



Oakland University
FINANCIAL STATEMENTS
June 30, 2013 and 2012



Oakland University

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Oakland University
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Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2011. In accordance with the standards, the University has modified the presentation of the Statements of Net Position and has reported deferred outflow and inflow of resources at June 30, 2013 and 2012 in accordance with the standards. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Auburn Hills, Michigan
September 23, 2013

Oakland University

Management's Discussion and Analysis

June 30, 2013 and 2012

Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University, Oakland or OU) for the fiscal year ended June 30, 2013 with selected comparative information for the year ended June 30, 2012.

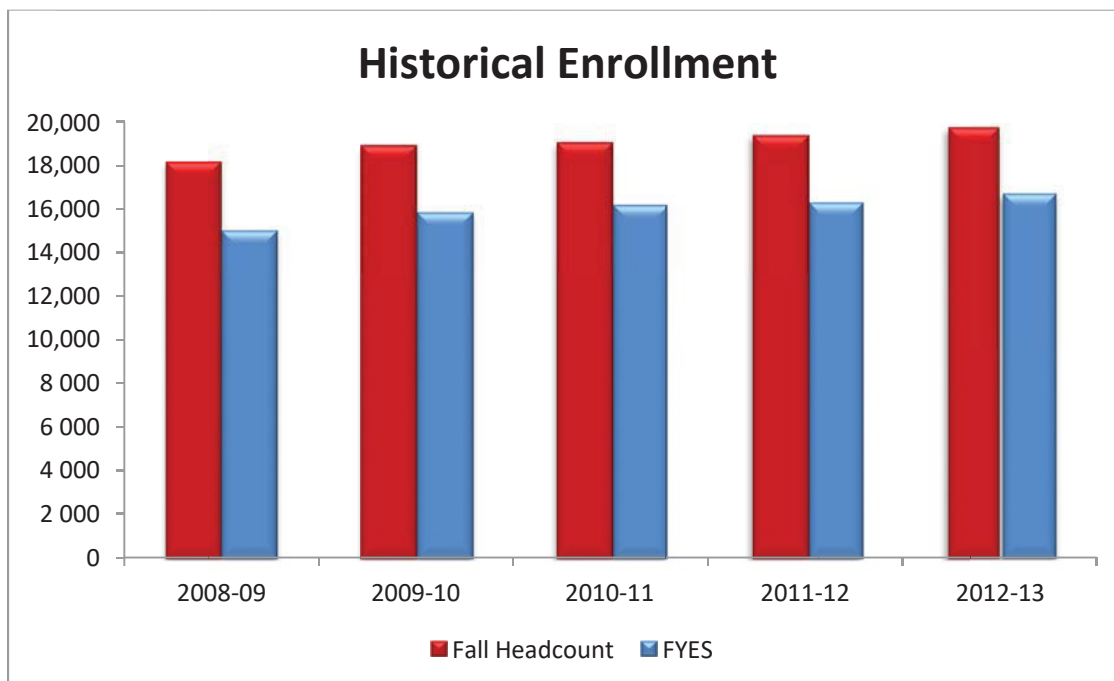
The University is a state-supported institution of over 19,700 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as programs in continuing education. The University is recognized as one of the country's 90 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 139 baccalaureate degree programs and 128 graduate and certificate programs. The University's student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom. The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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

Enrollment and Operations Highlights

- In fiscal year 2013, enrollment based on Fiscal Year Equated Students (FYES) increased 2.4% to 16,710.
- Student headcount enrollment for the fall 2012 semester increased 1.9% to a record 19,740. Undergraduate enrollment was 16,190 (82.0%) and graduate enrollment was 3,550 (18.0%).

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



Oakland University

Management's Discussion and Analysis

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- Through the issuance of general revenue bonds in June 2013, Oakland University committed \$34.4 million in campus enhancement projects. The various construction projects include a \$22.8 million, 1,240 space parking structure, a \$7.9 million renovation and addition to the outdoor recreation and athletic fields, a \$2.0 million extension of Library Drive, and a \$1.7 million facilities management building. Each of these projects is expected to be completed by fall 2014.
- In June 2013, it was announced that Oakland will welcome the creation of the Oakland University Credit Union as a trade name identity for the MSU Federal Credit Union, the world's largest university-based credit union, which has made a nearly \$5.0 million financial commitment to Oakland over the next 10 years. Portions of this support will go toward an endowed student scholarship, a Dean's Choice Grant Program, a variety of signature sponsorships, and in-kind marketing.
- In June 2013, long-time president Dr. Russi announced his retirement. During Dr. Russi's tenure, the University experienced tremendous growth. The student population has risen to nearly 20,000 and academic credentials of incoming first-year students significantly improved. More than 65 new academic degree programs were added since 1995, and full-time faculty has grown to more than 500. During this time, the University invested – often with State support – more than \$400.0 million to enrich environments for teaching, research, learning, and living.
- In May 2013, Oakland launched the Rick Smith Golf Academy at the OU Golf and Learning Center. The highly-respected golf academy will help the Golf and Learning Center continue to grow the game of golf and affirm itself as a world-class golf center. Smith, who designed the R&S Sharf Golf Course, has been consistently ranked as one of the top 10 golf instructors in the world since 2000.
- In May 2013, Oakland University announced it will join the Horizon League for the 2013-14 season. Joining this league will increase Oakland's visibility within major media markets, increase student recruitment opportunities, decrease student athlete travel, and create new revenue streams.
- In April 2013, the University broke ground on the new student housing complex. The \$30.0 million complex, funded by general revenue bonds issued in June 2013, will accommodate over 500 freshmen and sophomores on campus. The new building will also house the Honors College, study areas, and a cafe. The new housing complex is set to open in the fall of 2014.
- In April 2013, the Board of Trustees approved the new Masters of Public Health degree beginning fall 2013. The new program aims to improve the health of individuals and communities by strengthening the foundation skills, core capacities, diversity, preparation, and responsiveness of public health officials.
- In 2013 O'Dowd Hall, home to the Oakland University William Beaumont School of Medicine (OUWBSM) underwent \$3.7 million in renovations. Improvements to the building included enhancements to make the facility more energy efficient, increase office space, two new auditoria, an expansion of the medical student lounge, and new classrooms and breakout rooms.
- Oakland University's Biology Department received a \$1.8 million grant from the National Institutes of Health to investigate potential cures for the visual impairment disease, keratitis. In addition, the University's Eye Research Institute received a \$0.5 million grant from the Vision Research Foundation to combat additional retinal diseases.

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- In December 2012, Oakland University received a \$6.5 million gift from long-time OU supporters, Hugh and Nancy Elliott. The generous donation will fund the 151-foot Elliott Tower. The tower, which broke ground in April 2013, will be a new centerpiece for the University, complete with a surrounding fountain, garden, and decorative landscaping.
- In October of 2012, the University broke ground on the new 127,000 square foot, \$74.6 million Engineering Center. As part of the State of Michigan's 2010-11 Capital Outlay Budget, Oakland has been allocated \$30.0 million to support the construction. The remaining \$44.6 million has been financed through the issuance of general revenue bonds. The new building will be home to the University's School of Engineering and Computer Science and will feature state of the art classrooms and research space that will increase global competitiveness in alternative energy, health care, automotive, and other high-tech industries.
- In September of 2012, Oakland University opened the 172,825 square foot Human Health Building. The \$64.6 million facility is now home to the University's School of Nursing and the School of Health Sciences.

Overview of the Financial Statements

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

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

The University's financial statements can be found on pages 14, 15, and 16 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 17-38 of this financial report.

Oakland University
Management's Discussion and Analysis
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University Financial Statement Summaries

University Statements of Net Position

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

Condensed Statements of Net Position	June 30,		Change
	2013	2012	
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 184,906	\$ 73,661	151%
Capital assets, net	352,058	312,019	13%
Other noncurrent assets	<u>175,773</u>	<u>186,461</u>	-6%
Total assets	<u>712,737</u>	<u>572,141</u>	25%
Deferred outflows of resources	12,763	16,830	-24%
Liabilities			
Current liabilities	52,092	48,741	7%
Noncurrent liabilities	<u>249,806</u>	<u>139,295</u>	79%
Total liabilities	<u>301,898</u>	<u>188,036</u>	61%
Deferred inflows of resources	4,314	8,689	-50%
Net position			
Invested in capital assets, net of related debt	210,637	192,888	9%
Restricted nonexpendable	19,735	18,726	5%
Restricted expendable	41,061	35,302	16%
Unrestricted	<u>147,855</u>	<u>145,330</u>	2%
Total net position	<u>\$ 419,288</u>	<u>\$ 392,246</u>	7%

The University's total assets were \$712.7 million and \$572.1 million at June 30, 2013 and 2012, respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, library acquisitions, and construction in progress. Capital assets represent 49% and 55% of the University's total assets at June 30, 2013 and 2012, respectively. Capital expenditures totaled \$53.8 million in 2013 and \$53.6 million in 2012. Included in capital expenditures for 2013 were the Engineering Center, the Student Housing Complex, campus infrastructure projects, equipment and technology additions, and other campus enhancement projects. Depreciation expense was \$13.7 million in 2013 and \$12.6 million in 2012.

Current assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, and receivables due within one year. Cash and cash equivalents, including restricted cash and cash equivalents, increased \$124.5 million to \$161.6 million at June 30, 2013 largely due to proceeds from the issuance of the Series 2013A and 2012 general revenue bonds. Accounts receivable decreased \$13.7 million to \$9.8 million at June 30, 2013. This is primarily due to the receipt during fiscal year 2013 of a \$12.1 million receivable from the State Building Authority for the capital appropriation related to the Human Health Building.

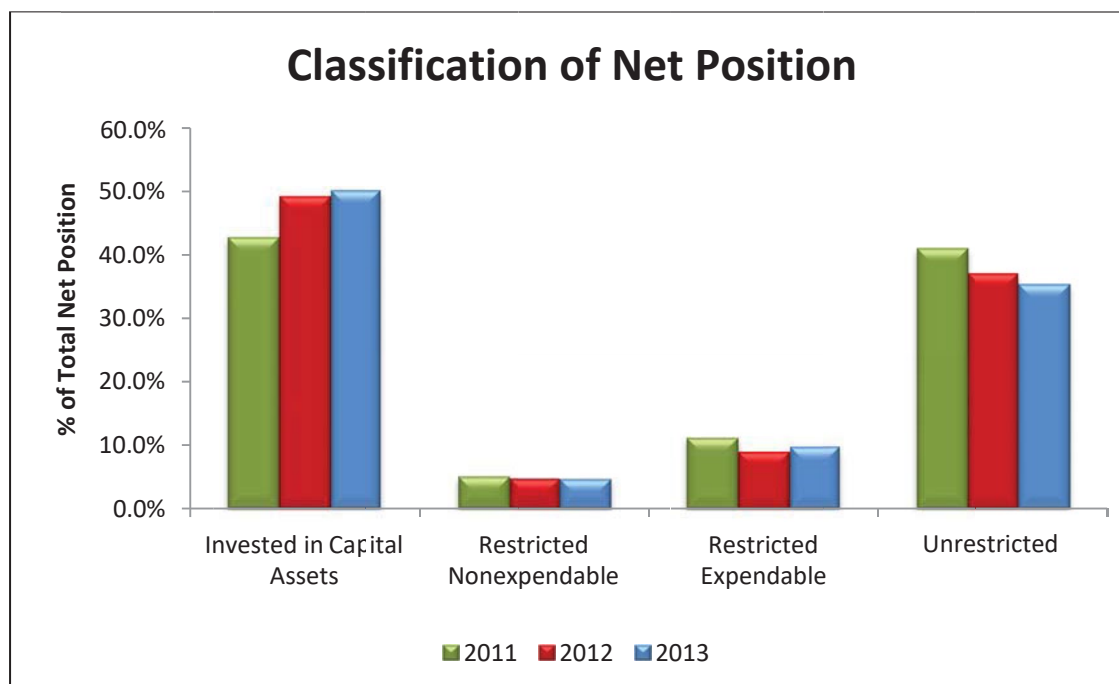
Oakland University
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Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$61.4 million at June 30, 2013 and \$55.5 million at June 30, 2012. The increase in endowment fair market value was primarily due to a favorable outcome in the market and contributions. The total return, net of fees, on the University’s endowment investments was 9.5% for 2013 and -1.9% for 2012. Other long-term investments were \$104.7 million at June 30, 2013 and \$120.0 million at June 30, 2012 and include intermediate-term fixed income and equity securities. This decrease is attributed to the liquidation of pooled investments that were not reinvested prior to June 30, 2013. The total return on the University’s other long-term investments was 5.0% for 2013 and 1.5% for 2012, both net of fees. See the “Statements of Cash Flows” section of this report for additional detail.

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

The University’s total liabilities were \$301.9 million at June 30, 2013 and \$188.0 million at June 30, 2012. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, and unearned revenue. The \$3.4 million increase in current liabilities is attributed primarily to the increase in accounts payable, current portion of long-term liabilities, and unearned revenue. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 83% and 74% of the University’s total liabilities at June 30, 2013 and 2012, respectively. The \$110.5 million increase in noncurrent liabilities is attributed primarily to the issuance of Series 2013A and 2012 general revenue bonds totaling \$57.9 million and \$44.2 million, respectively.

The following graph shows net position by classification and restriction:



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

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

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

	June 30,	
	2013	2012
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 5,112	\$ 9,457
Capital projects and repair reserves	54,361	57,729
Funds designated for departmental use	27,898	25,264
Funds functioning as endowments	29,270	26,545
Gifts and investment income reserves	23,619	18,808
Retirement and insurance reserves	(6,912)	(4,960)
Encumbrances and carryforwards	11,178	9,016
Other unrestricted	3,329	3,471
	<u>\$ 147,855</u>	<u>\$ 145,330</u>

Auxiliary enterprises consist of the operating fund balances at year end for the various auxiliary units including Campus Recreation, Meadow Brook Hall, Golf & Learning Center, Oakland Center, Athletics, etc. The decrease in 2013 is due to funding of various repair and maintenance projects, a new VOIP telephone system, Horizon League initiation costs, and marketing initiatives.

Capital projects and repair reserves consist of the unexpended portion of ongoing capital projects, reserves for plant renewal, and bond sinking funds. The 2013 decrease over 2012 is primarily due to various capital projects that were funded in 2012 being capitalized in the current year.

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

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

Gifts and investment income reserves include the University's unrestricted gifts, and realized and unrealized investment income reserves. The increase for 2013 is predominately attributable to investment earnings in excess of the need for using these resources to fund current University operations.

Retirement and insurance reserves include the University's liability recorded to date for other postemployment benefits (OPEB). In addition to this liability, the University has an unrecorded OPEB liability of approximately \$22.5 million as of June 30, 2013. This balance also includes reserves for unemployment and workers' compensation for which the University is self-insured.

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

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

Condensed Statements of Revenues, Expenses and Changes in Net Position	2013	2012	2011	% Change 2013-2012	% Change 2012-2011
		<i>(in thousands)</i>			
Operating revenues					
Net tuition	\$ 155,967	\$ 149,095	\$ 137,613	5%	8%
Grants and contracts	14,395	15,236	17,768	-6%	-14%
Departmental activities	8,017	5,998	5,470	34%	10%
Auxiliary activities	24,760	23,424	22,599	6%	4%
Other	249	269	418	-7%	-36%
Total operating revenues	<u>203,388</u>	<u>194,022</u>	<u>183,868</u>	5%	6%
Operating expenses	<u>274,948</u>	<u>259,446</u>	<u>243,312</u>	6%	7%
Operating loss	<u>(71,560)</u>	<u>(65,424)</u>	<u>(59,444)</u>	9%	10%
Nonoperating revenues (expenses)					
State appropriations	44,964	43,145	50,761	4%	-15%
Gifts	4,853	5,806	4,295	-16%	35%
Investment income	14,685	1,471	20,879	898%	-93%
Distributed to annuity and life income fund beneficiaries	(58)	(61)	(60)	-5%	2%
Interest expense	(5,789)	(4,466)	(4,919)	30%	-9%
Federal grants	20,726	21,037	20,038	-1%	5%
Other	508	147	142	246%	4%
Net nonoperating revenues	<u>79,889</u>	<u>67,079</u>	<u>91,136</u>	19%	-26%
Income before other revenues	<u>8,329</u>	<u>1,655</u>	<u>31,692</u>	403%	-95%
Capital appropriations	10,073	30,427	-	-67%	100%
Capital grants and gifts	7,675	4,930	1,496	56%	230%
Additions to permanent endowments	965	588	1,226	64%	-52%
Total other revenues	<u>18,713</u>	<u>35,945</u>	<u>2,722</u>	-48%	1221%
Increase in net position	<u>27,042</u>	<u>37,600</u>	<u>34,414</u>	-28%	9%
Net position					
Beginning of year	<u>392,246</u>	<u>354,646</u>	<u>320,232</u>	11%	11%
End of year	<u>\$ 419,288</u>	<u>\$ 392,246</u>	<u>\$ 354,646</u>	7%	11%

Operating revenues were \$203 million in 2013, \$194 million in 2012, and \$184 million in 2011. The 5% increase in 2013 over 2012 was primarily due to increases in tuition revenue; net of scholarship allowances, which was higher due to an enrollment increase in FYES of 2.4% and; effective for the fall 2012 semester, tuition rates increasing by 2.9% for undergraduates and graduates.

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Operating expenses were \$275 million in 2013, \$259 million in 2012, and \$243 million in 2011. The operating expense increase of 6% in 2013 over 2012 resulted from supporting enrollment, contractual agreements, and increases in academic and institutional support.

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

University Operating Expenses

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u> <u>2013-2012</u>	<u>% Change</u> <u>2012-2011</u>
	<i>(in thousands)</i>				
Education and general					
Instruction	\$ 110,296	\$ 104,180	\$ 99,012	6%	5%
Research	10,297	11,252	9,531	-8%	18%
Public service	4,248	3,709	2,943	15%	26%
Academic support	22,730	20,589	19,128	10%	8%
Student services	21,113	18,604	17,368	13%	7%
Institutional support	33,439	32,583	28,752	3%	13%
Operations and maintenance of plant	20,518	18,877	17,891	9%	6%
Depreciation	13,710	12,556	12,040	9%	4%
Student aid	13,127	13,211	12,888	-1%	3%
Total education and general	<u>249,478</u>	<u>235,561</u>	<u>219,553</u>	6%	7%
Auxiliary activities	25,453	23,872	23,743	7%	1%
Other expenses	17	12	16	42%	-25%
Total operating expenses	<u>\$ 274,948</u>	<u>\$ 259,445</u>	<u>\$ 243,312</u>	6%	7%

Education and general expenses increased 6% in 2013 over 2012 and 7% in 2012 over 2011. The increases are mainly attributable to an increase in academic program offerings to meet the needs of higher enrollment, contractual agreements, and equipment purchases related to the University's capital expansion programs.

The increase in Instruction for 2013 is due to a \$6.1 million increase in salaries and fringe benefits related to existing and new academic programs, including \$1.8 million associated with the OUWBSM growth in its second year. The decrease in Research is primarily due to a \$0.7 million reduction in American Reinvestment and Recovery Act (ARRA) funding. The Academic Support increase is predominantly due to \$1.2 million in salaries and fringe benefits for the Kresge and OUWBSM libraries and \$1.0 million in supplies and other expenses. The Student Services increase is related to expansion of the First Year Advising Center and the entry fee related to the University's move to the Horizon League.

The University's operating loss was \$71.6 million in 2013, \$65.4 million in 2012, and \$59.4 million in 2011. Offsetting these losses were net nonoperating revenues of \$79.9 million in 2013, \$67.1 million in 2012, and \$91.1 million in 2011.

Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$45.0 million in 2013, \$43.1 million in 2012, and \$50.8 million in 2011. The annual appropriation for 2013 increased \$1.9 million, or 4%, due to the University's portion of the State's performance funding allocation.

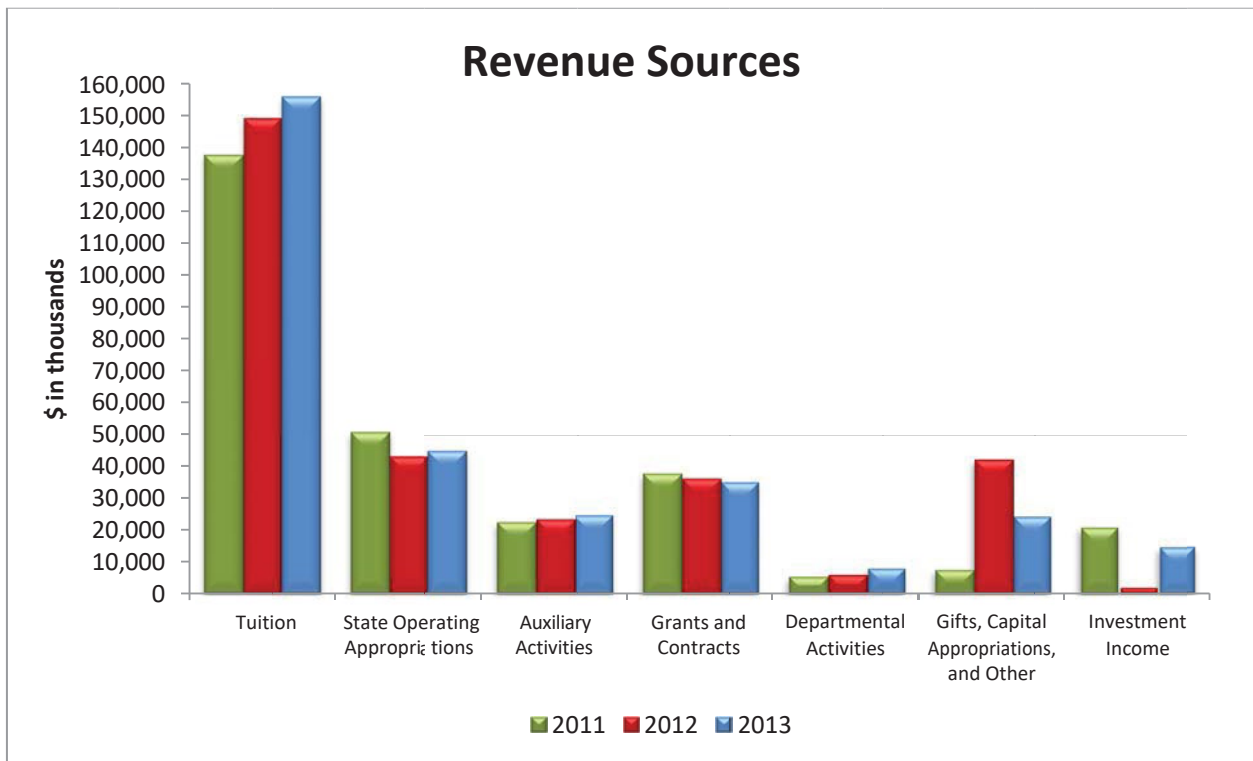
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Due to the market recovery, the University experienced a \$13.2 million gain on investments. This growth is comprised of \$7.9 million in the University’s pooled investments and \$5.3 million in the endowment pool.

Nonoperating revenues also include \$20.7 million from Federal Pell Grants in 2013. Pell Grant revenue for 2012 and 2011 was \$21.0 million and \$20.0 million, respectively.

Other revenues decreased \$17.2 million to \$18.7 million in 2013 primarily due to capital appropriations received in 2012, totaling \$30.4 million, from the State Building Authority for the construction of the Human Health Building. Capital appropriations as of June 30, 2013 were \$9.6 million and \$0.5 million for the construction of the Human Health Building and the Engineering Center, respectively. Additionally, a \$6.5 million capital gift was received for the construction of the Elliott Tower.

A graphic illustration of each revenue source is as follows:



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University Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<i>(in thousands)</i>		
Cash provided (used) by			
Operating activities	\$ (52,416)	\$ (50,231)	\$ (43,710)
Noncapital financing activities	72,966	73,071	78,089
Capital financing activities	80,119	(34,522)	(39,951)
Investing activities	<u>23,859</u>	<u>16,069</u>	<u>(34,743)</u>
Net increase (decrease) in cash	124,528	4,387	(40,315)
 Cash and cash equivalents			
Beginning of year	<u>37,106</u>	<u>32,719</u>	<u>73,033</u>
End of year	<u>\$ 161,634</u>	<u>\$ 37,106</u>	<u>\$ 32,718</u>

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

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were \$44.6 million in 2013 and \$44.5 million in 2012. Cash received from Pell Grants decreased for the year ended June 30, 2013 by \$0.3 million and increased in 2012 and 2011 \$1.0 million and \$5.1 million, respectively.

Capital financing activities for 2013 include capital expenditures of \$54.1 million in addition to debt service payments totaling \$9.9 million. Cash disbursements for capital expenditures in 2013 included \$15.2 million for the Human Health Building (the University received \$21.2 million in capital appropriations from the State Building Authority and \$0.4 million from a federal grant to partially offset the expense for this project), \$12.2 million for the Engineering Center, \$5.3 million for infrastructure improvements, \$6.7 million in equipment, and \$3.0 million for the new Student Housing Complex. Capital financing activities for 2012 include capital expenditures of \$49.4 million in addition to debt service payments totaling \$8.2 million. Cash disbursements for capital expenditures in 2012 included \$36.7 million for the Human Health Building (the University received \$18.3 million in Capital Appropriations from the State Building Authority and \$1.2 million from a federal grant to partially offset the expense for this project), \$3.5 million for the Steve Sharf Clubhouse (the University received a \$3.5 million gift to fund this project), \$2.6 million for infrastructure improvements, \$1.1 million for the new Engineering Center, and \$2.7 million in equipment.

Cash provided by investing activities during 2013 is the result of investment income and the sale of long-term investments exceeding the purchase of long-term investments.

Oakland University

Management's Discussion and Analysis

June 30, 2013 and 2012

Commitments

The estimated costs to complete construction projects in progress is \$145.2 million as of June 30, 2013, due in large part to the new Engineering Center of \$59.5 million, the new Student Housing Complex of \$26.7 million, new parking structure of \$22.6 million, and various campus enhancement projects totaling \$36.4 million. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. The Student Housing Complex, parking structure, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

University Credit Rating

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

Deferred Plant Renewal

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

Factors or Conditions Impacting Future Periods

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

- State and national economy
- Stability of State appropriations (including performance funding)
- 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 Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 56,815,372	\$ 31,903,358
Accounts receivable, net (Note 3)	9,802,304	23,547,067
Appropriations receivable (Note 4)	8,175,296	7,844,548
Pledges receivable, net (Note 5)	3,138,427	2,997,848
Inventories	695,972	1,074,003
Deposits and prepaid expenses	1,134,459	738,694
Student loans receivable, net (Note 6)	325,724	352,863
Restricted cash and cash equivalents (Note 2)	104,818,267	5,202,463
Total current assets	<u>184,905,821</u>	<u>73,660,844</u>
Noncurrent assets		
Endowment investments (Note 2)	61,431,555	55,484,599
Other long-term investments (Note 2)	104,704,528	119,982,397
Pledges receivable, net (Note 5)	7,126,483	8,577,961
Student loans receivable, net (Note 6)	1,411,466	1,337,377
Capital assets, net (Note 7)	352,057,826	312,019,207
Other assets (Note 9)	1,099,460	1,078,307
Total noncurrent assets	<u>527,831,318</u>	<u>498,479,848</u>
Total assets	<u>712,737,139</u>	<u>572,140,692</u>
Deferred outflows of resources (Note 11)	12,762,771	16,830,234
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	21,446,734	20,610,110
Accrued payroll	8,747,671	9,348,921
Long-term liabilities - current portion (Note 10)	6,588,262	5,238,360
Unearned revenue	13,710,784	12,117,299
Deposits	1,598,207	1,426,235
Total current liabilities	<u>52,091,658</u>	<u>48,740,925</u>
Noncurrent liabilities		
Unearned revenue	380,599	595,996
Long-term liabilities (Note 10)	241,607,647	132,521,557
Other postemployment benefits (Note 12)	7,817,556	6,177,345
Total noncurrent liabilities	<u>249,805,802</u>	<u>139,294,898</u>
Total liabilities	<u>301,897,460</u>	<u>188,035,823</u>
Deferred inflows of resources (Note 11)	4,314,435	8,689,053
Net position		
Invested in capital assets, net of related debt	210,637,152	192,887,599
Restricted nonexpendable	19,734,956	18,726,070
Restricted expendable	41,061,288	35,302,277
Unrestricted	147,854,619	145,330,104
Total net position	<u>\$ 419,288,015</u>	<u>\$ 392,246,050</u>

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

Oakland University
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Tuition (net of scholarship allowances of \$37,151,433 in 2013 and \$31,906,000 in 2012)	\$ 155,967,342	\$ 149,094,773
Federal grants and contracts	10,214,846	11,824,444
State, local, and private grants and contracts	4,180,070	3,412,087
Departmental activities	8,016,890	5,997,526
Auxiliary activities (net of scholarship allowances of \$3,134,224 in 2013 and \$2,709,161 in 2012)	24,760,266	23,423,935
Other operating revenues	248,630	269,104
Total operating revenues	<u>203,388,044</u>	<u>194,021,869</u>
Operating expenses		
Education and general		
Instruction	110,296,123	104,180,089
Research	10,296,931	11,252,501
Public service	4,248,340	3,708,742
Academic support	22,730,020	20,588,635
Student services	21,112,884	18,604,384
Institutional support	33,438,831	32,582,943
Operations and maintenance of plant	20,517,888	18,876,543
Depreciation	13,709,983	12,555,596
Student aid	13,127,014	13,211,307
Auxiliary activities	25,453,277	23,872,123
Other expenses	17,175	12,595
Total operating expenses (Note 16)	<u>274,948,466</u>	<u>259,445,458</u>
Operating loss	<u>(71,560,422)</u>	<u>(65,423,589)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	44,964,100	43,145,000
Gifts	4,852,750	5,805,973
Investment income (net of investment expenses of \$568,564 in 2013 and \$513,062 in 2012)	14,685,497	1,471,099
Distributions to annuity and life income fund beneficiaries	(58,197)	(60,915)
Interest on capital asset related debt	(5,788,817)	(4,465,856)
Federal grants	20,726,249	21,036,832
Other	507,782	146,675
Net nonoperating revenues	<u>79,889,364</u>	<u>67,078,808</u>
Income before other revenues	<u>8,328,942</u>	<u>1,655,219</u>
Capital appropriations	10,073,228	30,426,772
Capital grants and gifts	7,674,464	4,929,415
Additions to permanent endowments	965,331	588,318
Total other revenues	<u>18,713,023</u>	<u>35,944,505</u>
Increase in net position	<u>27,041,965</u>	<u>37,599,724</u>
Net position		
Beginning of year	392,246,050	354,646,326
End of year	<u>\$ 419,288,015</u>	<u>\$ 392,246,050</u>

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

Oakland University
Statements of Cash Flows
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Tuition	\$ 159,556,982	\$ 147,972,481
Grants and contracts	15,858,572	15,126,785
Payments to suppliers	(67,635,911)	(60,121,245)
Payments to employees	(179,615,754)	(169,798,468)
Payments for scholarships and fellowships	(13,127,014)	(13,211,307)
Loans issued to students	(316,644)	(258,314)
Collection of loans from students	266,077	355,172
Auxiliary enterprise charges	24,939,133	23,336,759
Other receipts	7,657,842	6,367,117
Net cash used by operating activities (Note 17)	<u>(52,416,717)</u>	<u>(50,231,020)</u>
Cash flows from noncapital financing activities		
State appropriations	44,633,352	44,529,780
Federal direct lending receipts	106,481,620	106,844,417
Federal direct lending disbursements	(106,481,620)	(106,844,417)
Gifts and grants for other than capital purposes	27,367,254	27,953,076
Endowment gifts	965,331	588,318
Net cash provided by noncapital financing activities	<u>72,965,937</u>	<u>73,071,174</u>
Cash flows from capital financing activities		
Proceeds from capital debt	138,098,621	-
Capital appropriations	22,212,937	18,287,063
Capital grants, gifts, and other receipts	7,142,408	4,783,961
Purchases of capital assets	(54,127,973)	(49,385,350)
Principal paid on capital debt and leases	(26,157,314)	(3,864,996)
Interest paid on capital debt and leases	(7,049,369)	(4,342,689)
Net cash provided (used) by capital financing activities	<u>80,119,310</u>	<u>(34,522,011)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	69,371,521	67,663,529
Investment income	6,394,361	4,464,487
Purchase of investments	(51,906,594)	(56,058,831)
Net cash provided by investing activities	<u>23,859,288</u>	<u>16,069,185</u>
Net increase in cash and cash equivalents	<u>124,527,818</u>	<u>4,387,328</u>
Cash and cash equivalents		
Beginning of year	37,105,821	32,718,493
End of year	<u>\$ 161,633,639</u>	<u>\$ 37,105,821</u>

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

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

1. Significant Accounting Policies

Organization

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

Basis of Accounting

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

The University implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into GASB's authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA), Committee on Accounting Procedure

Adoption of this Statement did not have a material impact on the financial statements.

Cash and Cash Equivalents

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

Cash Flow Reporting

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

Investments

Investments are stated at fair market value.

Inventories

Inventories are stated at the lower of average cost or market. Included in the 2013 inventory are two homes in the Meadow Brook Subdivision owned by the University and valued at a total of \$324,000.

Physical Properties

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

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

1. Significant Accounting Policies (continued)

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

Deferred inflows of resources consist primarily of the 2007 Constant Maturity Swap interest rate agreement recorded at its estimated fair value.

Revenue Recognition

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

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

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

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

Revenues are reported net of discounts and allowances.

Bond Issuance Costs

Bond issuance costs are expensed when incurred.

Income Tax Status

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

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

1. Significant Accounting Policies (continued)

Reclassification

Certain fiscal year 2012 balances have been reclassified to conform to the current year presentation.

Change in Accounting Principles

Effective in the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets by the University that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. In accordance with the standards, the University has modified the presentation of the Statements of Net Position and has reported deferred outflows of resources for early extinguishment of debt, deferral of swap termination cost, and interest rate swap agreements.

The following summarizes the restatements due to adoption of these new standards:

Debt Issuance Costs – GASB Statement No. 65 requires debt issuance costs be recognized as an expense in the period incurred. Accordingly, other assets, net position, and interest on capital asset related debt have been restated to reflect this change.

Statements of Net Position	June 30, 2012		
	Other Assets	Net Position	
As Originally Reported	\$ 1,878,048	\$ 393,045,791	
Remove Debt Issuance Costs	(799,741)	(799,741)	
As Restated	\$ 1,078,307	\$ 392,246,050	
Statements of Revenues, Expenses and Changes in Net Position	For the Year Ended June 30, 2012		
	Interest on Capital Asset Related Debt	Net Position Beginning of Year	Net Position End of Year
As Originally Reported	\$ 4,515,275	\$ 355,495,486	\$ 393,045,791
Remove Debt Issuance Costs	(49,419)	(849,160)	(799,741)
As Restated	\$ 4,465,856	\$ 354,646,326	\$ 392,246,050

Early Extinguishment of Debt – GASB Statement No. 65 requires the net effect of early extinguishment of debt and deferral of swap termination cost to be reported as a deferred outflow of resources. Previously, this amount was reported as a reduction of the general revenue bonds liability. Accordingly, \$5,281,194 has been shown as a deferred outflow at June 30, 2013 and \$5,131,161 at June 30, 2012.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

2. Investments and Deposits with Financial Institutions

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

The operating cash portfolio at June 30, 2013 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire investment pool.

The University's working capital investment pool consists of the following as of June 30, 2013 and 2012:

<u>June 30, 2013</u>	<u>Total</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 63,583,006	\$ 63,583,006	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	35,378,035	1,110,870	14,653,582	14,476,692	5,136,891
JP Morgan Equity Funds Intrepid Equities	41,535,285	-	-	-	41,535,285
Huntington Situs Equity Fund	2,033,857	-	-	-	2,033,857
WAM Sinking Fund	335,355	-	-	-	335,355
JP Morgan Bond Fund	26,855,052	4,698,155	22,156,897	-	-
Cash with Trustees	<u>104,815,799</u>	<u>104,815,799</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating investments	274,536,389	174,207,830	36,810,479	14,476,692	49,041,388
Net cash overdraft	<u>(8,198,222)</u>	<u>(8,198,222)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 266,338,167</u>	<u>\$ 166,009,608</u>	<u>\$ 36,810,479</u>	<u>\$ 14,476,692</u>	<u>\$ 49,041,388</u>
Cash and cash equivalents	\$ 56,815,372				
Restricted cash and cash equivalents	104,818,267				
Other long-term investments	<u>104,704,528</u>				
	<u>\$ 266,338,167</u>				

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

2. Investments and Deposits with Financial Institutions (continued)

<u>June 30, 2012</u>	<u>Total</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 32,967,955	\$ 32,967,955	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	44,772,910	4,942,929	19,794,103	13,131,895	6,903,983
JP Morgan Equity Funds Intrepid Equities	34,124,880	-	-	-	34,124,880
WAM Sinking Fund	351,435	-	-	-	351,435
JP Morgan Bond Fund	41,340,227	12,297,102	29,043,125	-	-
Cash with Trustees	<u>5,202,533</u>	<u>5,202,533</u>	-	-	-
Operating investments	158,759,940	55,410,519	48,837,228	13,131,895	41,380,298
Net cash overdraft	<u>(1,671,722)</u>	<u>(1,671,722)</u>	-	-	-
	<u>\$ 157,088,218</u>	<u>\$ 53,738,797</u>	<u>\$ 48,837,228</u>	<u>\$ 13,131,895</u>	<u>\$ 41,380,298</u>
Cash and cash equivalents	\$ 31,903,358				
Restricted cash and cash equivalents	5,202,463				
Other long-term investments	<u>119,982,397</u>				
	<u>\$ 157,088,218</u>				

The investments are shown by category according to their respective duration to describe the level of interest rate risk in the portfolio. Changes in interest rates over time can impact the market value of the fixed income portion of the portfolio. At June 30, 2013, the JP Morgan Bond Fund had a weighted-average maturity of 2.4 years and an average credit quality of AA. The Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 7.8 years and an average credit quality of A+.

The University is not exposed to foreign currency risk within the investment pool as of June 30, 2013.

These investments produced net rates of return of 5.0% and 1.5% for the years ended June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, the University had an investment derivative with the following maturity:

<u>June 30, 2013</u>	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
Constant Maturity Swap	\$ 3,167,142	\$ -	\$ -	\$ -	\$ 3,167,142
<u>June 30, 2012</u>	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
Constant Maturity Swap	\$ 3,010,020	\$ -	\$ -	\$ -	\$ 3,010,020

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

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

2. Investments and Deposits with Financial Institutions (continued)

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

These investment funds are uninsured and uncollateralized and produced a total net return of 9.5% and -1.9% for the years ended June 30, 2013 and 2012, respectively.

University pooled investment funds consist of the following as of June 30, 2013 and 2012:

<u>June 30, 2013</u>	<u>Total</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
UBS Endowment Investment Pool					
Large Cap Value	\$ 8,601,244	\$ 263,843	\$ -	\$ -	\$ 8,337,401
Large Cap Growth	5,999,683	188,133	-	-	5,811,550
Index Funds	5,850,837	826	-	-	5,850,011
Mid Cap Value	3,036,298	348,250	-	-	2,688,048
Mid Cap Growth	2,743,789	109,025	-	-	2,634,764
Small Cap Core	2,705,050	53,070	-	-	2,651,980
Small Cap Growth	777,744	13,890	-	-	763,854
REIT	1,551,343	57,995	-	-	1,493,348
International Value	3,667,237	123,874	-	-	3,543,363
International Core	3,043,142	95,882	-	-	2,947,260
Developing Markets	1,117,491	-	-	-	1,117,491
Fixed Income Core	10,254,089	468,139	2,492,504	5,242,848	2,050,598
High Yield Bonds	2,986,186	235,100	784,090	1,890,990	76,006
Global Fixed	2,986,088	369,299	1,193,355	1,098,438	324,996
Hedge Funds	4,103,905	114	-	-	4,103,791
Commodity Stock Funds	1,556,218	239	-	-	1,555,979
Private Equity	451,185	-	-	-	451,185
Cash	26	26	-	-	-
	<u>\$ 61,431,555</u>	<u>\$ 2,327,705</u>	<u>\$ 4,469,949</u>	<u>\$ 8,232,276</u>	<u>\$ 46,401,625</u>
June 30, 2012					
	<u>Total</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
UBS Endowment Investment Pool					
Large Cap Value	\$ 7,529,206	\$ 197,814	\$ -	\$ -	\$ 7,331,392
Large Cap Growth	7,473,310	257,665	-	-	7,215,645
Mid Cap Value	3,022,433	448,910	-	8,660	2,564,863
Mid Cap Growth	2,848,741	85,600	-	-	2,763,141
Small Cap Core	2,659,805	40,527	-	-	2,619,278
Small Cap Growth	659,580	17,272	-	-	642,308
REIT	1,050,672	37,176	-	-	1,013,496
International Value	4,292,726	126,843	-	-	4,165,883
International Core	3,003,821	52,369	-	-	2,951,452
Developing Markets	922,373	-	-	-	922,373
Fixed Income Core	10,683,845	1,028,812	3,207,667	4,804,958	1,642,408
High Yield Bonds	2,729,220	175,207	887,254	1,620,001	46,758
Global Fixed	2,859,946	43	1,460,921	1,398,982	-
Hedge Funds	4,006,473	65	-	-	4,006,408
Commodity Stock Funds	1,423,396	-	-	-	1,423,396
Private Equity	216,630	-	-	-	216,630
Cash	30	30	-	-	-
	<u>55,382,207</u>	<u>2,468,333</u>	<u>5,555,842</u>	<u>7,832,601</u>	<u>39,525,431</u>
Charitable Trusts – Equity Funds	102,392	-	-	-	102,392
	<u>\$ 55,484,599</u>	<u>\$ 2,468,333</u>	<u>\$ 5,555,842</u>	<u>\$ 7,832,601</u>	<u>\$ 39,627,823</u>

Oakland University
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June 30, 2013 and 2012

2. Investments and Deposits with Financial Institutions (continued)

The fixed income investments within the Endowment pool have a fair market value of \$16.2 million as of June 30, 2013, with a credit quality that varies; with 64.5% of the securities rated A or higher, 18.4% rated BBB, and 17.1% rated BB.

The University is not exposed to foreign currency risk within the investment balance as of June 30, 2013.

The private equity investment's estimated market value is \$451,185 as of June 30, 2013 with a total commitment by the University of \$1,000,000 over a five-year period. Hedge fund investments are estimated at a market value of \$4,103,905 as of June 30, 2013. Estimated market values and returns are reviewed by the UBS Alternative Investments U.S. Team through the University's endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for the private equity and hedge funds. The estimated fair values are provided by external investment managers and advisers as of June 30, 2013. Alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

The Charitable Trust – Equity Funds are charitable gift annuities. These are arrangements in which donors contribute assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time (typically for the life of the donor or other beneficiary). Annuities payable are established based on the present value of the estimated annuity payouts over the life expectancy of the donor or other beneficiary. This investment was liquidated as of June 30, 2013.

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

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

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Tuition	\$ 9,496,066	\$ 9,624,494
Auxiliary enterprises	1,517,742	1,410,398
Contracts and grants	2,970,328	4,198,191
Other receivables	<u>710,485</u>	<u>12,879,485</u>
Total accounts receivable	<u>14,694,621</u>	28,112,568
Less: Allowance for doubtful accounts	<u>(4,892,317)</u>	<u>(4,565,501)</u>
Total accounts receivable, net	<u>\$ 9,802,304</u>	<u>\$ 23,547,067</u>

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

3. Accounts Receivable (continued)

Other receivables include reimbursement from the State Building Authority for the construction of the Human Health Building which totaled \$12,139,709 as of June 30, 2012.

4. Appropriations Receivable

The annual State operating appropriation paid to the University is made in 11 monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2013 and 2012, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$8,175,296 and \$7,844,548, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Pledges outstanding		
Unrestricted	\$ 40,603	\$ 19,243
Restricted expendable	<u>11,639,647</u>	<u>13,463,070</u>
Total pledges outstanding	11,680,250	13,482,313
Less:		
Allowance for doubtful pledges	(112,305)	(103,929)
Present value discount	<u>(1,303,035)</u>	<u>(1,802,575)</u>
Total pledges outstanding, net	10,264,910	11,575,809
Less: Current portion, net	<u>(3,138,427)</u>	<u>(2,997,848)</u>
Noncurrent portion, net	<u>\$ 7,126,483</u>	\$ 8,577,961

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2013 and 2012, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 1% net of discount at June 30, 2013 and 2012. Approximately \$9.3 million of the total net pledges outstanding is from a single donor.

Payments on pledges receivable at June 30, 2013 are expected to be received in the following years:

Past due	\$ 174,721
Due in one year	3,034,676
Due in two-five years	<u>8,470,853</u>
Total	<u>\$ 11,680,250</u>

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

5. Pledges Receivable (continued)

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, 2013 and 2012 the University had \$35,518,761 and \$31,439,851, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$35,518,761 in conditional pledges for fiscal year 2013, approximately \$14,000,000 is from a single donor. Subsequent to June 30, 2013, this amount was in process of being realized subject to satisfaction of certain short-term restrictions.

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Student loans		
Federal loan programs	\$ 1,804,648	\$ 1,814,236
University loan funds	<u>164,213</u>	<u>123,626</u>
	1,968,861	1,937,862
Less: Allowance for doubtful loans	<u>(231,671)</u>	<u>(247,622)</u>
Total student loans, net	1,737,190	1,690,240
Less: Current portion, net	<u>(325,724)</u>	<u>(352,863)</u>
Noncurrent portion, net	<u>\$ 1,411,466</u>	<u>\$ 1,337,377</u>

In addition, the University distributed \$106,481,620 and \$106,844,417 for the years ended June 30, 2013 and 2012, respectively, for student loans through the U.S. Department of Education Federal Direct Loan program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements, but are reflected in the University's Statements of Cash Flows.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

7. Capital Assets

The following tables present the changes in the various capital asset categories for the University for fiscal years 2013 and 2012:

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

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

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

8. State Building Authority

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

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

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

The University broke ground on the Engineering Center in 2012, and will utilize \$30.0 million in State capital appropriations to support construction of the new facility. The University is expected to obtain occupancy permits and begin use of the facility beginning in the Fall Semester of 2014.

9. Cash Surrender Value of Life Insurance Policies

Included in other assets are the cash surrender value of life insurance policies in the amount of \$966,460 and \$994,230 for 2013 and 2012, respectively. The face value of these life insurance policies totaled \$5,948,072 in 2013 and \$6,148,572 in 2012.

Subsequent to June 30, 2013, the University realized \$2.0 million of life insurance proceeds. The proceeds were related to a policy that had a \$403,000 cash surrender value and \$2.0 million face value at June 30, 2013.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2013 and 2012:

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

	<u>Balance June 30, 2011</u>	<u>Additions/ Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Note and installment purchase agreements payable	\$ 15,968,080	\$ -	\$ 710,538	\$ 15,257,542	\$ 737,903
General revenue bonds:					
Series 2009 bonds	32,960,000	-	700,000	32,260,000	715,000
Series 2008 bonds	53,280,000	-	1,270,000	52,010,000	1,335,000
Series 2004 bonds	25,785,000	-	1,195,000	24,590,000	1,255,000
Unamortized premium	782,684	-	98,894	683,790	96,306
Series 1998 variable rate Demand bonds	4,600,000	-	-	4,600,000	-
Total, note, installment agreement and bonds payable	<u>133,375,764</u>	<u>-</u>	<u>3,974,432</u>	<u>129,401,332</u>	<u>4,139,209</u>
Other liabilities:					
Compensated absences	4,318,537	277,325	-	4,595,862	307,449
Early retirement plan	2,207,892	-	590,890	1,617,002	730,170
Annuities payable and other	423,266	42,493	-	465,759	61,532
Federal portion of Perkins loan program	1,734,512	-	54,550	1,679,962	-
Total other liabilities	<u>8,684,207</u>	<u>319,818</u>	<u>645,440</u>	<u>8,358,585</u>	<u>1,099,151</u>
Total long-term liabilities	<u>\$ 142,059,971</u>	<u>\$ 319,818</u>	<u>\$ 4,619,872</u>	<u>\$ 137,759,917</u>	<u>\$ 5,238,360</u>
Total long-term liabilities	\$ 142,059,971			\$ 137,759,917	
Current portion	<u>4,535,164</u>			<u>5,238,360</u>	
Noncurrent portion	<u>\$ 137,524,807</u>			<u>\$ 132,521,557</u>	

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

10. Long-Term Liabilities (continued)

Note and Installment Purchase Agreements Payable

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

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 888,278	\$ 546,792	\$ 1,435,070
2015	920,229	514,842	1,435,071
2016	953,364	481,706	1,435,070
2017	965,564	447,432	1,412,996
2018	993,271	411,818	1,405,089
2019-2023	4,999,043	1,514,394	6,513,437
2024-2028	<u>5,382,258</u>	<u>479,835</u>	<u>5,862,093</u>
Total	<u>\$ 15,102,007</u>	<u>\$ 4,396,819</u>	<u>\$ 19,498,826</u>

General Revenue Bonds Payable

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

In June 2013, the University issued \$23,290,000 of federally taxable general revenue refunding bonds (2013B Bonds), with an average coupon interest rate of 2.99%. The proceeds will be utilized to refund the Series 2004 general revenue refunding bonds (2004 Bonds) maturing in the years 2015 through 2026. The aggregate principal of the refunded portion of the 2004 Bonds totals \$22,015,000 with a call date of May 15, 2014 and an average coupon interest rate of 5.12%. The advance refunding of the 2004 Bonds resulted in a deferral on early extinguishment of \$1,134,224 that will be amortized over the term of the 2013B refunding bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the remaining 13-year period by approximately \$2,466,000. The refunding will result in an economic gain of \$2,051,000. A trust account has been established for the defeasement of the refunded portion of the 2004 Bonds. The assets and liabilities of the trust account are not recorded as assets or liabilities in the financial statements of the University.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

10. Long-Term Liabilities (continued)

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

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

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

In September 2004, the University issued \$31,770,000 of general revenue refunding bonds (2004 Bonds), with an average coupon interest rate of 5.01% and a net original issue premium of \$1,967,000. The proceeds were utilized to refund the Series 1995 general revenue bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. The related loss on early extinguishment of debt of \$2,147,000 has been deferred and will be amortized over the term of the 2004 Bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the subsequent 21 years by approximately \$3,929,000. The refunding results in an economic gain of \$2,592,000. In June 2013, the University issued federally taxable general revenue bonds (2013B Bonds) to refund \$22,015,000 of the 2004 Bonds. The remaining principal balance of \$1,320,000 is payable in fiscal year 2014.

In September 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited-obligation revenue variable-rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates at June 30, 2013 and 2012 were 0.15% and 0.19%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees, and letter of credit fees. On February 1, 2006, the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of \$4,600,000.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

10. Long-Term Liabilities (continued)

The following table summarizes debt service requirements for the outstanding bonds payable as of June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2014	\$ 3,820,000	\$ 6,870,707	\$ 1,620,438	\$ 12,311,145
2015	4,715,000	7,694,869	1,575,260	13,985,129
2016	5,870,000	7,627,921	1,528,146	15,026,067
2017	6,045,000	7,503,304	1,479,042	15,027,346
2018	6,245,000	7,345,468	1,427,840	15,018,308
2019-2023	34,820,000	33,917,664	6,294,587	75,032,251
2024-2028	47,650,000	27,616,015	4,510,218	79,776,233
2029-2033	42,630,000	20,955,848	936,583	64,522,431
2034-2038	32,365,000	13,114,568	-	45,479,568
2039-2042	<u>29,285,000</u>	<u>4,089,820</u>	<u>-</u>	<u>33,374,820</u>
	213,445,000	<u>\$136,736,184</u>	<u>\$ 19,372,114</u>	<u>\$369,553,298</u>
Unamortized premium	<u>11,845,922</u>			
	<u>\$225,290,922</u>			

Other Liabilities

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

The Early Retirement Incentive Plan is a 2011 cost-containment initiative that provides an incentive for qualifying employees to retire from the University. The benefits are paid monthly to 36 participants' 403(b) accounts over a five-year period which began in 2012. Remaining benefit payments and fees totaling \$0.9 million as of June 30, 2013 will be funded through 2014. The University has resources designated for this purpose.

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

11. Deferred Outflows and Inflows of Resources

Deferred Outflows

Effective in the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The University recorded deferred outflows of \$12,762,771 at June 30, 2013, which includes \$5,281,194 from an early extinguishment of general revenue bonds, Series 2013B and 2008 and a deferral of swap termination costs for the 2001 bonds; and \$7,481,577 estimated negative fair value of the 2008 Swap. At June 30, 2012, the University recorded deferred outflows of \$16,830,234, which includes \$5,131,161 from an early extinguishment of general revenue bonds, Series 2008 and 2004; and \$11,699,073 estimated negative fair value of the 2008 Swap.

11. Deferred Outflows and Inflows of Resources (continued)

Deferred Outflows (continued)

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

Hedging Derivative Instrument:

2008 Interest Rate Swap Agreement

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. The Notional Amount at June 30, 2013 was \$50,675,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.37%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap at June 30, 2013 and 2012 was (\$7,481,577) and (\$11,699,073), respectively. These fair values are reflected in the deferred outflows of resources section of the Statements of Net Position. The fair value represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the 2008 Swap is treated as an Effective Hedging Derivative Instrument.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap includes collateral requirements intended to mitigate credit risk. At June 30, 2013, there is no collateral posting requirement by either the counterparty or the University. Collateral posting by the University may be required under the agreement when the fair value exceeds (\$5,000,000) at the University's current credit rating of A1 or zero should the University default. At June 30, 2013, the counterparty's credit rating from Moody's Investors Service was Baa2.

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

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

11. Deferred Outflows and Inflows of Resources (continued)

Deferred Inflows

Investment Derivative Instrument:

2007 Constant Maturity Swap Agreement

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

The estimated fair value of the CMS at June 30, 2013 and 2012 was \$3,167,142 and \$3,010,020, respectively. These fair values are included as a reduction of the deferred inflows of resources section in the Statements of Net Position with the change in fair value of \$157,122 and (\$462,348) for fiscal years ended June 30, 2013 and 2012, respectively, included in Investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. At June 30, 2013, the counterparty's credit rating from Moody's Investors Service was Aa3. The CMS includes collateral requirements intended to mitigate credit risk. At June 30, 2013, there is no collateral posting requirement by either the counterparty or the University. Under this agreement, the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

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

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

12. Postemployment Benefits Other than Pensions

Plan Description

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

Funding Policy

The contribution requirements of plan members and the University are established in accordance with various labor agreements or within the provisions of University policy. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2013, the University and plan members receiving benefits contributed \$1,752,591 and \$968,629, respectively, to the plan. Approximately 64% of total premiums were paid by the University with the remaining 36% paid by plan members. Required contributions for plan members ranged from no cost to \$956 per month for retiree-only coverage, and from no cost to \$2,295 per month for retiree and spouse coverage.

For the year ended June 30, 2012, the University and plan members receiving benefits contributed \$1,532,758 and \$941,046, respectively, to the plan. Approximately 62% of total premiums were paid by the University with the remaining 38% paid by plan members. Required contributions for plan members ranged from no cost to \$845 per month for retiree-only coverage, and from no cost to \$2,028 per month for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2013 and 2012. The amounts are based on the June 30, 2012 actuarial valuation.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

12. Postemployment Benefits Other than Pensions (continued)

	<u>2013</u>	<u>2012</u>
Annual Required Contribution (ARC)	\$ 3,622,087	\$ 3,373,403
Interest on net OPEB obligation	488,010	355,806
Adjustment to ARC	<u>(717,295)</u>	<u>(522,976)</u>
Annual OPEB cost (expense)	3,392,802	3,206,233
Contributions made	<u>(1,752,591)</u>	<u>(1,532,758)</u>
Increase in net OPEB obligation	1,640,211	1,673,475
Net OPEB obligation – beginning of year	<u>6,177,345</u>	<u>4,503,870</u>
Net OPEB obligation – end of year	<u>\$ 7,817,556</u>	<u>\$ 6,177,345</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 3,392,802	51.7%	\$ 7,817,556
2012	\$ 3,206,233	47.8%	\$ 6,177,345
2011	\$ 2,296,372	66.3%	\$ 4,503,870

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but are financed on a pay-as-you-go basis. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$13.2 million, earnings from which will be used to offset annual postemployment contributions. The University's contribution to the plan for the year ended June 30, 2013 and the two preceding years were \$1,752,591, \$1,532,758, and \$1,521,614, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress						
Oakland University Retired Employees Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2013	\$ -	\$ 30,291,980	\$ 30,291,980	0.00%	\$ 96,189,027	31.5%
6/30/2012	-	\$ 28,874,260	\$ 28,874,260	0.00%	\$ 89,860,606	32.1%
6/30/2011	-	\$ 22,494,968	\$ 22,494,968	0.00%	\$ 86,226,076	26.1%

12. Postemployment Benefits Other than Pensions (continued)

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 \$30.3 million as of the June 30, 2012 actuarial valuation date. The unfunded actuarial accrued liability is being amortized over a period of thirty years from the July 1, 2007 valuation date in level dollar payments. Gains and losses are amortized over a period of 15 years from the valuation date.

Actuarial Methods and Assumptions

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

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

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

13. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis by employer contributions. Participants may elect to contribute additional amounts to the plan within specified limits. The plans are primarily administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. Contributions by the University for the years ended June 30, 2013 and 2012 were \$13,816,887 and \$13,134,193, respectively.

The University also maintains a noncontributory, defined-benefit retirement plan, which is not open to new participants. The plan is administered by TIAA-CREF. At January 1, 2013, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan was fully funded.

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Notes to Financial Statements
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13. Employee Benefits (continued)

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

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

14. Liability and Property Insurance

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

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

15. Contingencies and Commitments

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

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2013, the amount subject to guarantee by the University was \$1,788,161.

The estimated costs to complete construction projects in progress are \$145.2 million as of June 30, 2013, due in large part to the new Engineering Center of \$59.5 million, the new Student Housing Complex of \$26.7 million, new parking structure for \$22.6 million, and various campus enhancement projects totaling \$36.4 million. The Engineering Center is funded from the State Capital Outlay and proceeds from general revenue bonds. The Student Housing Complex, parking structure, and other campus enhancement projects are funded from proceeds from general revenue bonds and other University resources.

Oakland University
Notes to Financial Statements
June 30, 2013 and 2012

16. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Employee compensation and benefits	\$ 180,244,968	\$ 170,997,576
Supplies and other services	67,866,501	62,680,979
Student aid	13,127,014	13,211,307
Depreciation	<u>13,709,983</u>	<u>12,555,596</u>
Total	<u>\$ 274,948,466</u>	<u>\$ 259,445,458</u>

17. Cash Flow Statement

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

	<u>2013</u>	<u>2012</u>
Operating loss	\$ (71,560,422)	\$ (65,423,589)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	13,709,983	12,555,596
Changes in assets and liabilities:		
Accounts receivable, net	1,455,589	(1,383,558)
Inventories	378,031	(217,902)
Deposits and prepaid expense	(433,314)	24,905
Student loans receivable	(46,950)	79,290
Accounts payable and accrued expenses	1,971,837	2,777,633
Accrued payroll	(601,250)	(160,800)
Compensated absences	(409,747)	(313,565)
Unearned revenue and student fees	1,378,088	137,964
Deposits	171,972	74,081
Federal portion of student loan program	(70,745)	(54,550)
Other postemployment benefits	<u>1,640,211</u>	<u>1,673,475</u>
Net cash used by operating activities	<u>\$ (52,416,717)</u>	<u>\$ (50,231,020)</u>

18. Related-Party Transactions

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

Foundation net assets as of June 30, 2013 were as follows:

Assets	<u>\$ 177,014</u>
Net assets	<u>\$ 177,014</u>

The assets remaining are endowment funds. The June 30, 2013 University financial statements do not include the Foundation's assets or activity.



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