



Oakland University **FINANCIAL STATEMENTS**

June 30, 2012 and 2011



Oakland University

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Oakland University
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Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

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

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
September 12, 2012

Oakland University

Management's Discussion and Analysis

June 30, 2012 and 2011

Introduction

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

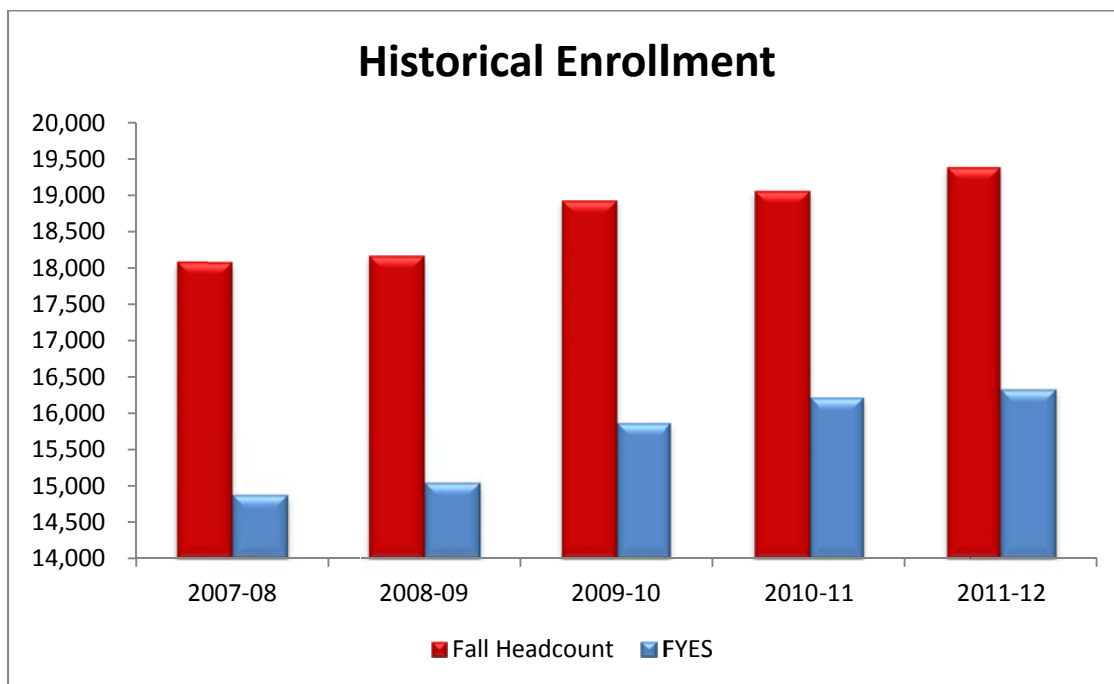
The University is a state-supported institution of over 19,300 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as, programs in continuing education. The University is recognized as one of the country's 83 doctoral/research universities by the Carnegie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

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

Enrollment and Operations Highlights

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

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



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

Oakland University
Management's Discussion and Analysis
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Overview of the Financial Statements

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

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

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

Notes to the Financial Statements

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

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

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

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

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

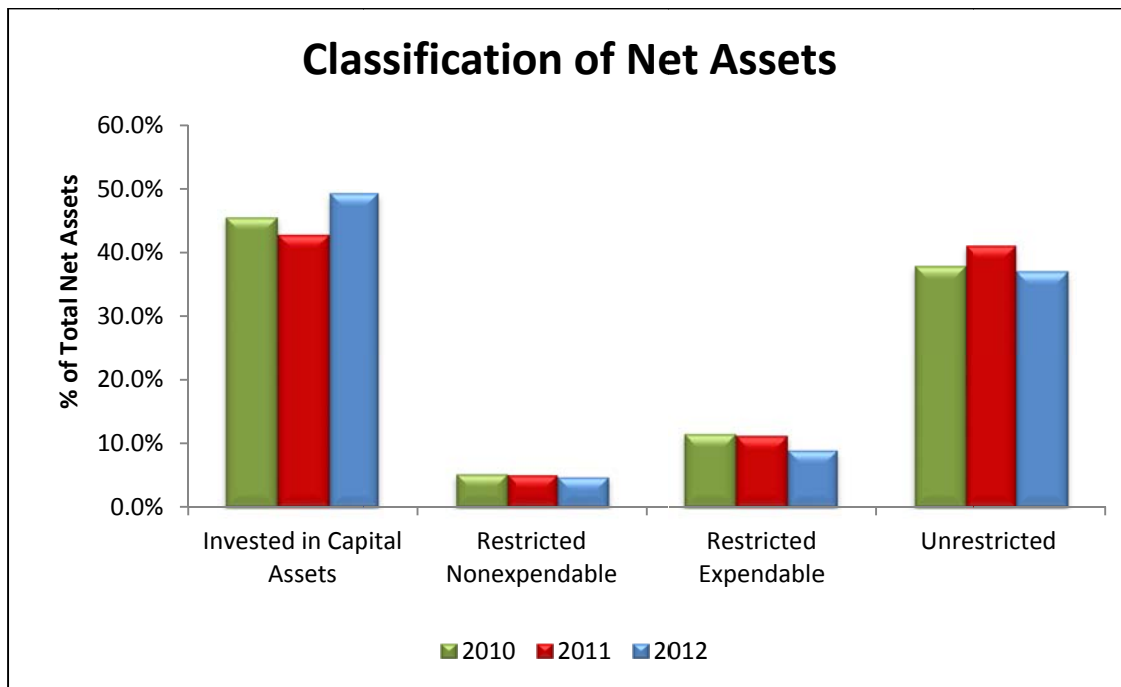
Oakland University
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State Building Authority and reallocation to cash equivalent investments. The total return on the University’s other long-term investments was 1.5% for 2012, and 6.7% for 2011, both net of fees. See “Statements of Cash Flows” section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

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

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

The following graph shows net assets by classification and restriction:



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

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

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

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

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

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

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

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

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

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

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

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

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

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

University Operating Expenses

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

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

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

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

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

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

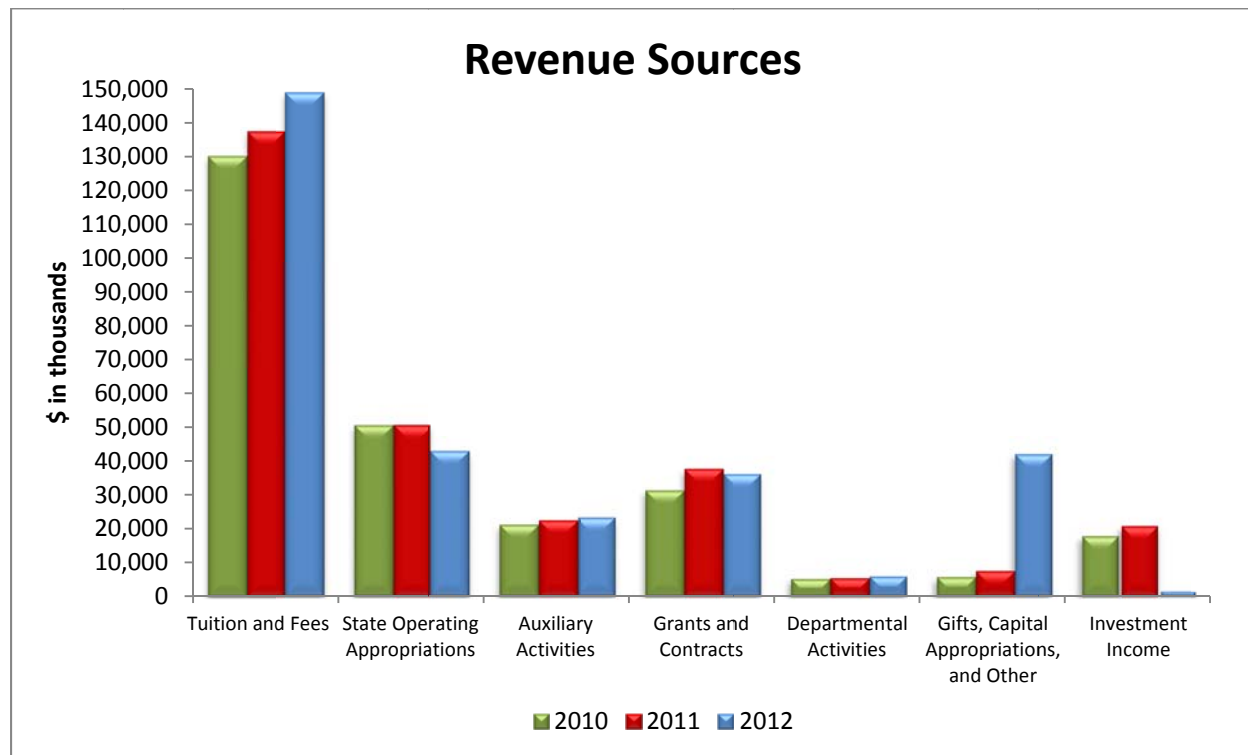
The increase in nonoperating gift revenue of \$1.5 million to \$5.8 million at June 30, 2012 is attributable to a generous gift of \$1.0 million to the Oakland University William Beaumont School of Medicine and non-capital donation of \$0.5 million for the new Steve Sharf Clubhouse.

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

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

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

A graphic illustration of each revenue source is as follows:



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

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

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

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

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

Commitments

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

University Credit Rating

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

Deferred Plant Renewal

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

Factors or Conditions Impacting Future Periods

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

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

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

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

The accompanying notes are an integral part of these financial statements

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

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

The accompanying notes are an integral part of these financial statements

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

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

The accompanying notes are an integral part of these financial statements

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

1. Significant Accounting Policies

Organization

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

Basis of Accounting

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

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

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

Cash Equivalents

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

Investments

Investments are stated at fair market value.

Derivatives

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

Inventories

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

Physical Properties

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

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

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

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

Revenue Recognition

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

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

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

Revenues are reported net of discounts and allowances.

Income Tax Status

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

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

2. Investments and Deposits with Financial Institutions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Accounts Receivable

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

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

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

4. Appropriations Receivable

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

5. Pledges Receivable

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

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

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

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

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

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

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

6. Student Loans Receivable

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

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

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

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

7. Capital Assets

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

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

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

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8. State Building Authority

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

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

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

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

9. Cash Surrender Value of Life Insurance Policies

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

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10. Long-Term Liabilities

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

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

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

Note and Installment Purchase Agreement Payable

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

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

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

Bonds Payable

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

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

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2013	\$ 3,305,000	\$ 3,410,669	\$ 1,655,998	\$ 8,371,667
2014	3,430,000	3,321,551	1,613,492	8,365,043
2015	3,570,000	3,224,955	1,569,553	8,364,508
2016	3,730,000	3,118,362	1,523,703	8,372,065
2017	3,870,000	3,024,651	1,475,943	8,370,594
2018-2022	22,055,000	13,158,302	6,590,084	41,803,386
2023-2027	32,345,000	9,082,835	5,060,013	46,487,848
2028-2032	29,015,000	5,823,685	1,819,019	36,657,704
2033-2037	8,270,000	3,202,987	-	11,472,987
2038-2039	3,870,000	418,275	-	4,288,275
	<u>113,460,000</u>	<u>\$ 47,786,272</u>	<u>\$ 21,307,805</u>	<u>\$182,554,077</u>
Less: Deferral on extinguishment, net	<u>(4,447,371)</u>			
	<u>\$109,012,629</u>			

Other Liabilities

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

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

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

11. Derivatives

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

Investment Derivative Instrument:

2007 Constant Maturity Swap Agreement

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

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

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

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

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

Hedging Derivative Instrument:

2008 Interest Rate Swap Agreement

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

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

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

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

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

12. Postemployment Benefits Other than Pensions

Plan Description

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

Funding Policy

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

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

Funded Status and Funding Progress

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

Schedule of Funding Progress
Oakland University Retired Employees Healthcare Plan

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

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

Actuarial Methods and Assumptions

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

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

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

13. Employee Benefits

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

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

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

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

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14. Liability and Property Insurance

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

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

15. Contingencies and Commitments

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

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

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

16. Expenditures by Natural Classification

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

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

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17. Cash Flow Statement

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

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

18. Related Party Transactions

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

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

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

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

19. Subsequent Event Disclosures

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

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



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