

Oakland University

Annual Financial Report

*Years ended June 30, 2002 and 2001
with Report of Independent Auditors*

Oakland University

Annual Financial Statements

Years ended June 30, 2002 and 2001

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Oakland University

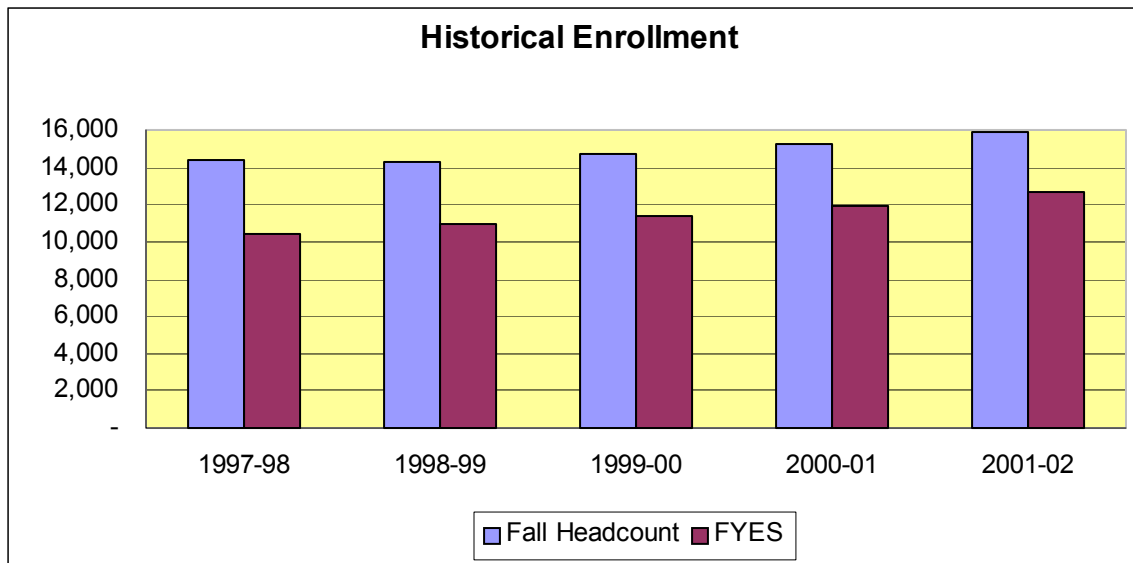
Management's Discussion and Analysis

For the year ended June 30, 2002

Following is management's discussion and analysis of the financial position and results of operations of Oakland University for the fiscal year ended June 30, 2002. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

Enrollment and Operations Highlights

- In fiscal year 2001-02, enrollment based on fiscal year equated students (FYES) increased 5.4% to 12,619.
- Student headcount enrollment for the fall semester increased 4.2% to 15,875.



- Construction of the new Education and Human Services building and new student apartments was substantially completed during the year. The facilities opened in late summer 2002.
- In spring 2002, the University broke ground on a new parking structure that will provide 550 additional parking spaces on campus. The structure is scheduled to open in fall 2002.
- The University expanded degree offerings during 2002 including two new master of science options and two doctoral programs in physical therapy, along with expanded options in new styles of learning, including on-line courses in nursing and rhetoric.
- For the convenience of students, the University continued to centralize student administrative services in North Foundation Hall during the year with the opening of the new Student Financial Services Center and Office of Graduate Study.

Oakland University

Management's Discussion and Analysis

(Continued)

- The University's Board of Trustees approved a major expansion and renovation of the Oakland Center, the center of student life on campus. The project is scheduled for completion in fall 2003.

Using the Annual Report

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

- Statement of Net Assets. This statement presents information on all University assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year using the accrual basis of accounting. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Revenues, Expenses and Changes in Net Assets. This statement presents the operating results of the University, as well as nonoperating revenues and expenses. The statement is prepared for the University's fiscal year using the accrual basis of accounting.
- Statement of Cash Flows. This statement presents information about the University's cash receipts and cash payments during its fiscal year. Cash activities are classified in the following categories: operating activities, noncapital financing activities, capital financing activities and investing activities.

Reporting Entity

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

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

Oakland University

Management's Discussion and Analysis

(Continued)

Financial Statement Summaries

Statements of Net Assets

Net assets are summarized in the following schedule:

Condensed Statements of Net Assets

	June 30		<u>Change</u>
	(in thousands)		
	<u>2002</u>	<u>2001</u>	
ASSETS			
Current assets	\$ 58,347	\$ 32,564	79%
Capital assets	228,986	185,571	23%
Other noncurrent assets	48,856	50,114	(3%)
Total assets	<u>336,189</u>	<u>268,249</u>	25%
LIABILITIES			
Current liabilities	29,415	25,525	15%
Noncurrent liabilities	95,891	50,369	90%
Total liabilities	<u>125,306</u>	<u>75,894</u>	65%
NET ASSETS			
Invested in capital assets, net of related debt	153,585	136,180	13%
Restricted nonexpendable	4,998	4,797	4%
Restricted expendable	14,991	15,462	(3%)
Unrestricted	37,309	35,916	4%
Total net assets	<u>\$ 210,883</u>	<u>\$ 192,355</u>	10%

The University's total assets were \$336 million at June 30, 2002 and \$268 million at June 30, 2001. The \$68 million increase in assets is comprised primarily of \$43 million in net additions to capital assets and a \$23 million increase in cash and cash equivalents (current assets) representing the unspent proceeds of a \$48 million general revenue bond issue completed in August 2001.

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 69% of the University's total assets at June 30, 2002 and 2001, respectively. Major capital expenditures during 2002 were \$23 million for the new Education and Human Services building and \$18 million for new student apartments.

Oakland University

Management's Discussion and Analysis (Continued)

Other noncurrent assets of the University consist primarily of endowment and other long-term investments. Endowment investments were \$16 million at June 30, 2002 and \$18 million at June 30, 2001. The decrease resulted from negative investment returns during the year along with distributions to beneficiary funds. Other long-term investments were \$30 million at June 30, 2002 and \$29 million at June 30, 2001. Other long-term investments represent funds generated from operations and other sources.

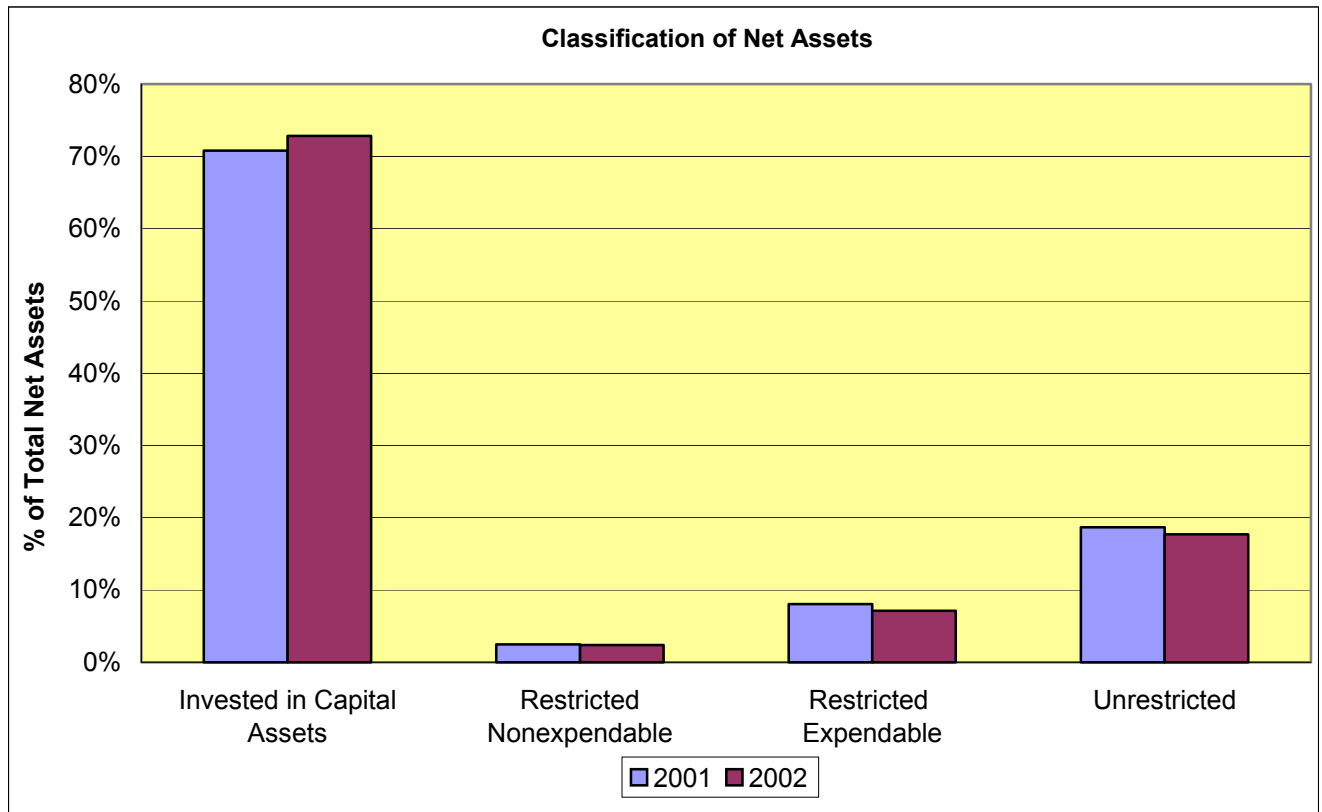
Current assets consist primarily of cash and cash equivalents, and receivables related to tuition and fees, state appropriations and donor pledges.

The University's total liabilities were \$125 million at June 30, 2002 and \$76 million at June 30, 2001. Issuance of the \$48 million Series 2001 general revenue bonds accounted for substantially all of the increase. Proceeds from the bonds are being used for various campus improvement projects (see Capital Assets/Long-Term Debt section which follows).

Noncurrent liabilities are comprised primarily of bonds and capital leases payable and represented 77% and 66% of the University's total liabilities at June 30, 2002 and 2001, respectively.

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

The following graph shows net assets by classification and restriction:



Oakland University

Management's Discussion and Analysis

(Continued)

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

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

The following summarizes the internal designations of unrestricted net assets:

	June 30	
	(in thousands)	
	<u>2002</u>	<u>2001</u>
Auxiliary enterprises	\$ 1,677	\$ 1,770
Capital projects and repair reserves	6,976	7,462
Funds designated for department use	8,568	7,330
Funds functioning as endowments	6,610	7,395
Institutional reserves	8,304	8,074
Retirement and insurance reserves	3,443	2,762
Other unrestricted	1,731	1,123
	<u><u>\$37,309</u></u>	<u><u>\$35,916</u></u>

Oakland University

Management's Discussion and Analysis

(Continued)

Statements of Revenues, Expenses and Changes in Net Assets

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

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

	Years ended June 30		Change
	(in thousands)		
	2002	2001	
Operating revenues			
Net tuition and fees	\$ 58,263	\$ 52,152	12%
Grants and contracts	15,704	14,515	8%
Auxiliary activities	19,769	19,676	-
Departmental activities	4,487	4,259	5%
Other	899	1,141	(21%)
Total operating revenues	99,122	91,743	8%
Operating expenses	151,917	146,898	3%
Operating loss	(52,795)	(55,155)	(4%)
Nonoperating revenues			
State appropriations	52,385	52,951	(1%)
Gifts	3,514	5,301	(34%)
Investment income	216	2,858	(92%)
Interest expense	(3,506)	(2,856)	23%
Net nonoperating revenues	52,609	58,254	(10%)
Income (loss) before other revenues	(186)	3,099	(106%)
Capital appropriations	18,592	4,402	322%
Capital grants and gifts	52	4,957	(99%)
Additions to permanent endowments	70	128	(45%)
Total other revenues	18,714	9,487	97%
Increase in net assets	18,528	12,586	47%
Net assets, beginning of year	192,355	179,769	7%
Net assets, end of year	\$ 210,883	\$ 192,355	10%

Oakland University

Management's Discussion and Analysis

(Continued)

The University's operating revenues were \$99 million in 2002 and \$92 million in 2001. The 8% increase was primarily due to increases in tuition and fees and grant and contract revenues. Tuition and fees, net of scholarship allowances, increased 12% in 2002 over 2001. The increase was caused by tuition and fee rate increases of 8.4% and enrollment increases of 5% based on fiscal year equated students (FYES). Grant and contracts revenue increased by 8% as a result of increased student financial aid and research grant activity.

Operating expenses were \$152 million in 2002 and \$147 million in 2001. The 3% increase was due to increases in compensation, supplies and service expenses. A breakdown of the University's operating expenses by functional classification follows:

Operating Expenses

	Years ended June 30		Change
	(in thousands)		
	2002	2001	
Education and general			
Instruction	\$ 60,526	\$ 57,869	5%
Research	7,825	7,203	9%
Public service	582	563	3%
Academic support	9,575	9,557	—
Student services	10,995	10,260	7%
Institutional support	16,734	16,039	4%
Operation and maintenance of plant	10,513	10,334	2%
Depreciation	10,466	10,634	(2%)
Student aid	3,485	3,484	—
Auxiliary activities	21,052	20,852	1%
Other expenditures	164	103	59%
Total operating expenses	<u>\$151,917</u>	<u>\$146,898</u>	3%

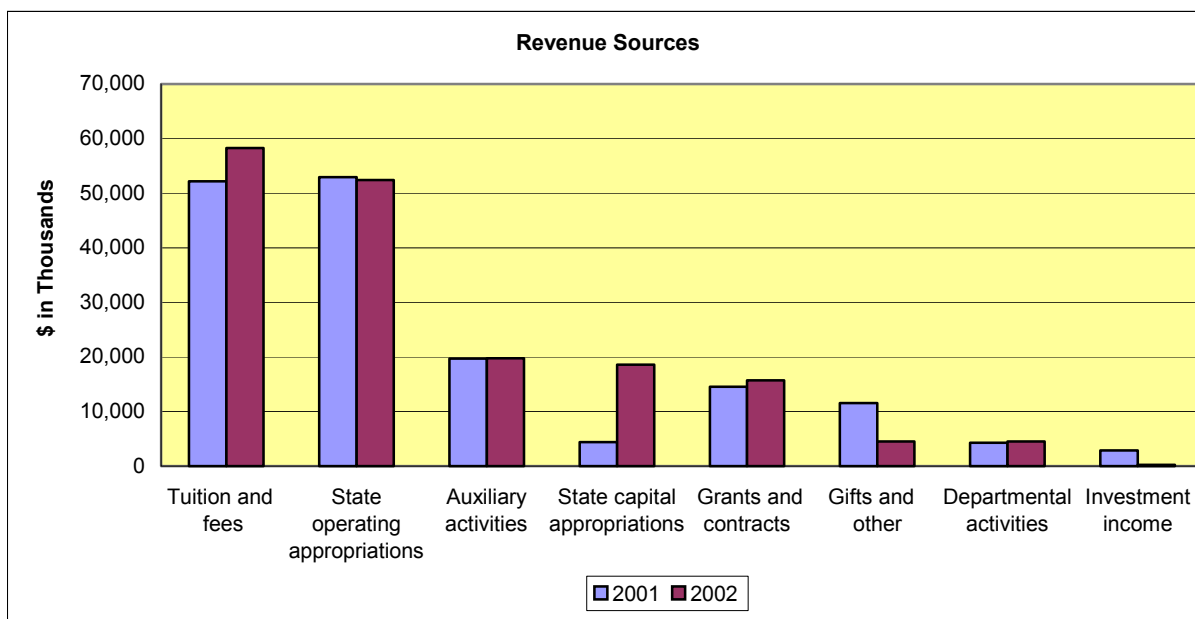
The University's operating loss was \$53 million in 2002 and \$55 million in 2001. Offsetting these losses were net nonoperating revenues of \$53 million in 2002 and \$58 million in 2001. Annual state appropriations, while budgeted for operations, are included in nonoperating revenues according to generally accepted accounting principles. Total nonoperating state appropriations were \$52 million in 2002 and \$53 million in 2001.

Other revenues were \$19 million in 2002 and \$9 million in 2001. State of Michigan capital appropriations increased by \$14 million in 2002 related to the funding of the new Education and Human Services building. During 2001, the Oakland University Foundation transferred ownership of a new golf course to the University and the University capitalized the \$4.9 million gift.

Oakland University

Management's Discussion and Analysis (Continued)

A graphic illustration of each revenue source is as follows:



Statements of Cash Flows

The following schedule summarizes cash flows:

	Years ended June 30	
	(in thousands)	
	2002	2001
Cash provided (used) by:		
Operating activities	\$(45,719)	\$(44,645)
Noncapital financing activities	56,084	56,747
Capital financing activities	8,652	(10,751)
Investing activities	1,077	7,130
Net increase in cash	20,094	8,481
Cash and cash equivalents, beginning of year	13,804	5,323
Cash and cash equivalents, end of year	\$ 33,898	\$ 13,804

Oakland University

Management's Discussion and Analysis

(Continued)

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprise charges and grant and contracts revenues. Cash disbursements include salaries and wages, benefits, supplies, utilities and scholarships. The overall increase in net cash used by operations reflects the continued growth of the University.

State appropriation is the primary source of noncapital financing. Noncapital state appropriation receipts were \$52 million in 2002 and \$53 million in 2001.

Capital financing activities for 2002 include the August 2001 bond issue of \$48 million, state appropriations for the new Education and Human Services building of \$14 million, capital expenditures of \$48 million and debt service payments of \$6 million. Capital financing activities for 2001 include state appropriations for the new R. Hugh and Nancy Elliott Hall of Business and Information Technology of \$8 million, capital expenditures of \$14 million and debt service payments of \$5 million.

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

Capital Assets/Long-Term Debt

Capital Plan

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

- Student housing facility
- Education and Human Services building
- Electrical system upgrade
- Parking structure
- Oakland Center improvements

Capital asset additions approximated \$47.5 million in 2002 and \$13.8 million in 2001. In addition to the projects listed above, the R. Hugh and Nancy Elliott Hall of Business and Information Technology was completed during 2001. The Oakland University Foundation also constructed the R. and S. Sharf golf course over a period of several years and transferred it to Oakland University in 2001.

Oakland University

Management's Discussion and Analysis (Continued)

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 reviews 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, operating revenues and investment earnings are allocated 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

Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying basic financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2002 and 2001. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic 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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2002 on our consideration of Oakland University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 1 to 10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
September 26, 2002

Oakland University

Statements of Net Assets

	June 30	
	2002	Restated 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents <i>(Note 2)</i>	\$ 11,289,575	\$ 13,803,641
Restricted cash and cash equivalents <i>(Note 3)</i>	22,607,927	-
Accounts receivable, net <i>(Note 4)</i>	7,362,874	7,394,682
Appropriation receivable <i>(Note 5)</i>	14,169,618	9,373,521
Inventories	548,683	319,661
Deposits and prepaid expenses	2,069,184	1,387,242
Student loans receivable, net	298,683	285,237
Total current assets	58,346,544	32,563,984
NONCURRENT ASSETS:		
Endowment investments <i>(Note 3)</i>	16,010,444	17,921,353
Other long-term investments <i>(Notes 2 and 3)</i>	30,489,244	29,439,145
Accounts receivable, net <i>(Note 4)</i>	661,842	931,632
Student loans receivable, net	1,695,032	1,822,225
Capital assets, net <i>(Notes 6 and 7)</i>	228,985,717	185,570,947
Total noncurrent assets	277,842,279	235,685,302
Total assets	336,188,823	268,249,286
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	11,352,563	4,848,465
Accrued payroll	5,420,588	7,294,083
Long-term liabilities-current portion <i>(Note 8)</i>	4,706,434	4,435,635
Deferred revenue and student fees	7,037,912	7,447,417
Deposits	897,436	1,499,587
Total current liabilities	29,414,933	25,525,187
NONCURRENT LIABILITIES:		
Long-term liabilities <i>(Note 8)</i>	95,890,499	50,369,550
Total noncurrent liabilities	95,890,499	50,369,550
Total liabilities	125,305,432	75,894,737
NET ASSETS		
Invested in capital assets, net of related debt	153,585,072	136,179,641
Restricted nonexpendable	4,998,022	4,797,422
Restricted expendable	14,991,012	15,461,546
Unrestricted	37,309,285	35,915,940
Total net assets	\$ 210,883,391	\$ 192,354,549

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

Oakland University

Statements of Revenues, Expenses and Changes in Net Assets

	Years ended June 30	
	2002	Restated 2001
REVENUES:		
Operating revenues		
Tuition and fees (net of scholarship allowances of \$7,296,666 in 2002 and \$6,362,072 in 2001)	\$ 58,263,333	\$ 52,152,267
Federal grants and contracts	11,053,444	10,240,017
State, local and private grants and contracts	4,650,567	4,274,663
Departmental activities	4,486,979	4,259,271
Auxiliary activities (net of scholarship allowances of \$750,167 in 2002 and \$717,881 in 2001)	19,769,472	19,676,083
Other operating revenues	898,574	1,140,318
Total operating revenues	<u>99,122,369</u>	<u>91,742,619</u>
EXPENSES:		
Operating expenses		
Education and general		
Instruction	60,525,848	57,869,277
Research	7,825,496	7,202,738
Public service	582,551	563,391
Academic support	9,574,664	9,557,046
Student services	10,994,741	10,260,198
Institutional support	16,734,201	16,038,481
Operation and maintenance of plant	10,513,234	10,333,616
Depreciation	10,465,941	10,633,615
Student aid	3,484,880	3,484,293
Auxiliary activities	21,052,092	20,851,666
Other expenditures	163,929	103,166
Total operating expenses (Note 9)	<u>151,917,577</u>	<u>146,897,487</u>
OPERATING LOSS	<u>(52,795,208)</u>	<u>(55,154,868)</u>
Nonoperating revenues (expenses)		
State appropriations	52,384,700	52,950,476
Gifts	3,501,041	5,125,490
Nonexchange grants	13,460	175,680
Investment income (net of investment expense)	215,901	2,857,854
Interest on capital asset related debt	(3,505,669)	(2,855,529)
Net nonoperating revenues	<u>52,609,433</u>	<u>58,253,971</u>
Income (loss) before other revenues	(185,775)	3,099,103
Capital appropriations	18,592,810	4,402,022
Capital grants and gifts	51,827	4,956,377
Additions to permanent endowments	69,980	128,123
Total other revenues	<u>18,714,617</u>	<u>9,486,522</u>
Increase in net assets	18,528,842	12,585,625
NET ASSETS, beginning of year - restated (Note 1)	<u>192,354,549</u>	<u>179,768,924</u>
NET ASSETS, end of year	<u>\$ 210,883,391</u>	<u>\$ 192,354,549</u>

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

Oakland University
Statements of Cash Flows

	Years ended June 30	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 58,386,240	\$ 51,489,267
Grants and contracts	15,697,548	15,292,032
Payments to suppliers	(34,799,875)	(36,595,940)
Payments to employees	(105,111,649)	(95,844,623)
Payments for scholarships and fellowships	(3,363,362)	(3,124,528)
Loans issued to students and employees	(492,716)	(488,000)
Collection of loans from students and employees	594,303	551,463
Auxiliary enterprise charges	19,504,529	19,155,422
Other receipts	3,865,659	4,919,822
Net cash used by operating activities (<i>Note 10</i>)	<u>(45,719,323)</u>	<u>(44,645,085)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	52,230,044	52,164,642
Federal direct lending receipts	20,298,062	17,912,658
Federal direct lending disbursements	(20,298,062)	(17,912,658)
Gifts and grants for other than capital purposes	3,784,141	4,454,180
Endowment gifts	69,980	128,123
Net cash provided by noncapital financing activities	<u>56,084,165</u>	<u>56,746,945</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt	48,000,000	-
Capital appropriations	13,951,369	7,803,335
Capital grants and gifts received	51,827	296,000
Purchases of capital assets	(47,541,945)	(13,754,570)
Principal paid on capital debt and leases	(2,342,748)	(2,232,895)
Interest paid on capital debt and leases	(3,466,195)	(2,863,529)
Net cash provided (used) by capital financing activities	<u>8,652,308</u>	<u>(10,751,659)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	30,047,830	23,535,453
Investment income	2,605,022	3,082,298
Purchases of investments	(31,576,141)	(19,487,513)
Net cash provided by investing activities	<u>1,076,711</u>	<u>7,130,238</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,093,861	8,480,439
CASH AND CASH EQUIVALENTS, beginning of year	<u>13,803,641</u>	<u>5,323,202</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 33,897,502</u>	<u>\$ 13,803,641</u>
NONCASH TRANSACTIONS		
Capital gift received from Oakland University Foundation (<i>Note 14</i>)	<u>\$ -</u>	<u>\$ 4,859,277</u>

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

Oakland University

Notes to Financial Statements

June 30, 2002

1. Significant Accounting Policies

The financial statements have been prepared to incorporate all fund groups utilized internally by Oakland University. These financial 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).

In December 1998, GASB issued GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This Statement is effective for the fiscal year ended June 30, 2001. This Statement established accounting and financial reporting standards for nonexchange transactions such as gifts and grants. In most cases, this statement requires that the gifts and grants be recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

The GASB has also issued GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities*. The University follows the “business-type” activities requirements of GASB Statement No. 34. Rather than issuing fund-type financial statements, this Statement requires the following components to be included in the University’s annual financial report:

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

This statement also requires the University to report revenues 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. This statement was adopted in the prior year for the University’s year ended June 30, 2001.

As reported in the prior year, net assets as of July 1, 2000 have been restated to conform to the required 2001 generally accepted accounting principles. Net assets as of the beginning of the year were decreased by \$1,166,000. The adjustments are as follows: decrease in grant revenues of \$1,893,000; increase for pledges of \$941,000; decrease for accrued interest on bonds payable of \$316,000 and increase for recording infrastructure of \$102,000.

In September 2002, the National Association of College and University Business Officers (NACUBO) issued new guidance in regards to the classification of the fund balances of the Federal Perkins Loan program. Initially, guidance issued by NACUBO recommended that the fund balance of Perkins Loans be reported as restricted net assets. NACUBO has now changed this guidance to recommend that the Federal Capital Contribution be classified as a liability.

Oakland University

Notes to Financial Statements
(Continued)

1. Significant Accounting Policies (continued)

The University has adopted this change in accounting by restating the amounts reported for fiscal year 2001. The effect of the accounting change was to increase long-term liabilities and decrease restricted expendable net assets.

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 not to 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.

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.

Oakland University

Notes to Financial Statements
(Continued)

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	7 years

Reclassifications

Certain fiscal year 2001 balances have been reclassified to conform with the current year presentation.

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.

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 State appropriations receivable – operations.

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 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 net return of 3.0% and 8.1% for the years ended June 30, 2002 and 2001, respectively.

Oakland University

Notes to Financial Statements
(Continued)

2. Cash and Pooled Investments (continued)

At June 30, 2002 and 2001, the bank balances of cash and certificates of deposit were \$493,202 and \$184,439, respectively. Of the total bank balances, \$200,000 at June 30, 2002 and \$120,198 at June 30, 2001 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.

	<u>2002</u>	<u>2001</u>
Cash (overdraft) and certificates of deposit, net	\$ (2,826,671)	\$ (1,326,856)
Demand obligations	14,116,246	15,128,834
U.S. Treasury bonds & notes	2,132,416	6,202,359
U.S. government-backed securities	6,441,391	4,258,893
Corporate bonds and notes	12,674,417	10,379,033
Mutual funds	1,502,529	1,186,794
Common stock	3,493,749	2,823,993
Other investments	341,161	169,483
	<u>\$ 37,875,238</u>	<u>\$ 38,822,533</u>
Cash and cash equivalents	\$ 11,289,575	\$ 13,803,641
Other long-term investments in pooled cash	26,585,663	25,018,892
	<u>\$ 37,875,238</u>	<u>\$ 38,822,533</u>

3. 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 (6.4)% and (2.4)% for the years ended June 30, 2002 and 2001, respectively. The University's investments in pooled investment funds are uninsured.

Oakland University

Notes to Financial Statements
(Continued)

3. Investments (continued)

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

	<u>2002</u>	<u>2001</u>
Pooled investment funds	\$ 19,781,025	\$ 22,208,606
Money market funds	22,607,927	-
Other investments	133,000	133,000
	<u>\$ 42,521,952</u>	<u>\$ 22,341,606</u>
Endowment investments	\$ 16,010,444	\$ 17,921,353
Restricted cash and cash equivalents	22,607,927	-
Other long-term investments, excluding pooled cash portion	3,903,581	4,420,253
	<u>\$ 42,521,952</u>	<u>\$ 22,341,606</u>

According to the law of the State of Michigan, the governing board may appropriate for expenditure for the uses and purposes for which an endowment is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

4. Accounts Receivable

Accounts receivable relate primarily to student tuition and fee billings, pledges from donors, contract and grant awards and auxiliary enterprise sales, such as food service and residence halls. The receivables are shown net of allowances for doubtful accounts of \$2,137,927 in 2002 and \$1,680,420 in 2001.

	<u>2002</u>	<u>2001</u>
Tuition and fees	\$ 3,213,344	\$ 2,832,568
Auxiliary enterprises	594,204	509,100
Contracts and grants	2,465,665	2,997,030
Pledges	1,527,585	1,787,651
Other receivables	223,918	199,965
Total accounts receivable	<u>\$ 8,024,716</u>	<u>\$ 8,326,314</u>

Oakland University

Notes to Financial Statements
(Continued)

5. Appropriation Receivable

The annual state operating appropriation paid to the University is made in eleven equal 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, 2002 and 2001, the accrual of the July and August state operating appropriation payments created an appropriation receivable of \$9,524,490 and \$9,369,834, respectively. As of June 30, 2002 and 2001, the state capital appropriation receivable was \$4,645,128 and \$3,687, respectively.

6. Capital Assets

The following table presents the changes in the various capital asset categories for fiscal year 2002:

<u>Asset Classification</u>	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements & infrastructure	19,439,102	1,562,071	-	21,001,173
Buildings	196,565,367	4,229,023	11,111	200,783,279
Equipment	40,290,958	2,060,787	2,063,422	40,288,323
Library acquisitions	19,570,921	1,213,031	23,049	20,760,903
Construction in progress	7,753,422	44,815,800	-	52,569,222
Accumulated depreciation:				
Land improvements & infrastructure	(5,334,747)	(876,895)	-	(6,211,642)
Buildings	(56,047,852)	(4,716,791)	(11,111)	(60,753,532)
Equipment	(27,087,326)	(3,803,853)	(2,063,422)	(28,827,757)
Library acquisitions	(13,903,812)	(1,068,403)	(23,049)	(14,949,166)
Total capital assets, net	<u>\$ 185,570,947</u>	<u>\$ 43,414,770</u>	<u>\$ -</u>	<u>\$ 228,985,717</u>

7. State Building Authority

During the fiscal year ended June 30, 2001, the University entered into a construction agreement with the State Building Authority (SBA) and the State of Michigan for the School of Education and Human Services Building. The project will be financed with SBA Revenue Bonds and State appropriations. The University was required to fund the first 25% of the project. The University share is \$7,875,000, which was funded from the proceeds of General revenue bonds, series 2001.

The University entered into lease agreements with the SBA and State of Michigan during the fiscal year ended June 30, 2001, for the business and technology building (Elliott Hall) and during prior fiscal years for the Science and Engineering Building. The projects were financed with SBA Revenue Bonds and State appropriations.

Oakland University

Notes to Financial Statements
(Continued)

7. State Building Authority (continued)

The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to the lease agreement between the SBA, the State of Michigan, and the University. During the lease term, 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 statement of net assets.

8. Long-Term Liabilities

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 4.9 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 4.4 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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,575,000	\$ 4,532,027	\$ 6,107,027
2004	1,645,000	4,463,039	6,108,039
2005	1,795,000	4,377,415	6,172,415
2006	1,835,000	4,291,577	6,126,577
2007	1,885,000	4,195,477	6,080,477
2008-2012	10,785,000	19,411,391	30,196,391
2013-2017	12,825,000	16,385,097	29,210,097
2018-2022	16,545,000	12,733,065	29,278,065
2023-2027	21,415,000	7,963,881	29,378,881
2028-2031	21,420,000	2,228,040	23,648,040
	<u>\$ 91,725,000</u>	<u>\$ 80,581,009</u>	<u>\$ 172,306,009</u>

Oakland University

Notes to Financial Statements
(Continued)

8. Long-Term Liabilities (continued)

For the year ended June 30, 2002, the University capitalized construction period interest of \$1,097,418 as part of the assets constructed.

Capital Lease Obligation

In an agreement dated March 18, 1997, the University entered into a lease to fund an energy conservation project. Under the terms of the lease agreement, the University is obligated to pay monthly payments totaling \$1,120,771 annually over a ten year period. Upon expiration of the rental period, the University may purchase the equipment for one dollar.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 885,138	\$ 235,633	\$ 1,120,771
2004	935,209	185,562	1,120,771
2005	988,112	132,659	1,120,771
2006	1,044,007	76,764	1,120,771
2007	821,583	18,996	840,579
Total	<u>\$ 4,674,049</u>	<u>\$ 649,614</u>	<u>\$ 5,323,663</u>

Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2002 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Leases and bonds payable:					
Capital lease obligations	\$ 5,511,797	-	\$ 837,748	\$ 4,674,049	\$ 885,138
Bonds payable:					
General revenue bonds, series 1995	35,115,000	-	690,000	34,425,000	720,000
General revenue bonds, series 1997	10,115,000	-	815,000	9,300,000	855,000
General revenue bonds, series 2001	-	\$48,000,000	-	48,000,000	-
Total leases and bonds payable	<u>50,741,797</u>	<u>48,000,000</u>	<u>2,342,748</u>	<u>96,399,049</u>	<u>2,460,138</u>
Other liabilities:					
Compensated absences	2,092,887	153,409	-	2,246,296	2,246,296
Federal portion of Perkins loan program	1,970,501	61,082	79,995	1,951,588	-
Total other liabilities	<u>4,063,388</u>	<u>214,491</u>	<u>79,995</u>	<u>4,197,884</u>	<u>2,246,296</u>
Total long-term liabilities	<u>\$54,805,185</u>	<u>\$48,214,491</u>	<u>\$2,422,743</u>	<u>\$100,596,933</u>	<u>\$4,706,434</u>

Oakland University

Notes to Financial Statements
(Continued)

9. Expenditures by Natural Classification

The table below lists total operating expenditures analyzed by natural classification:

	<u>2002</u>	<u>2001</u>
Employee compensation	\$ 103,391,563	\$ 96,369,593
Supplies and other services	34,696,711	36,769,751
Student aid	3,363,362	3,124,528
Depreciation	10,465,941	10,633,615
Total	<u>\$ 151,917,577</u>	<u>\$ 146,897,487</u>

10. Cash Flow Statement

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

	<u>2002</u>	<u>2001</u>
Operating loss	\$ (52,795,208)	\$ (55,154,868)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation expense	10,465,941	10,633,615
Changes in assets and liabilities:		
Accounts receivable, net	31,958	(652,663)
Inventories	(229,022)	114,339
Deposits and prepaid expenses	(681,942)	183,758
Student loans receivable	113,747	46,538
Accounts payable and accrued expenses	125,858	60,472
Accrued payroll	(1,873,495)	352,083
Compensated absences	153,409	172,887
Deferred revenue and student fees	(409,505)	(409,583)
Deposits	(602,151)	(28,413)
Federal portion of student loan program	(18,913)	36,750
Net cash used by operating activities	<u>\$ (45,719,323)</u>	<u>\$ (44,645,085)</u>

11. 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, 2002 and 2001 were \$8,236,550 and \$7,779,835, respectively.

Oakland University

Notes to Financial Statements
(Continued)

11. Employee Benefits (continued)

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, 2001, 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, 2002 and 2001 were \$838,300 and \$749,299, 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 in the Retirement and Insurance Fund.

12. 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.

13. 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.

Oakland University

Notes to Financial Statements
(Continued)

13. Contingencies and Commitments (continued)

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2002, the amount subject to guarantee by the University was approximately \$1,921,950.

The estimated costs to complete construction projects in progress are \$21,677,420 as of June 30, 2002. These projects will be funded from State and State Building Authority appropriations, private gifts, bond sale proceeds, and other University funds.

Future minimum payments required under operating leases for various equipment was \$1,140,902 as of June 30, 2002. These amounts will be paid over the next four fiscal years.

14. Oakland University Foundation

Oakland University Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. At June 30, 2002 and 2001, the net assets of the Foundation were approximately \$7,694,000 and \$8,585,000, respectively. The Foundation transferred \$942,758 to the University during fiscal 2001-2002 and \$5,767,801 during fiscal year 2000-2001.

The Foundation's cash and pooled investments held by the University are included in the University's statement of net assets. This amount was \$248,034 and \$887,351 at June 30, 2002 and 2001, respectively.