 18,712,720	\$ 497,776
Bonds payable					
General revenue bonds, series 1997	5,555,000	-	1,000,000	4,555,000	1,075,000
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	31,030,000		980,000	30,050,000	1,005,000
unamortized premium	1,522,147		266,997	1,255,150	173,352
unamortized deferral on extinguishment	(1,662,004)		(291,529)	(1,370,475)	(189,280)
Total, note, installment agreement and bonds payable	<u>108,887,460</u>	<u>107,364</u>	<u>3,192,429</u>	<u>105,802,395</u>	<u>2,561,848</u>
Other liabilities:					
Compensated absences	2,645,726	275,485	-	2,921,211	259,289
Annuities payable and other (transfer from the Foundation)	475,408	51,019	69,605	456,822	91,861
Federal portion of Perkins loan program	1,934,540	27,879	60,445	1,901,974	-
Total other liabilities	<u>5,055,674</u>	<u>354,383</u>	<u>130,050</u>	<u>5,280,007</u>	<u>351,150</u>
Total long-term liabilities	<u>\$ 113,943,134</u>	<u>\$ 461,747</u>	<u>\$ 3,322,479</u>	<u>\$ 111,082,402</u>	<u>\$ 2,912,998</u>
Total long-term liabilities	\$ 113,943,134			\$ 111,082,402	
Current portion	3,363,882			2,912,998	
Noncurrent portion	<u>\$ 110,579,252</u>			<u>\$ 108,169,404</u>	

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 was 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.

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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 Service Agreement projects.

In December 2006, the University entered into a lease-purchase agreement in the amount of \$107,364 to purchase mowing equipment. The lease is payable over a period of 48 months in the amount of \$2,419 per month at a fixed rate of interest of 3.89%

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 729,823	\$ 678,111	\$ 1,407,934
2010	818,503	646,720	1,465,223
2011	698,538	618,663	1,317,201
2012	710,538	592,150	1,302,688
2013	737,903	564,784	1,302,687
2014-2018	4,138,338	2,375,099	6,513,437
2019-2023	4,999,043	1,514,389	6,513,432
2024-2028	5,382,258	479,836	5,862,094
Total	<u>\$18,214,944</u>	<u>\$ 7,469,752</u>	<u>\$25,684,696</u>

Bonds Payable

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 Oakland County 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, 2008 and 2007 were 1.62% and 3.80%, 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 (2001 Bonds) in the amount of \$48,000,000 to provide for various campus improvement projects. The bonds were variable rate demand obligations with an original maturity date of March 1, 2031. On June 18, 2008 the University issued general revenue refunding bonds to refund the 2001 Bonds.

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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 the Series 1995 general revenue bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. The related loss on early extinguishment of debt of \$2,147,000 has been deferred and will be amortized over the term of the refunding bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the 21 year period 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. The aggregate amount of outstanding principal on these bonds which have been defeased is \$31,320,000.

On June 18, 2008, the University issued \$53,280,000 general revenue refunding bonds (2008 Bonds) to refund the 2001 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 swap termination cost has been deferred and will be amortized over the term of the refunding bonds. A trust account was established to redeem the 2001 Bonds on their call date of August 1, 2008. The assets and liabilities of this trust account are not recorded as assets or liabilities in the financial statements of the University. The variable rate paid on the 2008 Bonds was 1.55% on June 30, 2008.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,160,000	\$ 3,702,046	\$ 5,862,046
2010	2,265,000	3,398,317	5,663,317
2011	2,315,000	3,285,067	5,600,067
2012	2,465,000	3,160,670	5,625,670
2013	2,590,000	3,050,988	5,640,988
2014-2018	14,780,000	13,571,846	28,351,846
2019-2023	18,490,000	10,160,926	28,650,926
2024-2028	28,205,000	5,464,476	33,669,476
2029-2032	17,135,000	1,024,874	18,159,874
	<u>90,405,000</u>	<u>\$ 46,819,210</u>	<u>\$ 137,224,210</u>
Less: Deferral on extinguishment, net	<u>(5,424,269)</u>		
	<u>\$ 84,980,731</u>		

Interest Rate Swap Agreements

In connection with the 2001 Bonds, the University entered into an interest rate swap agreement (2001 Swap) 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 2001 Swap, the University pays a synthetic fixed

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rate of 4.62%. No amounts were paid or received when the 2001 Swap was initiated. The 2001 Swap was terminated on June 10, 2008 with a termination payment of \$4,860,000 due to the counterparty.

On June 25, 2007 the University executed a Constant Maturity Swap (CMS) in an initial notional amount of \$34,370,000 effective October 1, 2007. 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, 2008 was \$928,507. 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. In accordance with GASB standards, these amounts are not required to be included in the accompanying statements.

The University is exposed to credit risk on the CMS, which is the risk that the counterparty will not fulfill its obligations. The CMS includes collateral requirements intended to mitigate the credit risk. Additionally, the CMS exposes the University to tax risk, which is the risk that arises when the taxable nature of such transactions is modified by law.

In connection with the 2008 Bonds, the University entered into an interest rate swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 18, 2008. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67.0% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. 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, 2008 was a liability of \$990,963. The fair value represents the estimated amount that the University would pay to terminate the 2008 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 on the 2008 Swap, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap agreement includes collateral requirements intended to mitigate the credit risk. 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. As these rates change, the overall synthetic rate on the bonds may change.

The 2008 Swap and CMS use 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 2008 Swap is terminated, the variable rate bonds will no longer carry a synthetic interest rate. If the 2008 Swap or CMS are terminated, the University may be required to pay an amount equal to the fair value of the 2008 Swap or CMS, if it is negative.

Other Liabilities

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

Annuities payable are established for charitable gift annuities received by the University and are based on the present value of the estimated annuity payouts over the life expectancy of the donor or other beneficiary.

11. Postemployment Benefits Other Than Pensions

Plan Description

In addition to the employee benefits discussed in Note 14, 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, 2006 or 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 326 retirees and spouses. Certain employees hired after July 1, 2005 or July 1, 2006, 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, 2008, the University and plan members receiving benefits contributed \$1,303,980 and \$898,904, respectively, to the plan. Approximately 59% of total premiums were paid by the University with the remaining 41% paid by plan members. Required contributions for plan members range from no cost to \$261 per month for retiree-only coverage, and from \$27 to \$1,269 per month for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the year ended June 30, 2008 which is the first year an actuarial valuation is available.

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13. Cash Flow Statement

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

	<u>2008</u>	<u>2007</u>
Operating loss	\$ (52,678,691)	\$ (54,059,662)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	12,024,830	11,505,358
Changes in assets and liabilities		
Accounts receivable, net	(1,359,584)	295,572
Inventories	329,586	(931,654)
Deposits and prepaid expense	50,376	(138,864)
Student loans receivable	205,843	1,227
Accounts payable and accrued expenses	826,620	(92,005)
Accrued payroll	(2,114,555)	1,730,074
Compensated absences	1,343,828	275,485
Deferred revenue and student fees	1,540,522	3,777,748
Deposits	(928,063)	172,603
Federal portion of student loan program	8,122	(32,566)
Other postemployment benefits	1,439,080	-
Net cash used by operating activities	<u>\$ (39,312,086)</u>	<u>\$ (37,496,684)</u>

14. 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 plan is 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, 2008 and 2007 were \$11,390,563 and \$9,973,352, 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, 2007, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan was fully funded.

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

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

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	2008
Annual Required Contribution (ARC)	\$ 2,743,060
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	2,743,060
Contributions made	(1,303,980)
Increase in net OPEB obligation	1,439,080
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 1,439,080</u>

The University's present value of the postemployment health care benefits liability as shown above as of June 30, 2008 is estimated to be \$1,439,080.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$2,743,060	47.5%	\$ 1,439,080

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but instead are financed on a pay-as-you-go basis. The University thus far has decided that future benefits will not be prefunded, however, the University has earmarked assets to meet future obligations through creation of a Board approved quasi-endowment valued at approximately \$6.6 million dollars, earnings from which will be used to offset annual postemployment contributions. The University's contribution to the plan for the year ended June 30, 2008 was \$1,303,980. The funded status of the plan as of the first actuarial valuation date is as follows:

Schedule of Funding Progress Oakland University Retired Employees Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2008	-	\$ 24,174,864	\$ 24,174,864	0.00%	\$ 51,973,028	46.5%

The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the Projected Unit Credit method of valuation.

The unfunded actuarial accrued liability, totaled \$24.2 million as of the June 30, 2008 actuarial valuation date. The unfunded actuarial accrued liability is being amortized over an open period of thirty years.

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Actuarial Methods and Assumptions

The actuary chose a variation of the Unit Credit Actuarial Cost Method under which expected benefits are attributed to employment periods through the earliest retirement date. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to expectations and new estimates are made in the future.

Actuarial assumptions included a discount rate of 8%, various mortality, turnover and healthcare cost trend rates, an assumption that 90% of future retirees eligible for medical coverage will elect medical coverage, and an assumption that the University contribution for certain post-65 retirees is limited to a 4% annual increase. The University will review its assumptions on an 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 and market conditions.

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.

12. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Employee compensation and benefits	\$ 138,155,097	\$ 130,396,531
Supplies and other services	46,060,409	44,540,576
Student aid	7,793,753	6,258,689
Depreciation	12,024,830	11,505,358
Total	<u>\$ 204,034,089</u>	<u>\$ 192,701,154</u>

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15. 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.

Loss coverage's, 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 claim made basis.

16. 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 residential mortgages in the University's Meadow Brook Subdivision. As of June 30, 2008, the amount subject to guarantee by the University was \$2,601,260.

The estimated costs to complete construction projects in progress are \$11,917,095 as of June 30, 2008. These projects have been funded from private gifts, proceeds from general revenue notes, and other University funds.

17. 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 called for the transfer of substantially all of the Foundation's assets and liabilities to the University.

Foundation net assets as of June 30, 2008:

Assets	\$ 185,243
Net assets	\$ 185,243

The assets remaining are endowment funds. The June 30, 2008 University financial statements do not include the remaining Foundation assets or the Foundation's activity.

18. Subsequent Events

On July 31, 2008, Oakland University and William Beaumont Hospital entered into an affiliation agreement to form the Oakland University William Beaumont School of Medicine (School of Medicine) as a constituent school of Oakland University. Pending accreditation, the University plans to receive its charter School of Medicine class in 2010.