

Oakland University

Financial Statements
June 30, 2004 and 2003

Oakland University
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June 30, 2004 and 2003

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Report of Independent Auditors

To the Board of Trustees of
Oakland University

In our opinion, the accompanying consolidated statement of net assets and the related consolidated statement of revenues, expenses and changes in net assets and cash flows, present fairly, in all material respects, the financial position of Oakland University (the "University") at June 30, 2004 and 2003, and its consolidated revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the University and the Oakland University Foundation (the "Foundation") as of June 30, 2003 and for the year then ended were audited by other auditors whose report dated August 28, 2003 expressed an unqualified opinion on those statements.

As described in Note 1, the University adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*, effective July 1, 2003. We elected to include the Foundation's financial statements as of June 30, 2003 and for the year then ended for comparative purposes only.

The Management's Discussion and Analysis ("MD&A") on pages 2 to 13 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the information.

August 19, 2004

Oakland University

Management's Discussion and Analysis

June 30, 2004 and 2003

Introduction

Following is management's discussion and analysis of the financial activities of Oakland University (the "University") for the fiscal year ended June 30, 2004 with selected comparative information for the year ended June 30, 2003. The University is implementing the requirements of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units* this year. This standard requires that the Oakland University Foundation (the "Foundation") be reported as a component unit of Oakland University in this report.

Oakland University is a state-supported institution of more than 16,500 students offering a diverse set of academic programs, from baccalaureate to doctoral levels as well as programs in continuing education. The University currently offers 114 baccalaureate degree programs and 82 graduate and certificate programs and is recognized as one of the country's doctoral research-intensive universities.

The Oakland University Foundation is a legally separate, tax exempt component unit of the University that is incorporated to encourage, promote and support the University. Although the University does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University. Because these restricted resources held by the Foundation can only be used for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Oakland University is considered a component unit of the State of Michigan. Accordingly, the University together with Oakland University Foundation are included in the State's comprehensive annual financial report.

The order of presentation of the following discussion and analysis will first be directed to Oakland University and then, Oakland University Foundation. Since this analysis is designed to focus on current financial activities, it should be read in conjunction with the basic financial statements and footnotes to the basic financial statements. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

Oakland University

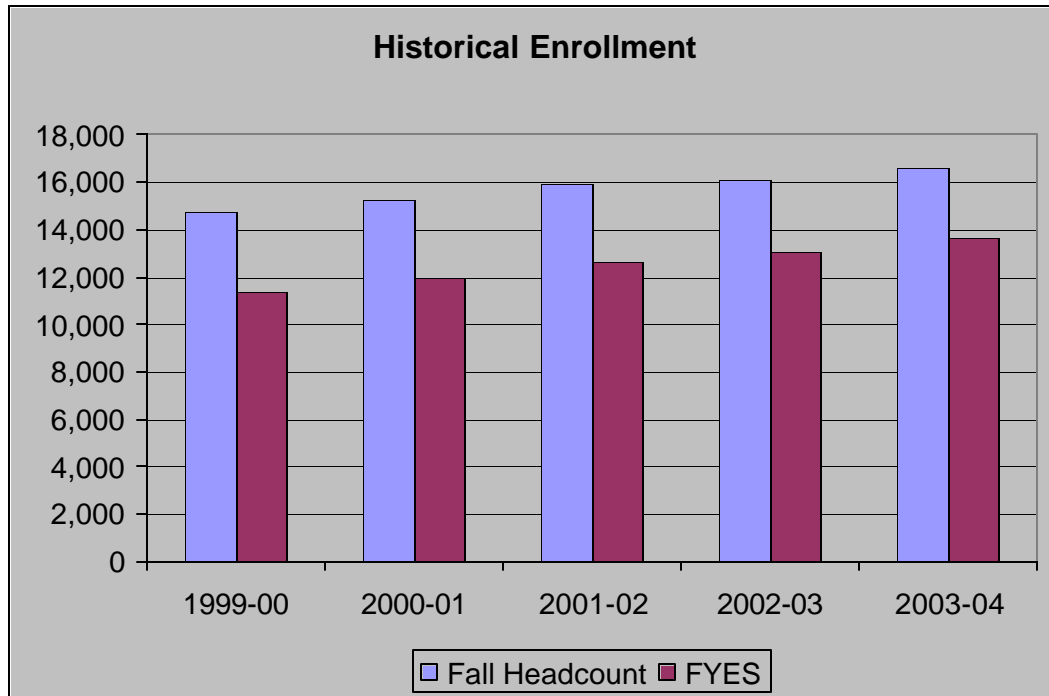
The following discussion and analysis pertains to Oakland University, the primary institution, and excludes matters relating to Oakland University Foundation, its Component Unit.

Enrollment and Operations Highlights

- In fiscal year 2003-04, enrollment based on fiscal year equated students (FYES) increased 4.5% to 13,654.
- Student headcount enrollment for the fall semester increased 3.2% to 16,576. Undergraduate enrollment was 12,959 (78.2%) and graduate enrollment was 3,617 (21.8%).

Oakland University
Management's Discussion and Analysis
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A five-year summary of historical enrollment is presented below.



- The University completed the Oakland Center's \$8 million addition during the year. The expansion includes a 7,000 square-foot multipurpose room for lectures, banquets and student functions, expanded food court seating and an updated kitchen.
- The University received a \$7 million gift from the Matilda R. Wilson Fund to help repair and restore Meadow Brook Hall. Meadow Brook Hall is the fourth largest historic house museum in the United States. Matilda and Alfred Wilson donated their 1500-acre Meadow Brook estate, including the hall, in 1957 to establish Oakland University.
- Oakland University and Macomb Community College are expanding their partnership by allowing students at Macomb to seamlessly transfer to the University for baccalaureate degree completion. The University is also launching a number of new degree programs that will be offered at Macomb's University Center on the college's campus this fall.
- The University opened a new law library, medical multimedia library and fastening and joining research institute during the year, each state-of-the-art services and learning opportunities for students.
- State appropriations to Oakland University, and all of Michigan's 15 public universities, were reduced during fiscal year 2004. The University's reduction was \$3.9 million (7.7%) and was offset by spending cuts from nearly all areas of the University.

Oakland University

Management's Discussion and Analysis

June 30, 2004 and 2003

Overview of the Financial Statements

This annual report consists of a series of financial statements, which have been prepared in accordance with the Governmental Accounting Standards. The fundamental objective of the University's financial statements is to provide an overview of the University's economic condition. The various statements and their primary purpose are discussed below.

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

The financial statements can be found on pages 14, 16 and 18 of this 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 notes to the University financial statements can be found on pages 19-33 of this financial report.

Oakland University
Management's Discussion and Analysis
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Financial Statement Summaries

Statements of Net Assets

Net assets are summarized in the following schedule:

Condensed Statements of Net Assets

<i>(in thousands)</i>	June 30,		
	2004	2003	Change
Assets			
Current assets	\$ 49,922	\$ 38,150	31%
Capital assets	236,611	238,844	-1%
Other noncurrent assets	59,174	57,474	3%
Total assets	<u>345,707</u>	<u>334,468</u>	3%
Liabilities			
Current liabilities	22,000	22,921	-4%
Noncurrent liabilities	92,754	96,389	-4%
Total liabilities	<u>114,754</u>	<u>119,310</u>	-4%
Net assets			
Invested in capital assets, net of related debt	146,551	152,277	-4%
Restricted nonexpendable	5,166	5,076	2%
Restricted expendable	24,544	15,361	60%
Unrestricted	54,692	42,444	29%
Total net assets	<u>\$ 230,953</u>	<u>\$ 215,158</u>	7%

The University's total assets were \$345 million at June 30, 2004 and \$334 million at June 30, 2003. The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment and construction in progress. Capital assets represent 68% and 71% of the University's total assets at June 30, 2004 and 2003, respectively. Capital expenditures for 2004 totaled \$9.8 million including \$3.4 million to complete the Oakland Center expansion.

Other non-current assets consist primarily of endowment and other long-term investments. Endowment investments were \$17.7 million at June 30, 2004 and \$15.5 million at June 30, 2003. The total return on the University's endowment investments was 17.7% for 2004 and 5.2% for 2003. Distributions were paid to endowment beneficiary funds at the rate of 4.5%. Other long-term investments were \$34 million at June 30, 2004 and \$32 million at June 30, 2003 and include intermediate-term fixed income and equity securities.

During the year, the University received a \$7 million pledge from the Matilda R. Wilson Fund to help repair and restore Meadow Brook Hall. The current and noncurrent portions of this pledge are \$2.3 million and \$4.7 million, respectively.

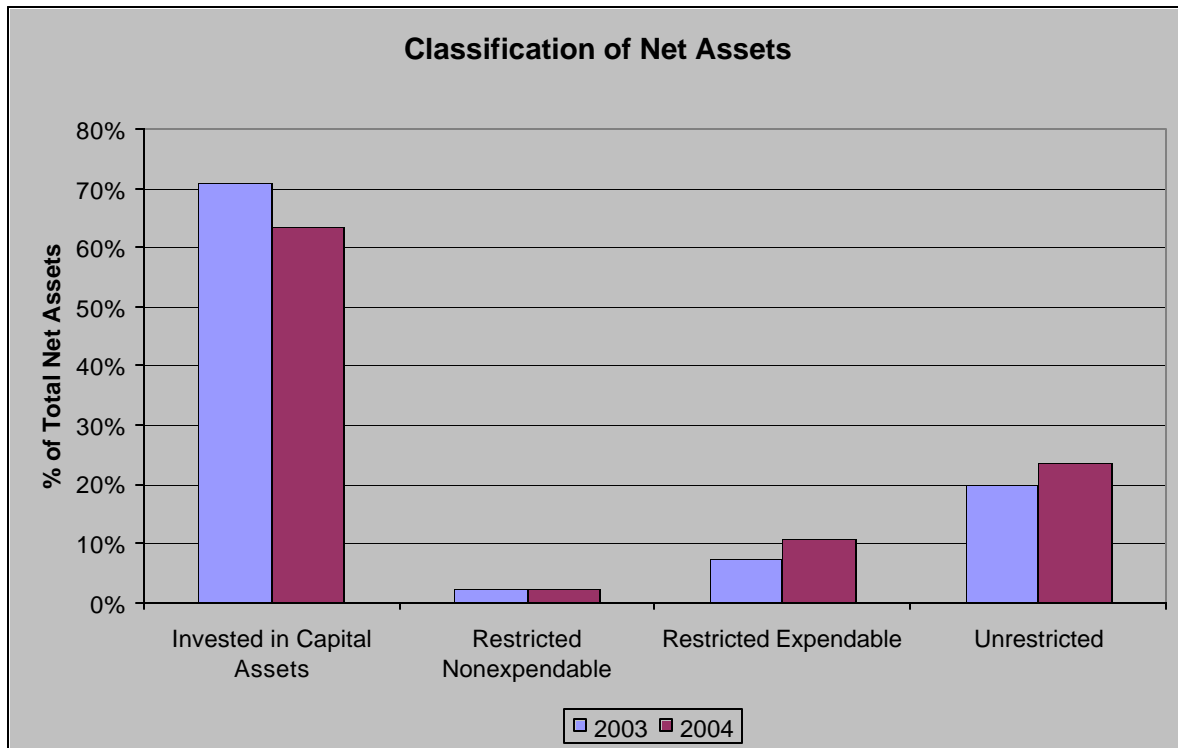
Current assets consist primarily of cash and cash equivalents, and receivables due within one year.

Oakland University
Management's Discussion and Analysis
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The University's total liabilities were \$115 million at June 30, 2004 and \$119 million at June 30, 2003. Non-current liabilities are comprised primarily of bonds and notes payable which represented 80% and 79% of the University's total liabilities at June 30, 2004 and 2003, respectively.

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

The following graph shows net assets by classification and restriction:



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

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

Oakland University
Management's Discussion and Analysis
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The following summarizes the internal designations of unrestricted net assets at June 30:

<i>(in thousands)</i>	2004	2003
Auxiliary enterprises	\$ 2,142	\$ 1,457
Capital projects and repair reserves	16,062	10,528
Funds designated for departmental use	12,696	9,850
Funds functioning as endowments	6,823	6,017
Institutional reserves	8,835	8,532
Retirement and insurance reserves	4,943	4,378
Other unrestricted	3,191	1,682
	<u>\$ 54,692</u>	<u>\$ 42,444</u>

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

The following schedule summarizes revenues, expenses and changes in net assets for the years ended June 30:

<i>(in thousands)</i>	2004	2003	Change
Operating revenues			
Net tuition and fees	\$ 75,682	\$ 66,227	14%
Grants and contracts	16,184	15,215	6%
Auxiliary activities	19,191	20,944	-8%
Departmental activities	5,556	4,500	23%
Other	338	385	-12%
Total operating revenues	<u>116,951</u>	<u>107,271</u>	9%
Operating expenses	<u>159,460</u>	<u>160,821</u>	-1%
Operating loss	(42,509)	(53,550)	-21%
Nonoperating revenues (expenses)			
State appropriations	46,634	50,551	-8%
Gifts	3,875	3,976	-3%
Investment income	4,962	2,844	74%
Interest expense	(4,229)	(4,218)	-
Net nonoperating revenues	<u>51,242</u>	<u>53,153</u>	-4%
Income (loss) before other revenues	8,733	(397)	-2300%
Capital appropriations	696	4,476	-84%
Capital grants and gifts	6,380	88	7150%
Additions to permanent endowments	41	108	-62%
Transfer to Meadow Brook Theatre Ensemble	(55)	-	-
Total other revenues	<u>7,062</u>	<u>4,672</u>	51%
Increase in net assets	15,795	4,275	269%
Net assets			
Beginning of year	<u>215,158</u>	<u>210,883</u>	2%
End of year	<u>\$ 230,953</u>	<u>\$ 215,158</u>	7%

The University's operating revenues were \$117 million in 2004 and \$107 million in 2003. The 9% increase was primarily due to increases in tuition and fees. Tuition and fees, net of scholarship allowances, increased 14% in 2004 over 2003. The increase was caused by tuition rate increases of 9.2%, and enrollment increases of 4.9% based on fiscal year equated students (FYES). The 8% decrease in auxiliary activity revenues was primarily due to the outsourcing of campus theatre operations and closing of the health institute to improve auxiliary economics. The increase in departmental revenues included additional charter school fees from the State of Michigan.

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Management's Discussion and Analysis
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Operating expenses were \$159 million in 2004 and \$161 million in 2003. The 1% decrease resulted primarily from budget reductions enacted to address the decline in State appropriations during the year along with the curtailment of the auxiliary activities discussed above. A breakdown of the University's operating expenses by functional classification follows for the years ended June 30:

Operating Expenses

(in thousands)

	2004	2003	Change
Education and general			
Instruction	\$ 64,475	\$ 65,394	-1%
Research	6,587	6,148	7%
Public service	927	761	22%
Academic support	9,528	9,613	-1%
Student services	11,322	11,681	-3%
Institutional support	18,494	18,485	-
Operation and maintenance of plant	12,269	11,651	5%
Depreciation	11,986	11,248	7%
Student aid	4,907	4,172	18%
Total education and general	<u>140,495</u>	<u>139,153</u>	1%
Auxiliary activities	18,889	21,554	-12%
Other expenditures	76	114	-33%
Total operating expenses	<u>\$ 159,460</u>	<u>\$ 160,821</u>	-1%

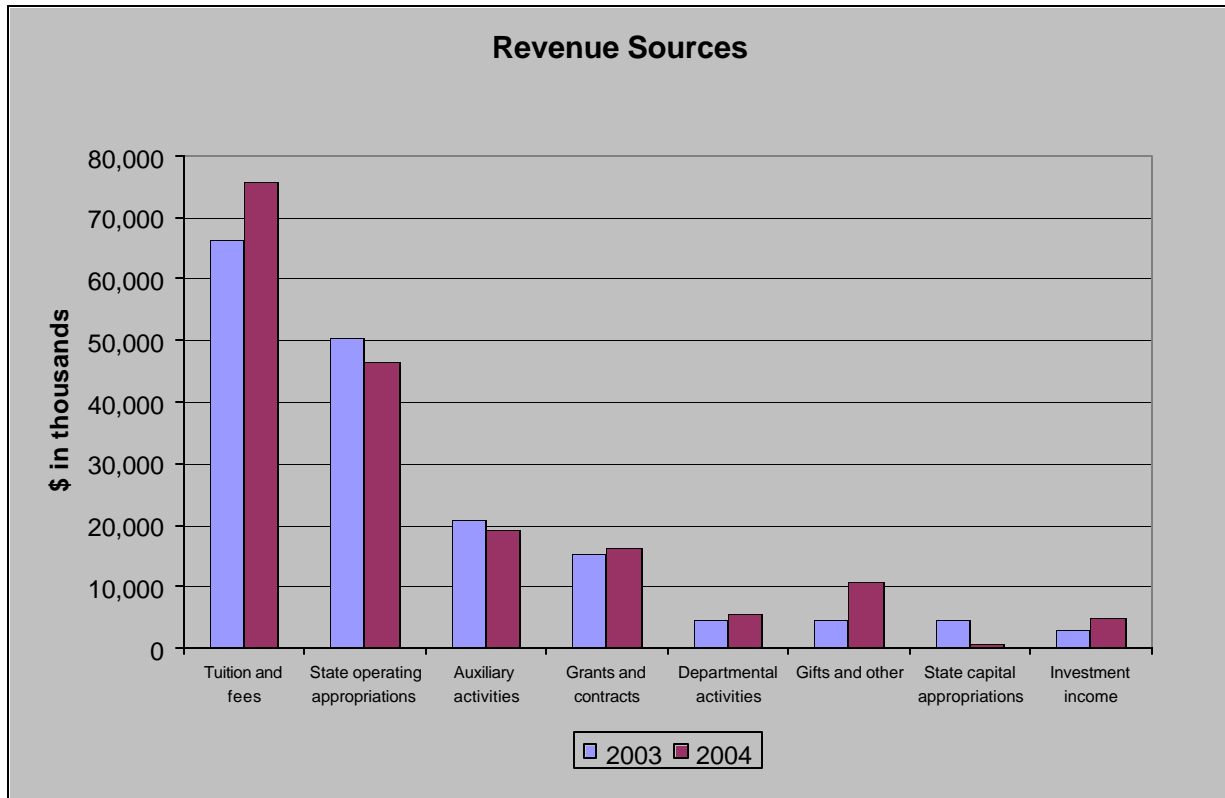
Education and general expenses increased by 1% in 2004. This increase was offset by the reduction in auxiliary activity expenses.

The University's operating loss was \$43 million in 2004 and \$54 million in 2003. Offsetting these losses were net nonoperating revenues of \$51 million in 2004 and \$53 million in 2003. Annual State appropriations, while budgeted for operations, are included in nonoperating revenues according to generally accepted accounting principles. Total nonoperating State appropriations were \$46.6 million in 2004 and \$50.5 million in 2003, a reduction of nearly 8%.

Other revenues were \$7 million in 2004 and \$5 million in 2003. Included in other revenues in 2004 is the \$7 million pledge from the Matilda R. Wilson Fund to help and restore Meadow Brook Hall. The pledge has been recorded at its discounted present value. Offsetting this increase in other revenues is a decline of \$4 million in State capital appropriations related to the completion of the new Education and Human Services building opened in 2003.

Oakland University
Management's Discussion and Analysis
June 30, 2004 and 2003

A graphic illustration of each revenue source is as follows:



Statements of Cash Flows

The following schedule summarizes cash flows for the years ended June 30:

Condensed Statements of Cash Flows

(in thousands)

	2004	2003
Cash provided (used) by		
Operating activities	\$ (29,924)	\$ (40,961)
Noncapital financing activities	51,491	55,529
Capital financing activities	(17,362)	(23,099)
Investing activities	1,245	1,485
Net increase (decrease) in cash	<u>5,450</u>	<u>(7,046)</u>
Cash and cash equivalents		
Beginning of year	<u>26,852</u>	<u>33,898</u>
End of year	<u>\$ 32,302</u>	<u>\$ 26,852</u>

Oakland University

Management's Discussion and Analysis

June 30, 2004 and 2003

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprise charges and grant and contracts revenues. Cash disbursements from operations include salaries and wages, benefits, supplies, utilities and scholarships. The overall decrease in net cash used by operations reflects the increase in tuition and fees together with the timing of payments to suppliers and employees from year to year.

State appropriations are the primary source of noncapital financing. Noncapital State appropriation receipts were \$47 million in 2004 and \$51 million in 2003.

Capital financing activities for 2004 include the remaining State appropriations for the recently completed Education and Human Services building of \$2 million, capital expenditures of \$12.4 million and debt service payments of \$7 million. Capital financing activities for 2003 include the retirement of a capital lease funded by a \$4.8 million note payable, State appropriations for the Education and Human Services building of \$7.7 million, capital expenditures of \$25.8 million and debt service payments of \$10.7 million.

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

Capital Assets/Long-Term Debt

Capital Assets

At June 30, 2004, the University had \$364 million invested in capital assets, net of accumulated depreciation of \$127 million. The estimated costs to complete construction projects in progress are \$2.3 million as of June 30, 2004. These projects will be funded from State and State Building Authority appropriations, private gifts, bond proceeds and other University funds. In addition, the University plans to start projects with an estimated cost of \$8.4 million to renovate and improve Meadow Brook Hall during 2005. The University has received a \$7 million pledge from the Matilda R. Wilson Fund to support the renovation.

Long-term Liabilities

At June 30, 2004, the University had \$96 million in long-term liabilities outstanding versus \$99 million the previous year, a decrease of 2.7%. Of the \$96 million in long-term liabilities outstanding at June 30, 2004, \$88.5 million relates to three general revenue bond issues completed in 1995, 1997 and 2001. Proceeds from the bonds funded all or part of the following projects:

- Oakland Center improvements
- University student apartments
- Education and Human Services building
- Parking structure
- Student recreation and athletics center
- Electrical system upgrade

More detailed information about the University's long-term liabilities is presented in the notes to the financial statements.

Oakland University

Management's Discussion and Analysis

June 30, 2004 and 2003

University Credit Rating

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

Deferred Maintenance

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

Factors or Conditions Impacting Future Periods

Financial 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 most basically impact the University's finances.

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

Oakland University Foundation

The following provides a discussion and analysis of financial performance of Oakland University Foundation, a component unit of Oakland University, for the fiscal year ended June 30, 2004.

Overview of the Financial Statements

This annual report contains the following financial statements, which have been prepared in accordance with the Governmental Accounting Standards. The fundamental objective of the Foundation financial statements is to provide an overview of assets held in support of Oakland University. The various statements and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all Foundation assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year.
- Statement of Changes in Net Assets. This statement presents a summary of additions and deductions to net assets and the change in the Foundation's net assets for the year.

Oakland University
Management's Discussion and Analysis
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The financial statements can be found on pages 15 and 17 of this financial report.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 29-32 of this financial report.

Discussion and Analysis

The Foundation's assets, liabilities and net assets are summarized below for the years ended June 30:

<i>(in thousands)</i>	2004	2003
Total assets	\$ 13,934	\$ 12,391
Total liabilities	<u>5,054</u>	<u>5,188</u>
Total net assets	<u>\$ 8,880</u>	<u>\$ 7,203</u>

Included in the Foundation's total assets are endowment investments of \$10.9 million at June 30, 2004 and \$9.4 million at June 30, 2003. The total investment return on the Foundation's endowments was 15.8% for 2004 and 2.5% for 2003. Endowment distributions are paid to University beneficiary funds at the rate of 4.5%.

The Foundation's total liabilities at June 30, 2004 and 2003 include \$4.6 million in limited obligation revenue bonds issued to finance construction of a new golf course on behalf of Oakland University. The golf course was completed in 2000 on University land and all improvements became the property of the University upon completion. The bonds will be funded by life insurance proceeds and other gifts relating to this project.

The Foundation's net assets consist of restricted nonexpendable net assets, restricted expendable net assets and unrestricted net assets. Restricted nonexpendable net assets are gifts that have been received for endowment purposes. Restricted expendable net assets represent assets whose use is restricted by a party independent of the Foundation. Unrestricted net assets represent assets of the Foundation that have not been restricted by parties independent of the Foundation. The composition of the Foundation's net asset is as follows:

<i>(in thousands)</i>	June 30,	
	2004	2003
Restricted nonexpendable	\$ 5,736	\$ 5,264
Restricted expendable	2,552	1,483
Unrestricted	<u>592</u>	<u>456</u>
Total net assets	<u>\$ 8,880</u>	<u>\$ 7,203</u>

Total gifts made to the Oakland University Foundation were \$1.9 million in 2004 and \$1.8 million in 2003. Total transfers made by the Foundation to Oakland University were \$.8 million in 2004 and \$1 million in 2003.

Oakland University
Statements of Net Assets
June 30, 2004 and 2003

	2004	2003
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 32,172,941	\$ 20,547,307
Accounts receivable, net (Note 3)	5,717,628	5,601,712
Appropriation receivable (Note 4)	8,378,733	10,373,879
Pledges receivable, net (Note 5)	2,843,670	830,887
Inventories	251,514	272,531
Deposits and prepaid expenses	185,698	166,929
Student loans receivable, net (Note 6)	372,279	356,476
Total current assets	<u>49,922,463</u>	<u>38,149,721</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 7)	129,387	6,304,722
Endowment investments (Note 7)	17,665,395	15,558,796
Other long-term investments (Notes 2 and 7)	33,908,815	32,298,740
Pledges receivable, net (Note 5)	4,361,622	325,734
Student loans receivable, net (Note 6)	1,740,808	1,547,107
Capital assets, net (Notes 8 and 9)	236,610,864	238,844,220
Other assets	1,368,472	1,439,141
Total noncurrent assets	<u>295,785,363</u>	<u>296,318,460</u>
Total assets	<u>\$ 345,707,826</u>	<u>\$ 334,468,181</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,777,705	\$ 5,597,727
Accrued payroll	6,732,981	6,039,029
Long-term liabilities - current portion (Note 10)	5,248,237	5,026,929
Deferred revenue and student fees	4,973,725	5,777,685
Deposits	1,268,022	479,957
Total current liabilities	<u>22,000,670</u>	<u>22,921,327</u>
Noncurrent liabilities		
Deferred revenue	1,705,463	2,419,693
Long-term liabilities (Note 10)	91,048,346	93,969,582
Total noncurrent liabilities	<u>92,753,809</u>	<u>96,389,275</u>
Total liabilities	<u>114,754,479</u>	<u>119,310,602</u>
Net assets		
Invested in capital assets, net of related debt	146,550,473	152,277,159
Restricted nonexpendable	5,166,444	5,075,976
Restricted expendable	24,543,968	15,361,139
Unrestricted	54,692,462	42,443,305
Total net assets	<u>\$ 230,953,347</u>	<u>\$ 215,157,579</u>

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Net Assets of the Oakland University Foundation
(Component Unit)
June 30, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents on deposit at Oakland University (Note 18)	\$ 241,324	\$ -
Prepaid expenses	8,088	9,845
Pledges receivable, net (Note 19)	1,697,329	1,793,112
Endowment investments (Note 20)	10,900,593	9,393,802
Other investments (Note 20)	517,103	446,008
Cash surrender value of insurance policies (Note 21)	569,852	747,833
Total assets	13,934,289	12,390,600
Liabilities		
Due Oakland University	35,081	179,895
Accounts payable	1,370	2,545
Bonds payable (Note 22)	4,600,000	4,600,000
Annuities payable (Note 23)	417,598	405,051
Total liabilities	5,054,049	5,187,491
Net assets		
Restricted nonexpendable	5,736,168	5,263,774
Restricted expendable	2,552,362	1,483,493
Unrestricted	591,710	455,842
Total net assets	\$ 8,880,240	\$ 7,203,109

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004 and 2003

	2004	2003
Operating revenues		
Tuition and fees (net of scholarship allowances of \$8,169,663 in 2004 and \$7,528,167 in 2003)	\$ 75,682,378	\$ 66,227,458
Federal grants and contracts	13,362,752	10,847,133
State, local and private grants and contracts	2,820,816	4,367,692
Departmental activities	5,555,685	4,499,632
Auxiliary activities (net of scholarship allowances of \$865,676 in 2004 and \$769,838 in 2003)	19,191,466	20,943,503
Other operating revenues	337,813	384,683
Total operating revenues	<u>116,950,910</u>	<u>107,270,101</u>
Operating expenses		
Education and general		
Instruction	64,474,937	65,393,798
Research	6,587,015	6,148,222
Public service	926,454	761,323
Academic support	9,528,396	9,612,916
Student services	11,321,808	11,680,677
Institutional support	18,493,744	18,484,889
Operations and maintenance of plant	12,269,238	11,650,823
Depreciation	11,985,756	11,248,368
Student aid	4,907,876	4,172,043
Auxiliary activities	18,888,861	21,554,135
Other expenses	75,836	113,627
Total operating expenses (Note 11)	<u>159,459,921</u>	<u>160,820,821</u>
Operating loss	<u>(42,509,011)</u>	<u>(53,550,720)</u>
Nonoperating revenues (expenses)		
State appropriations	46,633,500	50,551,147
Gifts	3,875,389	3,976,319
Investment income (net of investment expenses)	4,961,850	2,843,901
Interest on capital asset related debt	(4,229,008)	(4,218,499)
Net nonoperating revenues	<u>51,241,731</u>	<u>53,152,868</u>
Income (loss) before other revenues	8,732,720	(397,852)
Capital appropriations	696,981	4,476,202
Capital grants and gifts	6,380,045	88,066
Additions to permanent endowments	41,132	107,772
Transfer to Meadow Brook Theatre Ensemble	(55,110)	-
Total other revenues	<u>7,063,048</u>	<u>4,672,040</u>
Increase in net assets	15,795,768	4,274,188
Net assets		
Beginning of year	<u>215,157,579</u>	<u>210,883,391</u>
End of year	<u>\$ 230,953,347</u>	<u>\$ 215,157,579</u>

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Changes in Net Assets of the
Oakland University Foundation
(Component Unit)
Year Ended June 30, 2004 and 2003

	2004	2003
Additions		
Gifts and other income	\$ 1,912,517	\$ 1,814,922
Investment income (net of investment expense)	<u>1,573,772</u>	<u>267,968</u>
Total additions	<u>3,486,289</u>	<u>2,082,890</u>
Deductions		
Fundraising, general support and membership activities	901,045	1,412,535
Interest expense	47,826	61,997
Distributions to annuity and life income fund beneficiaries	83,763	83,745
Transfers to Oakland University	<u>776,524</u>	<u>1,015,919</u>
Total deductions	<u>1,809,158</u>	<u>2,574,196</u>
Change in net assets	1,677,131	(491,306)
Net assets		
Beginning of year	<u>7,203,109</u>	<u>7,694,415</u>
End of year	<u>\$ 8,880,240</u>	<u>\$ 7,203,109</u>

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Cash Flows
Year Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Tuition and fees	\$ 75,020,965	\$ 67,558,876
Grants and contracts	15,596,623	14,877,277
Payments to suppliers	(30,338,204)	(36,137,104)
Payments to employees	(110,597,731)	(108,747,631)
Payments for scholarships and fellowships	(4,907,876)	(4,172,043)
Loans issued to students	(661,169)	(447,054)
Collection of loans from students	463,285	547,987
Auxiliary enterprise charges	19,294,276	20,928,552
Other receipts	6,205,805	4,629,707
Net cash used by operating activities (Note 12)	<u>(29,924,026)</u>	<u>(40,961,433)</u>
Cash flows from noncapital financing activities		
State appropriations	47,323,898	51,073,767
Federal direct lending receipts	34,320,938	29,931,796
Federal direct lending disbursements	(34,320,938)	(29,931,796)
Gifts and grants for other than capital purposes	4,180,964	4,347,283
Endowment gifts	41,132	107,772
Transfer to Meadow Brook Theatre Ensemble	(55,110)	-
Net cash provided by noncapital financing activities	<u>51,490,884</u>	<u>55,528,822</u>
Cash flows from capital financing activities		
Proceeds from capital debt	-	4,819,949
Capital appropriations	1,966,879	7,749,321
Capital grants, gifts and other payments	34,850	865,886
Purchases of capital assets	(12,410,458)	(25,792,931)
Principal paid on capital debt and leases	(2,713,292)	(6,512,418)
Interest paid on capital debt and leases	(4,239,714)	(4,228,722)
Net cash provided (used) by capital financing activities	<u>(17,361,735)</u>	<u>(23,098,915)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	24,686,407	31,628,709
Investment income	1,648,180	1,893,830
Purchase of investments	(25,089,411)	(32,036,486)
Net cash provided by investing activities	<u>1,245,176</u>	<u>1,486,053</u>
Net increase (decrease) in cash and cash equivalents	5,450,299	(7,045,473)
Cash and cash equivalents		
Beginning of year	<u>26,852,029</u>	<u>33,897,502</u>
End of year	<u>\$ 32,302,328</u>	<u>\$ 26,852,029</u>

The accompanying notes are an integral part of these financial statements

Oakland University

Notes to Financial Statements

June 30, 2004 and 2003

1. Significant Accounting Policies

Organization

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

The University follows the "business-type" activities requirements of GASB Statement No. 34, which provides that the following sections be included in the University's annual financial report:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the University
- Notes to the financial statements.

The Oakland University Foundation (the "Foundation") was incorporated to encourage, promote and support Oakland University. Effective July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14* (GASB 39). Pursuant to GASB 39, the Foundation is reported in these financial statements as a component unit of the University and its footnote information is included on pages 29-32.

Basis of Accounting

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

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB pronouncements issued after November 30, 1989.

Operating revenues of the University consist of tuition and fees, grants and contracts, departmental activities, auxiliary activities and other miscellaneous revenues. Transactions related to capital financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating income. When an expense is incurred for which both restricted and unrestricted net assets are available, the University applies the restricted or unrestricted resources at its discretion.

Cash Equivalents

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

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

Investments

Investments are stated at fair value. Total return includes ordinary income as well as realized and unrealized gains and losses.

Inventories

Inventories are stated at lower of average cost or market.

Physical properties

Physical properties are stated at cost or, when donated, at fair market value at date of gift. A capitalization threshold of \$2,500 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred.

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

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

Revenue Recognition

Revenues related to the Summer session have been deferred to the subsequent fiscal year in which the session is predominantly conducted.

Operating revenues represent revenue earned from exchange transactions. The University's nonoperating revenues include State appropriations, gifts, investment income, capital appropriations, and grants. Gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

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

Revenues are reported net of discounts and allowances. As a result, certain amounts previously reported as scholarship expenditures are now reported as an allowance against tuition and related revenues.

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, 2004 and 2003

Reclassifications

Certain fiscal year 2003 balances have been reclassified to conform with the current year presentation.

2. Cash and Pooled Investments

Cash balances in the various funds of the University are pooled and may be invested in short-term or intermediate-term fixed income securities or equity securities. The University retains an independent investment manager to handle the University's pooled cash balances.

The Board of Trustees has adopted an investment policy for the University's pooled cash. Specific quality and risk standards are mandated for each investment category by the policy. The policy limits the use of derivative securities and the amount that can be invested in any one security or security type. Equity holdings are limited to 30% or less of the available pooled cash. The University's cash and pooled investments provided a total return of 2.9% and 4.6% for the years ended June 30, 2004 and 2003, respectively.

At June 30, 2004 and 2003, the bank balances of cash and certificates of deposit were \$31,283,640 and \$156,919, respectively. Of the total bank balances, \$100,000 at June 30, 2004 and \$100,000 at June 30, 2003 were covered by federal depository insurance. The remaining cash and certificate of deposit amounts were uninsured and uncollateralized. The University's investment in mutual funds is held by the University's investment manager and is uninsured. The other pooled cash investments are held by the University's investment manager and are substantially all uninsured and unregistered. The individual securities held by the University's investment manager are not in the University's name.

	2004	2003
Cash (overdraft) and certificates of deposits, net	\$ 30,054,794	\$ (1,034,696)
Demand obligations	2,118,147	21,582,003
U.S. Treasury bonds and notes	4,290,025	4,892,140
U.S. government-backed securities	10,084,934	6,103,845
Corporate bonds and notes	8,625,319	12,041,997
Mutual funds	1,091,829	807,273
Common stock	5,002,552	4,098,762
Other investments	465,508	476,239
	<u>\$ 61,733,108</u>	<u>\$ 48,967,563</u>
Statement of net asset classification		
Cash and cash equivalents	\$ 32,172,941	\$ 20,547,307
Other long-term investments in pooled cash	29,560,167	28,420,256
	<u>\$ 61,733,108</u>	<u>\$ 48,967,563</u>

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

3. Accounts Receivable

The composition of accounts receivable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Tuition and fees	\$ 4,531,004	\$ 4,149,821
Auxiliary enterprises	393,495	569,600
Contracts and grants	1,962,948	2,096,245
Other receivables	<u>317,954</u>	<u>228,734</u>
Total accounts receivable	7,205,401	7,044,400
Less: Allowance for doubtful accounts	<u>(1,487,773)</u>	<u>(1,442,689)</u>
Total accounts receivable, net	<u>\$ 5,717,628</u>	<u>\$ 5,601,711</u>

4. Appropriation Receivable

The annual State operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued as of the end of its fiscal year the payments to be received in July and August. As of June 30, 2004 and 2003, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$8,311,472 and \$9,000,620, respectively. As of June 30, 2004 and 2003, the state capital appropriation receivable was \$67,261 and \$1,373,259, respectively.

5. Pledges Receivable

The composition of pledges receivable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Pledges outstanding		
Unrestricted	\$ 35,578	\$ 336,858
Restricted expendable	<u>8,199,593</u>	<u>1,475,980</u>
Total pledges outstanding	8,235,171	1,812,838
Less		
Allowance for doubtful pledges	(283,682)	(517,216)
Present value discount	<u>(746,197)</u>	<u>(139,001)</u>
Total pledges outstanding, net	7,205,292	1,156,621
Less: Current portion	<u>(2,843,670)</u>	<u>(830,887)</u>
	<u>\$ 4,361,622</u>	<u>\$ 325,734</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2004 and 2003, the interest rate used to discount pledges to present value was 5% and 7%, respectively.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

Payments on pledges receivable at June 30, 2004 are expected to be received in the following years ended June 30:

Due in one year	\$ 3,192,804
Due in two-five years	4,922,367
Thereafter	<u>120,000</u>
Total	<u>\$ 8,235,171</u>

In addition bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2004 and 2003 the University had \$3,100,193 and \$3,058,693 respectively, in conditional pledge commitments receivable not included in the accompanying financial statements.

6. Student Loans Receivable

The composition of student loans receivable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Student loans		
Federal loan programs	\$ 26,981	\$ 19,998
University loan funds	<u>2,375,836</u>	<u>2,300,585</u>
	2,402,817	2,320,583
Less: Allowance for doubtful loans	<u>(289,730)</u>	<u>(417,000)</u>
Total student loans, net	2,113,087	1,903,583
Less: Current portion	<u>(372,279)</u>	<u>(356,476)</u>
	<u>\$ 1,740,808</u>	<u>\$ 1,547,107</u>

In addition, the University distributed \$34,320,938 and \$29,931,796 for the years ended June 30, 2004 and 2003, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statement.

7. Investments

The University invests in equity and debt securities and cash equivalents that are considered to be of high quality or "investment grade". Investments made on behalf of a particular fund, or funds, are to be consistent with the fund's philosophy and objectives. The University's pooled investment funds provided a total return of 17.7% and 5.2% for the years ended June 30, 2004 and 2003, respectively. The University's investments in pooled investment funds are uninsured.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

In connection with construction projects, the University has invested bond proceeds in money market funds. The money market funds are not insured.

	2004	2003
Pooled investment funds	\$ 21,881,043	\$ 19,304,279
Money market funds	129,387	6,304,723
Other investments	133,000	133,000
	<u>\$ 22,143,430</u>	<u>\$ 25,742,002</u>

Statement of net asset classification

Endowment investments	\$ 17,665,396	\$ 15,558,796
Restricted cash and cash equivalents	129,387	6,304,722
Other long-term investments, excluding pooled cash portion	4,348,647	3,878,484
	<u>\$ 22,143,430</u>	<u>\$ 25,742,002</u>

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

8. Capital Assets

The following table presents the changes in the various capital asset categories for Oakland University for fiscal year 2004:

Asset Classification	Balance July 1, 2003	Additions	Reductions	Balance July 1, 2004
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	26,326,239	895,673	-	27,221,912
Buildings	257,687,249	11,907,641	-	269,594,890
Equipment	41,797,790	2,353,103	4,882,333	39,268,560
Library acquisitions	21,748,391	991,726	66,213	22,673,904
Construction in progress (net)	7,053,545	(6,395,741)	-	657,804
Total	<u>358,938,128</u>	<u>9,752,402</u>	<u>4,948,546</u>	<u>363,741,984</u>
Accumulated depreciation				
Land improvements and infrastructure	(7,259,603)	(1,215,679)	-	(8,475,282)
Buildings	(66,197,384)	(6,287,134)	-	(72,484,518)
Equipment	(30,606,133)	(3,240,744)	(4,755,069)	(29,091,808)
Library and acquisitions, net	(16,030,788)	(1,114,936)	(66,213)	(17,079,511)
Total	<u>(120,093,908)</u>	<u>(11,858,493)</u>	<u>(4,821,282)</u>	<u>(127,131,119)</u>
Total capital assets, net	<u>\$238,844,220</u>	<u>\$ (2,106,091)</u>	<u>\$ 127,264</u>	<u>\$236,610,865</u>

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

9. State Building Authority

During the fiscal year ended June 30, 2003, the University entered into a lease agreement with the State Building Authority (SBA) and the State of Michigan for the School of Education and Human Services Building (Pawley Hall). During prior fiscal years, the University entered into similar lease agreements for the Science and Engineering Building and the business and technology building (Elliott Hall). The buildings were financed with SBA revenue bonds and State appropriations.

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

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

10. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note and bonds payable					
Note payable	\$ 4,556,581	\$ -	\$ 1,068,292	\$ 3,488,289	\$ 1,098,757
Bonds payable					
General revenue bonds, series 1995	33,705,000	-	755,000	32,950,000	795,000
General revenue bonds, series 1997	8,445,000	-	890,000	7,555,000	1,000,000
General revenue bonds, series 2001	<u>48,000,000</u>	<u>-</u>	<u>-</u>	<u>48,000,000</u>	<u>-</u>
Total, note and bonds payable	94,706,581	-	2,713,292	91,993,289	2,893,757
Other liabilities					
Compensated absences	2,313,637	40,843	-	2,354,480	2,354,480
Federal portion of Perkins loan program	<u>1,976,293</u>	<u>44,752</u>	<u>72,231</u>	<u>1,948,814</u>	<u>-</u>
Total other liabilities	<u>4,289,930</u>	<u>85,595</u>	<u>72,231</u>	<u>4,303,294</u>	<u>2,354,480</u>
Total long-term liabilities	<u>\$ 98,996,511</u>	<u>\$ 85,595</u>	<u>\$ 2,785,523</u>	<u>\$ 96,296,583</u>	<u>\$ 5,248,237</u>

Note Payable

In March, 2003 the University issued a general revenue note payable in the amount of \$4,819,949 to fund the repayment of its capital lease dated March 18, 1997 and to fund an e-mail system upgrade project. The note has a fixed interest rate of 2.75% per annum, requires monthly payments of \$98,506, and is scheduled to be paid off in July, 2007.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

Required annual note payments for the fiscal years ending June 30 are as follows:

	Principal	Interest	Total
2005	\$ 1,098,757	\$ 83,316	\$ 1,182,073
2006	1,129,787	52,286	1,182,073
2007	1,161,693	20,380	1,182,073
2008	<u>98,052</u>	<u>224</u>	<u>98,276</u>
Total	<u>\$ 3,488,289</u>	<u>\$ 156,206</u>	<u>\$ 3,644,495</u>

Bonds Payable

In June 1995, the University issued general revenue bonds in the amount of \$37,000,000 to provide funds for a student recreation and athletics center. The bonds bear interest rates from 5.0 to 6.0% and mature at various dates through 2026. In September 1997, the University issued general revenue bonds in the amount of \$11,650,000 to provide funds for various campus improvement projects. The bonds bear interest rates from 4.6 to 5.1% and mature at various dates through 2011.

In August 2001, the University issued general revenue bonds in the amount of \$48,000,000 to provide for various campus improvement projects. The bonds are variable rate demand obligations and mature March 1, 2031. In connection with the bond issue, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing Inc. in an initial notional amount of \$34,370,000 effective July 1, 2001. The agreement swaps the University's variable rate for a fixed rate of 4.62%. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 4.62%. No amounts were paid or received when the swap was initiated.

The University is currently making payments under the swap agreement. The estimated fair value of the interest rate swap at June 30, 2004 was a liability of \$3,800,000. The fair value represents the estimated amount that the University would pay to terminate the swap, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with government accounting standards, these amounts are not required to be included in the accompanying statements.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

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

	Principal	Interest	Total
2005	\$ 1,795,000	\$ 3,980,605	\$ 5,775,605
2006	1,835,000	3,890,855	5,725,855
2007	1,885,000	3,794,755	5,679,755
2008	2,005,000	3,701,292	5,706,292
2009	2,105,000	3,600,937	5,705,937
2010-2014	11,420,000	16,276,810	27,696,810
2015-2019	14,195,000	13,389,546	27,584,546
2020-2024	18,330,000	9,767,158	28,097,158
2025-2029	23,725,000	5,007,639	28,732,639
2030-2031	11,210,000	526,149	11,736,149
	<u>\$88,505,000</u>	<u>\$ 63,935,746</u>	<u>\$ 152,440,746</u>

Interest includes payments and receipts under the swap agreement at the synthetic fixed rate of 4.62%. The variable rate paid on the bonds was 1.06% at June 30, 2004.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. Additionally, the 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. As these rates change, the overall synthetic rate on the bonds may change. The swap agreement includes collateral requirements intended to mitigate the credit risk.

The swap agreement uses the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events such as failure to pay and bankruptcy. In addition, the Master Agreement includes additional termination events. If the swap is terminated, the variable rate bonds will no longer carry a synthetic interest rate and the University may be required to pay an amount equal to the swap's fair market, if it is negative.

The University capitalized construction period interest of \$45,499 and \$480,390 in the fiscal years ended June 30, 2004 and 2003, respectively, as part of the assets constructed.

Other Liabilities

Accrued compensated absence includes accrued vacation for University employees.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

11. Expenses by Natural Classification

The table below lists total operating expenses for Oakland University analyzed by natural classification:

	2004	2003
Employee compensation	\$ 111,332,527	\$ 109,433,413
Supplies and other services	31,233,762	35,966,997
Student aid	4,907,876	4,172,043
Depreciation	11,985,756	11,248,368
Total	<u>\$ 159,459,921</u>	<u>\$ 160,820,821</u>

12. Cash Flow Statement

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

	2004	2003
Operating loss	\$ (42,509,011)	\$ (53,550,720)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	11,985,756	11,248,368
Changes in assets and liabilities		
Accounts receivable, net	(115,917)	895,419
Inventories	21,017	276,152
Deposits and prepaid expense	51,900	463,114
Student loans receivable	(209,504)	90,132
Accounts payable and accrued expenses	874,542	(446,258)
Accrued payroll	693,952	618,441
Compensated absences	40,843	67,341
Deferred revenue and student fees	(1,518,190)	(230,648)
Deposits	788,065	(417,479)
Federal portion of student loan program	(27,479)	24,705
Net cash used by operating activities	<u>\$ (29,924,026)</u>	<u>\$ (40,961,433)</u>

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 and are primarily administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (“TIAA-CREF”). Contributions by the University for the years ended June 30, 2004 and 2003 were \$8,751,574 and \$8,760,282, respectively.

Oakland University
Notes to Financial Statements
June 30, 2004 and 2003

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, 2003, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan were fully funded.

The University provides termination benefits resulting from unused sick days upon retirement which are funded and paid from the Retirement and Insurance Fund.

In addition to the above retirement plans, the University provides certain health care benefits for retired employees. In general, retirees with 15 years of service and at least 62 years of age are eligible for benefits in accordance with either union agreements or University policy. The benefits are provided by paying and expensing insurance premiums which are based on claims paid during the year. The expenses recognized for the years ended June 30, 2004 and 2003 were \$983,953 and \$881,753, respectively.

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

14. Liability and Property Insurance

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

Loss coverages, except for the automobile physical damage program which has no M.U.S.I.C. layer, 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. Commercial general liability and property coverage is 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 residential mortgages in the University's Meadow Brook Subdivision. As of June 30, 2004, the amount subject to guarantee by the University was \$2,152,878.

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The estimated costs to complete construction projects in progress are \$2,330,412 as of June 30, 2004. These projects will be funded from State and State Building Authority appropriations, private gifts, bond sale proceeds, and other University funds. In addition, the University plans to start projects with cost of \$8,400,000 to renovate and improve Meadow Brook Hall. The University has received a pledge for \$7,000,000 to support the renovation.

16. Related Party Transactions

Effective June 4, 1997, the University and the Foundation entered into an operating agreement to formalize the relationship between the Foundation and the University. The agreement sets forth the terms under which the Foundation will raise and manage funds for the benefit of the University.

Included in Foundation fundraising, general support and membership activities are payments to the University of \$694,841 for the year ended June 30, 2004 and \$1,216,664 for the year ended June 30, 2003, in support of the development program for the University. The Board of Directors of the Foundation approves these amounts.

Gifts received by the Foundation that are restricted by donors for specific purposes are transferred monthly by the Foundation to the University. Included in transfers to Oakland University are restricted gifts of \$719,748 for the year ended June 30, 2004 and \$1,015,919 for the year ended June 30, 2003. Also included in transfers to Oakland University are unrestricted gifts that were designated by the Foundation's Board for specific purposes. Transfers of unrestricted gifts were \$56,777 for the year ended June 30, 2004. No transfers of unrestricted gifts were made in the year ended June 30, 2003.

At June 30, 2004 and 2003, amounts due to the University from the Foundation were \$35,081 and \$179,895, respectively. These amounts represent liabilities of the Foundation related to expenses supporting the development program for the University.

17. Organization and Significant Accounting Policies of the Oakland University Foundation (Component Unit)

The Oakland University Foundation (the "Foundation") was incorporated in May 1958 to encourage, promote and support Oakland University (the "University").

The financial statements of the Foundation 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 Foundation follows the fiduciary fund requirements of GASB Statement No. 34 which provides that the following components be included in the Foundation's annual financial report:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets and statement of changes in net assets for the entity as a whole
- Notes to the financial statements

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Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Investments and gifts are recorded at fair market value.

Cash Equivalents

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

Tax Status

The Internal Revenue Service has ruled that the Foundation qualifies for exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation is not a private foundation within the meaning of IRC Section 509(a)(3).

18. Cash and Cash Equivalents on Deposit at Oakland University of the Oakland University Foundation (Component Unit)

Cash and cash equivalents are combined with cash and pooled investments of Oakland University which are primarily uninsured and uncollateralized. Oakland University retains an independent investment manager to handle the University's pooled cash balances.

19. Pledges Receivable of the Oakland University Foundation (Component Unit)

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2004 and 2003, the interest rate used to discount pledges to present value was 5% and 7%, respectively. The aggregate allowance for doubtful accounts was 25% and 30.9% of the present value at June 30, 2004 and 2003, respectively.

The composition of pledges receivable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Pledges outstanding		
Unrestricted	\$ 1,648,437	\$ 2,055,653
Restricted expendable	851,163	834,952
	<u>2,499,600</u>	<u>2,890,605</u>
Less		
Allowance for doubtful pledges	566,562	793,848
Present value discount	235,709	303,644
	<u>\$ 1,697,329</u>	<u>\$ 1,793,113</u>

Oakland University
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Payments on pledges receivable at June 30, 2004 are expected to be received in the following years ended June 30:

Due in 1 year	\$ 1,046,372
Due 2-5 years	1,440,639
Thereafter	12,589
	<u>\$ 2,499,600</u>

In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2004 and 2003 the Foundation had \$16,001,671 and \$6,491,339, respectively in conditional pledge commitments receivable, consisting primarily of bequests, that are not included in the accompanying financial statements.

20. Investments of the Oakland University Foundation (Component Unit)

The Foundation invests principally in various mutual funds. The pooled investment funds provided a total return of 15.8% and 2.5% for the years ended June 30, 2004 and 2003, respectively. Investments consisted of the following at June 30:

Mutual Funds	2004	2003
Comerica Aggregate Bond Index Fund	\$ 2,219,345	\$ 1,924,559
Comerica Large Cap Index Fund	7,845,629	6,803,860
Comerica Mid Cap Index Fund	754,765	604,507
Comerica Small Cap Index Fund	347,718	273,252
Income Fund of America	143,633	133,524
Vanguard Wellington Fund	106,606	100,108
	<u>\$ 11,417,696</u>	<u>\$ 9,839,810</u>

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

21. Cash Surrender Value of Insurance Policies of the Oakland University Foundation (Component Unit)

The cash surrender value of insurance policies reflects the current cash value of donated insurance policies where the Foundation is named as the sole beneficiary. At June 30, 2004 and 2003, face values of insurance policies totaled \$4,280,500 and \$5,044,306, respectively. Responsibility for payment of premiums rests with the donors.

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22. Bonds Payable of the Oakland University Foundation (Component Unit)

On July 2, 1998, the Foundation entered into an agreement with Oakland University to finance and manage construction of a new golf course on University land. The Foundation's effort was intended to provide the University with a golfing facility to enhance its educational and recreational programs and an opportunity for future revenue development. The golf course was completed in September of 2000 and all improvements became the property of the University upon completion.

The following table summarizes debt service requirements for the bonds.

	Principal	Interest	Total
2005-2009	\$ -	\$ 259,900	\$ 259,900
2010-2014	-	259,900	259,900
2015-2019	-	259,900	259,900
2020-2024	4,600,000	207,920	4,807,920
	<u>\$ 4,600,000</u>	<u>\$ 987,620</u>	<u>\$ 5,587,620</u>

Interest for the years 2005 through 2009 is \$51,980 for each year.

On September 24, 1998, the Foundation issued \$4,600,000 of limited obligation revenue bonds to finance construction of the new golf course. The bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rate at June 30, 2004 and 2003 was 1.13% and 1.05%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption.

The bonds are secured by a letter of credit issued by Comerica Bank. The letter of credit also bears a variable interest rate, which was .75% and .60% in 2004 and 2003, respectively.

23. Annuities Payable of the Oakland University Foundation (Component Unit)

Charitable gift annuities are arrangements in which donors contribute assets to the Foundation in exchange for a promise by the Foundation 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.