

Oakland University

FINANCIAL STATEMENTS

June 30, 2009 and 2008



Oakland University

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Oakland University
Contents
June 30, 2009 and 2008

	Page(s)
Report of Independent Auditors	1
Management’s Discussion and Analysis	2-12
Financial Statements	
Statements of Net Assets	13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15
Notes to Financial Statements.....	16-35



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

Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2009 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
September 2, 2009

Oakland University

Management's Discussion and Analysis

June 30, 2009 and 2008

Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University) for the fiscal year ended June 30, 2009 with selected comparative information for the year ended June 30, 2008.

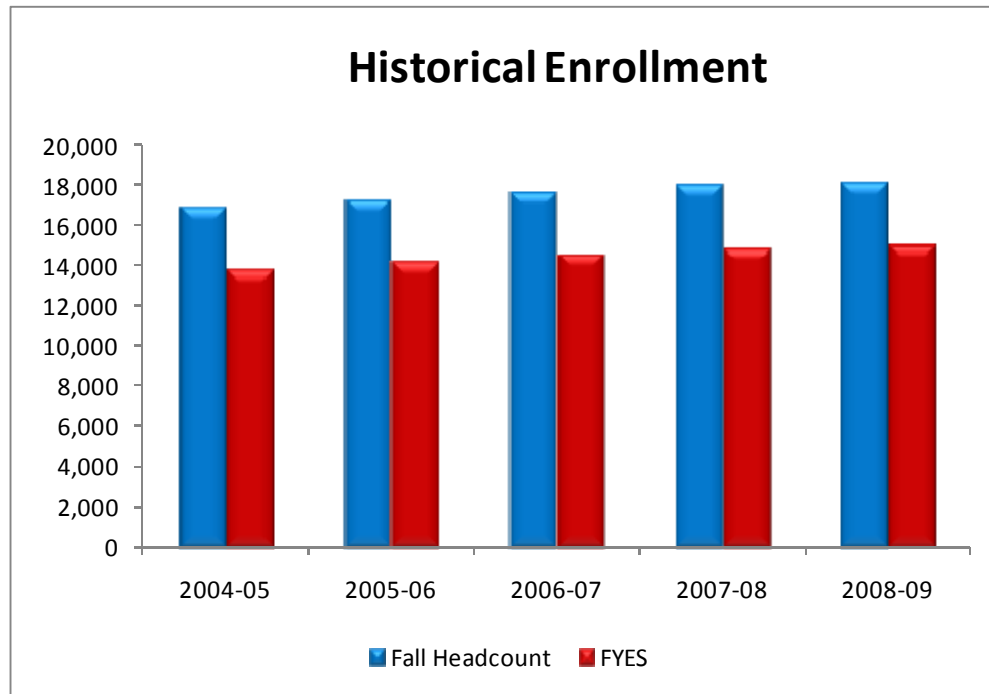
The University is a state-supported institution of over 18,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels as well as programs in continuing education. The University currently offers 132 baccalaureate degree programs and 117 graduate and certificate programs. The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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

Enrollment and Operations Highlights

- In Fiscal 2009, enrollment based on Fiscal Year Equated Students (FYES) increased 1.4% to 15,073.
- Student headcount enrollment for the fall 2008 semester increased 0.5% to 18,169. Undergraduate enrollment was 14,397 (79.2%) and graduate enrollment was 3,772 (20.8%).

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



- Oakland University is recognized as one of the country's 82 doctoral research-intensive universities by the Carnegie Foundation for the Advancement of Teaching. The University's

Oakland University

Management's Discussion and Analysis

June 30, 2009 and 2008

student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom.

- The Oakland University William Beaumont School of Medicine, an affiliation between Oakland University and William Beaumont Hospital, will be the first medical school started in Michigan in a generation – and one of only a handful of allopathic medical schools (leading to an M.D. degree) opened in the United States since 1984. The School of Medicine, under the leadership of a recently hired founding dean, will prepare physicians uniquely trained to practice 21st century medicine with an emphasis on lifelong learning, technology, research, teamwork, preventive medicine and the treatment and management of chronic diseases. With an anticipated accreditation from the Liaison Committee on Medical Education, the charter class of 50 medical students is expected in the fall of 2011.
- The State of Michigan designated Oakland University to receive \$40 million in capital outlay funding to support the construction of a \$62 million Human Health Building. The remaining \$22 million University match will be funded via bond proceeds. The 160,000-square-foot Human Health Building, targeted for completion in 2012, will house the School of Health Sciences and the School of Nursing. The facility will significantly enhance education and research opportunities by providing state-of-the-art resources, including simulation labs, an interactive media center, a public health clinic for pre-symptom treatments, and a distance learning classroom.
- The Macomb-OU INCubator, formed in partnership with Macomb County and the City of Sterling Heights, received a \$250,000 grant from the Joint Evaluation Committee of the Michigan Economic Development Corporation.
- Oakland University celebrated the successful conclusion of its first-ever capital campaign, “Innovation and Opportunity – The Campaign for Oakland University” in April 2009. The goal of \$110 million was surpassed as supporters produced over \$111 million for Oakland University students, faculty, academic programs, research efforts, and capital enhancements one year before the scheduled campaign completion date.
- A new degree was approved by the Board of Trustees during fiscal year 2009. Beginning fall 2009, the College of Arts and Science will offer a Bachelor of Arts with a major in Cinema Studies. This decision comes amid growing tax incentives and a national interest in film production in Michigan.
- In February 2009, the Lincy Foundation awarded the Eye Research Institution of Oakland University \$890,000 for age-related macular degeneration eye research.
- Oakland University continues its dedication to violence prevention, earning the Police Department a \$424,000 grant from the United States Department of Education. The University utilized this funding for the development and implementation of violence prevention initiatives. Oakland was one of only 13 institutions nationwide, and also the only school in the state of Michigan, to receive the Emergency Management for Higher Education grant.

Oakland University

Management's Discussion and Analysis

June 30, 2009 and 2008

- The United States Department of Health and Human Services awarded Oakland University's School of Nursing \$330,000 for the implementation of a Center for Pre-Symptom Health Care and Societal Research. The designation of this funding is to assist in preventative and chronic disease management services, as well as, promote complementary and alternative therapies.

Overview of the Financial Statements

This annual report consists of a series of financial statements, which have been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The fundamental objective of the 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 four components – invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted. The difference between total assets and liabilities (net assets) is one indicator of the current financial condition of the University, while the change in net assets serves as a useful indicator of whether the financial position is improving or deteriorating.
- Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents the operating results of the University, as well as 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 University's financial statements can be found on pages 13, 14, and 15 of this financial report.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University's notes to the financial statements can be found on pages 16-35 of this financial report.

Oakland University
Management's Discussion and Analysis
June 30, 2009 and 2008

University Financial Statement Summaries

University Statements of Net Assets

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

Condensed Statements of Net Assets	June 30,		Change
	2009	2008	
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 56,831	\$ 54,050	5%
Capital assets	242,441	243,384	0%
Other noncurrent assets	132,763	133,116	0%
Total assets	<u>432,035</u>	<u>430,550</u>	0%
Liabilities			
Current liabilities	30,905	29,870	3%
Noncurrent liabilities	109,461	111,026	-1%
Total liabilities	<u>140,366</u>	<u>140,896</u>	0%
Net assets			
Invested in capital assets, net of related debt	142,649	140,887	1%
Restricted nonexpendable	15,662	14,921	5%
Restricted expendable	38,699	31,505	23%
Unrestricted	94,659	102,341	-8%
Total net assets	<u>\$ 291,669</u>	<u>\$ 289,654</u>	1%

The University's total assets were \$432 million and \$431 million at June 30, 2009 and 2008, respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, and construction in progress. Capital assets represent 56% and 57% of the University's total assets at June 30, 2009 and 2008, respectively. Capital expenditures totaled \$11.4 million in 2009 and \$10.3 million in 2008. Included in capital expenditures for 2009 were several academic lab improvements and renovations, equipment and technology additions, and other campus enhancement projects. Depreciation expense was \$12.1 million in 2009 and \$12.0 million in 2008.

Current assets consist primarily of cash and cash equivalents, and receivables due within one year. Cash and cash equivalents were \$34.5 million at June 30, 2009 and \$33.8 million at June 30, 2008. The University's increase in cash and cash equivalents was due to holding more funds in money market and treasuries during the year.

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$40.5 million at June 30, 2009 and \$50.5 million at June 30, 2008. This decrease in endowment market value was primarily due to investment losses during the fiscal year. The total return, net of fees, on the University's endowment investments was -22.6% for 2009 and 0.3% for 2008. This change was due to the state of the economy and market conditions. Distributions were paid to endowment beneficiary funds that were not underwater during the year at the rate of 4.5% in both 2009 and 2008. Other long-term investments were \$75.7 million at June 30, 2009 and \$77.9 million at June 30, 2008 and include intermediate-term fixed income and equity securities. The decrease in other long-term investments is a direct result of economic conditions, and lower than usual returns in these asset classes

Oakland University

Management's Discussion and Analysis

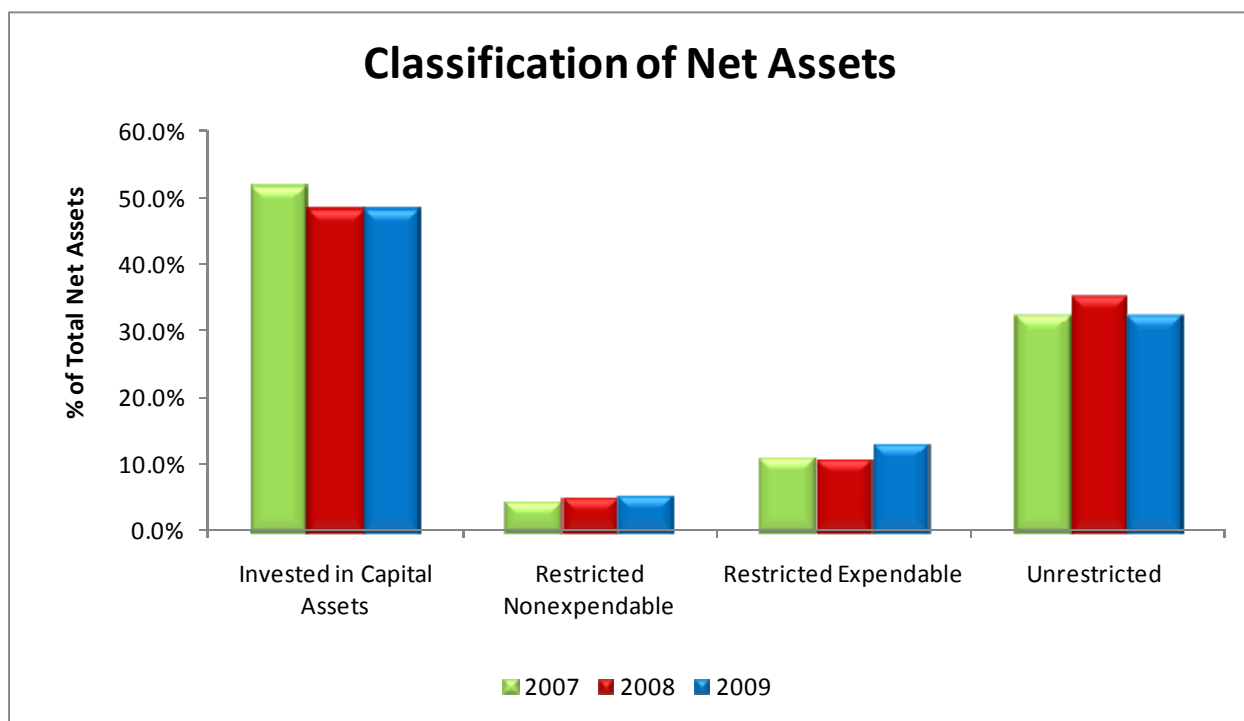
June 30, 2009 and 2008

during the year. The total return on the University's other long-term investments was -1.47% for 2009 and 2.5% for 2008, both net of fees. See "Statements of Cash Flows" section of this report for additional detail.

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

The University's total liabilities were \$140 million at June 30, 2009 and \$141 million at June 30, 2008. Current liabilities consist primarily of accounts payable, accrued expenses and deferred revenue. The \$1 million increase in current liabilities relates primarily to the increase in construction in progress, accounts payable, and deferred revenue from year to year. Noncurrent liabilities are comprised primarily of bonds and notes payable and represented 78% and 79% of the University's total liabilities at June 30, 2009 and 2008, respectively. The liability decrease was due to principal payments on long-term debt.

The following graph shows net assets by classification and restriction:



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

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

Oakland University
Management's Discussion and Analysis
June 30, 2009 and 2008

The following summarizes the internal designations of unrestricted net assets:

	June 30,	
	2009	2008
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 3,717	\$ 4,474
Capital projects and repair reserves	27,869	25,956
Funds designated for departmental use	20,000	20,773
Funds functioning as endowments	18,794	24,471
Gifts and investment income reserves	6,010	7,778
Retirement and insurance reserves	(1,367)	446
Encumbrances and carryforwards	5,241	3,199
Other unrestricted	14,395	15,244
	<u>\$ 94,659</u>	<u>\$ 102,341</u>

Oakland University
Management's Discussion and Analysis
June 30, 2009 and 2008

University Statements of Revenues, Expenses and Changes in Net Assets

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2009	2008	2007	% Change 2009-2008	% Change 2008-2007
	<i>(in thousands)</i>				
Operating revenues					
Net tuition	\$ 119,397	\$ 111,941	\$ 100,171	7%	12%
Grants and contracts	16,164	13,068	11,001	24%	19%
Auxiliary activities	21,261	20,071	19,115	6%	5%
Departmental activities	5,384	5,846	7,873	-8%	-26%
Other	428	430	481	0%	-11%
Total operating revenues	162,634	151,356	138,641	7%	9%
Operating expenses	222,771	204,034	192,701	9%	6%
Operating loss	(60,137)	(52,678)	(54,060)	14%	-3%
Nonoperating revenues (expenses)					
State appropriations	52,452	56,697	46,614	-7%	22%
Gifts	19,076	4,474	4,126	326%	8%
Investment income	(13,641)	2,523	14,485	-641%	-83%
Distributed to annuity and life income fund beneficiaries	(69)	(92)	(91)	25%	1%
Interest expense	(4,774)	(5,681)	(5,038)	16%	13%
Pell grants	8,265	6,597	5,403	25%	22%
Other	142	2	125	7000%	-98%
Net nonoperating revenues	61,451	64,520	65,624	-5%	-2%
Income before other revenues	1,314	11,842	11,564	-89%	2%
Capital grants and gifts	13	34	178	-62%	-81%
Additions to permanent endowments	688	2,497	840	-72%	197%
Consolidation of Oakland University Foundation	-	14	60	-100%	-77%
Total other revenues	701	2,545	1,078	-72%	136%
Increase in net assets	2,015	14,387	12,642	-86%	14%
Net assets					
Beginning of year	289,654	275,267	262,625	5%	5%
End of year	\$ 291,669	\$ 289,654	\$ 275,267	1%	5%

The University's operating revenues were \$163 million in 2009, \$151 million in 2008 and \$139 million in 2007. The 7% increase in 2009 over 2008 was primarily due to increases in tuition revenue, net of scholarship allowances, which was higher due to enrollment increasing by 0.5% and, effective for the fall 2008 semester, tuition rates increasing by 6.29% for undergraduates and 5% for graduates.

The increase in grants and contracts revenues for 2009 was primarily due to the \$1.9 million received for the Detroit Healthcare Career Center.

Oakland University
Management's Discussion and Analysis
June 30, 2009 and 2008

Auxiliary activity revenues increased 6.0% in 2009 compared to 2008. The additional revenues of nearly \$1.2 million are primarily attributed to residence hall and student apartment room and board increases.

Operating expenses were \$223 million in 2009, \$204 million in 2008 and \$193 million in 2007. The operating expense increase of 9% in 2009 over 2008 resulted from supporting enrollment growth, the continuation of several program initiatives, contractual agreements and increases in healthcare and utility costs. Operating expenses increased 6% in 2008 compared with 2007.

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

University Operating Expenses

	2009	2008	2007	% Change 2009-2008	% Change 2008-2007
	<i>(in thousands)</i>				
Education and general					
Instruction	\$ 90,732	\$ 83,703	\$ 78,503	8%	7%
Research	7,148	7,113	6,622	0%	7%
Public service	2,289	2,217	2,189	3%	1%
Academic support	15,850	13,221	12,983	20%	2%
Student services	15,977	15,078	13,985	6%	8%
Institutional support	27,280	24,775	23,345	10%	6%
Operation and maintenance of plant	17,378	15,216	14,977	14%	2%
Depreciation	12,123	12,025	11,505	1%	5%
Student aid	10,659	7,794	6,259	37%	25%
Total education and general	199,436	181,142	170,368	10%	6%
Auxiliary activities	23,323	22,886	22,290	2%	3%
Other expenses	12	6	43	100%	-86%
Total operating expenses	<u>\$ 222,771</u>	<u>\$ 204,034</u>	<u>\$ 192,701</u>	9%	6%

Education and general expenses increased 10% in 2009 over 2008 and 6% in 2008 over 2007. The increases are mainly attributable to an increase in academic program offerings to meet the needs of the higher enrollment and contractual agreements.

The 2009 increase in academic support is related to the School of Medicine, funded by external gifts, and the University's new outreach initiative in Macomb County. Operation and maintenance of plant increased in 2009 due to a greater number of plant renewal projects. The 2009 increase in student aid is the result of funding the broadened financial aid strategy to help manage enrollment and meet students' needs.

The University's operating loss was \$60.1 million in 2009, \$52.7 million in 2008 and \$54.1 million in 2007. Offsetting these losses were net nonoperating revenues of \$61.3 million in 2009, \$64.5 million in 2008 and \$65.6 million in 2007.

Total enacted base State appropriations, as reflected in the State's approved appropriation bills, were \$52.5 million in 2009, \$51.9 million in 2008, and \$52.4 million in 2007. State appropriation revenue for fiscal year 2008 reflects receipt of the \$4.8 million fiscal year 2007 "delayed" August payment which was received in October 2007.

Oakland University
Management’s Discussion and Analysis
June 30, 2009 and 2008

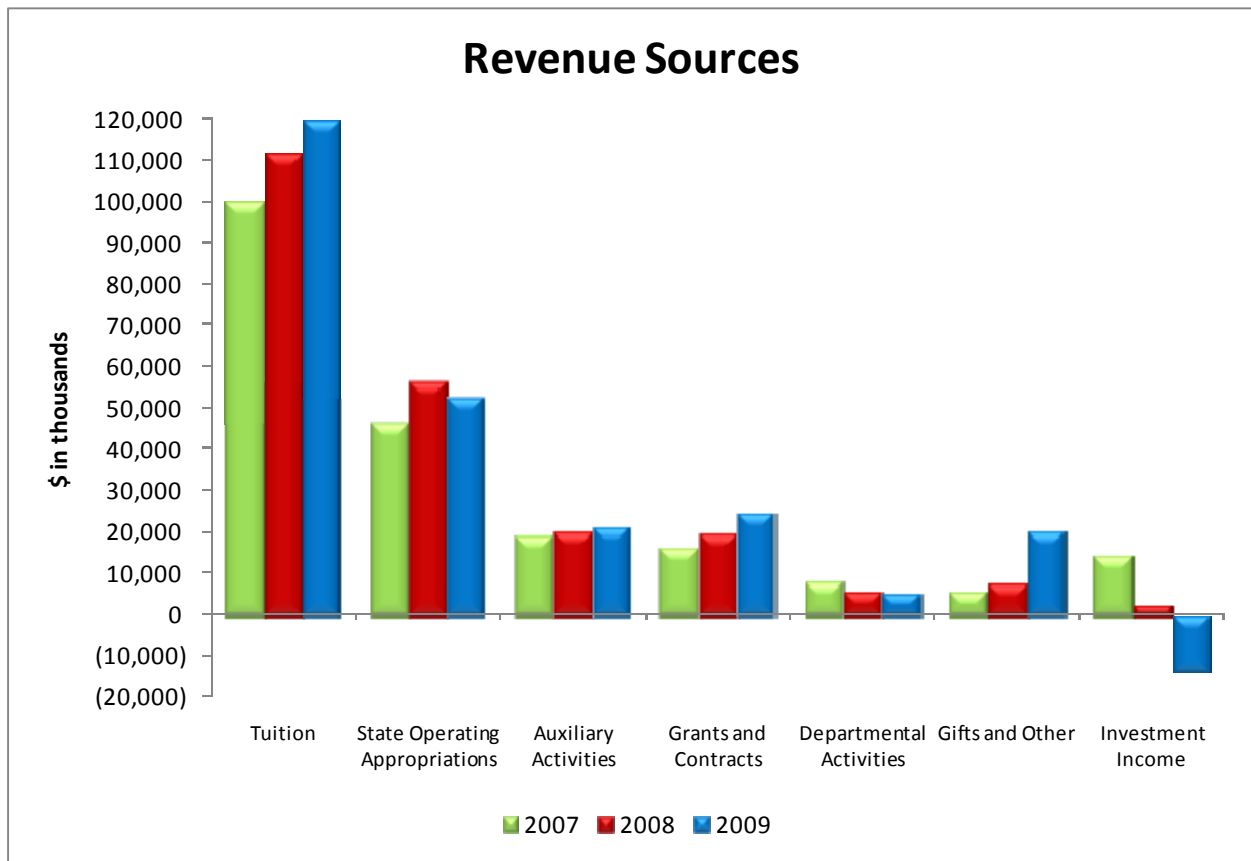
Gifts increased in 2009 predominantly due to the generosity of one anonymous donor to Oakland University for the School of Medicine.

The University experienced a \$13.6 million loss in investment income in 2009 due to the state of the economy and resulting market conditions. This loss is comprised of endowment losses of \$11.7 million and losses on the University’s other pooled investments of \$1.9 million.

Nonoperating revenues also include \$8.3 million for Pell Grants in 2009. Pell Grant revenue for 2008 and 2007 was \$6.6 and \$5.4 million, respectively. The change in Pell Grant revenue from 2008 to 2009 is due to an increase in the number of grant recipients along with an increase in the maximum award amount.

Other revenues were \$0.7 million in 2009, \$2.5 million in 2008 and \$1.1 million in 2007. Included in 2008 other revenues was a \$2.5 million addition to permanent endowments.

A graphic illustration of each revenue source is as follows:



Oakland University
Management's Discussion and Analysis
June 30, 2009 and 2008

University Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<i>(in thousands)</i>		
Cash provided (used) by			
Operating activities	\$ (46,556)	\$ (39,312)	\$ (37,497)
Noncapital financing activities	67,028	63,764	62,335
Capital financing activities	(18,171)	(20,183)	(24,889)
Investing activities	<u>(1,584)</u>	<u>(14,338)</u>	<u>9,380</u>
Net increase (decrease) in cash	717	(10,069)	9,329
Cash and cash equivalents			
Beginning of year	<u>33,766</u>	<u>43,835</u>	<u>34,506</u>
End of year	<u>\$ 34,483</u>	<u>\$ 33,766</u>	<u>\$ 43,835</u>

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

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were \$52.4 million in 2009 and \$51.0 million in 2008. Cash received from gifts increased by \$2.1 million and cash received from endowment gifts decreased by \$1.8 million in 2009. In addition cash received from Pell Grants increased by \$1.7 million in 2009.

Capital financing activities for 2009 include capital expenditures of \$9.9 million along with debt service payments of \$8.2 million. Cash expended for capital expenditures in 2009 included \$2.8 million for academic lab renovations, \$1.0 million for the Kresge library technology center and \$2.6 million for equipment. Capital financing activities for 2008 include the issuance of \$53.3 million of General Revenue Variable Rate Demand Refunding Bonds (2008 Bonds). The 2008 Bonds refunded the 2001 General Revenue Bonds (2001 Bonds) in the amount of \$48.0 million and \$4.9 million in swap termination fees and related expenses. In addition, cash expended for capital expenditures for 2008 was \$13.2 million, including \$5.4 million for energy service projects and \$3.1 million for equipment. Debt service payments for 2008 were \$61.0 million (\$53.3 million for the refunding of the 2001 Bonds). Capital financing activities for 2007 include capital expenditures of \$19.4 million, including \$9.9 million for energy service projects, \$2.4 million for Meadowbrook Hall renovation and \$2.8 million for equipment, along with debt service payments of \$8.3 million.

Cash used in investing activities during 2009 relates to purchases in excess of sales, maturities, and investment fees and other expenses.

Commitments

The estimated cost to complete construction projects in progress is \$12.8 million as of June 30, 2009. These projects have been funded from private gifts, proceeds from general revenue notes and other University funds.

Oakland University

Management's Discussion and Analysis

June 30, 2009 and 2008

University Credit Rating

In connection with its June 2008 issuance of refunding bonds, Oakland University's underlying credit rating by Moody's Investors Service was reaffirmed at A2. All of the University's debt is fully insured or supported by letters of credit, enhancing the credit ratings on the debt. Credit ratings will be reviewed again during Fiscal 2010 due to anticipated bond issuance to finance the University's \$22 million match for the new Human Health Building.

Deferred Plant Renewal

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

Factors or Conditions Impacting Future Periods

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

- State and national economy
- Stability of State appropriations
- Inflationary pressures
- Program growth and development
- New initiatives
- Technology
- Productivity improvements
- Demographics, including number of high school graduates
- Development of the Oakland University William Beaumont School of Medicine

Oakland University
Statements of Net Assets
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 34,482,822	\$ 33,766,330
Accounts receivable, net (Note 3)	9,298,345	8,081,874
Appropriations receivable (Note 4)	9,536,763	9,442,344
Pledges receivable, net (Note 5)	2,412,234	975,041
Inventories	311,581	853,761
Deposits and prepaid expenses	545,223	667,462
Student loans receivable, net (Note 6)	244,173	263,054
Total current assets	<u>56,831,141</u>	<u>54,049,866</u>
Noncurrent assets		
Endowment investments (Note 2)	40,539,453	50,450,072
Other long-term investments (Note 2)	75,742,843	77,888,638
Pledges receivable, net (Note 5)	12,901,581	1,036,045
Student loans receivable, net (Note 6)	1,735,009	1,876,295
Capital assets, net (Notes 7)	242,440,851	243,384,115
Other assets (Note 9)	1,844,411	1,865,177
Total noncurrent assets	<u>375,204,148</u>	<u>376,500,342</u>
Total assets	<u>\$ 432,035,289</u>	<u>\$ 430,550,208</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,364,807	\$ 6,730,047
Accrued payroll	7,765,269	8,018,237
Long-term liabilities - current portion (Note 10)	3,020,520	2,964,418
Deferred revenue	11,544,019	10,834,499
Deposits	1,211,070	1,322,777
Total current liabilities	<u>30,905,685</u>	<u>29,869,978</u>
Noncurrent liabilities		
Deferred revenue	2,105,319	2,696,672
Long-term liabilities (Note 10)	104,360,131	106,890,224
Other postemployment benefits (Note 11)	2,995,183	1,439,080
Total noncurrent liabilities	<u>109,460,633</u>	<u>111,025,976</u>
Total liabilities	<u>140,366,318</u>	<u>140,895,954</u>
Net assets		
Invested in capital assets, net of related debt	142,649,456	140,887,268
Restricted nonexpendable	15,661,607	14,921,213
Restricted expendable	38,699,334	31,505,048
Unrestricted	94,658,574	102,340,725
Total net assets	<u>\$ 291,668,971</u>	<u>\$ 289,654,254</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Tuition (net of scholarship allowances of \$16,167,130 in 2009 and \$13,898,382 in 2008)	\$ 119,396,698	\$ 111,941,248
Federal grants and contracts	9,967,688	8,143,419
State, local and private grants and contracts	6,195,813	4,924,187
Departmental activities	5,383,505	5,845,657
Auxiliary activities (net of scholarship allowances of \$1,428,335 in 2009 and \$1,271,548 in 2008)	21,261,358	20,071,220
Other operating revenues	428,204	429,667
Total operating revenues	<u>162,633,266</u>	<u>151,355,398</u>
Operating expenses		
Education and general		
Instruction	90,731,583	83,703,554
Research	7,148,292	7,113,168
Public service	2,288,875	2,216,832
Academic support	15,849,964	13,220,664
Student services	15,976,938	15,077,650
Institutional support	27,280,334	24,774,771
Operations and maintenance of plant	17,377,494	15,216,611
Depreciation	12,122,925	12,024,830
Student aid	10,659,231	7,793,753
Auxiliary activities	23,322,709	22,886,567
Other expenses	12,366	5,689
Total operating expenses (Note 15)	<u>222,770,711</u>	<u>204,034,089</u>
Operating loss	<u>(60,137,445)</u>	<u>(52,678,691)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	52,452,200	56,697,300
Gifts	19,075,720	4,473,533
Investment income (net of investment expenses of \$205,395 in 2009 and \$320,337 in 2008)	(13,640,609)	2,523,240
Distributions to annuity and life income fund beneficiaries	(68,949)	(91,892)
Interest on capital asset related debt	(4,774,112)	(5,681,165)
Pell grants	8,264,552	6,597,347
Other	141,956	2,476
Net nonoperating revenues	<u>61,450,758</u>	<u>64,520,839</u>
Income before other revenues	<u>1,313,313</u>	<u>11,842,148</u>
Capital grants and gifts	13,298	34,277
Additions to permanent endowments	688,106	2,496,665
Transfer of net assets from the Oakland University Foundation	-	14,307
Total other revenues	<u>701,404</u>	<u>2,545,249</u>
Increase in net assets	<u>2,014,717</u>	<u>14,387,397</u>
Net assets		
Beginning of year	<u>289,654,254</u>	<u>275,266,857</u>
End of year	<u>\$ 291,668,971</u>	<u>\$ 289,654,254</u>

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Cash Flows
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Tuition	\$ 119,810,626	\$ 112,409,591
Grants and contracts	16,618,487	13,033,153
Payments to suppliers	(50,252,168)	(44,904,202)
Payments to employees	(147,309,123)	(137,486,744)
Payments for scholarships and fellowships	(10,659,231)	(7,793,753)
Loans issued to students	(118,805)	(124,049)
Collection of loans from students	289,988	352,261
Auxiliary enterprise charges	21,133,409	20,029,491
Other receipts	3,930,189	5,172,166
Net cash used by operating activities (Note 16)	<u>(46,556,628)</u>	<u>(39,312,086)</u>
Cash flows from noncapital financing activities		
State appropriations	52,357,781	50,988,464
Federal direct lending receipts	75,529,913	57,422,492
Federal direct lending disbursements	(75,529,913)	(57,422,492)
Gifts and grants for other than capital purposes	13,982,103	10,279,564
Endowment gifts	688,106	2,496,665
Net cash provided by noncapital financing activities	<u>67,027,990</u>	<u>63,764,693</u>
Cash flows from capital financing activities		
Proceeds from capital debt	-	53,280,000
Capital grants, gifts and other payments	17,494	796,475
Purchases of capital assets	(9,880,739)	(13,244,161)
Principal paid on capital debt and leases	(2,857,191)	(50,577,776)
Interest paid on capital debt and leases	(5,450,239)	(10,437,763)
Net cash used by capital financing activities	<u>(18,170,675)</u>	<u>(20,183,225)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,036,135	89,278,035
Investment income (loss)	744,799	16,853,925
Purchase of investments	(4,365,129)	(120,470,158)
Net cash used by investing activities	<u>(1,584,195)</u>	<u>(14,338,198)</u>
Net increase (decrease) in cash and cash equivalents	716,492	(10,068,816)
Cash and cash equivalents		
Beginning of year	<u>33,766,330</u>	<u>43,835,146</u>
End of year	<u>\$ 34,482,822</u>	<u>\$ 33,766,330</u>

Oakland University

Notes to Financial Statements

June 30, 2009 and 2008

1. Significant Accounting Policies

Organization

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

Basis of Accounting

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board 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.

The University has implemented GASB Statement No.49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of fiscal year ended June 30, 2009 with no net effect on the current financial statements.

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

Cash Equivalents

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

Investments

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

Inventories

Inventories are stated at the lower of average cost or market. Included in 2008 inventory are three homes in the Meadow Brook Subdivision owned by the University and valued at \$564,000.

Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at the date of gift. A capitalization threshold of \$5,000 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred.

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

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

Revenue Recognition

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

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

Funds are appropriated to the University for operations by the State of Michigan (State) covering the State's fiscal year, October 1 through September 30. The sums appropriated, however, are for the University's fiscal year ending June 30 and are generally paid in eleven monthly installments from October through August. Therefore, the July and August payments are generally recorded as part of appropriations receivable. The August 2007 payment, which was delayed by executive order, was recorded within 2008 revenue (see Note 4).

Revenues are reported net of discounts and allowances.

Income Tax Status

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

Reclassifications

Certain fiscal year 2008 balances have been reclassified to conform to the current year presentation.

2. Investments and Deposits with Financial Institutions

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire University portfolio.

At June 30, 2009 and 2008 operating cash was invested in a short-term mutual fund, a pooled intermediate-fixed fund and a pooled equity fund in the following market value amounts. These investments are displayed by category according to their respective duration to describe the level of interest rate risk in this portfolio. This is the risk in a fixed income portfolio that a change in interest rates can affect the market value of the portfolio.

June 30, 2009	Total	< 1 Year	1-5 Years	6-10 Years	> 10 Years
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 35,422,798	\$ 35,422,798	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	63,459,297	-	-	63,459,297	-
JP Morgan Equity Funds Intrepid Equities	12,864,459	-	-	-	12,864,459
WAM Treasuries	294,410	-	-	-	294,410
Operating Investments	112,040,964	35,422,798	-	63,459,297	13,158,869
Net cash overdraft	(1,815,299)	(1,815,299)	-	-	-
	<u>\$110,225,665</u>	<u>\$ 33,607,499</u>	<u>\$ -</u>	<u>\$ 63,459,297</u>	<u>\$ 13,158,869</u>
Cash and cash equivalents	\$ 34,482,822				
Other long-term investments	75,742,843				
	<u>\$110,225,665</u>				
June 30, 2008	Total	< 1 Year	1-5 Years	6-10 Years	> 10 Years
University Operating Pooled Cash					
Swept Money Market Mutual Fund	\$ 34,162,467	\$ 34,162,467	\$ -	\$ -	\$ -
Commonfund Intermediate High Quality Bond Fund	60,683,713	-	-	60,683,713	-
JP Morgan Equity Funds Intrepid Equities	17,886,940	-	-	-	17,886,940
WAM Treasuries	188,897	-	-	-	188,897
US Bank Money Market	3,613	3,613	-	-	-
Operating Investments	112,925,630	34,166,080	-	60,683,713	18,075,837
Net cash overdraft	(1,270,662)	(1,270,662)	-	-	-
	<u>\$111,654,968</u>	<u>\$ 32,895,418</u>	<u>\$ -</u>	<u>\$ 60,683,713</u>	<u>\$ 18,075,837</u>
Cash and cash equivalents	\$ 33,766,330				
Other long-term investments	77,888,638				
	<u>\$111,654,968</u>				

At June 30, 2009 the Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 9.3 years and an average credit of AA-. The weighted-average maturity of a fixed income fund such as the High Quality Bond Fund is one measure of the risk that its market value will change with changes in interest rates.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

The University is exposed to foreign currency risk included within the investment balance. The current investments that are subject to foreign currency risk consist of the JP Morgan International Opportunities Funds in the amount of \$2,067,052 as of June 30, 2009.

The investments produced a total net return of -1.47% and 2.5%, respectively, for the years ended June 30, 2009 and 2008.

The University's endowment investments are administered according to the University's "Investment Policy for Endowment." While there is no policy restriction with regard to concentration of credit risk, these investments are broadly diversified and there is no investment in a single issuer other than the U.S. Government that amounts to more than 5% of the portfolio. The "Investment Policy for Endowment" restricts debt investment to "high quality," "A" to "AAA" rated corporate bonds, U.S. Treasury, and agency securities or issues of supranational organizations and foreign sovereigns.

These endowment investment funds are uninsured and uncollateralized and produced a total net return of -22.6% and 0.3% for the years ended June 30, 2009 and 2008, respectively.

University pooled endowment investment funds consist of the following as of June 30, 2009 and 2008:

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

<u>June 30, 2008</u>	<u>Total</u>	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>> 10 Years</u>
UBS Endowment Investment Pool					
Large Cap Value	\$ 6,252,482	\$ -	\$ -	\$ -	\$ 6,252,482
Large Cap Growth	5,799,010	-	-	-	5,799,010
Mid Cap Value	2,753,663	-	-	-	2,753,663
Mid Cap Growth	2,280,607	-	-	-	2,280,607
Small Cap Core	2,085,249	-	-	-	2,085,249
REIT	2,016,468	-	-	-	2,016,468
International Value	5,217,617	-	-	-	5,217,617
International Core	3,287,525	-	-	-	3,287,525
Fixed Income Core	1,487,174	379,139	471,814	172,422	463,799
High Yield Bonds	2,389,854	23,782	807,339	1,535,693	23,040
Taxable Fixed Income	5,361,907	-	3,108,205	1,394,579	859,123
Global Fixed	1,026,741	-	-	1,026,741	-
Global Fixed	1,016,282	-	-	1,016,282	-
Domestic Fixed Income	455,283	-	455,283	-	-
Domestic Fixed Income	470,378	-	-	-	470,378
Cash	8,074,078	8,074,078	-	-	-
Broad Commodities	79,590	-	-	-	79,590
Accruals	145,583	145,583	-	-	-
	<u>\$ 50,199,491</u>	<u>\$ 8,622,582</u>	<u>\$ 4,842,641</u>	<u>\$ 5,145,717</u>	<u>\$ 31,588,551</u>
Charitable Trusts - Equity Funds	248,460	-	-	-	248,460
Trust Check - In Transit	2,121	2,121	-	-	-
	<u>\$ 50,450,072</u>	<u>\$ 8,624,703</u>	<u>\$ 4,842,641</u>	<u>\$ 5,145,717</u>	<u>\$ 31,837,011</u>

The credit quality of the endowment fixed income investments in the portfolio vary with 60% of the portfolio carrying a credit rating of AA or better and less than 6% of the portfolio is rated less than investment grade. Cash items in the portfolio carry credit ratings of A-1, P-1 and F-1.

The University is not exposed to foreign currency risk included within the endowment investment balance as of June 30, 2009. All investments in this category are liquid and are convertible into cash within one week or less.

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

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

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Tuition	\$ 6,680,890	\$ 7,499,486
Auxiliary enterprises	905,809	1,422,267
Contracts and grants	2,877,851	2,184,634
Other receivables	<u>1,924,453</u>	<u>355,142</u>
Total accounts receivable	12,389,003	11,461,529
Less: Allowance for doubtful accounts	<u>(3,090,658)</u>	<u>(3,379,655)</u>
Total accounts receivable, net	<u>\$ 9,298,345</u>	<u>\$ 8,081,874</u>

4. Appropriations Receivable

The annual state operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued as of the end of its fiscal year the payments to be received in July and August. As of June 30, 2009 and 2008, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$9,536,763 and \$9,442,344, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Pledges outstanding		
Unrestricted	\$ 22,911	\$ 53,167
Restricted expendable	19,530,984	2,573,091
Total pledges outstanding	<u>19,553,895</u>	<u>2,626,258</u>
Less		
Allowance for doubtful pledges	(413,388)	(387,744)
Present value discount	<u>(3,826,692)</u>	<u>(227,428)</u>
Total pledges outstanding, net	15,313,815	2,011,086
Less: Current portion, net	<u>(2,412,234)</u>	<u>(975,041)</u>
Non-current portion, net	<u>\$ 12,901,581</u>	<u>\$ 1,036,045</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2009 and 2008, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 3% and 16% net of discount at June 30, 2009 and 2008, respectively.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

Payments on pledges receivable at June 30, 2009 are expected to be received in the following years ended June 30:

Past due	\$ 373,209
Due in one year	2,348,173
Due in two-five years	6,584,613
Thereafter	<u>10,247,900</u>
Total	<u>\$ 19,553,895</u>

Included in pledges is a \$14.3 million pledge, net of present value discounts, from a single donor for the Oakland University William Beaumont School of Medicine. Should the School of Medicine fail to become accredited or cease operations, any balance remaining on the pledge will not be paid.

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, 2009 and 2008 the University had \$30,181,703 and \$27,408,427, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Included in conditional pledges above is \$15,000,000 from a single donor.

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Student loans		
Federal loan programs	\$ 2,221,250	\$ 2,415,844
University loan funds	<u>57,138</u>	<u>40,975</u>
	2,278,388	2,456,819
Less: Allowance for doubtful loans	<u>(299,206)</u>	<u>(317,470)</u>
Total student loans, net	1,979,182	2,139,349
Less: Current portion, net	<u>(244,173)</u>	<u>(263,054)</u>
Noncurrent portion, net	<u>\$ 1,735,009</u>	<u>\$ 1,876,295</u>

In addition, the University distributed \$75,529,913 and \$57,422,492 for the years ended June 30, 2009 and 2008, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

7. Capital Assets

The following tables present the changes in the various capital asset categories for the University for fiscal years 2009 and 2008

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

Asset Classification	Balance June 30, 2007	Additions	Reductions/ Transfers	Balance June 30, 2008
Land	\$ 4,324,914	\$ -	\$ -	\$ 4,324,914
Land improvements and infrastructure	29,455,299	13,083,448	-	42,538,747
Buildings	274,793,113	2,955,413	-	277,748,526
Equipment	42,179,570	3,051,944	2,805,800	42,425,714
Library acquisitions	24,666,641	815,769	194,451	25,287,959
Construction in progress	26,883,318	6,385,208	15,992,921	17,275,605
Total	402,302,855	26,291,782	18,993,172	409,601,465
Accumulated depreciation				
Land improvements and infrastructure	(12,310,088)	(1,980,525)	-	(14,290,613)
Buildings	(91,755,228)	(6,328,454)	-	(98,083,682)
Equipment	(32,679,415)	(2,672,581)	(2,293,649)	(33,058,347)
Library acquisitions	(19,982,000)	(997,159)	(194,451)	(20,784,708)
Total	(156,726,731)	(11,978,719)	(2,488,100)	(166,217,350)
Total capital assets (net)	\$ 245,576,124	\$ 14,313,063	\$ 16,505,072	\$ 243,384,115

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

8. State Building Authority

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

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

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

9. Cash Surrender Value of Life Insurances Policies

Included in other assets are the cash surrender value of life insurance policies in the amount of \$1,158,344 and \$1,121,905 for 2009 and 2008, respectively. At both June 30, 2009 and 2008, the face value of these life insurance policies totaled \$5,360,500.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2009 and 2008:

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

	Balance June 30, 2007	Additions/ Transfers	Reductions	Balance June 30, 2008	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	\$ 18,712,720	\$ -	\$ 497,776	\$ 18,214,944	\$ 729,823
Bonds payable					
General revenue bonds, series 1997	4,555,000	-	1,075,000	3,480,000	1,125,000
Variable rate demand bonds, series 1998 (transfer from the Foundation)	4,600,000	-	-	4,600,000	-
General revenue bonds, series 2001	48,000,000	-	48,000,000	-	-
General revenue refunding bonds, series 2004	30,050,000	-	1,005,000	29,045,000	1,035,000
unamortized premium	1,255,150	8,544	173,352	1,090,342	104,114
unamortized deferral on extinguishment	(1,370,475)	(9,329)	(189,280)	(1,190,524)	(113,681)
General revenue refunding bonds, series 2008	-	53,280,000	-	53,280,000	-
2008 Bonds - deferral	-	(5,324,087)	-	(5,324,087)	(234,886)
Total, note, installment agreement and bonds payable	<u>105,802,395</u>	<u>47,955,128</u>	<u>50,561,848</u>	<u>103,195,675</u>	<u>2,645,370</u>
Other liabilities:					
Compensated absences	2,921,211	1,343,826	-	4,265,037	247,708
Annuities payable and other (transfer from the Foundation)	456,822	126,400	99,387	483,835	71,340
Federal portion of Perkins loan program	1,901,974	42,554	34,433	1,910,095	-
Total other liabilities	<u>5,280,007</u>	<u>1,512,780</u>	<u>133,820</u>	<u>6,658,967</u>	<u>319,048</u>
Total long-term liabilities	<u>\$ 111,082,402</u>	<u>\$ 49,467,908</u>	<u>\$ 50,695,668</u>	<u>\$ 109,854,642</u>	<u>\$ 2,964,418</u>
Total long-term liabilities	\$ 111,082,402			\$ 109,854,642	
Current portion	2,912,998			2,964,418	
Noncurrent portion	<u>\$ 108,169,404</u>			<u>\$ 106,890,224</u>	

Note and Installment Purchase Agreement Payable

In February 2005, the University entered into an installment purchase agreement note in the amount of \$422,282 to purchase golf carts. The note has a fixed interest rate of 4.49% per annum, requires monthly payments of \$12,703 during the golf season (May – October) and a balloon payment of \$95,400 due November 2009. In June 2009, these golf carts were returned and traded in for new golf carts and the debt was extinguished.

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

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 686,692	\$ 645,022	\$ 1,331,714
2011	698,537	618,663	1,317,200
2012	710,538	592,150	1,302,688
2013	737,903	564,784	1,302,687
2014	766,322	536,365	1,302,687
2015-2019	4,297,720	2,215,712	6,513,432
2020-2024	5,191,574	1,321,863	6,513,437
2025-2029	4,264,024	295,384	4,559,408
Total	<u>\$17,353,310</u>	<u>\$ 6,789,943</u>	<u>\$24,143,253</u>

Bonds Payable

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

On September 24, 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited obligation revenue variable rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates at June 30, 2009 and 2008 were 0.85% and 1.62%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees, and letter of credit fees. On February 1, 2006 the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of \$4,600,000.

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

On June 18, 2008, the University issued \$53,280,000 general revenue refunding bonds (2008 Bonds) to refund the 2001 Bonds. The 2008 Bonds are variable rate demand obligations with a maturity date of March 1, 2031. In conjunction with this issue, the University terminated the related 2001 Swap at a termination cost of \$4,860,000 paid to the counterparty, and reissued a new 2008 Swap synthetically fixing the rate on the full amount of the issue to 3.37%. The swap

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,265,000	\$ 3,362,897	\$ 5,627,897
2011	2,315,000	3,249,647	5,564,647
2012	2,465,000	3,125,250	5,590,250
2013	2,590,000	3,015,568	5,605,568
2014	2,700,000	2,910,623	5,610,623
2015-2019	15,445,000	12,786,162	28,231,162
2020-2024	23,960,000	9,157,402	33,117,402
2025-2029	24,850,000	4,513,272	29,363,272
2030-2034	11,655,000	494,560	12,149,560
	<u>88,245,000</u>	<u>\$ 42,615,381</u>	<u>\$ 130,860,381</u>
Less: Deferral on extinguishment, net	<u>(5,179,830)</u>		
	<u>\$ 83,065,170</u>		

Interest includes payments and receipts under the swap agreement at the synthetic fixed rate on the 2008 Bonds of 3.37%. The variable rate paid on the 2008 Bonds was 0.80% on June 30, 2009. The variable rate on the 1998 Bonds on June 30, 2009 was 0.85%.

Interest Rate Swap Agreements

On June 25, 2007, the University executed a Constant Maturity Swap (CMS) in an initial notional amount of \$34,370,000 effective October 1, 2007. Under the CMS the University pays the counterparty the SIFMA Municipal Swap Index and receives 90.39% of the Ten-Year SIFMA Swap Rate until March 1, 2031. No amounts were paid or received when the CMS was initiated.

The estimated fair value of the CMS at June 30, 2009 was \$2,017,458. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB standards, these amounts are not required to be included in the accompanying statements.

The University is exposed to credit risk on the CMS, which is the risk that the counterparty will not fulfill its obligations. The CMS includes collateral requirements intended to mitigate the credit risk. Additionally, the CMS exposes the University to tax risk, which is the risk that arises when the taxable nature of such transactions is modified by law.

Oakland University

Notes to Financial Statements

June 30, 2009 and 2008

In connection with the 2008 Bonds, the University entered into an interest rate swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 18, 2008. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67.0% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 3.37%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the interest rate swap at June 30, 2009 was a liability of \$4,577,785. 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 GASB standards, these amounts are not required to be included in the accompanying statements.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. Additionally, the 2008 Swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. 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 2008 Swap and CMS use 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 2008 Swap is terminated, the variable rate bonds will no longer carry a synthetic interest rate. If the 2008 Swap or CMS are terminated, the University may be required to pay an amount equal to the fair value of the 2008 Swap or CMS, if it is negative.

Other Liabilities

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

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

11. Postemployment Benefits Other than Pensions

Plan Description

In addition to the employee benefits discussed in Note 12, the University provides postemployment healthcare benefits to eligible University retirees and their spouses as part of a single-employer defined benefit plan. The plan is administered by the University. Substantially all University employees may become eligible for coverage if they meet retirement eligibility requirements. The net periodic costs are expensed as employees render the services necessary to earn the postemployment benefits. In general, retirees at least 62 years of age with 15 years of service who were hired before July 1, 2006 or July 1, 2005, depending on the employee group, are eligible for

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

medical benefits in accordance with various labor agreements or within the provisions of University policy. Employees with 25 years of service are eligible for retirement at any age. Except for certain prior retirees, the University shares the cost of coverage with retirees, charging the retirees a contribution equal to the excess of the prevailing premium cost of coverage over a stipulated University subsidy amount. Postemployment healthcare benefits are currently provided to 335 retirees and spouses. Certain employees hired after July 1, 2005 or July 1, 2006, depending on the employee group, may be eligible for participation in the University's postemployment health care benefits as "access only" for retirees and spouses, at retiree rates, paid in full by the retiree.

Funding Policy

The contribution requirements of plan members and the University are established in accordance with various labor agreements or within the provisions of University policy. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2009, the University and plan members receiving benefits contributed \$1,307,162 and \$912,720, respectively, to the plan. Approximately 59% of total premiums were paid by the University with the remaining 41% paid by plan members. Required contributions for plan members range from no cost to \$261 per month for retiree-only coverage, and from \$27 to \$1,269 per month for retiree and spouse coverage.

For the year ended June 30, 2008, the University and plan members receiving benefits contributed \$1,303,980 and \$898,904, respectively, to the plan. Approximately 59% of total premiums were paid by the University with the remaining 41% paid by plan members. Required contributions for plan members range from no cost to \$261 per month for retiree-only coverage and from \$27 to \$1,269 per month for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2009 and 2008:

	2009	2008
Annual Required Contribution (ARC)	\$ 2,914,348	\$ 2,743,060
Interest on net OPEB obligation	110,962	-
Adjustment to ARC	(162,045)	-
Annual OPEB cost (expense)	2,863,265	2,743,060
Contributions made	(1,307,162)	(1,303,980)
Increase in net OPEB obligation	1,556,103	1,439,080
Net OPEB obligation - beginning of year	1,439,080	-
Net OPEB obligation - end of year	<u>\$ 2,995,183</u>	<u>\$ 1,439,080</u>

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

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$2,863,265	45.7%	\$ 1,556,103
2008	\$2,743,060	47.5%	\$ 1,439,080

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but instead are financed on a pay-as-you-go basis. The University thus far has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board of Trustees approved quasi-endowment valued at approximately \$6.1 million, earnings from which will be used to offset annual postemployment contributions. The University's contribution to the plan for the year ended June 30, 2009 and 2008 were \$1,307,162 and \$1,303,980, respectively. The funded status of the plan for the years ended June 30, 2009 and 2008 is as follows:

Schedule of Funding Progress						
Oakland University Retired Employees Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2009	-	\$ 25,348,481	\$ 25,348,481	0.00%	\$ 76,840,085	33.0%
6/30/2008	-	\$ 24,174,864	\$ 24,174,864	0.00%	\$ 71,063,121	34.0%

The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the Projected Unit Credit Method of valuation.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

The unfunded actuarial accrued liability, totaled \$25.3 million as of the June 30, 2009 actuarial valuation date. The unfunded actuarial accrued liability is being amortized over a period of thirty years.

Actuarial Methods and Assumptions

The actuary chose a variation of the Unit Credit Actuarial Cost Method under which expected benefits are attributed to employment periods through the earliest retirement date. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to expectations and new estimates are made in the future.

Actuarial assumptions included a discount rate of 8%, various mortality, turnover and healthcare cost trend rates, an assumption that 90% of future retirees eligible for medical coverage will elect medical coverage, and an assumption that the University contribution for certain post-65 retirees is limited to a 4% annual increase. The University will review its assumptions on a bi-annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The University believes that the assumptions utilized in recording its obligations for the plan are reasonable based on its experience.

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

12. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis by employer contributions. Participants may elect to contribute additional amounts to the plan within specified limits. The plans are primarily administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. Contributions by the University for the years ended June 30, 2009 and 2008 were \$11,644,340 and \$11,390,563, respectively.

The University also maintains a noncontributory, defined-benefit retirement plan, which is not open to new participants. The plan is administered by TIAA-CREF. At January 1, 2009, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan was fully funded.

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

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

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

13. Liability and Property Insurance

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

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

14. 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, 2009, the amount subject to guarantee by the University was \$2,447,030.

The estimated costs to complete construction projects in progress are \$12,766,837 as of June 30, 2009. These projects have been funded from private gifts, proceeds from general revenue notes, and other University funds.

15. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Employee compensation and benefits	\$ 148,961,840	\$ 138,155,097
Supplies and other services	51,026,715	46,060,409
Student aid	10,659,231	7,793,753
Depreciation	12,122,925	12,024,830
Total	<u>\$ 222,770,711</u>	<u>\$ 204,034,089</u>

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

16. Cash Flow Statement

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

	<u>2009</u>	<u>2008</u>
Operating loss	\$ (60,137,445)	\$ (52,678,691)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	12,122,925	12,024,830
Changes in assets and liabilities		
Accounts receivable, net	(1,216,471)	(1,359,584)
Inventories	542,180	329,586
Deposits and prepaid expense	121,614	50,376
Student loans receivable	160,167	205,843
Accounts payable and accrued expenses	232,368	826,620
Accrued payroll	(252,968)	(2,114,555)
Compensated absences	349,582	1,343,828
Deferred revenue	118,167	1,540,522
Deposits	(111,707)	(928,063)
Federal portion of student loan program	(41,143)	8,122
Other postemployment benefits	1,556,103	1,439,080
Net cash used by operating activities	<u>\$ (46,556,628)</u>	<u>\$ (39,312,086)</u>

17. Related Party Transactions

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

Foundation net assets as of June 30, 2009:

Assets	<u>\$ 139,707</u>
Net assets	<u>\$ 139,707</u>

The assets remaining are endowment funds. The June 30, 2009 University financial statements do not include the remaining Foundation assets or the Foundation's activity.

18. Future GASB Pronouncements

The University is subject to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* for the year ended June 30, 2010. This statement addresses recognition, measurement, and disclosure of information regarding derivative instruments. Derivative instruments covered by this statement are required to be reported at fair value. The statement requires the University to determine whether each swap agreement is effective at each year end.

Oakland University
Notes to Financial Statements
June 30, 2009 and 2008

An effective swap will have no impact on net assets. If the swap is not effective, the University will record a cumulative effect adjustment to beginning net assets and subsequent changes in fair value will be recorded in the statement of revenues, expenses and changes in net assets. This statement also retains the current disclosures required by Technical Bulletin 2003-1. The University has not determined whether the interest rate swaps are effective at June 30, 2009.



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