

Oakland University

Annual Financial Statements

Years ended June 30, 2003 and 2002

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# Oakland University

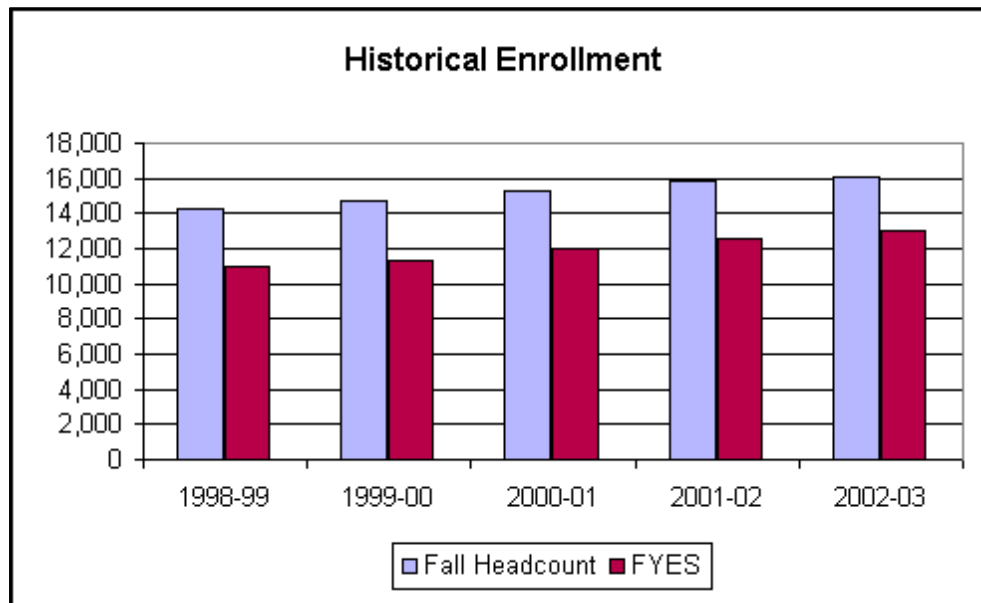
## Management's Discussion and Analysis

For the year ended June 30, 2003

Following is management's discussion and analysis of the financial position and results of operations of Oakland University for the fiscal year ended June 30, 2003. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

### **Enrollment and Operations Highlights**

- In fiscal year 2002-03, enrollment based on fiscal year equated students (FYES) increased 3.6% to 13,069.
- Student headcount enrollment for the fall semester increased 1.2% to 16,059.



- Construction of the new Education and Human Services Building was completed during the year. The \$31.5 million building features expanded classroom and laboratory space, new technologies, counseling rooms, and a resource library. It also serves as home for the Lowry Early Childhood Development Center.
- New University Student Apartments opened in fall 2002. The \$21 million apartment complex provides living space for more than 450 students in its six buildings. The apartments offer full kitchens, furnished bedrooms and living rooms and a community center. Occupancy grew to nearly 100% in the new student apartments during the year.
- A new parking structure opened on campus in fall 2002. The \$6 million, three floor structure provides 550 parking spaces, two-thirds of which are covered.

## Oakland University

### Management's Discussion and Analysis

(Continued)

- The University broke ground on the Oakland Center's new \$8 million addition during the year. The student center expansion will include a 7,000 square-foot multipurpose room for lectures, banquets and student functions, expanded food court seating and an updated kitchen. Completion is scheduled for fall 2003.
- The University expanded degree offerings during 2003 including two new bachelor of science options, a new doctoral program in mechanical engineering and a new higher education option in the doctoral program in educational leadership.
- State appropriations to Oakland University, and all of Michigan's 15 public universities, were reduced by 3.5 percent during fiscal year 2003. The University addressed the reduction primarily through one-time spending reductions of \$2.4 million from nearly all areas of the University.

#### **Using the Annual Report**

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

- Statement of Net Assets. This statement presents information on all University assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year using the accrual basis of accounting.
- 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 is prepared for the University's fiscal year using the accrual basis of accounting.
- 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.

#### **Reporting Entity**

The University is considered a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Trustees. Accordingly, the University is included in the State's comprehensive annual financial report as a discretely presented component unit.

The financial statements report information about total University operations. The Oakland University Foundation is not a component unit of the University and thus is not consolidated into the financial statements. It is, however, referenced in the financial statement footnotes.

## Oakland University

### Management's Discussion and Analysis

(Continued)

#### **Financial Statement Summaries**

##### *Statements of Net Assets*

Net assets are summarized in the following schedule:

#### **Condensed Statements of Net Assets**

	<b>June 30</b>		<b>Change</b>
	<b>(in thousands)</b>		
	<b>2003</b>	<b>2002</b>	
<b>Assets</b>			
Current assets	\$ 45,894	\$ 58,347	(21%)
Capital assets	238,844	228,986	4%
Other noncurrent assets	49,730	48,856	2%
Total assets	<u>334,468</u>	<u>336,189</u>	(1%)
<b>Liabilities</b>			
Current liabilities	25,341	29,415	(14%)
Noncurrent liabilities	93,969	95,891	(2%)
Total liabilities	<u>119,310</u>	<u>125,306</u>	(5%)
<b>Net Assets</b>			
Invested in capital assets, net of related debt	152,277	153,585	(1%)
Restricted nonexpendable	5,076	4,998	2%
Restricted expendable	15,361	14,991	2%
Unrestricted	42,444	37,309	14%
Total net assets	<u>\$215,158</u>	<u>\$210,883</u>	2%

The University's total assets were \$334 million at June 30, 2003 and \$336 million at June 30, 2002. Capital assets increased by \$10 million during the year, net of depreciation. The increase was offset by a corresponding reduction in cash and cash equivalents for capital expenditures.

The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment and construction in progress. Capital assets represent 71% and 68% of the University's total assets at June 30, 2003 and 2002, respectively. Major capital expenditures during 2003 were \$5.5 million for the Oakland Center expansion, \$3.8 million for the new parking structure, \$3.5 million for the new Education and Human Services Building and \$2.2 million for the new student apartments.

Oakland University

Management's Discussion and Analysis  
(Continued)

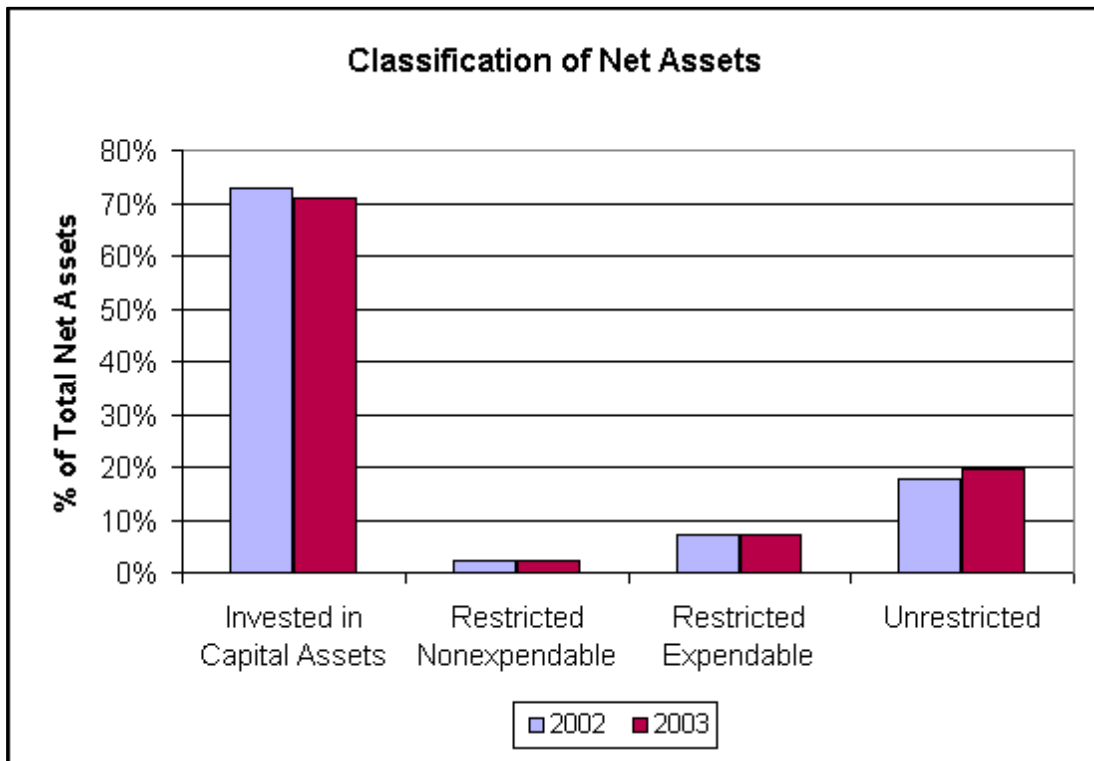
Other noncurrent assets of the University consist primarily of endowment and other long-term investments. Endowment investments were \$15.5 million at June 30, 2003 and \$16 million at June 30, 2002. The decrease was due in part to a special distribution of \$571,000 made from the Meadow Brook Hall reserve in support of the Hall. Other long-term investments were \$32 million at June 30, 2003 and \$30 million at June 30, 2002. Other long-term investments represent funds generated from operations and other sources.

Current assets consist primarily of cash and cash equivalents, and receivables related to tuition and fees, state appropriations and donor pledges.

The University's total liabilities were \$119 million at June 30, 2003 and \$125 million at June 30, 2002. Noncurrent liabilities are comprised primarily of bonds and notes payable and represented 79% and 77% of the University's total liabilities at June 30, 2003 and 2002, respectively.

Current liabilities consist primarily of accounts payable, accrued expenses, and deferred revenue. The \$4 million decrease in current liabilities relates to the reduced level of construction project accounts payable from year to year.

The following graph shows net assets by classification and restriction:



## Oakland University

### Management's Discussion and Analysis

(Continued)

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

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

The following summarizes the internal designations of unrestricted net assets:

	<b>June 30</b>	
	<b>(in thousands)</b>	
	<b>2003</b>	<b>2002</b>
Auxiliary enterprises	\$ 1,457	\$ 1,677
Capital projects and repair reserves	10,528	6,976
Funds designated for departmental use	9,850	8,568
Funds functioning as endowments	6,017	6,610
Institutional reserves	8,532	8,304
Retirement and insurance reserves	4,378	3,443
Other unrestricted	1,682	1,731
	<b>\$42,444</b>	<b>\$37,309</b>

Oakland University

Management's Discussion and Analysis  
(Continued)

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

The following schedule summarizes revenues, expenses and changes in net assets:

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

	Years ended June 30 (in thousands)		<b>Change</b>
	<b>2003</b>	<b>2002</b>	
<b>Operating revenues</b>			
Net tuition and fees	\$ 65,412	\$ 58,263	12%
Grants and contracts	15,215	15,704	(3%)
Auxiliary activities	20,944	19,769	6%
Departmental activities	5,315	4,487	18%
Other	385	285	35%
Total operating revenues	107,271	98,508	9%
Operating expenses	160,821	151,303	6%
Operating loss	(53,550)	(52,795)	1%
<b>Nonoperating revenues (expenses)</b>			
State appropriations	50,551	52,385	(4%)
Gifts	3,976	3,514	13%
Investment income	2,844	216	1,217%
Interest expense	(4,218)	(3,506)	20%
Net nonoperating revenues	53,153	52,609	1%
<b>Loss before other revenues</b>	(397)	(186)	113%
Capital appropriations	4,476	18,592	(76%)
Capital grants and gifts	88	52	69%
Additions to permanent endowments	108	70	54%
Total other revenues	4,672	18,714	(75%)
<b>Increase in net assets</b>	4,275	18,528	(77%)
<b>Net assets, beginning of year</b>	210,883	192,355	10%
<b>Net assets, end of year</b>	\$215,158	\$210,883	2%

## Oakland University

### Management's Discussion and Analysis

(Continued)

The University's operating revenues were \$107 million in 2003 and \$99 million in 2002. The 9% increase was primarily due to increases in tuition and fees and revenues from auxiliary activities. Tuition and fees, net of scholarship allowances, increased 12% in 2003 over 2002. The increase was caused by tuition rate and fee increases averaging 8.5%, and enrollment increases of 3.6% based on fiscal year equated students (FYES). The 6% increase in auxiliary activity revenues was primarily due to the opening of the new student apartments.

Operating expenses were \$161 million in 2003 and \$151 million in 2002. The 6% increase was due to increases in compensation, supplies and service expenses. A breakdown of the University's operating expenses by functional classification follows:

#### **Operating Expenses**

	<b>Years ended June 30</b>		<b>Change</b>
	<b>(in thousands)</b>		
	<b>2003</b>	<b>2002</b>	
Education and general:			
Instruction	\$ 65,394	\$ 60,213	9%
Research	6,148	7,804	(21%)
Public service	761	580	31%
Academic support	9,613	9,528	1%
Student services	11,681	10,941	7%
Institutional support	18,485	16,649	11%
Operation and maintenance of plant	11,651	10,468	11%
Depreciation	11,248	10,466	7%
Student aid	4,172	3,485	20%
Auxiliary activities	21,554	21,005	3%
Other expenditures	114	164	(30%)
Total operating expenses	<u>\$160,821</u>	<u>\$151,303</u>	6%

Education and general expenses increased by 6.9% in 2003. All functional categories of expense increased during the year except for research. Research expenses declined due to the completion of several major grants during the year.

The University's operating loss was \$54 million in 2003 and \$53 million in 2002. Offsetting these losses were net nonoperating revenues of \$53 million in 2003 and 2002. Annual state appropriations, while budgeted for operations, are included in nonoperating revenues according to generally accepted accounting principles. Total nonoperating state appropriations were \$51 million in 2003 and \$52 million in 2002. The University's original state appropriation for 2003 was reduced during the year by \$1.8 million or 3.5%.

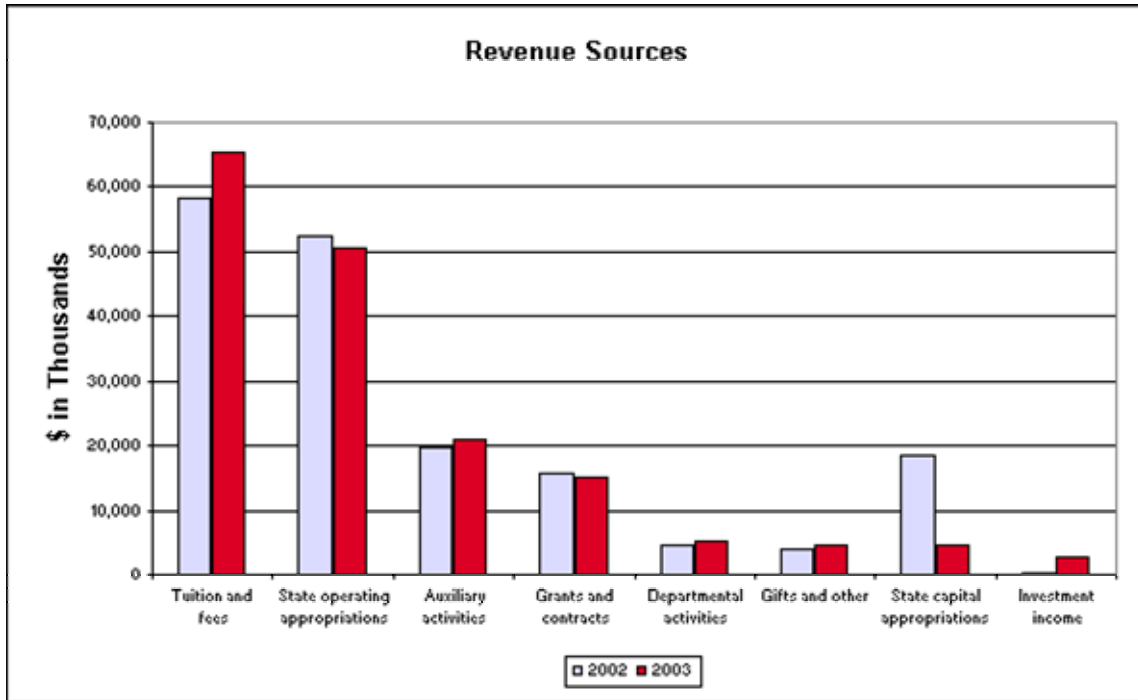
Other revenues were \$5 million in 2003 and \$19 million in 2002. State of Michigan capital appropriations declined by \$14 million in 2003 related to the completion of the new Education and Human Services Building.



Oakland University

Management's Discussion and Analysis  
(Continued)

A graphic illustration of each revenue source is as follows:



*Statements of Cash Flows*

The following schedule summarizes cash flows:

	<b>Years ended June 30</b>	
	<b>(in thousands)</b>	
	<b>2003</b>	<b>2002</b>
Cash provided (used) by:		
Operating activities	\$(40,961)	\$(45,719)
Noncapital financing activities	55,529	56,084
Capital financing activities	(23,099)	8,652
Investing activities	1,485	1,077
Net increase (decrease) in cash	(7,046)	20,094
Cash and cash equivalents, beginning of year	33,898	13,804
Cash and cash equivalents, end of year	<u>\$ 26,852</u>	<u>\$ 33,898</u>

## Oakland University

### Management's Discussion and Analysis

(Continued)

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprise charges and grant and contract revenues. Cash disbursements include salaries and wages, benefits, supplies, utilities and scholarships. The overall decrease in net cash used by operations reflects the timing of payroll payments and accounts receivable collections from year to year.

State appropriation is the primary source of noncapital financing. Noncapital state appropriation receipts were \$51 million in 2003 and \$52 million in 2002.

Capital financing activities for 2003 include the retirement of a capital lease funded by a \$4.8 million note payable, state appropriations for the new Education and Human Services Building of \$7.7 million, capital expenditures of \$25.8 million and debt service payments of \$10.7 million. Capital financing activities for 2002 include the August 2001 bond issue of \$48 million, state appropriations for the new Education and Human Services Building of \$14 million, capital expenditures of \$47.5 million and debt service payments of \$5.8 million.

Cash from investing activities includes investment income and proceeds from sales of investments.

#### **Capital Assets/Long-Term Debt**

##### *Capital Plan*

In August 2001 the University issued \$48,000,000 of Series 2001 general revenue bonds, which, in combination with resources from Michigan State Building Authority (SBA) financing, private fund raising and other available University resources, have funded all or part of the following projects:

- University student apartments
- Education and Human Services Building
- Electrical system upgrade
- Parking structure
- Oakland Center improvements

Capital asset additions approximated \$25.8 million in 2003 and \$47.5 million in 2002.

##### *University Credit Rating*

In August 2001, the University engaged Moody's Investors Service, Inc. and Fitch, Inc. to issue credit ratings in relation to the University's issuance of bonds in that month. As part of that process, Moody's released an underlying credit rating for the University of A2. The bonds were rated Aaa/VMIG1 by Moody's and AAA/F1+ by Fitch based on bond insurance issued by the Financial Guarantee Insurance Corporation (FGIC).

## Oakland University

### Management's Discussion and Analysis (Continued)

#### *Deferred Maintenance*

The University surveys its deferred maintenance annually adding new items and deleting ones that were addressed during the year. As a result of that process, the University is consistent in managing its deferred maintenance issues. Each year, general revenue funds are allocated to address deferred maintenance items. In addition, the University has established a quasi endowment fund that provides investment earnings that are also used to address deferred maintenance items.

#### **Factors or Conditions Impacting Future Periods**

Financial 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:

- State and national economy
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates
- Public educational policy factors