

DRAFT FINANCIAL STATEMENTS, JUNE 30, 2014 AND 2013

1. **Division and Department:** Finance and Administration, Controller's Office
2. **Introduction:** The draft Financial Statements, June 30, 2014 and 2013 for Oakland University (University) have been completed (Attachment A).

The audit opinion of Andrews Hooper Pavlik P.L.C. (AHP) states "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America."

AHP's Board of Trustees Letter (Attachment B) summarizes the audit engagement and required communications and includes a copy of the September 8, 2014 Management Representation Letter which details the representations made by the University Administration to AHP regarding the audit work performed.

Representatives from AHP will present the draft Financial Statements to the Board of Trustees' Audit Committee.

3. **Previous Board Action:** As a result of a competitive bid process, the public accounting firm of AHP was appointed by the Board of Trustees (Board) on March 7, 2007, and reappointed on January 9, 2008, October 30, 2008, and April 10, 2010; and following another competitive bid process, AHP was reappointed by the Board on March 15, 2011, March 28, 2012, February 12, 2013, and February 24, 2014, to conduct annual audits of the University's financial accounting records.
4. **Budget Implications:** The annual financial audits are budgeted for in the General Fund. No budget variances have occurred or are expected.
5. **Educational Implications:** None.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** The Financial Statements were prepared by the Controller's Office and reviewed by the Vice President for Finance and Administration, and President, and audited by AHP.
8. **Board Action to be Requested:** At the October 22, 2014 Formal Session the Board will be asked to accept the Financial Statements.


9. **Attachments:**

- A. Draft Financial Statements, June 30, 2014 and 2013
- B. Board of Trustees Letter


**Submitted by Vice President for Finance and Administration
And Treasurer John W. Beaghan:**


(Please initial)

Reviewed by Secretary Victor A. Zambardi:


(Please initial)

Reviewed by President George W. Hynd:


(Please initial)

Oakland University

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Oakland University
Contents
June 30, 2014 and 2013

	Page(s)
Report of Independent Auditors	1-2
Management’s Discussion and Analysis	3-14
Financial Statements	
Statements of Net Position.....	15
Statements of Revenues, Expenses, and Changes in Net Position.....	16
Statements of Cash Flows.....	17
Notes to Financial Statements.....	18-39

Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Auburn Hills, Michigan
September 8, 2014

**Oakland University
Management’s Discussion and Analysis
June 30, 2014 and 2013**

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, 2014 with selected comparative information for the year ended June 30, 2013 and 2012.

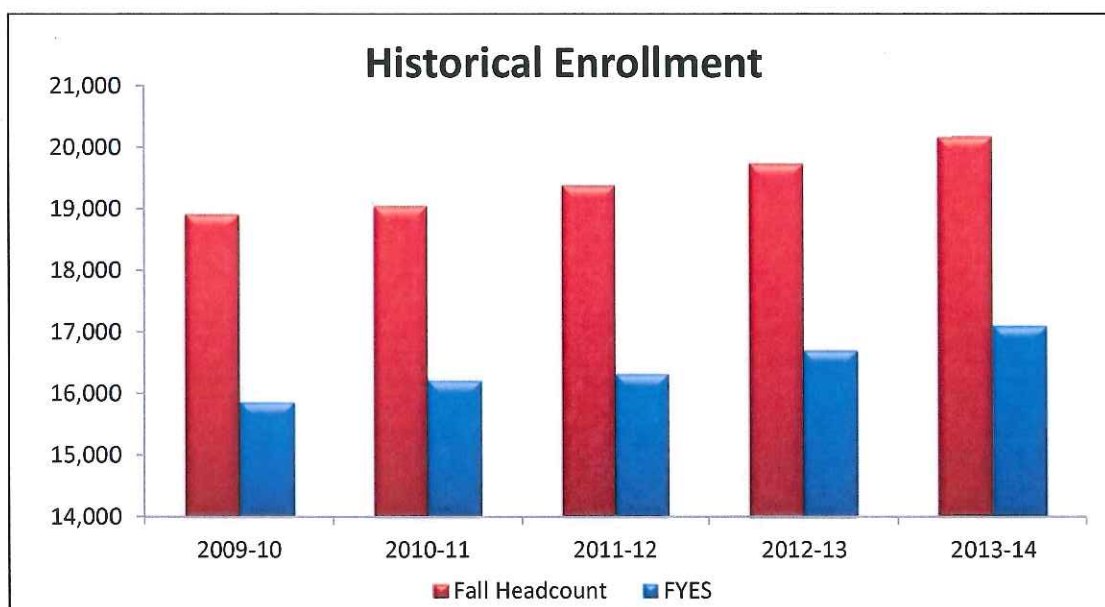
The University is a state-supported institution of over 20,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as programs in continuing education. The University is recognized as one of the country’s 90 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 139 baccalaureate degree programs and 125 graduate and certificate programs. The University’s student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom. The University is considered a component unit of the State of Michigan (State). Accordingly, the University’s financial statements are included in the State’s comprehensive annual financial report.

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

Enrollment and Operations Highlights

- In fiscal year 2014, student headcount enrollment for the fall 2013 semester increased 2.2% to a record 20,169. Undergraduate enrollment was 16,594 (82.0%) and graduate enrollment was 3,575 (18.0%).
- Enrollment based on Fiscal Year Equated Students (FYES) increased 2.3% to 17,090.

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



Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

- For the first time in Oakland University's history, student enrollment surpassed 20,000 during the 2013/14 academic year. This milestone, spurred by 15 straight years of growth, has established the University as a first-choice destination for Michigan students. During this time, the University has funded and constructed four major academic buildings, two student housing complexes, and four student life and recreation facilities, increased full-time faculty by 35 percent, and is home to over 250 student organizations.
- In September 2014, the Engineering and Computer Science community will relocate to a new \$74.6 million, 134,286 square foot Engineering Center featuring state of the art classrooms and research space. The Engineering Center will enhance Oakland University's global competitiveness in alternative energy, biomedical, automotive, defense and other high-tech industries. The State committed \$30.0 million to partially finance the Engineering Center; the remaining balance was funded by general revenue bonds issued in May 2012.
- Oakland's Department of Industrial and Systems Engineering introduced the Master of Science in Engineering Management. The new program will provide students with hands-on application of acquired knowledge that will enable engineers to better manage environmental resources and significantly reduce energy costs.
- In September 2014, Oakland will open the doors to Oak View Hall, the new student housing and Honors College complex. The \$30.0 million building, funded by general revenue bonds issued in June 2013, will accommodate over 500 freshmen and sophomores on campus.
- In September 2014, the University will dedicate the new \$6.5 million Elliott Tower. The 151-foot 49 bell tower will be a new University centerpiece complete with a surrounding fountain, garden, and decorative landscaping. The structure will become the 14th carillon tower in Michigan; Oakland is the fourth Michigan university to have a carillon. The project was funded by a generous gift from long-time supporters, Hugh and Nancy Elliott.
- Following a national search, the Board of Trustees (Board) appointed George W. Hynd as President at the July 9, 2014 Board meeting. Dr. Hynd becomes the sixth president in the University's history, succeeding Betty J. Youngblood, who served as interim president since July 2013.
- The Eye Research Institute was awarded a \$1.8 million grant from the National Institutes of Health. The money, funded over a five-year period, will go towards researching the dopaminergic neuron and its connection to various neurological diseases.
- The School of Business Administration (SBA) received accreditation from the Association to Advance Collegiate Schools of Business for the 20th straight year for business and accounting. This elite, dual accreditation is held by less than five percent of the world's business programs. Receiving this prestigious honor is a testament to the excellence and relevancy of SBA's curriculum and the commitment and dedication of deans, faculty, and professional staff.
- In May 2014, the Board approved construction of a 108,000 square foot Athletic Dome. The multipurpose training facility will feature a full soccer field, baseball and softball batting cages, as well as allow student-athletes to train and practice year round. It is expected to contain sufficient space for two or more teams to practice simultaneously. Additionally, this space is expected to enhance recruiting efforts and competitiveness in the Horizon League and offer leasing opportunities. The \$4.9 million structure is expected to be operational December 2014.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

- The Human Health Building was awarded a 2014 Construction and Design Award by The Engineering Society of Detroit. The award honors the owners, designers, and constructors for the use of innovative technology. The \$64.4 million, 172,825 square foot building was opened in 2012 and is home to the University's School of Nursing and School of Health Sciences.
- In August 2013, the Oakland University William Beaumont School of Medicine celebrated the opening of the new Hannah Hall of Science School of Medicine Laboratories. The \$6.6 million labs provide state of the art space for teaching human medical gross anatomy, neuroanatomy, microbiology, and other disciplines.

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

The University's financial statements can be found on pages 15, 16, and 17 of this financial report.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University's notes to the financial statements can be found on pages 18-39 of this financial report.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

University Financial Statement Summaries

University Statements of Net Position

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

Condensed Statements of Net Position	June 30,		Change
	2014	2013	
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 92,216	\$184,906	-50%
Capital assets, net	450,643	352,058	28%
Other noncurrent assets	223,790	175,773	27%
Total assets	<u>766,649</u>	<u>712,737</u>	8%
Deferred outflows of resources	12,463	12,763	-2%
Liabilities			
Current liabilities	68,328	52,092	31%
Noncurrent liabilities	247,064	249,806	-1%
Total liabilities	<u>315,392</u>	<u>301,898</u>	4%
Deferred inflows of resources	4,881	4,314	13%
Net position			
Net investment in capital assets	236,419	210,637	12%
Restricted nonexpendable	23,430	19,735	19%
Restricted expendable	44,791	41,061	9%
Unrestricted	154,199	147,855	4%
Total net position	<u>\$458,839</u>	<u>\$419,288</u>	9%

The University's total assets were \$766.6 million and \$712.7 million at June 30, 2014 and 2013, 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 59% and 49% of the University's total assets at June 30, 2014 and 2013, respectively. Capital expenditures totaled \$113.9 million in 2014 and \$53.8 million in 2013. Included in capital expenditures for 2014 were the Engineering Center, Oak View Hall, a new parking structure, the Elliott Tower, several student housing renovations, Athletic and Recreation Outdoor Complex, campus infrastructure projects, and other campus enhancement projects. Depreciation expense was \$15.3 million in 2014 and \$13.7 million in 2013.

Current assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, and receivables due within one year. Cash and cash equivalents, including restricted cash and cash equivalents, decreased \$104.0 million to \$57.6 million at June 30, 2014 largely due to major construction related expenditures incurred during the year. Accounts receivable increased \$11.1 million to \$20.9 million at June 30, 2014. This is primarily due to a receivable totaling \$10.8 million from the State Building Authority for the capital appropriation related to the Engineering Center. Other current assets of \$13.7 million include State operating appropriation receivable of \$8.3 million and pledge receivables of \$2.9 million.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$80.6 million at June 30, 2014 and \$61.4 million at June 30, 2013. The increase in the endowment fair market value was due to favorable outcomes in the market and generous contributions. The total return, net of fees, on the University's endowment investments were 15.8% for 2014 and 9.5% for 2013. Additionally, two contributions totaling \$9.8 million were received and are invested in the endowment pool: \$2.8 million for the Kinsey Professorship and \$7.0 million for the Sharf charitable gift annuity. Other long-term investments were \$134.9 million at June 30, 2014 and \$104.7 million at June 30, 2013 and include fixed income and equity securities. The increase is attributed to the liquidation of fiscal year 2013 pooled investments that were reinvested subsequent to June 30, 2013. The University's investments are being managed according to Board policies. The total return on the University's other long-term investments was 6.9% for 2014 and 5.0% for 2013, both net of fees. See the "Statements of Cash Flows" section of this report for additional detail.

Deferred outflows of resources were \$12.5 million at June 30, 2014 and \$12.8 million at June 30, 2013. Deferred outflows of resources consists of the estimated fair value of the 2008 Swap, early extinguishment of debt, and the deferral of swap termination costs for the 2001 Bonds. The decrease in the deferred outflows of resources is primarily due to the amortization of the early extinguishment of debt on the 2013B and 2001 Bonds.

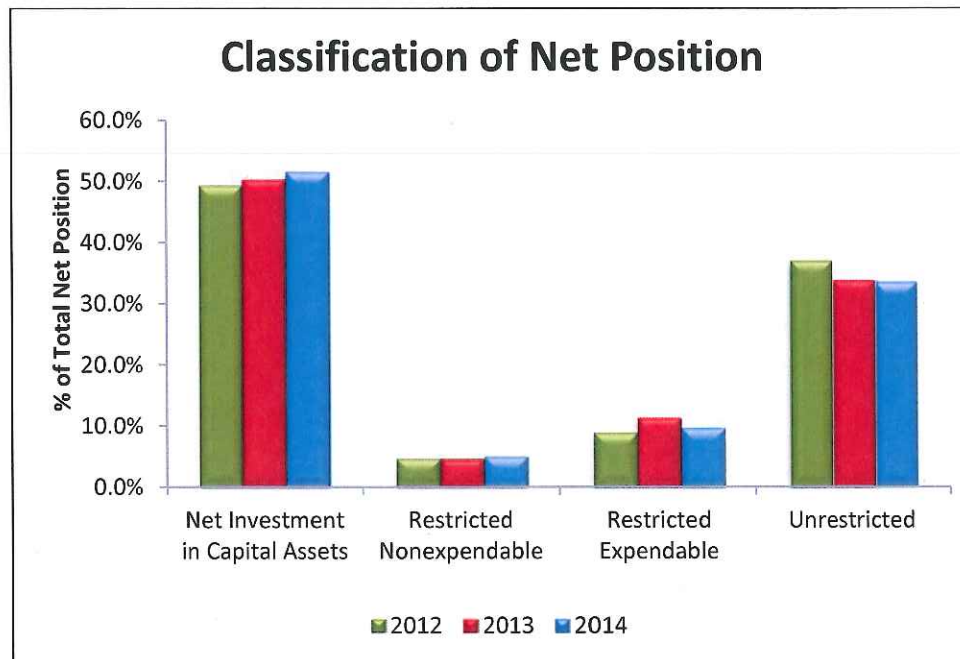
All investments held by the University can be liquidated to cash within 90 days or less without incurring additional fees, with the exception of the private equity holding and hedge funds.

The University's total liabilities were \$315.4 million at June 30, 2014 and \$301.9 million at June 30, 2013. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, and unearned revenue. The \$16.2 million increase in current liabilities is primarily attributed to the increase in accounts payable due to increased construction activity at year end. Of the \$16.2 million increase in current liabilities; \$7.5 million is attributable to the Engineering Center, which will be reimbursed by the State Building Authority; and \$8.7 million relates to Oak View Hall and parking structure funded by bond proceeds. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 78% and 83% of the University's total liabilities at June 30, 2014 and 2013, respectively.

Deferred inflows of resources were \$4.9 million at June 30, 2014 and \$4.3 million at June 30, 2013. Deferred inflows of resources consists of the estimated fair value of the 2008 Swap reduced by the estimated fair value of the 2007 Constant Maturity Swap investment derivative (CMS). The increase in the deferred inflows of resources is primarily due to the reduction in the fair value of the CMS at June 30, 2014.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

The following graph shows net position by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net position:

	June 30,	
	2014	2013
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 3,222	\$ 3,728
Capital projects and repair reserves	54,270	54,361
Funds designated for departmental use	28,926	29,282
Funds functioning as endowments	17,929	16,078
Gifts and investment income reserves	27,705	23,619
Retirement and insurance reserves	8,019	6,280
Encumbrances and carryforwards	12,765	11,178
Other unrestricted	1,363	3,329
	\$154,199	\$147,855

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

Auxiliary enterprises consist of the operating fund balances at year end for the various auxiliary units including Meadow Brook Hall, Golf & Learning Center, Oakland Center, and Athletics, etc. The decrease in 2014 is mainly due to funding of various repair and maintenance projects including the Golf & Learning Center Events Building and renovations at Meadow Brook Music Festival.

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

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

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

Gifts and investment income reserves include the University's unrestricted gifts, and realized and unrealized investment income reserves. The increase for 2014 is predominately attributable to investment earnings.

Retirement and insurance reserves include the University's reserves and liability recorded to date for other postemployment benefits (OPEB). In addition to the recorded liability, the University has an unrecorded OPEB liability of approximately \$24.9 million as of June 30, 2014. This balance also includes reserves for unemployment and workers' compensation for which the University is self-insured. The Governmental Accounting Standards Board (GASB) issued an Exposure Draft in May 2014, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The date of adoption noted in the Exposure Draft would be for the June 30, 2018 fiscal year, with earlier application encouraged. This Exposure Draft, when issued as a final Statement, would require the unrecorded OPEB liability of \$24.9 million to be recorded on the face of the financial statements.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position	2014	2013	2012	% Change 2014-2013	% Change 2013-2012
		<i>(in thousands)</i>			
Operating revenues					
Net tuition	\$165,846	\$155,967	\$149,095	6%	5%
Grants and contracts	13,423	14,395	15,236	-7%	-6%
Departmental activities	7,815	8,664	6,463	-10%	34%
Auxiliary activities, net	24,888	24,113	22,959	3%	5%
Other	249	249	269	0%	-7%
Total operating revenues	<u>212,221</u>	<u>203,388</u>	<u>194,022</u>	4%	5%
Operating expenses	<u>282,579</u>	<u>274,948</u>	<u>259,446</u>	3%	6%
Operating loss	<u>(70,358)</u>	<u>(71,560)</u>	<u>(65,424)</u>	-2%	9%
Nonoperating revenues (expenses)					
State appropriations	45,652	44,964	43,145	2%	4%
Gifts	9,649	4,853	5,806	99%	-16%
Investment income, net	22,358	14,685	1,471	52%	898%
Interest expense	(4,398)	(5,789)	(4,466)	-24%	30%
Pell grants	21,517	20,726	21,037	4%	-1%
Other	565	450	86	26%	423%
Net nonoperating revenues	<u>95,343</u>	<u>79,889</u>	<u>67,079</u>	19%	19%
Income before other revenues	<u>24,985</u>	<u>8,329</u>	<u>1,655</u>	200%	403%
Capital appropriations	10,770	10,073	30,427	7%	-67%
Capital grants and gifts	216	7,675	4,930	-97%	56%
Additions to permanent endowments	3,580	965	588	271%	64%
Total other revenues	<u>14,566</u>	<u>18,713</u>	<u>35,945</u>	-22%	-48%
Increase in net position	<u>39,551</u>	<u>27,042</u>	<u>37,600</u>	46%	-28%
Net position					
Beginning of year	419,288	392,246	354,646	7%	11%
End of year	<u>\$458,839</u>	<u>\$419,288</u>	<u>\$392,246</u>	9%	7%

Operating revenues were \$212.2 million in 2014, \$203.4 million in 2013, and \$194.0 million in 2012. The 4% increase in 2014 over 2013 was primarily due to increases in tuition revenue net of scholarship allowances, which was higher due to an enrollment increase of 2.3% effective for the fall 2013 semester, and tuition rates increasing by 3.7% for undergraduates and graduates.

Operating expenses were \$282.6 million in 2014, \$274.9 million in 2013, and \$259.4 million in 2012. The operating expense increase of 3% in 2014 over 2013 resulted from supporting increased enrollment, contractual agreements, and increases in instruction and academic support.

Net position increased \$39.6 million during 2014 and is primarily attributed to nonoperating activities including \$22.4 million of investment income, \$9.6 million in gifts, \$3.6 million of additions to permanent endowments, and \$10.8 million of capital appropriations. Partially offsetting this increase is \$4.4 million in interest expense on capital debt. The increase in 2013 of \$27.0 million is attributable to nonoperating activities including \$14.7 million of investment income, \$4.9 million in gifts, \$1.0 million of additions to permanent endowments, \$10.2 million of capital appropriations, and \$7.7 million in capital

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

grants and gifts. The increase is partially offset by \$5.8 million in interest expense on capital debt. The \$37.6 million increase in 2012 is largely due to nonoperating activities including \$1.5 million of investment income, \$5.8 million in gifts, \$0.6 million of additions to permanent endowments, \$30.4 million of capital appropriations, and \$4.9 million in capital grants and gifts. Partially offsetting the increase is \$4.5 million in interest expense on capital debt.

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

University Operating Expenses

	2014	2013	2012	% Change 2014-2013	% Change 2013-2012
		<i>(in thousands)</i>			
Education and general					
Instruction	\$114,260	\$110,296	\$104,180	4%	6%
Research	9,081	10,297	11,252	-12%	-8%
Public service	4,616	4,251	3,712	9%	15%
Academic support	30,213	28,066	25,765	8%	9%
Student services	28,104	28,381	25,654	-1%	11%
Institutional support	24,759	23,345	22,792	6%	2%
Operations and maintenance of plant	20,056	21,021	19,365	-5%	9%
Depreciation	15,255	13,710	12,556	11%	9%
Student aid	13,719	13,127	13,211	5%	-1%
Total education and general	<u>260,063</u>	<u>252,494</u>	<u>238,487</u>	3%	6%
Auxiliary activities	22,497	22,437	20,947	0%	7%
Other expenses	19	17	12	12%	42%
Total operating expenses	<u>\$282,579</u>	<u>\$274,948</u>	<u>\$259,446</u>	3%	6%

Education and general expenses increased 3% in 2014 over 2013 and 6% in 2013 over 2012. The increases are mainly attributable to an increase in academic program offerings to meet the needs of higher enrollment, contractual agreements, and equipment purchases related to the University's capital expansion programs.

The increase in Instruction for 2014 is due to a \$5.0 million increase in compensation related to existing and new academic programs, which is offset by a decrease in supplies and services. The decrease in Research is primarily due to reductions in federal funding relating to the winding down of American Reinvestment and Recovery Act (ARRA) grants. The Academic Support increase is predominantly due to an increase of \$1.4 million in compensation and \$0.7 million in supplies and other expenses. The Institutional Support increase is related to an increase of \$0.8 million in compensation and an increase of \$0.5 million in supplies and services.

The University's operating loss was \$70.4 million in 2014, \$71.6 million in 2013, and \$65.4 million in 2012. Offsetting these losses were net nonoperating revenues of \$95.3 million in 2014, \$79.9 million in 2013, and \$67.1 million in 2012.

Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$45.7 million in 2014, \$45.0 million in 2013, and \$43.1 million in 2012. The annual appropriation for 2014 increased \$0.7 million, or 1.6%, due to the University's portion of the State's performance funding allocation.

**Oakland University
Management’s Discussion and Analysis
June 30, 2014 and 2013**

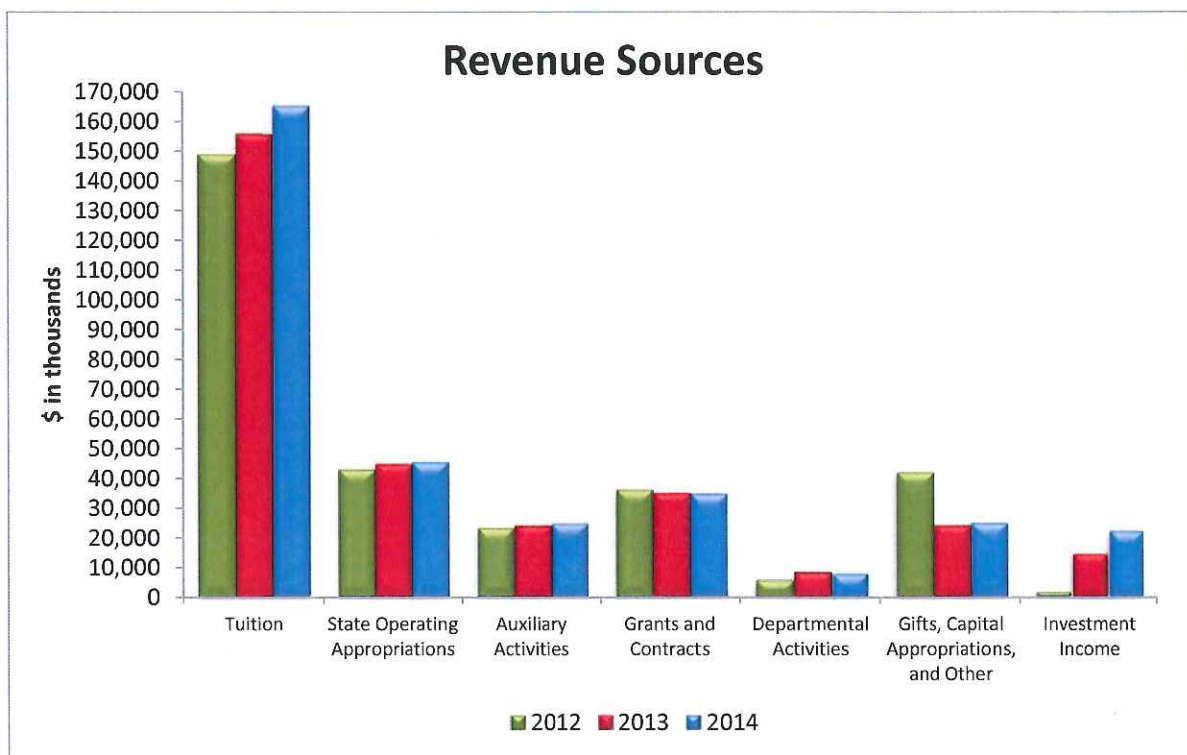
The increase in nonoperating gift revenue of \$4.8 million to \$9.6 million at June 30, 2014 is attributable to the recognition of \$1.6 million in life insurance proceeds previously donated to the University and a \$3.3 million charitable gift annuity.

The University earned \$22.4 million in investment income. This growth is comprised of \$12.4 million, a 6.9% rate of return, in University pooled working capital investments and \$10.0 million, a 15.8% rate of return, in endowment investments.

Nonoperating revenues also include \$21.5 million from Federal Pell Grants in 2014. Pell Grant revenue for 2013 and 2012 was \$20.7 million and \$21.0 million, respectively. The increase in Pell Grant revenue from 2013 to 2014 is due to an increase in the number of recipients along with an increase in the maximum award amount.

Other revenues decreased \$4.1 million to \$14.6 million in 2014 primarily due to a \$6.5 million capital gift received in 2013 for the construction of the Elliott Tower. Offsetting this reduction was a \$2.8 million gift received in 2014 for the establishment of the Kinsey Professorship Endowment. Capital appropriations from the State Building Authority for the construction of the Engineering Center totaled \$10.8 million in 2014. Capital appropriations in 2013 were primarily for the construction of the Human Health Building.

A graphic illustration of each revenue source is as follows:



Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

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>2014</u>	<u>2013</u>	<u>2012</u>
		<i>(in thousands)</i>	
Cash provided (used) by			
Operating activities	\$ (59,161)	\$(52,416)	\$(50,231)
Noncapital financing activities	85,689	72,966	73,071
Capital financing activities	(104,132)	80,119	(34,522)
Investing activities	<u>(26,403)</u>	<u>23,859</u>	<u>16,069</u>
Net increase (decrease) in cash	(104,007)	124,528	4,387
Cash and cash equivalents			
Beginning of year	<u>161,634</u>	<u>37,106</u>	<u>32,719</u>
End of year	<u>\$ 57,627</u>	<u>\$161,634</u>	<u>\$ 37,106</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 \$45.5 million in 2014 and \$44.6 million in 2013. Cash received from Pell Grants increased for the year ended June 30, 2014 by \$0.8 million, decreased by \$0.3 million in 2013, and increased \$1.0 million in 2012.

Capital financing activities for 2014 include capital expenditures of \$95.7 million in addition to debt service payments totaling \$8.8 million. Cash disbursements for capital expenditures in 2014 included \$33.3 million for the Engineering Center; \$21.3 million for Oak View Hall, the new student housing complex; \$11.5 million for a new parking structure; \$4.1 million in equipment; \$3.8 million in renovations in Hannah and O'Dowd Halls; \$3.2 million for housing infrastructure renovations; \$2.7 million for construction of the Elliott Tower; \$1.4 million for the Facilities Management building; and \$1.2 million for the Athletic and Recreation Outdoor Complex. Capital financing activities for 2013 include capital expenditures of \$54.1 million in addition to debt service payments totaling \$9.9 million. Cash disbursements for capital expenditures in 2013 included \$15.2 million for the Human Health Building (the University received \$21.2 million in capital appropriations from the State Building Authority and \$0.4 million from a federal grant to partially offset the expense for this project); \$12.2 million for the Engineering Center; \$5.3 million for infrastructure improvements; \$6.7 million in equipment, and \$3.0 million for the Oak View Hall.

Cash used by investing activities during 2014 relates to purchases in excess of sales, maturities, and investment income.

Oakland University
Management's Discussion and Analysis
June 30, 2014 and 2013

Commitments

The estimated costs to complete construction projects in progress is \$53.3 million as of June 30, 2014, due in large part to the new Engineering Center in the amount of \$18.7 million, new parking structure for \$5.9 million, the Athletic and Recreation Outdoor Complex of \$5.5 million, the Athletic Dome Replacement of \$4.2 million, Oak View Hall for \$1.9 million, and various campus enhancement projects totaling \$17.1 million. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. Oak View Hall, the parking structure, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

University Credit Rating

On May 24, 2013, Moody's Investors Service reaffirmed the University's underlying credit rating as A1 - Stable.

Deferred Plant Renewal

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

Factors or Conditions Impacting Future Periods

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

- State and national economy
- Stability of State appropriations (including performance funding)
- Increased globalization and mobilization of student population
- Program growth and development
- New initiatives
- New and emergent technologies
- Productivity improvements
- Demographics, including number of high school graduates
- Continued development of the Oakland University William Beaumont School of Medicine

Oakland University
Statements of Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 28,509,310	\$ 56,815,372
Accounts receivable, net (Note 3)	20,911,240	9,802,304
Appropriations receivable (Note 4)	8,300,292	8,175,296
Pledges receivable, net (Note 5)	2,933,092	3,138,427
Inventories	913,875	695,972
Deposits and prepaid expenses	1,147,638	1,134,459
Student loans receivable, net (Note 6)	383,109	325,724
Restricted cash and cash equivalents (Note 2)	29,117,443	104,818,267
Total current assets	<u>92,215,999</u>	<u>184,905,821</u>
Noncurrent assets		
Endowment investments (Note 2)	80,564,954	61,431,555
Other long-term investments (Note 2)	134,876,282	104,704,528
Pledges receivable, net (Note 5)	6,386,173	7,126,483
Student loans receivable, net (Note 6)	1,467,172	1,411,466
Capital assets, net (Note 7)	450,643,140	352,057,826
Other assets (Note 9)	495,422	1,099,460
Total noncurrent assets	<u>674,433,143</u>	<u>527,831,318</u>
Total assets	<u>766,649,142</u>	<u>712,737,139</u>
Deferred outflows of resources (Note 11)	12,462,640	12,762,771
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	36,710,233	21,446,734
Accrued payroll	7,895,478	8,747,671
Long-term liabilities - current portion (Note 10)	7,461,983	6,588,262
Unearned revenue	14,584,561	13,710,784
Deposits	1,675,915	1,598,207
Total current liabilities	<u>68,328,170</u>	<u>52,091,658</u>
Noncurrent liabilities		
Unearned revenue	114,780	380,599
Long-term liabilities (Note 10)	237,551,882	241,607,647
Other postemployment benefits (Note 12)	9,396,626	7,817,556
Total noncurrent liabilities	<u>247,063,288</u>	<u>249,805,802</u>
Total liabilities	<u>315,391,458</u>	<u>301,897,460</u>
Deferred inflows of resources (Note 11)	4,881,368	4,314,435
Net position		
Net investment in capital assets	236,419,354	210,637,152
Restricted nonexpendable	23,430,032	19,734,956
Restricted expendable	44,790,721	41,061,288
Unrestricted	154,198,849	147,854,619
Total net position	<u>\$ 458,838,956</u>	<u>\$ 419,288,015</u>

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

Oakland University
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Tuition (net of scholarship allowances of \$43,567,100 in 2014 and \$37,151,400 in 2013)	\$ 165,846,092	\$ 155,967,342
Federal grants and contracts	8,967,888	10,214,846
State, local, and private grants and contracts	4,455,206	4,180,070
Departmental activities	7,814,567	8,663,771
Auxiliary activities (net of scholarship allowances of \$3,675,100 in 2014 and \$3,134,200 in 2013)	24,888,384	24,113,385
Other operating revenues	248,908	248,630
Total operating revenues	<u>212,221,045</u>	<u>203,388,044</u>
Operating expenses		
Education and general		
Instruction	114,260,375	110,296,123
Research	9,080,917	10,296,931
Public service	4,616,277	4,250,636
Academic support	30,212,405	28,066,361
Student services	28,104,403	28,381,425
Institutional support	24,758,938	23,344,960
Operations and maintenance of plant	20,055,817	21,020,640
Depreciation	15,254,784	13,709,983
Student aid	13,718,857	13,127,014
Auxiliary activities	22,497,145	22,437,218
Other expenses	19,415	17,175
Total operating expenses (Note 16)	<u>282,579,333</u>	<u>274,948,466</u>
Operating loss	<u>(70,358,288)</u>	<u>(71,560,422)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	45,651,600	44,964,100
Gifts	9,649,542	4,852,750
Investment income (net of investment expenses of \$483,967 in 2014 and \$568,564 in 2013)	22,358,185	14,685,497
Interest on capital asset related debt	(4,398,419)	(5,788,817)
Pell grants	21,517,248	20,726,249
Other	564,856	449,585
Net nonoperating revenues	<u>95,343,012</u>	<u>79,889,364</u>
Income before other revenues	<u>24,984,724</u>	<u>8,328,942</u>
Capital appropriations	10,769,781	10,073,228
Capital grants and gifts	215,837	7,674,464
Additions to permanent endowments	3,580,599	965,331
Total other revenues	<u>14,566,217</u>	<u>18,713,023</u>
Increase in net position	<u>39,550,941</u>	<u>27,041,965</u>
Net position		
Beginning of year	419,288,015	392,246,050
End of year	<u>\$ 458,838,956</u>	<u>\$ 419,288,015</u>

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

Oakland University
Statements of Cash Flows
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Tuition	\$ 168,250,717	\$ 159,556,982
Grants and contracts	11,997,937	15,858,572
Payments to suppliers	(70,483,008)	(67,635,911)
Payments to employees	(187,316,324)	(179,615,754)
Payments for scholarships and fellowships	(13,718,857)	(13,127,014)
Loans issued to students	(422,698)	(316,644)
Collection of loans from students	313,339	266,077
Auxiliary enterprise charges	24,940,830	24,939,133
Other receipts	7,276,815	7,657,842
Net cash used by operating activities (Note 17)	<u>(59,161,249)</u>	<u>(52,416,717)</u>
Cash flows from noncapital financing activities		
State appropriations	45,526,604	44,633,352
Federal direct lending receipts	109,509,951	106,481,620
Federal direct lending disbursements	(109,509,951)	(106,481,620)
Gifts and grants for other than capital purposes	33,281,329	27,367,254
Endowment gifts	6,880,890	965,331
Net cash provided by noncapital financing activities	<u>85,688,823</u>	<u>72,965,937</u>
Cash flows from capital financing activities		
Proceeds from capital debt	-	138,098,621
Capital appropriations	-	22,212,937
Capital grants, gifts, and other receipts	353,090	7,142,408
Purchases of capital assets	(95,708,723)	(54,127,973)
Principal paid on capital debt and leases	(4,708,278)	(26,157,314)
Interest paid on capital debt and leases	(4,068,097)	(7,049,369)
Net cash provided (used) by capital financing activities	<u>(104,132,008)</u>	<u>80,119,310</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	64,675,117	69,371,521
Investment income	10,761,694	6,394,361
Purchase of investments	(101,839,263)	(51,906,594)
Net cash provided (used) by investing activities	<u>(26,402,452)</u>	<u>23,859,288</u>
Net increase (decrease) in cash and cash equivalents	<u>(104,006,886)</u>	124,527,818
Cash and cash equivalents		
Beginning of year	161,633,639	37,105,821
End of year	<u>\$ 57,626,753</u>	<u>\$ 161,633,639</u>

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

1. Significant Accounting Policies

Organization

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

Basis of Accounting

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. The statements incorporate all fund groups utilized internally by the University. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Cash and Cash Equivalents

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

Cash Flow Reporting

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

Investments

Investments are stated at fair market value.

Inventories

Inventories are stated at the lower of average cost or market. Included in the 2014 inventory are three homes in the Meadow Brook Subdivision owned by the University and valued at a total of \$495,000.

Physical Properties

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

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

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

1. Significant Accounting Policies (continued)

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Revenue Recognition

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

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 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.

Bond Issuance Costs

Bond issuance costs are expensed when incurred.

Income Tax Status

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

1. Significant Accounting Policies (continued)

Reclassification

Certain fiscal year 2013 balances on the Statement of Revenues, Expenses, and Changes in Net Position have been reclassified to conform to the current year presentation. Specifically, the University reclassified the following items to be more in line with industry guidelines. The following year ended June 30, 2013 amounts were reclassified:

	As Previously Reported	As Reclassified
Operating revenues		
Departmental activities	\$ 8,016,890	\$ 8,663,771
Auxiliary activities	24,760,266	24,113,385
Operating expenses		
Education and general:		
Public service	4,248,340	4,250,636
Academic support	22,730,020	28,066,361
Student services	21,112,884	28,381,425
Institutional support	33,438,831	23,344,960
Operations and maintenance of plant	20,517,888	21,020,640
Auxiliary activities	25,453,277	22,437,218

2. Investments and Deposits with Financial Institutions

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

The operating cash portfolio at June 30, 2014 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire investment pool.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

2. Investments and Deposits with Financial Institutions (continued)

The University's working capital investment pool consists of the following as of June 30, 2014 and 2013:

<u>June 30, 2014</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	\$ 28,296,579	\$28,296,579	\$ -	\$ -	\$ -
Commonfund Intermediate Bond Fund	30,335,606	5,278,395	24,602,177	455,034	-
Commonfund Intermediate High Quality Bond Fund	37,358,792	4,696,000	15,470,276	11,323,450	5,869,066
Huntington Situs Equity Fund	11,464,198	-	-	-	11,464,198
Commonfund Core Equity Fund	29,284,107	-	-	-	29,284,107
JP Morgan Bond Fund	27,388,193	5,051,910	21,820,020	516,263	-
Cash with Trustees	29,112,100	29,112,100	-	-	-
Operating investments	193,239,575	72,434,984	61,892,473	12,294,747	46,617,371
Net cash overdraft	(736,540)	(736,540)	-	-	-
	<u>\$192,503,035</u>	<u>\$71,698,444</u>	<u>\$61,892,473</u>	<u>\$12,294,747</u>	<u>\$46,617,371</u>
Cash and cash equivalents	\$ 28,509,310				
Restricted cash and cash equivalents	29,117,443				
Other long-term investments	134,876,282				
	<u>\$192,503,035</u>				
<u>June 30, 2013</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	\$ 63,583,006	\$ 63,583,006	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	35,378,035	1,110,870	14,653,582	14,476,692	5,136,891
JP Morgan Equity Funds Intrepid Equities	41,535,285	-	-	-	41,535,285
Huntington Situs Equity Fund	2,033,857	-	-	-	2,033,857
WAM Sinking Fund	335,355	-	-	-	335,355
JP Morgan Bond Fund	26,855,052	4,698,155	22,156,897	-	-
Cash with Trustees	104,815,799	104,815,799	-	-	-
Operating investments	274,536,389	174,207,830	36,810,479	14,476,692	49,041,388
Net cash overdraft	(8,198,222)	(8,198,222)	-	-	-
	<u>\$266,338,167</u>	<u>\$166,009,608</u>	<u>\$36,810,479</u>	<u>\$14,476,692</u>	<u>\$49,041,388</u>
Cash and cash equivalents	\$ 56,815,372				
Restricted cash and cash equivalents	104,818,267				
Other long-term investments	104,704,528				
	<u>\$266,338,167</u>				

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

2. Investments and Deposits with Financial Institutions (continued)

The investments are shown by category according to their respective duration to describe the level of interest rate risk in the portfolio. Changes in interest rates over time can impact the market value of the fixed income portion of the portfolio. At June 30, 2014, the JP Morgan Bond Fund had a weighted-average maturity of 2.2 years and an average credit quality of AA+. The Commonfund High Quality Bond Fund had a weighted-average maturity of 7.4 years and an average credit quality of AA-.

The University's working capital portfolio is not exposed to foreign currency risk as of June 30, 2014.

These investments produced net rates of return of 6.9% and 5.0% for the years ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the University had an investment derivative with the following maturity:

<u>June 30, 2014</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	\$2,622,626	\$ -	\$ -	\$ -	\$2,622,626
<u>June 30, 2013</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	\$3,167,142	\$ -	\$ -	\$ -	\$3,167,142

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

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

2. Investments and Deposits with Financial Institutions (continued)

These investment funds are uninsured and uncollateralized and produced a total net return of 15.8% and 9.5% for the years ended June 30, 2014 and 2013, respectively.

University pooled investment funds consist of the following as of June 30, 2014 and 2013:

<u>June 30, 2014</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	\$ 6,409,454	\$ 337,093	\$ -	\$ -	\$ 6,072,361
Large Cap Growth	13,924,186	1,133,639	-	-	12,790,547
Mid Cap Value	3,209,086	-	-	-	3,209,086
Mid Cap Growth	7,412,369	534,024	-	-	6,878,345
Small Cap Core	4,947,169	373,838	-	-	4,573,331
Small Cap Growth	3,476,076	-	-	-	3,476,076
REIT	1,596,609	-	-	-	1,596,609
International Value	5,703,024	2,665	-	-	5,700,359
International Core	4,756,228	392,857	-	-	4,363,371
Developing Markets	3,201,478	213,478	-	-	2,988,000
Fixed Income Core	7,041,707	871,571	3,040,092	2,619,007	511,037
Fixed Income Mutual Fund	2,361,548	(11,807)	1,197,305	748,611	427,439
High Yield Bonds	3,322,032	388,762	467,954	2,373,151	92,165
Global Fixed	3,128,997	1,339,210	1,097,339	580,429	112,019
Hedge Funds	5,897,715	1,496,458	-	-	4,401,257
Commodity Stock Funds	2,503,256	-	-	-	2,503,256
Private Equity	663,429	-	-	-	663,429
Money Market Funds	1,010,591	1,010,591	-	-	-
	<u>\$80,564,954</u>	<u>\$8,082,379</u>	<u>\$5,802,690</u>	<u>\$6,321,198</u>	<u>\$60,358,687</u>
June 30, 2013					
<u>June 30, 2013</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	\$ 8,601,244	\$ 263,843	\$ -	\$ -	\$ 8,337,401
Large Cap Growth	5,999,683	188,133	-	-	5,811,550
Index Funds	5,850,837	826	-	-	5,850,011
Mid Cap Value	3,036,298	348,250	-	-	2,688,048
Mid Cap Growth	2,743,789	109,025	-	-	2,634,764
Small Cap Core	2,705,050	53,070	-	-	2,651,980
Small Cap Growth	777,744	13,890	-	-	763,854
REIT	1,551,343	57,995	-	-	1,493,348
International Value	3,667,237	123,874	-	-	3,543,363
International Core	3,043,142	95,882	-	-	2,947,260
Developing Markets	1,117,491	-	-	-	1,117,491
Fixed Income Core	10,254,089	468,139	2,492,504	5,242,848	2,050,598
High Yield Bonds	2,986,186	235,100	784,090	1,890,990	76,006
Global Fixed	2,986,088	369,299	1,193,355	1,098,438	324,996
Hedge Funds	4,103,905	114	-	-	4,103,791
Commodity Stock Funds	1,556,218	239	-	-	1,555,979
Private Equity	451,185	-	-	-	451,185
Cash	26	26	-	-	-
	<u>\$61,431,555</u>	<u>\$2,327,705</u>	<u>\$4,469,949</u>	<u>\$8,232,276</u>	<u>\$46,401,625</u>

The fixed income investments within the Endowment pool have a fair market value of \$15.9 million as of June 30, 2014, with a credit quality that varies; with 81.5% of the securities rated A or higher, and 18.5% rated BB-. Money market funds carry credit ratings of A-1, P-1, and F-1.

The University is not exposed to foreign currency risk within the investment balance as of June 30, 2014.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

2. Investments and Deposits with Financial Institutions (continued)

The private equity investment's estimated market value is \$663,429 as of June 30, 2014 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 \$5,897,715 as of June 30, 2014. Estimated market values and returns are reviewed by the UBS Alternative Investments U.S. Team through the University's endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for the private equity and hedge funds. The estimated fair values are provided by external investment managers and advisers as of June 30, 2014. Alternative investments are not readily marketable; therefore, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

In September 2013, the University received a charitable gift annuity (CGA) totaling \$7.0 million which is invested in the UBS Endowment Investment Pool. 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. Based on the life expectancy of the annuitant at the time the CGA was received, payments are projected to approximate \$3.7 million. The remaining \$3.3 million is recognized as a gift.

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

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

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Tuition	\$ 8,266,266	\$ 9,496,066
Auxiliary enterprises	1,302,076	1,517,742
Contracts and grants	3,019,558	2,970,328
Other receivables	<u>13,437,325</u>	<u>710,485</u>
Total accounts receivable	26,025,225	14,694,621
Less: Allowance for doubtful accounts	<u>(5,113,985)</u>	<u>(4,892,317)</u>
Total accounts receivable, net	<u>\$20,911,240</u>	<u>\$ 9,802,304</u>

Capital appropriation is paid to the University on a cost reimbursement basis for the construction of the Engineering Center from the State Building Authority. As of June 30, 2014, the receivable for reimbursement of incurred costs totaled \$10,769,781 and is included in Other Receivables. As of June 30, 2014, the Engineering Center has \$10,548,984 of accrued expense included in current liabilities which include \$3,651,188 in retainage payable.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

4. Appropriations Receivable

The annual State operating appropriation paid to the University is made in 11 monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2014 and 2013, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$8,300,292 and \$8,175,296, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Pledges outstanding		
Unrestricted	\$ 23,168	\$ 40,603
Restricted expendable	<u>10,629,152</u>	<u>11,639,647</u>
Total pledges outstanding	<u>10,652,320</u>	<u>11,680,250</u>
Less:		
Allowance for doubtful pledges	(236,904)	(112,305)
Present value discount	<u>(1,096,151)</u>	<u>(1,303,035)</u>
Total pledges outstanding, net	<u>9,319,265</u>	<u>10,264,910</u>
Less: Current portion, net	<u>(2,933,092)</u>	<u>(3,138,427)</u>
Noncurrent portion, net	<u>\$ 6,386,173</u>	<u>\$ 7,126,483</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2014 and 2013, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 2% and 1% net of discount at June 30, 2014 and 2013, respectively. Approximately \$7.2 million of the total net pledges outstanding is from a single donor.

Payments on pledges receivable at June 30, 2014 are expected to be received in the following years:

Past due	\$ 81,857
Due in one year	2,954,913
Due in two-five years	7,275,550
Thereafter	<u>340,000</u>
Total	<u>\$10,652,320</u>

Bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2014 and 2013, the University had \$29,853,304 and \$35,518,761, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$29,853,304 in conditional pledges for fiscal year 2014, approximately \$6.8 million is from a single donor.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Student loans		
Federal loan programs	\$1,897,313	\$1,804,648
University loan funds	190,090	164,213
	2,087,403	1,968,861
Less: Allowance for doubtful loans	(237,122)	(231,671)
Total student loans, net	1,850,281	1,737,190
Less: Current portion, net	(383,109)	(325,724)
Noncurrent portion, net	\$1,467,172	\$1,411,466

In addition, the University distributed \$109,509,951 and \$106,481,620 for the years ended June 30, 2014 and 2013, 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.

7. Capital Assets

The following tables present the changes in the various capital asset categories for the University for fiscal years 2014 and 2013:

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

7. Capital Assets (continued)

<u>Asset Classification</u>	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2013</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	57,383,001	2,356,094	-	59,739,095
Buildings	308,802,388	68,533,015	-	377,335,403
Equipment	34,332,050	6,662,675	3,466,414	37,528,311
Library acquisitions	26,664,987	545,851	32,593	27,178,245
Construction in progress	74,986,676	47,426,193	71,720,061	50,692,808
Total	<u>506,794,016</u>	<u>125,523,828</u>	<u>75,219,068</u>	<u>557,098,776</u>
Accumulated depreciation				
Land improvements and infrastructure	(23,237,965)	(2,633,161)	-	(25,871,126)
Buildings	(123,905,658)	(7,597,403)	-	(131,503,061)
Equipment	(24,852,988)	(2,740,369)	(3,271,010)	(24,322,347)
Library acquisitions	(22,778,198)	(598,811)	(32,593)	(23,344,416)
Total	<u>(194,774,809)</u>	<u>(13,569,744)</u>	<u>(3,303,603)</u>	<u>(205,040,950)</u>
Total capital assets, net	<u>\$ 312,019,207</u>	<u>\$111,954,084</u>	<u>\$71,915,465</u>	<u>\$ 352,057,826</u>

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 Position.

The University broke ground on the Engineering Center in 2012 and is utilizing \$30.0 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 of 2014.

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 \$362,422 and \$966,460 for 2014 and 2013, respectively. The face value of these life insurance policies totaled \$2,918,072 in 2014 and \$5,948,072 in 2013.

During the year, the University realized \$2.0 million of life insurance proceeds related to a policy with a cash surrender value of approximately \$403,000. Two additional policies at face value totaling \$1.0 million were surrendered realizing approximately \$233,000 in cash surrender value.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2014 and 2013:

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

	Balance June 30, 2012	Additions/ Transfers	Reductions	Balance June 30, 2013	Current Portion
Note and installment purchase agreements payable	\$ 15,257,542	\$ 681,779	\$ 837,314	\$ 15,102,007	\$ 888,278
General revenue bonds:					
Series 2013A bonds	-	57,860,000	-	57,860,000	-
Unamortized premium	-	7,141,047	13,930	7,127,117	459,812
Series 2013B bonds	-	23,290,000	-	23,290,000	390,000
Series 2012 bonds	-	44,155,000	-	44,155,000	-
Unamortized premium	-	4,970,795	251,990	4,718,805	302,151
Series 2009 bonds	32,260,000	-	715,000	31,545,000	730,000
Series 2008 bonds	52,010,000	-	1,335,000	50,675,000	1,380,000
Series 2004 bonds	24,590,000	-	23,270,000	1,320,000	1,320,000
Unamortized premium	683,790	-	683,790	-	-
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
Total note, installment agreement, and bonds payable	129,401,332	138,098,621	27,107,024	240,392,929	5,470,241
Other liabilities:					
Compensated absences	4,595,862	322,504	-	4,918,366	333,857
Early retirement plan	1,617,002	-	732,250	884,752	729,074
Annuities payable and other	465,759	-	75,114	390,645	55,090
Federal portion of Perkins loan program	1,679,962	-	70,745	1,609,217	-
Total other liabilities	8,358,585	322,504	878,109	7,802,980	1,118,021
Total long-term liabilities	\$137,759,917	\$138,421,125	\$27,985,133	\$248,195,909	\$6,588,262
Total long-term liabilities	\$137,759,917			\$248,195,909	
Current portion	5,238,360			6,588,262	
Noncurrent portion	\$132,521,557			\$241,607,647	

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

10. Long-Term Liabilities (continued)

Note and Installment Purchase Agreements Payable

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

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 920,229	\$ 514,842	\$ 1,435,071
2016	953,364	481,706	1,435,070
2017	965,564	447,432	1,412,996
2018	993,271	411,818	1,405,089
2019	925,705	376,983	1,302,688
2020-2024	5,191,574	1,321,863	6,513,437
2025-2028	4,264,022	295,384	4,559,406
Total	<u>\$14,213,729</u>	<u>\$3,850,028</u>	<u>\$18,063,757</u>

General Revenue Bonds Payable

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

In June 2013, the University issued \$23,290,000 of federally taxable general revenue refunding bonds (2013B Bonds), with an average coupon interest rate of 2.99% and final maturity date of May 15, 2026. The proceeds were utilized to refund the Series 2004 general revenue refunding bonds (2004 Bonds) with an average coupon rate of 5.12%. The advance refunding of the 2004 Bonds resulted in a deferral on early extinguishment of \$1,134,224 that will be amortized over the term of the 2013B Bonds. A trust account was established to redeem the 2004 Bonds on their call date of May 15, 2014. The aggregate amount of outstanding principal on the 2004 Bonds which has been defeased was \$22,015,000. The principal of the 2004 Bonds was redeemed on May 15, 2014 leaving a zero balance in the trust account as of June 30, 2014.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

10. Long-Term Liabilities (continued)

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

In December 2009, the University issued \$33,650,000 general revenue bonds (2009 Bonds) (Taxable – Build America Bonds) to fund a portion of the Human Health Building and several infrastructure projects. The 2009 Bonds were issued in fixed rate mode and include an election by the University to receive payments from the Federal Government under the Build America Bond program created under the American Recovery and Reinvestment Act of 2009. The 2009 Bonds were issued with a final maturity of March 1, 2039. The pricing resulted in a 4.43% true interest cost after adjusting for the Federal interest subsidy.

In June 2008, the University issued \$53,280,000 general revenue refunding bonds (2008 Bonds) to refund the 2001 general revenue bonds. The 2008 Bonds are variable-rate demand obligations with a maturity date of March 1, 2031. In conjunction with this issue, the University terminated the related 2001 Swap at a termination value of \$4,860,000 paid to the counterparty and reissued a new 2008 Swap synthetically fixing the rate on the full amount of the issue to 3.37%. The 2001 Swap termination cost has been deferred and will be amortized over the term of the refunding bonds and is recorded as a deferred outflow. These bonds will mature on March 1, 2031. The aggregate amount of outstanding principal on the 2001 Bonds which has been defeased was \$48,000,000 as of June 30, 2008.

In September 2004, the University issued \$31,770,000 of general revenue refunding bonds (2004 Bonds), with an average coupon interest rate of 5.01% and a net original issue premium of \$1,967,000. The proceeds were utilized to refund the Series 1995 general revenue bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. In June 2013, the University issued federally taxable general revenue bonds (2013B Bonds) to refund \$22,015,000 of the 2004 Bonds. The remaining principal balance of \$1,320,000 was paid during fiscal year 2014.

In September 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited-obligation revenue variable-rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates at June 30, 2014 and 2013 were 0.07% and 0.15%, 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.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

10. Long-Term Liabilities (continued)

The following table summarizes debt service requirements for the outstanding bonds payable as of June 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2015	\$ 4,715,000	\$ 7,653,119	\$ 1,590,881	\$ 13,959,000
2016	5,870,000	7,587,307	1,543,299	15,000,606
2017	6,045,000	7,463,874	1,493,708	15,002,582
2018	6,245,000	7,307,272	1,441,999	14,994,271
2019	6,455,000	7,149,168	1,388,171	14,992,339
2020-2024	40,800,000	32,656,161	6,052,669	79,508,830
2025-2029	45,320,000	26,177,608	3,970,005	75,467,613
2030-2034	38,400,000	19,512,702	446,972	58,359,674
2035-2039	33,945,000	11,312,713	-	45,257,713
2040-2042	21,830,000	2,583,000	-	24,413,000
	<u>209,625,000</u>	<u>\$129,402,924</u>	<u>\$17,927,704</u>	<u>\$356,955,628</u>
Unamortized premium	11,083,958			
	<u>\$220,708,958</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 which began in 2012. The remaining benefit payment and fees total \$126,361 as of June 30, 2014. The University has resources designated for this purpose.

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

In September 2013, the University received a charitable gift annuity (CGA) totaling \$7.0 million as a result of realizing a donor's bequest. Based on the life expectancy of the annuitant at the time the CGA was received, the University's obligation, or present value liability, of the annuity payments approximated \$3.7 million. The remaining \$3.3 million is recognized as a gift and will be allocated in accordance with the terms of the original agreement. At June 30, 2014, the annuity payable was approximately \$3.3 million.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

11. Deferred Outflows and Inflows of Resources

Deferred Outflows

Effective in the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The University recorded deferred outflows of \$12,462,640 at June 30, 2014, which includes \$4,958,646 from an early extinguishment of general revenue bonds, 2013B Bonds and 2008 Bonds, and a deferral of swap termination costs for the 2001 Bonds; and \$7,503,994 estimated negative fair value of the 2008 Swap. At June 30, 2013, the University recorded deferred outflows of \$12,762,771, which includes \$5,281,194 from an early extinguishment of general revenue bonds, 2013B Bonds and 2008 Bonds and a deferral of swap termination costs for the 2001 Bonds; and \$7,481,577 estimated negative fair value of the 2008 Swap.

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

Hedging Derivative Instrument:

2008 Interest Rate Swap Agreement

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. The Notional Amount at June 30, 2014 was \$49,295,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.37%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap at June 30, 2014 and 2013 was (\$7,503,994) and (\$7,481,577), respectively. These fair values are reflected in the deferred outflows of resources section of the Statements of Net Position. The fair value represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the 2008 Swap is treated as an Effective Hedging Derivative Instrument.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap includes collateral requirements intended to mitigate credit risk. At June 30, 2014, 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, 2014, the counterparty's credit rating from Moody's Investors Service was Baa2.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

11. Deferred Outflows and Inflows of Resources (continued)

Hedging Derivative Instrument (continued):

2008 Interest Rate Swap Agreement (continued)

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

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

Deferred Inflows

The University recorded deferred inflows of resources of \$4,881,368 at June 30, 2014, which includes the estimated negative fair value of the 2008 Swap of \$7,503,994, reduced by the estimated fair value of Constant Maturity Swap (CMS) of \$2,622,626. Deferred inflows of resources at June 30, 2013 were \$4,314,435, which includes the estimated negative fair value of the 2008 Swap of \$7,481,577, reduced by the estimated fair value of Constant Maturity Swap (CMS) of \$3,167,142.

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, 2014 and 2013 was \$2,622,626 and \$3,167,142, respectively. These fair values are included as a reduction of the deferred inflows of resources section in the Statements of Net Position with the change in fair value of (\$544,516) and \$157,122 for fiscal years ended June 30, 2014 and 2013, respectively, included in Investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. At June 30, 2014, 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, 2014, there is no collateral posting requirement by either the counterparty or the University. Under this agreement, the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

11. Deferred Outflows and Inflows of Resources (continued)

Investment Derivative Instrument (continued):

2007 Constant Maturity Swap Agreement (continued)

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.

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 311 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, 2014, the University and plan members receiving benefits contributed \$1,590,482 and \$949,493, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from no cost to \$998 per month for retiree-only coverage, and from no cost to \$2,392 per month for retiree and spouse coverage.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

12. Postemployment Benefits Other than Pensions (continued)

Funding Policy (continued)

For the year ended June 30, 2013, the University and plan members receiving benefits contributed \$1,752,591 and \$968,629, respectively, to the plan. Approximately 64% of total premiums were paid by the University with the remaining 36% paid by plan members. Required contributions for plan members ranged from no cost to \$956 per month for retiree-only coverage, and from no cost to \$2,295 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 30 years.

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2014 and 2013. The amounts are based on the June 30, 2014 actuarial valuation.

	<u>2014</u>	<u>2013</u>
Annual Required Contribution (ARC)	\$ 3,510,569	\$ 3,622,087
Interest on net OPEB obligation	453,418	488,010
Adjustment to ARC	<u>(794,435)</u>	<u>(717,295)</u>
Annual OPEB cost (expense)	3,169,552	3,392,802
Contributions made	<u>(1,590,482)</u>	<u>(1,752,591)</u>
Increase in net OPEB obligation	1,579,070	1,640,211
Net OPEB obligation – beginning of year	7,817,556	6,177,345
Net OPEB obligation – end of year	<u>\$ 9,396,626</u>	<u>\$ 7,817,556</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 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>
2014	\$3,169,552	50.2%	\$9,396,626
2013	\$3,392,802	51.7%	\$7,817,556
2012	\$3,206,233	47.8%	\$6,177,345

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

12. Postemployment Benefits Other than Pensions (continued)

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but are financed on a pay-as-you-go basis. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$16.4 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, 2014 and the two preceding years were \$1,590,482, \$1,752,591, and \$1,532,758, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress						
Oakland University Retired Employees Healthcare Plan						
Actuarial Valuation Date as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2014	\$ -	\$34,275,155	\$34,275,155	0.00%	\$99,490,989	34.5%
6/30/2013	\$ -	\$30,291,980	\$30,291,980	0.00%	\$96,189,027	31.5%
6/30/2012	\$ -	\$28,874,260	\$28,874,260	0.00%	\$89,860,606	32.1%

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 \$34.3 million as of June 30, 2014. The actuarial valuation is completed on a biannual basis with the last one as of June 30, 2014. The unfunded actuarial accrued liability is being amortized over a period of thirty years from the July 1, 2007 valuation date in level dollar payments. Gains and losses are amortized over a period of 15 years from the valuation date.

Actuarial Methods and Assumptions

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

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

12. Postemployment Benefits Other than Pensions (continued)

Actuarial Methods and Assumptions (continued)

Actuarial assumptions included a discount rate of 5.8%, various mortality, turnover and healthcare cost trend rates, an assumption that 80% of subsidized current employees and 50% of access only current employees eligible for medical coverage will elect medical coverage, and an assumption that 70% of future retirees that take coverage elect family coverage. The University will review its assumptions on a bi-annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The University believes that the assumptions utilized in recording its obligations for the plan are reasonable based on its experience.

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

13. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis by employer contributions. Participants may elect to contribute additional amounts to the plan within specified limits. The plans are primarily administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. Contributions by the University for the years ended June 30, 2014 and 2013 were \$14,036,777 and \$13,816,887, 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, 2013, 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.

14. Liability and Property Insurance

The University is one of 11 Michigan universities participating in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) which provides insurance coverage for errors and omissions liability, commercial general liability, property loss, automobile liability, and automobile physical damage coverage. M.U.S.I.C. provides coverage for claims in excess of agreed-upon deductibles.

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

14. Liability and Property Insurance (continued)

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

15. Contingencies and Commitments

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

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2014, the amount subject to guarantee by the University was \$1,839,843.

The estimated costs to complete construction projects in progress is \$53.3 million as of June 30, 2014, due in large part to the new Engineering Center of \$18.7 million, new parking structure for \$5.9 million, the Athletic and Recreation Outdoor Complex of \$5.5 million, the Athletic Dome Replacement of \$4.2 million, Oak View Hall for \$1.9 million, and various campus enhancement projects totaling \$17.1 million. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. Oak View Hall, the parking structure, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

16. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Employee compensation and benefits	\$187,116,284	\$180,244,968
Supplies and other services	66,489,408	67,866,501
Student aid	13,718,857	13,127,014
Depreciation	15,254,784	13,709,983
Total	<u>\$282,579,333</u>	<u>\$274,948,466</u>

Oakland University
Notes to Financial Statements
June 30, 2014 and 2013

17. Cash Flow Statement

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

	<u>2014</u>	<u>2013</u>
Operating loss	\$(70,358,288)	\$(71,560,422)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	15,254,784	13,709,983
Changes in assets and liabilities:		
Accounts receivable, net	(338,951)	1,455,589
Inventories	(217,903)	378,031
Deposits and prepaid expense	(12,554)	(433,314)
Student loans receivable	(113,091)	(46,950)
Accounts payable and accrued expenses	(3,775,696)	1,971,837
Accrued payroll	(852,193)	(601,250)
Compensated absences	(926,917)	(409,747)
Unearned revenue and student fees	607,958	1,378,088
Deposits	77,708	171,972
Federal portion of student loan program	(85,176)	(70,745)
Other postemployment benefits	1,579,070	1,640,211
Net cash used by operating activities	<u><u>\$(59,161,249)</u></u>	<u><u>\$(52,416,717)</u></u>

18. Related-Party Transactions

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

Foundation net assets as of June 30, 2014 were as follows:

Assets	<u>\$197,189</u>
Net assets	<u><u>\$197,189</u></u>

The assets remaining are endowment funds. The June 30, 2014 University financial statements do not include the Foundation's assets or activity.

19. Subsequent Event

Subsequent to June 30, 2014, the Board of Trustees has authorized the issuance of General Revenue Refunding Bonds, Series 2014 (2014 Bonds). The proceeds of the bond will be used to refund the General Revenue Bond, Series 2009 (Taxable – Build America Bonds). The 2014 Bonds are expected to be issued in October 2014 if interest rates remain favorable.

Audit Committee of the
Board of Trustees

Oakland University

October 15, 2014



Oakland University

Audit Committee of the
Board of Trustees Meeting Agenda

October 15, 2014

- ◆ Introduction of Audit Team
 - AHP Representatives
 - Randy Morse – Partner
 - Roger Hitchcock – Partner
 - Jill Catterfeld – Senior Manager

- ◆ Financial Highlights

- ◆ Audit Committee of the Board of Trustees Letter
 - Services Provided and Reports Issued or in Process
 - Results of 2014 Audit and Review of Significant Accounting Matters
 - The Auditor’s Communication with Those Charged with Governance
 - Representation Letter

- ◆ Other Questions or Comments

October 15, 2014

Audit Committee of the Board of Trustees
Oakland University
Rochester, Michigan

We are pleased to submit this report which summarizes the results of our audit of Oakland University (University) and other matters which we believe would be of interest to you.

Services Provided and Reports Issued or in Process

In accordance with our engagement letter, AHP provided the following services:

Audit Services:

- An audit of the financial statements of the University for the year ended June 30, 2014. – Completed.
- An audit in accordance with OMB Circular A-133 and *Government Auditing Standards*. – Completed.

Nonaudit Services:

- An agreed-upon procedures report as required by the NCAA Financial Audit Guidelines to assist the University in complying with NCAA Bylaw 6.2.3.1. – In Process.
- Procedures as required by the State of Michigan related to the inclusion of the University's audited financial statements in the State's comprehensive annual financial report. Additional limited procedures will be required by the State to be performed later in the year, updating our subsequent events procedures through that date. – In Process.
- Procedures related to the review of the 2014 990T. – In Process.
- Various consultations with the University. – Ongoing.

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

Results of 2014 Audit and Review of Significant Matters

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the financial statements.

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

Reclassifications

For the fiscal year 2014 audit, the University reviewed revenue and functional expense categories and made changes to be more in line with industry guidelines. The following year ended June 30, 2013 amounts were reclassified as follows:

	<u>As Reported in</u> <u>Prior Year</u>	<u>Adjustments</u>	<u>As Reported in</u> <u>Current Year</u>
Operating revenues			
Departmental activities	\$ 8,016,890	\$ 646,881	\$ 8,663,771
Auxiliary activities	24,760,266	(646,881)	24,113,385
Operating expenses			
Education and general:			
Public service	4,248,340	2,296	4,250,636
Academic support	22,730,020	5,336,341	28,066,361
Student services	21,112,884	7,268,541	28,381,425
Institutional support	33,438,831	(10,093,871)	23,344,960
Operations and maintenance of plant	20,517,888	502,752	21,020,640
Auxiliary activities	25,453,277	(3,016,059)	22,437,218

The adjustments consist primarily of the following: \$5.2 million University Technology Services expense reallocation from Institutional Support to Academic Support based on headcount; \$0.5 million reclassification from Institutional Support of the Office of VP Academic Affairs expense to Academic Support; \$2.3 million Auxiliary Activities expense reclassification for the Recreational Center to Student Services as well as \$0.4 million of Auxiliary Activities revenue to Departmental Activities revenue; \$0.6 million Graham Health Center reclassification from Auxiliary Activities to Student Services; \$3.3 million undergraduate advertising and marketing reclassification from Institutional Support to Student Services; \$0.2 million commencement expense reclassification from Institutional Support to Student Services. We have discussed the reclassifications with management and believe the reclassifications are reasonable.

Unexpended Bond Proceeds

At June 30, 2013, the University had \$104.8 million in unexpended bond proceeds, which were reported as restricted cash and cash equivalents on the Statements of Net Position. During 2014, approximately \$75.7 million of the proceeds were spent on projects. At June 30, 2014, the University had \$29.1 million in unexpended bond proceeds.

Charitable Gift Annuity and Life Insurance Proceeds

In September 2013, the University received a charitable gift annuity of \$7.0 million as a result of realizing a donor's bequest. This amount is invested in the UBS Endowment Investment Pool. Based on the life expectancy of the annuitant at the time the charitable gift annuity was received, the University's obligation, or present value liability, of the annuity payments approximated \$3.7 million. The remaining \$3.3 million was recognized as a gift in the Statements of Revenues, Expenses, and Changes in Net Position and will be allocated in accordance with the terms of the original agreement. At June 30, 2014, the annuity payable was approximately \$3.3 million and is included in long-term liabilities on the Statements of Net Position.

During the 2014 fiscal year, the University realized \$1.5 million of life insurance proceeds, which was recognized as a gift in the Statements of Revenues, Expenses, and Changes in Net Position.

Oakland University William Beaumont School of Medicine Gift

During the 2009 fiscal year, a pledge was received for \$20.0 million from an anonymous donor for the Oakland University William Beaumont School of Medicine. Since the initial pledge, \$12.0 million of payments have been made toward this pledge (\$2.0 million during each of the last six years). The discounted value of the pledge receivable approximated \$7.2 million at June 30, 2014.

Allowance for Doubtful Accounts

We performed a detailed analysis of the allowance for doubtful accounts related to accounts receivable, student loan receivables, and pledges receivable. The University determined these allowances were adequate. Based on our testing and review of assumptions made by management, we believe the allowance for doubtful accounts is appropriate at June 30, 2014.

Capital Appropriations

During the year, the University recorded approximately \$10.8 million in capital appropriations revenue from the State Building Authority (SBA) related to the construction of the Engineering Center. Capital appropriations are paid to the University on a cost reimbursement basis. At June 30, 2014, the University had a receivable outstanding for capital appropriations in the amount of \$10.8 million.

Capital Improvement Projects

Construction in progress at June 30, 2014 was approximately \$141.2 million, of which approximately \$59.7 million was related to the Engineering Center; approximately \$18.0 million was related to the new parking structure; approximately \$13.0 million was related to the replacement of the curtain wall systems, voice over I.P., and the network room for O'Dowd Hall, and to replace a water line; approximately \$5.1 million was related to the Carillon Bell Tower; and approximately \$29.4 million was related to the new student housing complex. The remaining \$16.0 million was related to several smaller projects throughout the University. These construction in progress amounts also include capitalized interest for the project through June 30, 2014.

As of June 30, 2014, it is estimated that the University has approximately \$53.3 million of costs to complete projects, due in large part to the new Engineering Center costs to complete of approximately \$18.7 million; new parking structure for approximately \$5.9 million, the Athletic & Recreation Outdoor Complex of approximately \$5.5 million; the Athletic Dome Replacement of approximately \$4.2 million; Oak View Hall for approximately \$1.9 million; and various campus enhancement projects approximating \$17.1 million.

We have audited significant transactions related to construction in process and believe that such activity is appropriately recorded and disclosed in the financial statements.

Derivative Instruments

The University has two interest-rate swap agreements, the purpose of which is to reduce overall interest costs over the long term. The Constant Maturity Swap (CMS) is deemed to be an investment; therefore, the change in value of the CMS is recorded in the Statements of Revenues, Expenses, and Changes in Net Position. The second interest-rate swap is a hedging instrument in connection with the 2008 bonds. The fair value and the increase in fair value of this interest-rate swap are recorded in the Statements of Net Position as deferred outflows and inflows of resources.

At June 30, 2014, the CMS had a fair value of approximately \$2.6 million and the hedging swap had a fair value of approximately (\$7.5) million. These amounts would not be recognized unless the Swaps were terminated.

Postemployment Health Benefits

The University offers postemployment health benefits to eligible retirees and spouses. The University is required to record a liability for the actuarially determined benefit obligation. For June 30, 2014, the University recorded an expense of approximately \$3.2 million and made payments of approximately \$1.6 million. The benefit obligation increased by approximately \$1.6 million during the year to approximately \$9.4 million. The total unfunded actuarial accrued liability at June 30, 2014 approximated \$34.3 million.

University Net Position

The net position of the University increased \$39.6 million during 2014 and is primarily attributed to non-operating activities, including \$22.4 million of investment income, \$9.6 million in gifts, \$3.6 million additions to permanent endowments, and \$10.8 million of capital appropriations. Partially offsetting this increase is \$4.4 million in interest expense on capital debt. Included in total net position is approximately \$154.2 million of unrestricted net position which has been internally designated by the Board and management for various uses as outlined in the Management's Discussion and Analysis on page 8. As a percent of total net position, unrestricted net position decreased by approximately 1.7% from 2013 to 2014.

Internal Audit Reports

As part of our audit procedures, we reviewed all applicable internal audit reports and matters in progress. These reports and matters have been previously reported to the Board of Trustees by management.

Subsequent Event

Subsequent to June 30, 2014, the Board of Trustees has authorized the issuance of General Revenue Refunding Bonds, Series 2014 (2014 Bonds). The proceeds of the bond will be used to refund the General Revenue Bond, Series 2009 (Taxable – Build America Bonds). The 2014 Bonds are expected to be issued in October 2014 if interest rates remain favorable.

Adopted Audit Standards

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

Adopted Accounting Standards

No new accounting standards were adopted for the June 30, 2014 financial statements that had a material impact on the financial statements.

Recently Issued Accounting and Audit Standards

There were no accounting or auditing pronouncements issued that would have a material impact on the University for the June 30, 2015 fiscal year end. However, the Governmental Accounting Standards Board (GASB) issued an Exposure Draft in May 2014, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This proposed Statement would replace the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This proposed Statement would establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this proposed Statement identifies the methods and assumptions that would be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Exposure Draft, when issued as a final Statement, is expected to have a significant impact on the University's financial statements.

As noted in the "Postemployment Health Benefits" section of this letter, the unfunded actuarial accrued liability for the University's OPEB plan approximated \$34.3 million at June 30, 2014. The University has recorded approximately a \$9.4 million liability for the OPEB at June 30, 2014. Implementation of this Standard would require the University to record an additional \$24.9 million liability for the OPEB. The final Statement is expected to be issued in the 2nd quarter of 2015. The date of adoption noted in the exposure draft would be for the June 30, 2018 fiscal year, with earlier application encouraged.

The Auditor's Communications with Those Charged with Governance

This section discusses our responsibilities under the Statement on Auditing Standards (SAS) No. 122, Section 260, *Communication with Those Charged with Governance*. The following excerpts from SAS No. 122 describe the specific matters required to be communicated to you and our responses thereto:

Our Responsibility under U.S. Generally Accepted Auditing Standards

The auditors' standard report emphasizes that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards* is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement and in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our report dated September 8, 2014 follows this format. Because of the concept of reasonable assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

Our responsibility, as described by our professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. GAAP. Our audit does not relieve you or management of your responsibilities.

As part of the audit, we considered the internal control of the University. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our scope letter dated February 24, 2014. No matters came to our attention during our audit that resulted in a change to our timing or scope of our procedures.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the University are described in Note 1 to the financial statements. No new accounting policies were adopted and any changes to the application of existing policies were noted in Note 1. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allowance for doubtful accounts
- Fair market value of investments
- Other postemployment benefits
- Deferred inflows and outflows of resources

For each of the estimates listed above, we evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Significant accounting policies
- Investments and deposits with financial institutions
- Bonds payable and interest rate swaps
- Postemployment benefits other than pensions
- Derivative instruments

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no corrected or uncorrected misstatements during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 8, 2014. A copy is attached for your reference.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Communication of Fees for Nonaudit Services

As previously described in this letter, we performed certain nonaudit services at the request of the Board of Trustees and documented in an engagement letter. Fees for these services did not exceed the amounts noted in the engagement letter.

Management Letter

We considered the University's internal control during the course of the audit, and we remained alert for areas where procedures and controls could be improved. We noted no matters involving the internal control over financial reporting and its operation that we would consider to be material weaknesses.

* * *

This report is intended solely for the information and use of the Audit Committee of the Board of Trustees, the Board of Trustees, and management of Oakland University and is not intended to be, and should not be, used by anyone other than these specified parties.

We will be pleased to respond to any comments or questions you may have concerning this letter, our management letter, or any other aspects of our services to Oakland University.

It has been a pleasure to serve Oakland University during 2014. We would like to express our appreciation for the cooperation and courtesy extended to us by the Audit Committee of the Board of Trustees, the Board of Trustees, and the management and employees of the University and look forward to continuing our association in the future.

Sincerely,

Andrews Hooper Faulstich PLC



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

September 8, 2014

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

This representation letter is provided in connection with your audits of the financial statements of Oakland University (University), which comprise the respective financial position as of June 30, 2014 and 2013 and the respective changes in financial position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

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

We confirm, to the best of our knowledge and belief, as of September 8, 2014, the following representations made to you during your audit:

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 24, 2014, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all financial information of the University and all component units required by generally accepted accounting

Finance and Administration Division

principles to be included in the financial reporting entity. There are no component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

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

Information Provided

10) We have provided you with:

- a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
- b) Additional information that you have requested from us for the purpose of the audit.
- c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- d) Minutes of the meetings of any governing body (board, committee, etc.) or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 12) We have disclosed to you the results of our risk assessment to determine the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management;
 - b) Employees who have significant roles in internal control; or
 - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing the financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- 18) We have reported and disclosed amounts as deferred inflows and outflows in accordance with the provisions of GASB 63 and 65.

Government-specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- 21) The University has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts.
- 23) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The University has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if applicable.
- 30) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

- 32) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 33) Provisions for uncollectible receivables have been properly identified and recorded.
- 34) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value. Physical counts and measurements of inventories were made by competent employees under the supervision of management, and book records were appropriately adjusted after giving recognition to cut-offs for materials received and products shipped/sold.
- 35) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 36) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 39) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated. Capital assets have been evaluated for impairment as a result of significant or unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded, if applicable.
- 40) Arrangements with financial institutions involving repurchase, reverse repurchase or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
- 41) The methods and significant assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
- 42) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
- 43) Participation in a public entity risk pool have been properly reported and disclosed in the financial statements.

- 44) Amendments to our pension plan or other postretirement benefit plans are not anticipated and the terms of these plans have been properly recorded and fully disclosed in the financial statements.
- 45) We have made you aware of any and all:
- a) Oral transactions.
 - b) Actions allowed by regulatory agencies that are not documented in writing or by legal references.
 - c) GAAP changes/adoption.
 - d) Lawsuits, regulatory actions, etc.
 - e) IRS examinations or other matters.
 - f) Compliance with IRS arbitrage regulations.
 - g) Pension or OPEB payments made after the University's year-end.
 - h) Termination benefits.
 - i) Uses of specialists.
 - j) Compliance with the debt issuer reporting requirements.
 - k) Contributions to employee benefit plans and bonuses not documented in the University's minutes.
 - l) Adjusting journal entries.
- 46) The financial statements and disclosures have been prepared in accordance with the Governmental Accounting Standards Board statements and all applicable statements have been implemented as required.
- 47) Federal advances and the terms of these advances have been properly recorded and disclosed in the financial statements.
- 48) None of the University's investments have permanently declined in value to an amount less than the carrying value in the statement of net assets. Management considers the decline in value of any debt or equity securities to be temporary.
- 49) All funds disbursed from endowed assets have been done so in accordance with the donor's requirements for the use of these funds.

- 50) All deferred compensation agreements have been provided and all deferred compensation accruals have been properly recorded.
- 51) Provision has been made for any material loss that is probable from environmental remediation liabilities, if applicable. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the financial statements.
- 52) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 53) We agree with the findings of specialists in evaluating the interest rate swaps and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 54) We agree with the findings of specialists in evaluating the GASB 45 OPEB liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 55) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 56) We have provided our GASB 45 actuary all the information necessary to perform the GASB 45 actuarial valuation and we have accurately adopted the provision of GASB 45 in the financial statements and related notes. Also, we have no other postretirement plans that would be subject to GASB 45 that have not been appropriately recorded and disclosed in the financial statements.
- 57) In regards to any nonattest services performed by you, we have:
- a) Made all management decisions and performed all management functions.

- b) Designated an individual with suitable skill, knowledge, or experience to oversee the services.
- c) Evaluated the adequacy and results of the services performed.
- d) Accepted responsibility for the results of the services.

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

We acknowledge our responsibility for presenting the SEFA in accordance with accounting principles generally accepted in the United States of America, and we believe the SEFA, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

59) With respect to federal award programs:

- a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* including requirements relating to preparation of the SEFA.
- b) We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the supplementary information and the auditor's report thereon.
- d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of

grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and upon your request for such information for a specific federal program, disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-21, *Cost Principles for Educational*

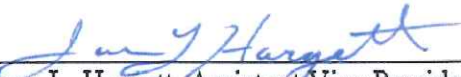
Institutions, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance, subsequent to the date as of which compliance was audited.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) We have charged costs to federal awards in accordance with applicable cost principles.
- t) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- u) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- v) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- w) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

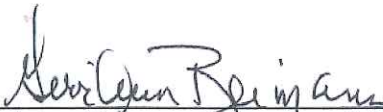
- x) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y) We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by OMB Circular A-133.
- z) We are responsible for preparing and implementing a corrective action plan for each audit finding, when applicable.
- aa) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.



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



James L. Hargett, Assistant Vice President & Controller



Gerri Ann Reimann, Manager of Accounting