

Agendum  
Oakland University  
Board of Trustees Formal Session  
September 28, 2010

FINANCIAL STATEMENTS, JUNE 30, 2010 AND 2009

**A Recommendation**

1. **Division and Department:** Finance and Administration, Controller's Office
2. **Introduction:** The Financial Statements, June 30, 2010 and 2009 for Oakland University (University) have been completed (Attachment A).

The audit opinion of Andrews Hooper and Pavlik P.L.C. (AH&P) states "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America."

AH&P's September 24, 2010 Finance, Audit and Investment Committee of the Board of Trustees Letter (Attachment B) summarizes the audit engagement and required communications and includes a copy of the September 2, 2010 Management Representation Letter which details the representations made by the University Administration to AH&P regarding the audit work performed.

3. **Previous Board Action:** The public accounting firm of AH&P 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 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, President, and the Board's Finance, Audit and Investment Committee at their September 24, 2010 meeting, and audited by AH&P.

Financial Statements, June 30, 2010 and 2009  
Oakland University  
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8. **Recommendation:**

RESOLVED, that the Board of Trustees accept the Financial Statements, June 30, 2010, and 2009, which were audited by the public accounting firm of Andrews Hooper & Pavlik P.L.C.

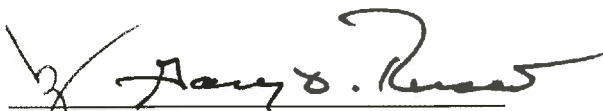
9. **Attachments:**

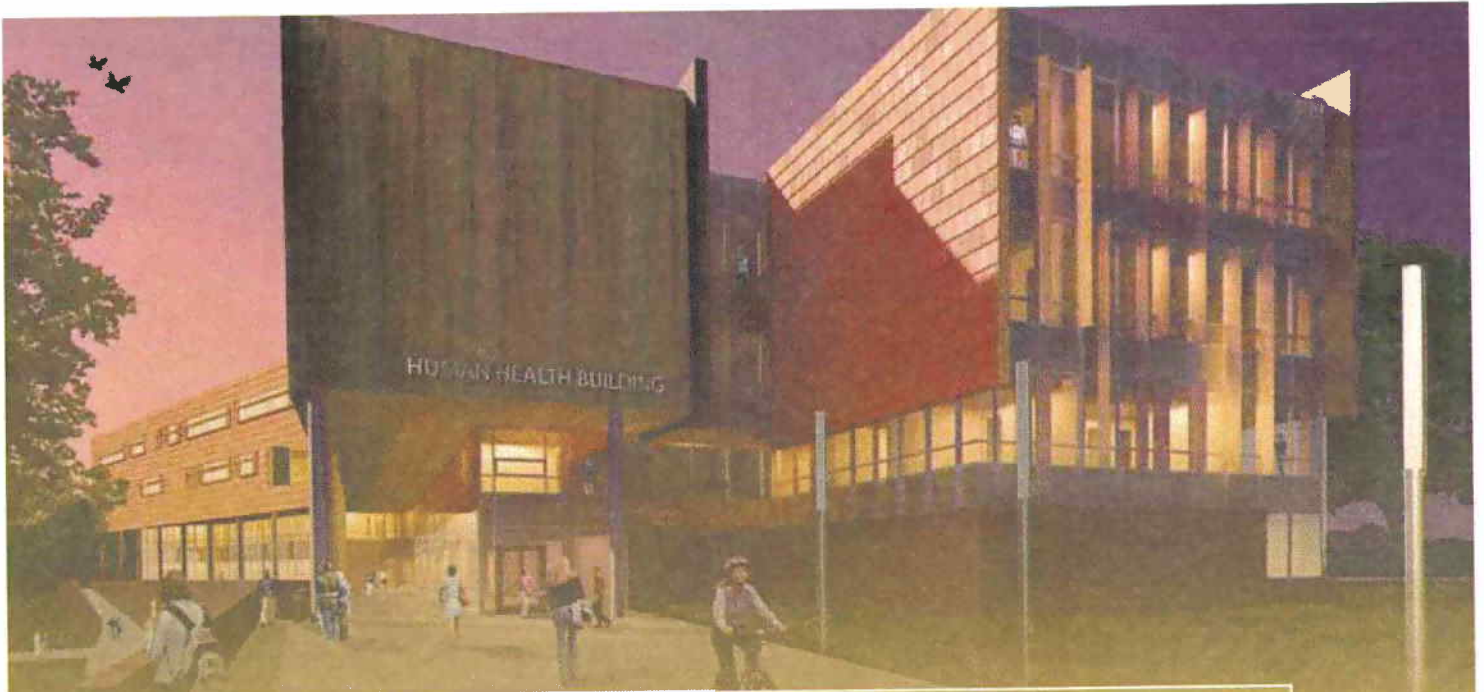
- A. Financial Statements, June 30, 2010 and 2009
- B. September 24, 2010 Finance, Audit and Investment Committee of the Board of Trustees Letter

Submitted to the President  
on 9/24, 2010 by

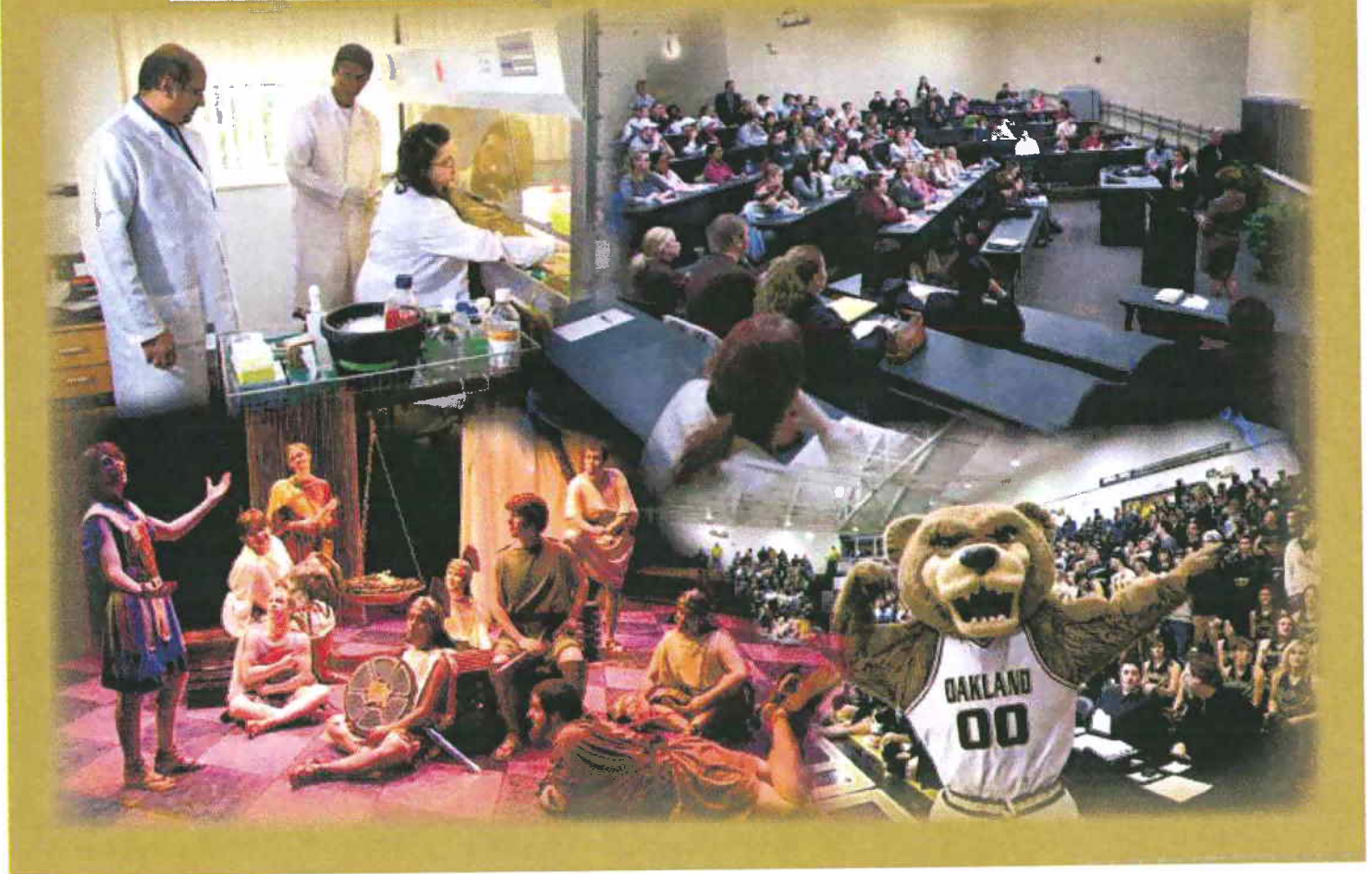
  
\_\_\_\_\_  
John W. Beaghan  
Vice President for Finance and Administration and  
Treasurer to the Board of Trustees

Recommended on 9/24, 2010  
to the Board for approval by

  
\_\_\_\_\_  
Gary D. Russi  
President



Oakland University  
**FINANCIAL STATEMENTS**  
June 30, 2010 and 2009



# Oakland University

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**Oakland University**  
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**June 30, 2010 and 2009**

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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors

Board of Trustees  
Oakland University  
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Reporting for Derivatives*, as of July 1, 2009. This statement required the University to report each derivative instrument (interest rate swaps) at fair value by restating the 2009 financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2010 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis (MD&A) on pages 2 to 12 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
September 2, 2010

# Oakland University

## Management's Discussion and Analysis

### June 30, 2010 and 2009

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#### Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University or OU) for the fiscal year ended June 30, 2010 with selected comparative information for the year ended June 30, 2009.

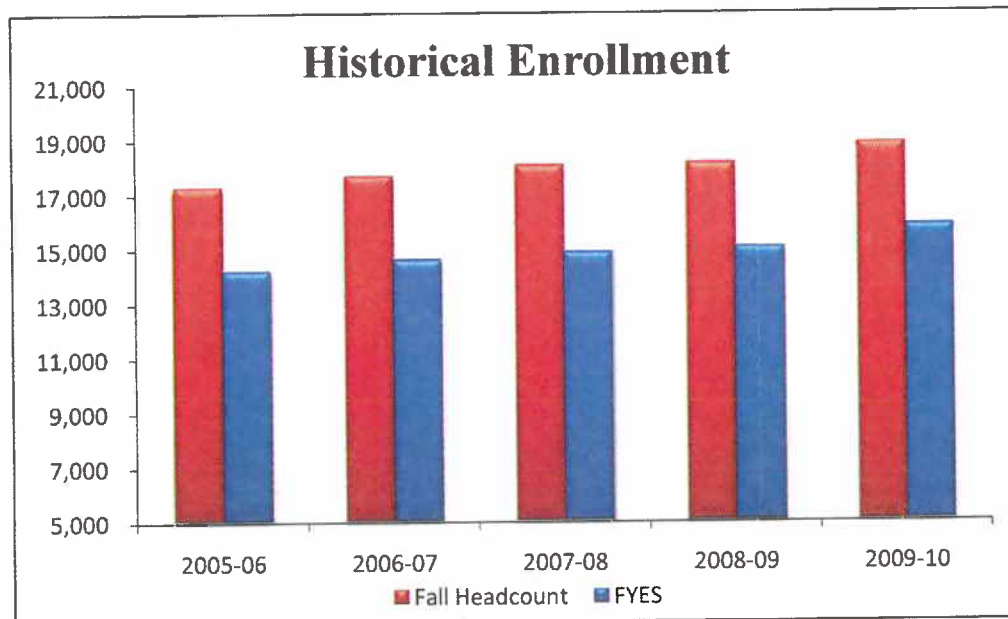
The University is a state-supported institution of nearly 19,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as, programs in continuing education. The University is recognized as one of the country's 83 doctoral research-intensive universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 134 baccalaureate degree programs and 117 graduate and certificate programs. The University's student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom. The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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

#### Enrollment and Operations Highlights

- In fiscal year 2010, enrollment based on Fiscal Year Equated Students (FYES) increased 5.3% to 15,865.
- Student headcount enrollment for the fall 2009 semester increased 4.1% to a record 18,920. Undergraduate enrollment was 15,275 (80.7%) and graduate enrollment was 3,645 (19.3%).

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



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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- In February 2010, the Liaison Committee on Medical Education (LCME) awarded preliminary accreditation to the Oakland University William Beaumont School of Medicine. In April 2010, The Higher Learning Commission of the North Central Association of Colleges and Schools (NCA) approved the University's request to add the doctor of medicine degree to its accreditation status. The University's vision for the School of Medicine is to provide new educational opportunities to students, create jobs, infuse the regional economy with millions of dollars, and enhance medical care throughout the region.
- Oakland University broke ground on the new 160,000 square-foot, \$64.6 million Human Health Building. As part of Michigan's 2008 Capital Outlay Budget, Oakland University will receive \$40 million in state funding to support construction of the new building. The University also received a \$2.7 million grant from the US Department of Energy for the installation of a geothermal heat pump system in the building and a \$75,000 grant from the Kresge Foundation to support sustainability. The system will reduce energy-related carbon emissions and cut the energy costs of the building by almost 50%. The remaining \$21.8 million in costs has been financed through the issuance of university general revenue bonds. The new structure, targeted for completion in 2012, will house the School of Nursing and the School of Health Sciences with state-of-the-art classrooms and seminar facilities, an interactive media center, physical therapy clinics and learning labs.
- The National Institutes of Health and the National Science Foundation awarded 14 Oakland faculty members with over \$4.3 million in grant funding. These grants will fund projects that will enhance math and science education in Michigan.
- The Matilda R. Wilson fund provided a \$3.3 million matching gift for the preventative maintenance, preservation, and interpretation of the Meadow Brook Hall. Meadow Brook Hall was the former residence of OU founders Matilda R. and Alfred G. Wilson.
- A new Bachelor of Science major in Actuarial Science was approved by the Board of Trustees during fiscal year 2010. The Department of Labor predicted this field would grow by 24% from 2006-2016. OU is the only school in the Metro-Detroit area that offers this degree.
- In April 2010, the Oakland University Board of Trustees approved a new program, the Clinical Nurse Leader (CNL), which is a component of the Master of Science in Nursing. The CNL program will prepare nurses to serve as innovative leaders within a variety of health systems and assume dynamic leadership roles in a range of health settings.
- Oakland University announced two new concurrent enrollment programs with Oakland Community College and St. Clair County Community College. The programs provide a seamless higher education experience where students will be able to earn their associate's degree while continuing to work toward their bachelor's degree.
- The Business Accelerator Network for Southeast Michigan, comprised of the Macomb-OU INCubator and its three partners, was awarded a \$3 million grant over three years from the New Economy Initiative. Collectively, the accelerator network has invested more than \$18 million in 339 start-up companies, created more than 1,000 jobs, and secured more than \$101.2 million in additional capital for the companies. The accelerator network aims at providing a philanthropic effort to accelerate the transition of metro Detroit to an innovation-based economy.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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**Overview of the Financial Statements**

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

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

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

**Notes to the Financial Statements**

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

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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**University Financial Statement Summaries**

*University Statements of Net Assets*

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

Condensed Statements of Net Assets	June 30,		Change
	2010	2009	
	<i>(in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 95,304	\$ 56,831	68%
Capital assets	245,638	242,441	1%
Other noncurrent assets	157,160	137,341	14%
Total assets	<u>498,102</u>	<u>436,613</u>	14%
<b>Liabilities</b>			
Current liabilities	33,550	30,906	9%
Noncurrent liabilities	143,471	112,021	28%
Total liabilities	<u>177,021</u>	<u>142,927</u>	24%
<b>Net assets</b>			
Invested in capital assets, net of related debt	145,976	142,649	2%
Restricted nonexpendable	16,836	15,662	7%
Restricted expendable	36,903	38,699	-5%
Unrestricted	121,366	96,676	26%
Total net assets	<u>\$ 321,081</u>	<u>\$ 293,686</u>	9%

The University's total assets were \$498 million and \$437 million at June 30, 2010 and 2009, respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, and construction in progress. Capital assets represent 49% and 56% of the University's total assets at June 30, 2010 and 2009, respectively. Capital expenditures totaled \$15.1 million in 2010 and \$11.4 million in 2009. Included in capital expenditures for 2010 were the Human Health Building project, the campus infrastructure project, equipment and technology additions and other campus enhancement projects. Depreciation expense was \$11.9 million in 2010 and \$12.1 million in 2009.

Current assets consist primarily of cash and cash equivalents, and receivables due within one year. Cash and cash equivalents were \$73 million at June 30, 2010 and \$34.5 million at June 30, 2009. The University's increase in cash and cash equivalents was due primarily to the proceeds received from the issuance of the 2009 Build America Bonds (BAB) for the new Human Health Building and various campus infrastructure projects, totaling \$33.7 million, with \$30.8 million unexpended at June 30, 2010.

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$46.8 million at June 30, 2010 and \$40.5 million at June 30, 2009. This increase in endowment market value was primarily due to a favorable outcome produced in the market. The total return, net of fees, on the University's endowment investments was 13.9% for 2010 and -22.6% for 2009. Other long-term investments were \$87.8 million at June 30, 2010 and \$75.7 million at June 30, 2009 and include intermediate-term fixed income and equity securities. The increase in other long-term investments is a direct result of positive investment performance for the year, as well as, donor gifts. The

**Oakland University**  
**Management's Discussion and Analysis**  
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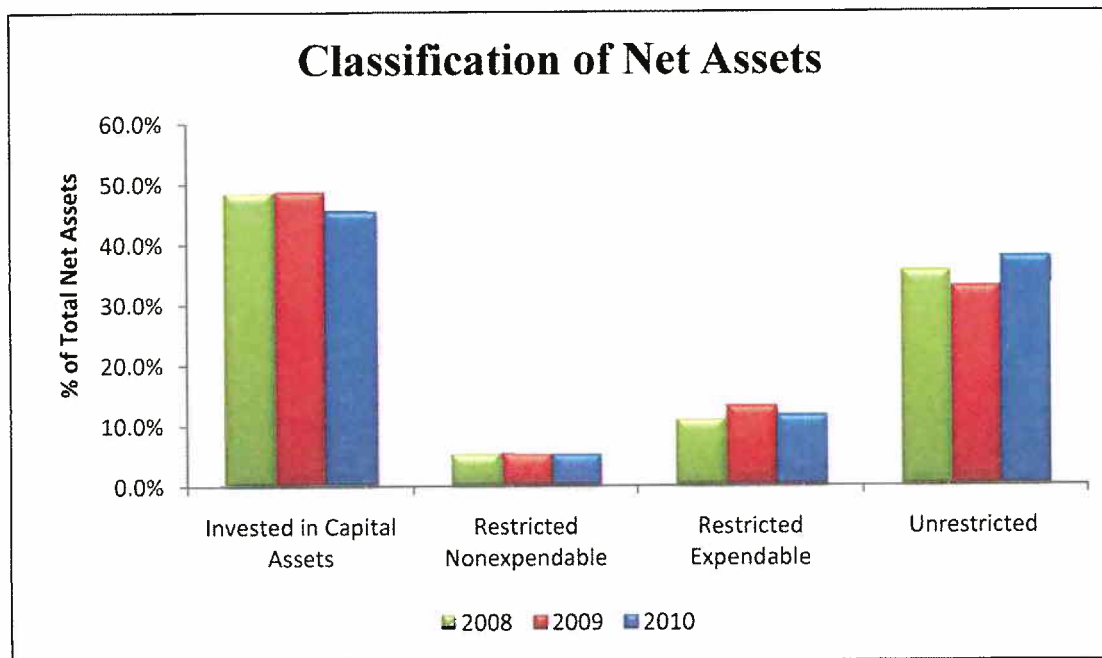
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total return on the University's other long-term investments was 8.5% for 2010, and -1.5% for 2009, both net of fees. See "Statements of Cash Flows" section of this report for additional detail.

All investments held by the University can be liquidated to cash within one week or less.

The University's total liabilities were \$177 million at June 30, 2010 and \$143 million at June 30, 2009. Current liabilities consist primarily of accounts payable, accrued expenses and deferred revenue. The \$2.6 million increase in current liabilities is attributed primarily to the increase in construction in progress and accounts payable. Noncurrent liabilities are comprised primarily of bonds and notes payable and represented 81% and 78% of the University's total liabilities at June 30, 2010 and 2009, respectively. The \$31.5 million increase in noncurrent liabilities is attributed primarily to the 2009 BAB for the Human Health Building and various campus infrastructure projects.

The following graph shows net assets by classification and restriction:



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

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

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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The following summarizes the internal designations of unrestricted net assets:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 5,325	\$ 3,717
Capital projects and repair reserves	36,902	29,886
Funds designated for departmental use	20,462	20,000
Funds functioning as endowments	22,021	18,794
Gifts and investment income reserves	17,004	6,010
Retirement and insurance reserves	(2,009)	(1,367)
Encumbrances and carryforwards	8,490	5,241
Other unrestricted	13,171	14,395
	<u>\$ 121,366</u>	<u>\$ 96,676</u>

**Oakland University**  
**Management's Discussion and Analysis**  
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*University Statements of Revenues, Expenses and Changes in Net Assets*

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2010	2009	2008	% Change 2010-2009	% Change 2009-2008
	<i>(in thousands)</i>				
<b>Operating revenues</b>					
Net tuition	\$ 130,318	\$ 119,397	\$ 111,941	9%	7%
Grants and contracts	15,079	16,164	13,068	-7%	24%
Auxiliary activities	21,304	21,261	20,071	0%	6%
Departmental activities	5,229	5,384	5,846	-3%	-8%
Other	430	428	430	0%	0%
Total operating revenues	<u>172,360</u>	<u>162,634</u>	<u>151,356</u>	6%	7%
Operating expenses	<u>230,941</u>	<u>222,771</u>	<u>204,034</u>	4%	9%
Operating loss	<u>(58,581)</u>	<u>(60,137)</u>	<u>(52,678)</u>	3%	-14%
<b>Nonoperating revenues (expenses)</b>					
State appropriations	50,691	52,452	56,697	-3%	-7%
Gifts	4,126	19,076	4,474	-78%	326%
Investment income	17,884	(12,553)	3,452	242%	-464%
Distributed to annuity and life income fund beneficiaries	(61)	(69)	(92)	12%	25%
Interest expense	(4,257)	(4,774)	(5,681)	11%	16%
Federal grants	16,366	8,265	6,597	98%	25%
Other	135	142	2	-5%	7,000%
Net nonoperating revenues	<u>84,884</u>	<u>62,539</u>	<u>65,449</u>	36%	-4%
Income before other revenues	<u>26,303</u>	<u>2,402</u>	<u>12,771</u>	995%	-81%
Capital grants and gifts	38	13	34	192%	-62%
Additions to permanent endowments	1,054	688	2,497	53%	-72%
Consolidation of Oakland University Foundation	-	-	14	0%	-100%
Total other revenues	<u>1,092</u>	<u>701</u>	<u>2,545</u>	56%	-72%
Increase in net assets	<u>27,395</u>	<u>3,103</u>	<u>15,316</u>	783%	-80%
<b>Net assets</b>					
Beginning of year	293,686	290,583	275,267	1%	6%
End of year	<u>\$ 321,081</u>	<u>\$ 293,686</u>	<u>\$ 290,583</u>	9%	1%

The University's operating revenues were \$172 million in 2010, \$163 million in 2009 and \$151 million in 2008. The 6% increase in 2010 over 2009 was primarily due to increases in tuition revenue, net of scholarship allowances, which was higher due to an enrollment increase in FYES of 5.3% and, effective for the fall 2009 semester, tuition rates increasing by 9% for undergraduates and 3% for graduates.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

Operating expenses were \$231 million in 2010, \$223 million in 2009 and \$204 million in 2008. The operating expense increase of 4% in 2010 over 2009 resulted from supporting enrollment growth, the continuation of several program initiatives, contractual agreements and increases in healthcare and utility costs.

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

***University Operating Expenses***

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>% Change</u> <u>2010-2009</u>	<u>% Change</u> <u>2009-2008</u>
	<i>(in thousands)</i>				
<b>Education and general</b>					
Instruction	\$ 93,405	\$ 90,732	\$ 83,703	3%	8%
Research	8,230	7,148	7,113	15%	0%
Public service	3,303	2,289	2,217	44%	3%
Academic support	17,099	15,850	13,221	8%	20%
Student services	16,641	15,977	15,078	4%	6%
Institutional support	28,600	27,280	24,775	5%	10%
Operations and maintenance of plant	17,741	17,378	15,216	2%	14%
Depreciation	11,913	12,123	12,025	-2%	1%
Student aid	11,225	10,659	7,794	5%	37%
Total education and general	<u>208,157</u>	<u>199,436</u>	<u>181,142</u>	4%	10%
<b>Auxiliary activities</b>	22,766	23,323	22,886	-2%	2%
<b>Other expenses</b>	18	12	6	50%	100%
Total operating expenses	<u>\$ 230,941</u>	<u>\$ 222,771</u>	<u>\$ 204,034</u>	4%	9%

Education and general expenses increased 4% in 2010 over 2009 and 10% in 2009 over 2008. The increases are mainly attributable to an increase in academic program offerings to meet the needs of the higher enrollment and contractual agreements.

The 2010 increase in student services is proportionately related to the School of Medicine's inaugurate 2011 class preparation, funded by external gifts. The 2010 increase in public service is a result of the addition of the Detroit Workforce Development Department and the Matilda R. Wilson Matching Gift for Meadow Brook Hall; an expansion of the Public School Academy; and, support from the Michigan Economic Development Corporation for the OU Incubator.

The University's operating loss was \$58.6 million in 2010, \$60.1 million in 2009 and \$52.7 million in 2008. Offsetting these losses were net nonoperating revenues of \$84.9 million in 2010, \$62.5 million in 2009 and \$65.4 million in 2008.

Total enacted base State appropriations, as reflected in the State's approved appropriation bills, were \$50.7 million in 2010, \$52.5 million in 2009, and \$51.9 million in 2008. State appropriation revenue for fiscal year 2008 reflects receipt of the \$4.8 million fiscal year 2007 "delayed" August payment which was received in October 2007.

Gifts increased in 2009 predominantly due to the generosity of one anonymous donor to Oakland University for the School of Medicine.

**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

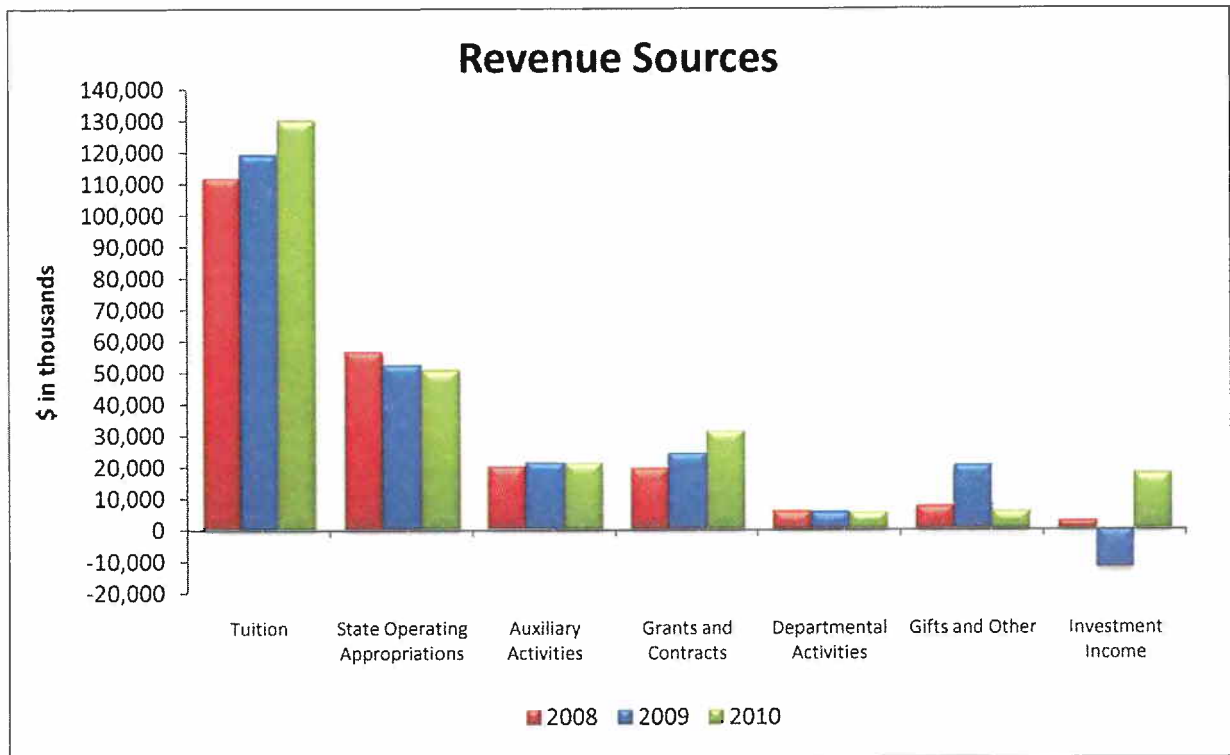
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Due to partial market recovery, the University experienced a \$17.9 million gain on investment income. This growth is comprised of \$12.2 million in the University's pooled investments and \$5.7 million in the endowment pool.

Nonoperating revenues also include \$16.4 million from Federal Grants in 2010 which includes Pell Grants of \$14.9 million and a \$1.5 million State Fiscal Stabilization fund grant under the American Reinvestment and Recovery Act. Pell Grant revenue for 2009 and 2008 was \$8.3 and \$6.6 million, respectively. The change in Pell Grant revenue from 2009 to 2010 is due to an increase in the number of grant recipients along with an increase in the maximum award amount. Pell Grants were also offered to students for the first time for summer 2010.

Other revenues were \$1.1 million in 2010, \$0.7 million in 2009 and \$2.5 million in 2008. Included in 2008 other revenues was a \$2.5 million addition to permanent endowments.

A graphic illustration of each revenue source is as follows:



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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*University Statements of Cash Flows*

The University's cash flows are summarized in the following Condensed Statements of Cash Flows:

**Condensed Statements of Cash Flows**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
		<i>(in thousands)</i>	
<b>Cash provided (used) by</b>			
Operating activities	\$ (46,882)	\$ (46,556)	\$ (39,312)
Noncapital financing activities	73,808	67,028	63,764
Capital financing activities	12,894	(18,171)	(20,183)
Investing activities	<u>(1,270)</u>	<u>(1,584)</u>	<u>(14,338)</u>
Net increase (decrease) in cash	38,550	717	(10,069)
 <b>Cash and cash equivalents</b>			
Beginning of year	<u>34,483</u>	<u>33,766</u>	<u>43,835</u>
End of year	<u><u>73,033</u></u>	<u><u>\$ 34,483</u></u>	<u><u>\$ 33,766</u></u>

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

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were \$51 million in 2010 and \$52.4 million in 2009. Cash received from the State Fiscal Stabilization Fund, which is authorized under the American Reinvestment and Recovery Act of 2009, was \$1.5 million in 2010. In addition, cash received from Pell Grants increased by \$6.6 million in 2010.

Capital financing activities for 2010 include capital expenditures of \$14.3 million along with debt service payments of \$6.5 million. Cash expended for capital expenditures in 2010 included \$2.9 million for the Human Health Building and \$2 million for equipment. Capital financing activities for 2010 include the issuance of \$33.7 million of Build America Bonds. Capital financing activities for 2009 include capital expenditures of \$9.9 million along with debt service payments of \$8.3 million. Cash expended for capital expenditures in 2009 included \$2.8 million for academic lab renovations, \$1.0 million for the Kresge Library technology center and \$2.6 million for equipment. Capital financing activities for 2008 include the issuance of \$53.3 million of General Revenue Variable Rate Demand Refunding Bonds (2008 Bonds). The 2008 Bonds refunded the 2001 General Revenue Bonds (2001 Bonds) in the amount of \$48.0 million and \$4.9 million in swap termination fees and related expenses. In addition, cash expended for capital expenditures for 2008 was \$13.2 million, including \$5.4 million for energy service projects and \$3.1 million for equipment. Debt service payments for 2008 were \$61.0 million (\$53.3 million for the refunding of the 2001 Bonds).

Cash used in investing activities during 2010 relates to purchases in excess of sales, maturities, and investment fees and other expenses.



**Oakland University**  
**Management's Discussion and Analysis**  
**June 30, 2010 and 2009**

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**Commitments**

The estimated cost to complete construction projects in progress is \$81 million as of June 30, 2010. These projects have been funded from the State Capital Outlay, and the Department of Energy Grant for the \$64.5 million Human Health Building, as well as, private gifts, proceeds from general revenue bonds, and other University funds.

**University Credit Rating**

In May 2010, Moody's Investors Service discontinued its Municipal Rating Scale, under which universities have traditionally received credit and bond ratings, and released its new Global Rating Scale. The University's underlying credit rating was A2 Stable under the Municipal Rating Scale. The University's new Global Rating Scale underlying credit rating is A1 Stable.

**Deferred Plant Renewal**

The University surveys its deferred plant renewal (previously referred to as deferred maintenance) annually adding new items and deleting ones that were addressed during the year. Each year, general 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
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates
- Development of the Oakland University William Beaumont School of Medicine

**Oakland University**  
**Statements of Net Assets**  
**June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 73,032,576	\$ 34,482,822
Accounts receivable, net (Note 3)	9,160,556	9,298,345
Appropriations receivable (Note 4)	9,216,495	9,536,763
Pledges receivable, net (Note 5)	2,451,958	2,412,234
Inventories	512,252	311,581
Deposits and prepaid expenses	674,205	545,223
Student loans receivable, net (Note 6)	256,507	244,173
Total current assets	<u>95,304,549</u>	<u>56,831,141</u>
Noncurrent assets		
Endowment investments (Note 2)	46,763,652	40,539,453
Other long-term investments (Note 2)	87,826,874	75,742,843
Pledges receivable, net (Note 5)	11,663,154	12,901,581
Student loans receivable, net (Note 6)	1,621,200	1,735,009
Capital assets, net (Notes 7)	245,637,567	242,440,851
Deferred outflow of resources (Note 11)	7,122,462	4,577,784
Other assets (Note 9)	2,162,367	1,844,411
Total noncurrent assets	<u>402,797,276</u>	<u>379,781,932</u>
Total assets	<u>\$ 498,101,825</u>	<u>\$ 436,613,073</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 10,189,678	\$ 7,364,807
Accrued payroll	8,015,236	7,765,269
Long-term liabilities - current portion (Note 10)	3,711,462	3,020,520
Deferred revenue	10,251,307	11,544,019
Deposits	1,381,869	1,211,070
Total current liabilities	<u>33,549,552</u>	<u>30,905,685</u>
Noncurrent liabilities		
Deferred revenue	1,363,205	2,105,319
Long-term liabilities (Note 10)	134,119,657	104,360,131
Other postemployment benefits (Note 12)	3,729,112	2,995,183
Derivative instrument liability (Note 11)	4,259,303	2,560,327
Total noncurrent liabilities	<u>143,471,277</u>	<u>112,020,960</u>
Total liabilities	<u>177,020,829</u>	<u>142,926,645</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	145,976,168	142,649,456
Restricted nonexpendable	16,836,067	15,661,607
Restricted expendable	36,902,650	38,699,334
Unrestricted	121,366,111	96,676,031
Total net assets	<u>\$ 321,080,996</u>	<u>\$ 293,686,428</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating revenues</b>		
Tuition (net of scholarship allowances of \$23,469,453 in 2010 and \$16,167,130 in 2009)	\$ 130,318,234	\$ 119,396,698
Federal grants and contracts	11,167,635	9,967,688
State, local and private grants and contracts	3,911,752	6,195,813
Departmental activities	5,228,655	5,383,505
Auxiliary activities (net of scholarship allowances of \$1,987,729 in 2010 and \$1,428,335 in 2009)	21,304,220	21,261,358
Other operating revenues	429,726	428,204
Total operating revenues	<u>172,360,222</u>	<u>162,633,266</u>
<b>Operating expenses</b>		
Education and general		
Instruction	93,405,352	90,731,583
Research	8,229,811	7,148,292
Public service	3,302,821	2,288,875
Academic support	17,099,044	15,849,964
Student services	16,641,165	15,976,938
Institutional support	28,600,313	27,280,334
Operations and maintenance of plant	17,740,668	17,377,494
Depreciation	11,912,863	12,122,925
Student aid	11,225,338	10,659,231
Auxiliary activities	22,765,741	23,322,709
Other expenses	18,360	12,366
Total operating expenses (Note 16)	<u>230,941,476</u>	<u>222,770,711</u>
Operating loss	<u>(58,581,254)</u>	<u>(60,137,445)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations (Note 4)	50,690,700	52,452,200
Gifts	4,125,543	19,075,720
Investment income (net of investment expenses of \$404,151 in 2010 and \$205,395 in 2009)	17,883,915	(12,551,659)
Distributions to annuity and life income fund beneficiaries	(60,778)	(68,949)
Interest on capital asset related debt	(4,256,442)	(4,774,112)
Federal grants	16,366,241	8,264,552
Other	135,245	141,956
Net nonoperating revenues	<u>84,884,424</u>	<u>62,539,708</u>
Income before other revenues	<u>26,303,170</u>	<u>2,402,263</u>
Capital grants and gifts	37,570	13,298
Additions to permanent endowments	1,053,828	688,106
Total other revenues	<u>1,091,398</u>	<u>701,404</u>
Increase in net assets	<u>27,394,568</u>	<u>3,103,667</u>
<b>Net assets</b>		
Beginning of year	293,686,428	290,582,761
End of year	<u>\$ 321,080,996</u>	<u>\$ 293,686,428</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Statements of Cash Flows**  
**June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Tuition	\$ 129,660,780	\$ 119,810,626
Grants and contracts	13,108,170	16,618,487
Payments to suppliers	(51,527,747)	(50,252,168)
Payments to employees	(154,679,315)	(147,309,123)
Payments for scholarships and fellowships	(11,225,338)	(10,659,231)
Loans issued to students	(190,240)	(118,805)
Collection of loans from students	271,180	289,988
Auxiliary enterprise charges	21,204,880	21,133,409
Other receipts	6,495,989	3,930,189
Net cash used by operating activities (Note 17)	<u>(46,881,641)</u>	<u>(46,556,628)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	51,010,968	52,357,781
Federal direct lending receipts	91,480,848	75,529,913
Federal direct lending disbursements	(91,480,848)	(75,529,913)
Gifts and grants for other than capital purposes	21,743,131	13,982,103
Endowment gifts	1,053,828	688,106
Net cash provided by noncapital financing activities	<u>73,807,927</u>	<u>67,027,990</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from capital debt	33,650,000	-
Capital grants, gifts and other payments	-	17,494
Purchases of capital assets	(14,286,037)	(9,880,739)
Principal paid on capital debt and leases	(2,951,693)	(2,857,191)
Interest paid on capital debt and leases	(3,518,786)	(5,450,239)
Net cash provided (used) by capital financing activities	<u>12,893,484</u>	<u>(18,170,675)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	1,492,918	2,036,135
Investment income (loss)	2,185,039	744,799
Purchase of investments	(4,947,973)	(4,365,129)
Net cash used by investing activities	<u>(1,270,016)</u>	<u>(1,584,195)</u>
Net increase in cash and cash equivalents	38,549,754	716,492
<b>Cash and cash equivalents</b>		
Beginning of year	34,482,822	33,766,330
End of year	<u>\$ 73,032,576</u>	<u>\$ 34,482,822</u>

The accompanying notes are an integral part of these financial statements

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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**1. Significant Accounting Policies**

**Organization**

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

**Basis of Accounting**

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

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

The University has implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, with no net effect on the current financial statements.

The University has implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), as of fiscal year ended June 30, 2010 which establishes accounting and financial reporting standards for the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments (See note 11).

The University is party to interest rate swap agreements which are considered to be derivatives and have been accounted for under the requirements of GASB 53. The fair values have been recorded on the statement of net assets as long term assets or liabilities, according to the fair values detailed further in Note 11.

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

**Cash Equivalents**

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

**Investments**

Investments are stated at fair value.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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**Inventories**

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

**Physical Properties**

Physical properties are stated at cost or, when donated, at fair market value at the date of gift. A capitalization threshold of \$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

**Revenue Recognition**

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

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

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

For fiscal year 2010, the State appropriated \$1,530,100 to the University from their state fiscal stabilization fund. This represents Federal American Recovery and Reinvestment Act funds which are reported with federal grants in the nonoperating revenues section of the statements of revenues, expenses and changes in net assets.

Revenues are reported net of discounts and allowances.

**Income Tax Status**

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

**Restatements and Reclassifications**

Certain fiscal year 2009 balances have been reclassified and/or restated to conform to the current year presentation.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. These investments are administered according to the University's "Pooled Cash Investment Policy." The policy requires that no short term investment may have a maturity greater than one year and no more than 10% of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of 15 years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolios at June 30, 2010 and 2009 do not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire University portfolio.

At June 30, 2010 and 2009 operating cash was invested in a short-term mutual fund, a pooled intermediate-fixed fund and pooled equity funds in the following market value amounts. These investments are displayed by category according to their respective duration to describe the level of interest rate risk in this portfolio. This is the risk in a fixed income portfolio that a change in interest rates can affect the market value of the portfolio.

<u>June 30, 2010</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>University Operating Pooled Cash</b>					
Swept Money Market Mutual Fund	\$ 38,209,616	\$ 38,209,616	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	72,923,579	-	-	72,923,579	-
JP Morgan Equity Funds Intrepid Equities	14,565,861	-	-	-	14,565,861
WAM Treasuries	337,505	-	-	-	337,505
Comerica CD's	4,898,000	4,898,000	-	-	-
Cash with Trustees	30,800,910	30,800,910	-	-	-
Operating Investments	161,735,471	73,908,526	-	72,923,579	14,903,366
Net cash overdraft	(876,021)	(876,021)	-	-	-
	<u>\$160,859,450</u>	<u>\$ 73,032,505</u>	<u>\$ -</u>	<u>\$72,923,579</u>	<u>\$ 14,903,366</u>
Cash and cash equivalents	\$ 73,032,576				
Other long-term investments	87,826,874				
	<u>\$160,859,450</u>				

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

<u>June 30, 2009</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>University Operating Pooled Cash</b>					
Swept Money Market Mutual Fund	\$ 35,422,798	\$ 35,422,798	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	63,459,297	-	-	63,459,297	-
JP Morgan Equity Funds Intrepid Equities	12,864,459	-	-	-	12,864,459
WAM Treasuries	294,410	-	-	-	294,410
Operating Investments	112,040,964	35,422,798	-	63,459,297	13,158,869
Net cash overdraft	(1,815,299)	(1,815,299)	-	-	-
	<u>\$110,225,665</u>	<u>\$ 33,607,499</u>	<u>\$ -</u>	<u>\$ 63,459,297</u>	<u>\$ 13,158,869</u>
Cash and cash equivalents	\$ 34,482,822				
Other long-term investments	75,742,843				
	<u>\$110,225,665</u>				

At June 30, 2010 the Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 8.5 years and an average credit quality of AA. The weighted-average maturity of a fixed income fund such as the High Quality Bond Fund is one measure of the risk that its market value will change with changes in interest rates.

The University is exposed to foreign currency risk included within the investment balance. The current investments that are subject to foreign currency risk consist of the JP Morgan International Opportunities Fund in the amount of \$2,215,191 as of June 30, 2010.

These investments produced net rates of return of 8.51% and -1.47%, respectively, for the years ended June 30, 2010 and 2009.

As of June 30, 2010 and 2009, the University had investment derivatives with the following maturities:

<u>June 30, 2010</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 2,863,159	\$ -	\$ -	\$ -	\$ 2,863,159
<u>June 30, 2009</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 2,017,457	\$ -	\$ -	\$ -	\$ 2,017,457

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

The University's endowment investments are administered according to the University's "Endowment Management and Investment Policy". While there is no policy restriction with regard



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

to concentration of credit risk, these investments are broadly diversified and there is no investment in a single issuer other than the US Government that amounts to more than 5% of the portfolio. The "Endowment Management and Investment Policy" restricts debt investment to "high quality"; "A" to "AAA" rated corporate bonds, U.S. Treasury, and agency securities or issues of supranational organizations and foreign sovereigns.

These investment funds are uninsured and uncollateralized and produced a total net return of 13.92% and -22.64 for the years ended June 30, 2010 and 2009, respectively.

University pooled endowment investment funds consist of the following as of June 30, 2010 and 2009:

<u>June 30, 2010</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>UBS Endowment Investment Pool</b>					
Large Cap Value	\$ 5,939,977	\$ -	\$ -	\$ -	\$ 5,939,977
Large Cap Growth	5,368,432	-	-	-	5,368,432
Mid Cap Value	3,965,408	-	-	-	3,965,408
Mid Cap Growth	2,506,790	-	-	-	2,506,790
Small Cap Core	2,710,689	-	-	-	2,710,689
REIT	1,707,371	-	-	-	1,707,371
International Value	4,007,461	-	-	-	4,007,461
International Core	3,242,094	-	-	-	3,242,094
Fixed Income Core	2,791,823	449,888	893,289	-	1,448,646
High Yield Bonds	2,984,079	245,287	1,076,348	1,545,084	117,360
Taxable Fixed Income	7,037,302	121,766	3,824,780	2,459,703	631,053
Global Fixed	1,182,999	-	-	1,182,999	-
Global Fixed	1,317,295	434,707	289,805	210,767	382,016
Domestic Fixed Income	884,551	-	539,576	194,602	150,373
Domestic Fixed Income	879,552	-	536,527	193,501	149,524
Cash	22	22	-	-	-
Accruals	145,267	145,267	-	-	-
	<u>\$ 46,671,112</u>	<u>\$ 1,396,937</u>	<u>\$ 7,160,325</u>	<u>\$ 5,786,656</u>	<u>\$ 32,327,194</u>
Charitable Trusts – Equity Funds	92,540	-	-	-	92,540
	<u>\$ 46,763,652</u>	<u>\$ 1,396,937</u>	<u>\$ 7,160,325</u>	<u>\$ 5,786,656</u>	<u>\$ 32,419,734</u>

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

<u>June 30, 2009</u>	<u>Total</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
<b>UBS Endowment Investment Pool</b>					
Large Cap Value	\$ 5,272,252	\$ -	\$ -	\$ -	\$ 5,272,252
Large Cap Growth	4,333,607	-	-	-	4,333,607
Mid Cap Value	2,317,321	-	-	-	2,317,321
Mid Cap Growth	1,915,275	-	-	-	1,915,275
Small Cap Core	2,055,872	-	-	-	2,055,872
REIT	1,496,974	-	-	-	1,496,974
International Value	3,607,617	-	-	-	3,607,617
International Core	2,671,536	-	-	-	2,671,536
Fixed Income Core	1,489,737	-	347,740	-	1,141,997
High Yield Bonds	2,530,171	-	1,115,588	1,393,406	21,177
Taxable Fixed Income	6,257,104	266,378	2,961,776	2,374,643	654,307
Global Fixed	1,080,654	-	-	1,080,654	-
Global Fixed	1,157,811	-	-	1,157,811	-
Domestic Fixed Income	1,091,408	-	-	-	1,091,408
Domestic Fixed Income	563,746	-	-	-	563,746
Domestic Fixed Income	560,220	-	-	-	560,220
Cash	1,700,763	1,700,763	-	-	-
Broad Commodities	81,234	-	-	-	81,234
Accruals	144,116	144,116	-	-	-
	<u>\$ 40,327,418</u>	<u>\$ 2,111,257</u>	<u>\$ 4,425,104</u>	<u>\$ 6,006,514</u>	<u>\$ 27,784,543</u>
Charitable Trusts – Equity Funds	186,823	-	-	-	186,823
Trust Check – In Transit	25,212	25,212	-	-	-
	<u>\$ 40,539,453</u>	<u>\$ 2,136,469</u>	<u>\$ 4,425,104</u>	<u>\$ 6,006,514</u>	<u>\$ 27,971,366</u>

The credit quality of the fixed income investments in the portfolio vary with 57.5% of the portfolio carrying a credit rating of AA or better and less than 17.5% of the portfolio is rated less than investment grade. Cash items in the portfolio carry credit ratings of A-1, P-1 and F-1.

The University is not exposed to foreign currency risk within the investment balance as of June 30, 2010.

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

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

Both the pooled cash and endowment investment pools can be liquidated to cash within one week or less at fair value.

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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**3. Accounts Receivable**

Accounts receivable consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Tuition	\$ 7,080,843	\$ 6,680,890
Auxiliary enterprises	953,052	905,809
Contracts and grants	4,058,097	2,877,851
Other receivables	479,717	1,924,453
Total accounts receivable	<u>12,571,709</u>	<u>12,389,003</u>
Less: Allowance for doubtful accounts	<u>(3,411,153)</u>	<u>(3,090,658)</u>
Total accounts receivable, net	<u>\$ 9,160,556</u>	<u>\$ 9,298,345</u>

**4. Appropriations Receivable**

The annual state operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2010 and 2009, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$9,216,495 and \$9,536,763, respectively.

**5. Pledges Receivable**

Pledges receivable consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Pledges outstanding</b>		
Unrestricted	\$ 114,235	\$ 22,911
Restricted expendable	17,228,782	19,530,984
Total pledges outstanding	<u>17,343,017</u>	<u>19,553,895</u>
Less		
Allowance for doubtful pledges	(124,827)	(413,388)
Present value discount	<u>(3,103,078)</u>	<u>(3,826,692)</u>
Total pledges outstanding, net	<u>14,115,112</u>	<u>15,313,815</u>
Less: Current portion, net	<u>(2,451,958)</u>	<u>(2,412,234)</u>
Noncurrent portion, net	<u>\$ 11,663,154</u>	<u>\$ 12,901,581</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2010 and 2009, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 1% and 3% net of discount at June 30, 2010 and 2009, respectively.

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Payments on pledges receivable at June 30, 2010 are expected to be received in the following years ended June 30:

Past due	\$ 31,455
Due in one year	2,474,053
Due in two-five years	8,730,009
Thereafter	6,107,500
Total	<u>\$ 17,343,017</u>

In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2010 and 2009 the University had \$31,332,947 and \$30,181,703, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$31,332,947 in conditional pledges for fiscal year 2010, \$15,000,000 is from a single donor.

**6. Student Loans Receivable**

Student loans receivable consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Student loans</b>		
Federal loan programs	\$ 2,091,480	\$ 2,221,250
University loan funds	71,836	57,138
	<u>2,163,316</u>	<u>2,278,388</u>
Less: Allowance for doubtful loans	(285,609)	(299,206)
Total student loans, net	1,877,707	1,979,182
Less: Current portion, net	(256,507)	(244,173)
Noncurrent portion, net	<u>\$ 1,621,200</u>	<u>\$ 1,735,009</u>

In addition, the University distributed \$91,480,848 and \$75,529,913 for the years ended June 30, 2010 and 2009, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

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**7. Capital Assets**

The following tables present the changes in the various capital asset categories for the University for fiscal years 2010 and 2009:

<u>Asset Classification</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2010</u>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	44,726,518	1,506,845	-	46,233,363
Buildings	286,332,287	5,326,879	-	291,659,166
Equipment	42,878,870	2,087,098	7,174,729	37,791,239
Library acquisitions	25,566,125	726,278	43,250	26,249,153
Construction in progress	15,105,172	12,320,456	6,833,723	20,591,905
Total	<u>418,933,886</u>	<u>21,967,556</u>	<u>14,051,702</u>	<u>426,849,740</u>
Accumulated depreciation				
Land improvements and infrastructure	(16,282,313)	(2,062,390)	-	(18,344,703)
Buildings	(104,476,741)	(6,360,242)	-	(110,836,983)
Equipment	(34,372,786)	(2,399,810)	(6,909,275)	(29,863,321)
Library acquisitions	(21,361,195)	(849,221)	(43,250)	(22,167,166)
Total	<u>(176,493,035)</u>	<u>(11,671,663)</u>	<u>(6,952,525)</u>	<u>(181,212,173)</u>
Total capital assets (net)	<u>\$ 242,440,851</u>	<u>\$ 10,295,893</u>	<u>\$ 7,099,177</u>	<u>\$ 245,637,567</u>

<u>Asset Classification</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2009</u>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	42,538,747	2,187,771	-	44,726,518
Buildings	277,748,526	8,583,761	-	286,332,287
Equipment	42,425,714	2,041,849	1,588,693	42,878,870
Library acquisitions	25,287,959	713,738	435,572	25,566,125
Construction in progress	17,275,605	8,601,098	10,771,531	15,105,172
Total	<u>409,601,465</u>	<u>22,128,217</u>	<u>12,795,796</u>	<u>418,933,886</u>
Accumulated depreciation				
Land improvements and infrastructure	(14,290,613)	(1,991,700)	-	(16,282,313)
Buildings	(98,083,682)	(6,393,059)	-	(104,476,741)
Equipment	(33,058,347)	(2,595,289)	(1,280,850)	(34,372,786)
Library acquisitions	(20,784,708)	(1,012,059)	(435,572)	(21,361,195)
Total	<u>(166,217,350)</u>	<u>(11,992,107)</u>	<u>(1,716,422)</u>	<u>(176,493,035)</u>
Total capital assets (net)	<u>\$ 243,384,115</u>	<u>\$ 10,136,110</u>	<u>\$ 11,079,374</u>	<u>\$ 242,440,851</u>

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**8. State Building Authority**

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

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

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

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

Included in other assets are the cash surrender value of life insurance policies in the amount of \$1,180,167 and \$1,158,344 for 2010 and 2009, respectively. At both June 30, 2010 and 2009, the face value of these life insurance policies totaled \$5,360,500.

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**10. Long-Term Liabilities**

Long-term liabilities consist of the following as of June 30, 2010 and 2009:

	<u>Balance June 30, 2009</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 17,353,310	\$ -	\$ 686,693	\$ 16,666,617	\$ 698,537
Bonds payable:					
General revenue bonds, series 1997	2,355,000	-	1,180,000	1,175,000	1,175,000
Variable rate demand bonds, series 1998 (transfer from the Foundation)	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004 unamortized premium	28,010,000 986,380	-	1,085,000 102,684	26,925,000 883,696	1,140,000 102,884
unamortized deferral on extinguishment	(1,077,009)	-	(112,119)	(964,890)	(112,337)
General revenue refunding bonds, series 2008	53,280,000	-	-	53,280,000	-
2008 Bonds – deferral	(5,089,201)	-	(234,887)	(4,854,314)	(234,885)
Bonds, series 2009		33,650,000		33,650,000	690,000
Total, note, installment agreement and bonds payable	<u>100,418,480</u>	<u>33,650,000</u>	<u>2,707,371</u>	<u>131,361,109</u>	<u>3,459,199</u>
Other liabilities:					
Compensated absences	4,614,621	-	375,302	4,239,319	193,057
Annuities payable and other (transfer from the Foundation)	478,599	1,215	50,232	429,582	59,206
Federal portion of Perkins loan program	1,868,951	39,809	107,651	1,801,109	-
Total other liabilities	<u>6,962,171</u>	<u>41,024</u>	<u>533,185</u>	<u>6,470,010</u>	<u>252,263</u>
Total long-term liabilities	<u>\$ 107,380,651</u>	<u>\$ 33,691,024</u>	<u>\$ 3,240,556</u>	<u>\$ 137,831,119</u>	<u>\$ 3,711,462</u>
Total long-term liabilities	\$ 107,380,651			\$ 137,831,119	
Current portion	<u>3,020,520</u>			<u>3,711,462</u>	
Noncurrent portion	<u>\$ 104,360,131</u>			<u>\$ 134,119,657</u>	

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	<u>Balance June 30, 2008</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 18,214,944	\$ -	\$ 861,634	\$ 17,353,310	\$ 686,692
Bonds payable:					
General revenue bonds, series 1997	3,480,000	-	1,125,000	2,355,000	1,180,000
Variable rate demand bonds, series 1998 (transfer from the Foundation)	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004	29,045,000	-	1,035,000	28,010,000	1,085,000
unamortized premium	1,090,342	152	104,114	986,380	102,884
unamortized deferral on extinguishment	(1,190,524)	(166)	(113,681)	(1,077,009)	(112,337)
General revenue refunding bonds, series 2008	53,280,000	-	-	53,280,000	-
2008 Bonds – deferral	(5,324,087)	-	(234,886)	(5,089,201)	(234,886)
Total, note, installment agreement and bonds payable	<u>103,195,675</u>	<u>(14)</u>	<u>2,777,181</u>	<u>100,418,480</u>	<u>2,707,353</u>
Other liabilities:					
Compensated absences	4,265,037	349,584	-	4,614,621	246,815
Annuities payable and other (transfer from the Foundation)	483,835	21,117	26,353	478,599	66,352
Federal portion of Perkins loan program	1,910,095	33,699	74,843	1,868,951	-
Total other liabilities	<u>6,658,967</u>	<u>404,400</u>	<u>101,196</u>	<u>6,962,171</u>	<u>313,167</u>
Total long-term liabilities	<u>\$ 109,854,642</u>	<u>\$ 404,386</u>	<u>\$ 2,878,377</u>	<u>\$ 107,380,651</u>	<u>\$ 3,020,520</u>
Total long-term liabilities	\$ 109,854,642			\$ 107,380,651	
Current portion	2,964,418			3,020,520	
Noncurrent portion	<u>\$ 106,890,224</u>			<u>\$ 104,360,131</u>	

**Note and Installment Purchase Agreement Payable**

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

In December 2006, the University entered into a lease-purchase agreement in the amount of \$107,364 to purchase mowing equipment. The lease is payable over a period of 48 months in the amount of \$2,419 per month at a fixed rate of interest of 3.89% and the final payment is due December 15, 2010.



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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 698,537	\$ 618,664	\$ 1,317,201
2012	710,538	592,149	1,302,687
2013	737,903	564,784	1,302,687
2014	766,322	536,365	1,302,687
2015	795,836	506,851	1,302,687
2016-2020	4,463,241	2,050,191	6,513,432
2021-2025	5,391,520	1,121,917	6,513,437
2026-2028	3,102,720	154,000	3,256,720
Total	<u>\$ 16,666,617</u>	<u>\$ 6,144,921</u>	<u>\$ 22,811,538</u>

**Bonds Payable**

In September 1997, the University issued general revenue bonds in the amount of \$11,650,000 to provide funds for various campus improvement projects. The bonds bear interest rates from 4.6% to 5.1% and mature at various dates through 2011.

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, 2010 and 2009 were 0.33% and 0.85%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. On February 1, 2006 the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of \$4,600,000.

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

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

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will mature March 1, 2031. A trust account was established to redeem the 2001 Bonds on their call date of August 1, 2008. The assets and liabilities of this account are not recorded as assets or liabilities in the financial statements of the University. The aggregate amount of outstanding principal on the 2001 Bonds which has been defeased was \$48,000,000 as of June 30, 2008. The principal on the 2001 Bonds was redeemed on August 1, 2008 leaving a zero balance in the trust account as of June 30, 2009.

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2011	\$ 3,005,000	\$ 3,989,134	\$ 1,702,296	\$ 8,696,430
2012	3,165,000	3,855,234	1,702,296	8,722,530
2013	3,305,000	3,764,859	1,661,720	8,731,579
2014	3,430,000	3,666,875	1,619,066	8,715,941
2015	3,570,000	3,561,112	1,574,975	8,706,087
2016-2020	20,250,000	15,991,156	7,144,819	43,385,975
2021-2025	29,790,000	12,052,044	5,729,434	47,571,478
2026-2030	32,205,000	7,585,617	3,461,463	43,252,080
2031-2035	13,510,000	4,342,108	189,943	18,042,051
2036-2039	7,400,000	1,353,137	-	8,753,137
	<u>119,630,000</u>	<u>\$ 60,161,276</u>	<u>\$24,786,012</u>	<u>\$204,577,288</u>
Less: Deferral on extinguishment, net	<u>(4,935,508)</u>			
	<u>\$114,694,492</u>			

**Other Liabilities**

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

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

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**11. Derivatives**

The University adopted the provisions of GASB 53 by restating the 2009 financial statements. Adoption resulted in an increase of \$928,507 to July 1, 2008 net assets; an increase of \$1,088,950 to 2009 investment income; and an increase of \$2,017,457 to June 30, 2009 net assets. The University also recorded a deferred outflow of resources (asset) of \$4,577,784 and a derivative liability of \$2,560,327 at June 30, 2009. The derivatives were valued using an independent pricing service. The following provides a description of each swap agreement.

**Investment Derivative Instrument:**

**2007 Constant Maturity Swap Agreement**

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

The estimated fair values of the CMS at June 30, 2010 and 2009 were \$2,863,159 and \$2,017,457, respectively. These fair values are included in the deferred outflow of resources asset in the Statement of Net Assets with the change in fair value of \$845,701 and \$1,088,951 for fiscal years ended June 2010 and 2009 respectively included in Investment income in the Statements of Revenues, Expenses and Changes in Net Assets. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. At June 30, 2010 the counterparty's credit rating from Moody's Investors Service was Aa1. The CMS includes collateral requirements intended to mitigate credit risk. At June 30, 2010 there is no collateral posting requirements of either the counterparty or the University. Under this agreement the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

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

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

**Hedging Derivative Instrument:**

**2008 Interest Rate Swap Agreement**

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$54,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.373% and is based on 67% of US Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 3.373%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap at June 30, 2010 and 2009 was (\$7,122,462) and (\$4,577,784), respectively. These fair values are reflected in the Deferred outflow of resources and Derivative instrument liability sections of the Statement of Net Assets. The fair value represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB 53 standards, 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, 2010 there is no collateral posting requirement of 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, 2010 the counterparty's credit rating from Moody's Investors Service was A1.

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. If the 2008 Swap is terminated, the University may be required to pay an amount equal to the fair value if it is negative.

**12. Postemployment Benefits Other than Pensions**

**Plan Description**

In addition to the employee benefits discussed in Note 13, the University provides postemployment healthcare benefits to eligible University retirees and their spouses as part of a single-employer defined benefit plan. The plan is administered by the University. Substantially all University employees may become eligible for coverage if they meet retirement eligibility requirements. The net periodic costs are expensed as employees render the services necessary to earn the postemployment benefits. In general, retirees at least 62 years of age with 15 years of service who

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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 293 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, 2010, the University and plan members receiving benefits contributed \$1,427,568 and \$860,499, respectively, to the plan. Approximately 62% of total premiums were paid by the University with the remaining 38% paid by plan members. Required contributions for plan members range from no cost to \$811 per month for retiree-only coverage, and from no cost to \$1,824 per month for retiree and spouse coverage.

For the year ended June 30, 2009, the University and plan members receiving benefits contributed \$1,307,162 and \$912,720, respectively, to the plan. Approximately 59% of total premiums were paid by the University with the remaining 41% paid by plan members. Required contributions for plan members range from no cost to \$261 per month for retiree-only coverage, and from \$27 to \$1,269 per month for retiree and spouse coverage.

**Annual OPEB Cost and Net OPEB Obligation**

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

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Annual Required Contribution (ARC)	\$ 2,273,539	\$ 2,914,348
Interest on net OPEB obligation	233,624	110,962
Adjustment to ARC	(345,666)	(162,045)
Annual OPEB cost (expense)	2,161,497	2,863,265
Contributions made	(1,427,568)	(1,307,162)
Increase in net OPEB obligation	733,929	1,556,103
Net OPEB obligation – beginning of year	2,995,183	1,439,080
Net OPEB obligation – end of year	<u>\$ 3,729,112</u>	<u>\$ 2,995,183</u>

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The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2010, 2009, and 2008 were as follows:

<b>Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB cost Contributed</b>	<b>Net OPEB Obligation</b>
2010	\$ 2,161,497	66.0%	\$ 3,729,112
2009	\$ 2,863,265	45.7%	\$ 2,995,183
2008	\$ 2,743,060	47.5%	\$ 1,439,080

**Funded Status and Funding Progress**

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but instead are financed on a pay-as-you-go basis. The University thus far has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board of Trustees approved quasi-endowment valued at approximately \$8 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, 2010 and the two preceding years were \$1,427,568, \$1,307,162, and \$1,303,980, respectively. The funded status of the plan for the year ended June 30, 2010 and the two preceding years is as follows:

**Schedule of Funding Progress**  
**Oakland University Retired Employees Healthcare Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2010	-	\$ 21,538,021	\$ 21,538,021	0.00%	\$ 82,604,660	26.1%
6/30/2009	-	\$ 25,348,481	\$ 25,348,481	0.00%	\$ 76,840,085	33.0%
6/30/2008	-	\$ 24,174,864	\$ 24,174,864	0.00%	\$ 71,063,121	34.0%

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 \$21.5 million as of the June 30, 2010 actuarial valuation date. The unfunded actuarial accrued liability is being amortized over a period of thirty years from the July 1, 2007 valuation date in level dollar payments. Gains and losses are amortized over a period of fifteen years from the valuation date.

**Actuarial Methods and Assumptions**

The actuary chose the Unit Credit Actuarial Cost Method which determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in other postemployment benefit costs. These gains and losses result from the difference between the actual experience under the plan and the experience by the actuarial assumptions. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to expectations and new estimates are made in the future. During fiscal year 2010, the University changed actuary. The methodology used by the new actuary resulted in expected costs paid by the University to be extended to later years, resulting in a lower current year AAL.

**Oakland University**  
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Actuarial assumptions included a discount rate of 7.8%, 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, 2010 and 2009 were \$12,339,391 and \$11,644,340, 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, 2009, 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 eleven Michigan universities participating in the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) which provides insurance coverage for errors and omissions liability, commercial general liability, property loss, automobile liability, and automobile physical damage coverage. M.U.S.I.C. provides coverage for claims in excess of agreed upon deductibles.

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

**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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and property coverage is provided on an occurrence basis. Errors and omissions coverage is provided on a claim made basis.

**15. Contingencies and Commitments**

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

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2010, the amount subject to guarantee by the University was \$2,294,083.

The estimated costs to complete construction projects in progress are \$81,296,423 as of June 30, 2010. These projects have been funded from the State Capital Outlay, Department of Energy grant and Kresge Foundation grant for the \$64.6 million Human Health Building, as well as, private gifts, proceeds from general revenue bonds and other University funds.

**16. Expenditures by Natural Classification**

Operating expenses by natural classification for the years ended June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Employee compensation and benefits	\$ 155,287,910	\$ 148,961,840
Supplies and other services	52,515,365	51,026,715
Student aid	11,225,338	10,659,231
Depreciation	11,912,863	12,122,925
Total	<u>\$ 230,941,476</u>	<u>\$ 222,770,711</u>



**Oakland University**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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**17. Cash Flow Statement**

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

	<u>2010</u>	<u>2009</u>
<b>Operating loss</b>	\$ (58,581,254)	\$ (60,137,445)
<b>Adjustments to reconcile net operating loss to net cash used by operating activities</b>		
Depreciation expense	11,912,863	12,122,925
Changes in assets and liabilities:		
Accounts receivable, net	137,789	(1,216,471)
Inventories	(200,671)	542,180
Deposits and prepaid expense	(116,856)	121,614
Student loans receivable	101,475	160,167
Accounts payable and accrued expenses	1,188,289	232,368
Accrued payroll	249,967	(252,968)
Compensated absences	(375,301)	349,582
Deferred revenue	(2,034,826)	118,167
Deposits	170,799	(111,707)
Federal portion of student loan program	(67,844)	(41,143)
Other postemployment benefits	733,929	1,556,103
Net cash used by operating activities	<u>(46,881,641)</u>	<u>\$ (46,556,628)</u>

**18. Related Party Transactions**

Effective February 1, 2006, the University Board of Trustees and the Foundation Board of Directors entered into a Transition Agreement between The Oakland University Foundation and Oakland University (Transition Agreement). This Transition Agreement called for the transfer of substantially all of the Foundation's assets and liabilities to the University.

Foundation net assets as of June 30, 2010:

Assets	<u>\$ 155,029</u>
Net assets	<u>\$ 155,029</u>

The assets remaining are endowment funds. The June 30, 2010 University financial statements do not include the remaining Foundation assets or the Foundation's activity.



2200 North Squirrel Road, Rochester, MI 48309-1401  
oakland.edu

Finance, Audit, and Investment Committee  
Meeting

Oakland University

*September 24, 2010*

# Oakland University

## Finance, Audit, and Investment Committee Meeting Agenda

*September 24, 2010*

- ◆ Introduction and Organization Chart of Audit Team
  - AHP Representatives
    - Randy Morse – Partner
    - Roger Hitchcock – Partner
    - Katie Jiles – Manager
  
- ◆ Financial Highlights
  
- ◆ Finance, Audit, and Investment Committee of the Board of Trustees Letter
  - Services Provided and Reports Issued or in Process
  - Results of 2010 Audit and Review of Significant Accounting Matters
  - Required Communications with the Finance, Audit, and Investment Committee
  - Representation Letter
  
- ◆ Other Questions or Comments



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

September 24, 2010

Finance, Audit, and Investment 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, 2010. Our audit included all procedures considered necessary by us to perform the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and to issue our opinion thereon. – Completed
- An audit in accordance with OMB Circular A-133 and *Government Auditing Standards*. Our audit included procedures for testing requirements related to the major federal award programs for the year ended June 30, 2010. – Completed

##### Non-audit 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 in December of 2010 updating our subsequent events procedures through that date. – In Process
- Procedures related to the 2009 General Revenue Bonds. – Completed
- Procedures related to the review of the 2010 990T – In Process

## Results of 2010 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 issued by the Comptroller General of the United States, 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. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

The following summarizes various matters of interest:

### Interest Rate Swaps

The University has two interest rate swaps which are considered derivatives; therefore, the University adopted the provisions of GASB Statement No. 53, *Accounting and Reporting for Derivatives* by restating the 2009 financial statements. Adoption resulted in an increase in July 1, 2008 net assets of \$928,507; and an increase of \$1,088,950 to June 30, 2009 investment income; and an increase of \$2,017,457 to June 30, 2009 net assets. The University also recorded a deferred outflow of resources (asset) of \$4,577,784 and a derivative liability of \$2,560,327 at June 30, 2009.

The University is reporting one swap as an investment swap with changes in fair value being recorded as investment income. The other swap is considered an effective hedge against interest on the 2008 bonds. Changes in fair value are recorded as deferred outflows and derivative liabilities with no effect on net assets.

### Cash and Cash Equivalents

The University had an increase of approximately \$38.5 million from the prior year. Included in that increase is approximately \$30.1 million of unexpended bond proceeds.

### Oakland University William Beaumont School of Medicine Gift

During the prior year a pledge was received for \$20 million from an anonymous donor for the new Oakland University William Beaumont School of Medicine. A \$2 million payment was made toward this pledge during each of the last two years. The discounted value of the pledge approximated \$13 million at June 30, 2010.

### 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, 2010.

### 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, 2010, the University recorded expense of approximately \$2.2 million and made payments of approximately \$1.4 million. The benefit obligation increased by approximately \$730,000 during the year to approximately \$3.7 million. The total unfunded actuarial accrued liability at June 30, 2010 approximated \$21.5 million.

### State Fiscal Stabilization Funds

During the year, the State decreased State Appropriations to the University and replaced it with \$1,530,100 of State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act. Since these are federal expenditures, this was required to be tested as a major program as part of the Single Audit. For financial statement presentation purposes, these amounts have been recorded as nonoperating revenues.

### University Net Assets

The net assets of the University increased approximately \$27.4 million or 9.3%. Of this increase, approximately \$11.3 million is unrealized gain on investments; \$5.2 million relates to gifts and additions to permanent endowments; and \$.8 million is the change in the fair value of the CMS derivative. Included in total net assets are approximately \$121.4 million of unrestricted net assets. Of the \$121.4 million in unrestricted net assets, approximately \$110.2 million has been internally designated for specific purposes by the University.

### Adopted Audit Standards

Statement on Auditing Standards No. 115, *Communication of Internal Control Related Matters Identified in an Audit* became effective for the year ended June 30, 2010 and superseded SAS No. 112, of the same name. It provides guidance to auditors on communicating certain matters related to an organization's internal control over financial reporting that we may identify during the audit of your organization's financial statements.

### Adopted Accounting Standards

Except for GASB 53 discussed above, no other statements were adopted that had a material effect on the University

### Recently Issued and Future Accounting and Audit Standards

None that would have a material effect on the University.

## Required Communications with the Finance, Audit and Investment Committee

This section discusses our responsibilities under the Statement on Auditing Standards (SAS) No. 114, *Communication with Those Charged with Governance*. The following excerpts from SAS No. 114 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 is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Our report dated September 2, 2010 for the June 30, 2010 audit 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. generally accepted accounting principles. 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 May 10, 2010. 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. New accounting policies were adopted and the application of existing policies was not changed during the year. 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 the following:



- Allowance for doubtful accounts
- Fair market value of investments
- Other postemployment benefits
- Derivative instruments

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 relate to the following:

- Significant accounting policies
- Cash equivalents and investments
- 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 2, 2010. 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 Non-Audit Services

As previously described in this letter, we performed certain non-audit services at the request of management 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 controls 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 Finance, Audit and Investment Committee of 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 or any other aspects of our services to Oakland University.

It has been a pleasure to serve Oakland University during 2010. We would like to express our appreciation for the cooperation and courtesy extended to us by the Finance, Audit and Investment Committee and the management and employees of the University and look forward to continuing our association in the future.

Sincerely,

*Andrew Hooper Pavlik PLC*



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

Rochester, Michigan 48309-4498  
(248) 370-2445 Fax: (248) 370-2372

September 2, 2010

Andrews Hooper & Pavlik P.L.C.  
3201 University Drive, Suite 350  
Auburn Hills, Michigan 48326

We are providing this letter in connection with your audits of the financial statements of Oakland University (University) as of June 30, 2010 and 2009 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the University, and the changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items with respect to federal award programs are considered material based on the materiality criteria specified in OMB Circular A-133. Items are considered material 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.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

- 1) 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 primary government and all component units required by generally accepted accounting 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.
- 2) We have made available to you all:
  - a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

- b) 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.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) 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.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others that have not been investigated and resolved with no issues.
- 8) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse discovered.
- 9) We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
- 10) The University has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets.
- 11) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the University is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
- 12) 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; and we have identified and, upon your request for such information for a specific federal program, disclosed to you all laws, regulations and provisions of

contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13) There are no:

- a) 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.
- b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
- c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
- d) Reservations or designation of fund equity that were not properly authorized and approved.

14) 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.

15) 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.

16) 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.

17) 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. There have been no significant changes to the assumptions, cost of healthcare or employee base used for the actuarial calculation. Also, we have no other postretirement plans that would be subject to GASB 45 that we have not been appropriately recorded and disclosed in the financial statements.

18) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

19) Provisions for uncollectible receivables have been properly identified and recorded.

20) Adequate provision has been made for losses, costs, and expenses that may be incurred subsequent to year-end with respect to receivables recorded prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date. Receivables represent valid claims against the debtors indicated and do not include amounts for services provided

subsequent to year-end or other types of arrangements not constituting revenue to the University.

- 21) 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.
- 22) 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.
- 23) 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.
- 24) Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 25) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated. Capital assets are evaluated for impairment if a significant or unexpected decline occurs in their service utility. Impairment loss or insurance recoveries have been properly recorded, if applicable.
- 26) Required supplementary information (RSI) is measured and presented within prescribed guidelines, if applicable.
- 27) 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.
- 28) 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.
- 29) 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.
- 30) Participation in a public entity risk pool have been properly reported and disclosed in the financial statements.
- 31) 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.
- 32) 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.

- 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.
- 33) 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.
- 34) Federal advances and the terms of these advances have been properly recorded and disclosed in the financial statements.
- 35) 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.
- 36) All funds disbursed from endowed assets have been done so in accordance with the donor's requirements for the use of these funds.
- 37) All deferred compensation agreements have been provided and all deferred compensation accruals have been properly recorded.
- 38) We are not aware of any pollution remediation liabilities that would be required to be recorded under GASB 49.
- 39) With respect to federal award programs:
- a) We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
  - b) We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures 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 assistance.
  - c) We are responsible for complying with, and have complied with in all material respects, 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.

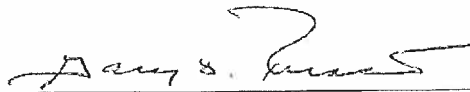
- d) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the 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. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- e) 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 relating to major federal programs.
- f) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g) We have complied, in all material respects, with the 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 any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j) We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k) 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.
- l) We have charged costs to federal awards in accordance with applicable cost principles.
- m) 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.
- n) 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.

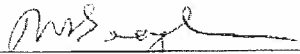
- o) We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for any audit findings.
- p) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.



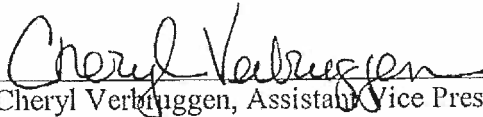
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Gary D. Russi, President



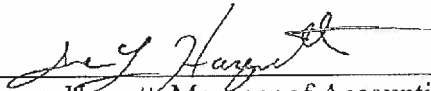
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John W. Beaghan, Vice President for Finance and Administration



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Cheryl Verbruggen, Assistant Vice President and Controller



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James Hargett, Manager of Accounting