Oakland University

Annual Financial Report

Years ended June 30, 2003 and 2002
with Report of Independent Auditors

Oakland University

Annual Financial Statements

Years ended June 30, 2003 and 2002

Contents

Oakland University

Management's Discussion and Analysis

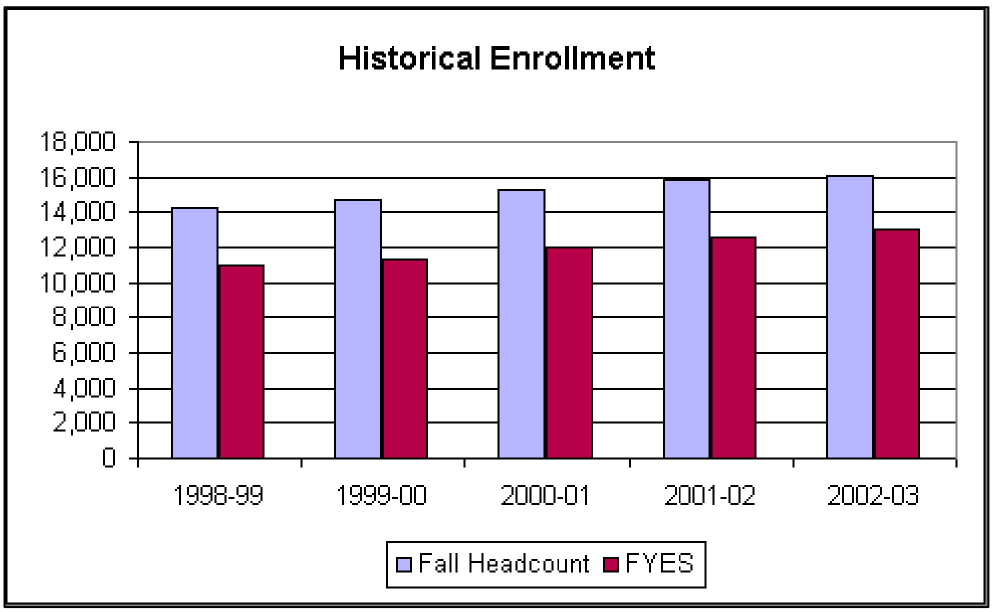
For the year ended June 30, 2003

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, 2003. 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 2002-03, enrollment based on fiscal year equated students (FYES) increased 3.6% to 13,069.

- Student headcount enrollment for the fall semester increased 1.2% to 16,059.



- Construction of the new Education and Human Services Building was completed during the year. The $31.5 million building features expanded classroom and laboratory space, new technologies, counseling rooms, and a resource library. It also serves as home for the Lowry Early Childhood Development Center.

- New University Student Apartments opened in fall 2002. The $21 million apartment complex provides living space for more than 450 students in its six buildings. The apartments offer full kitchens, furnished bedrooms and living rooms and a community center. Occupancy grew to nearly 100% in the new student apartments during the year.

- A new parking structure opened on campus in fall 2002. The $6 million, three floor structure provides 550 parking spaces, two-thirds of which are covered.

- The University broke ground on the Oakland Center's new $8 million addition during the year. The student center expansion will include a 7,000 square-foot multipurpose room for lectures, banquets and student functions, expanded food court seating and an updated kitchen. Completion is scheduled for fall 2003.

- The University expanded degree offerings during 2003 including two new bachelor of science options, a new doctoral program in mechanical engineering and a new higher education option in the doctoral program in educational leadership.

- State appropriations to Oakland University, and all of Michigan's 15 public universities, were reduced by 3.5 percent during fiscal year 2003. The University addressed the reduction primarily through one-time spending reductions of $2.4 million from nearly all areas of the University.

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.

- 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 consolidated into the financial statements. It is, however, referenced in the financial statement footnotes.

Financial Statement Summaries

Statements of Net Assets

Net assets are summarized in the following schedule:

Condensed Statements of Net Assets

	June 30 (in thousands) 2003	2002	Change
Assets			
Current assets	$ 45,894	$ 58,347	(21%)
Capital assets	238,844	228,986	4%
Other noncurrent assets	49,730	48,856	2%
Total assets	334,468	336,189	(1%)
Liabilities			
Current liabilities	25,341	29,415	(14%)
Noncurrent liabilities	93,969	95,891	(2%)
Total liabilities	119,310	125,306	(5%)
Net Assets			
Invested in capital assets, net of related debt	152,277	153,585	(1%)
Restricted nonexpendable	5,076	4,998	2%
Restricted expendable	15,361	14,991	2%
Unrestricted	42,444	37,309	14%
Total net assets	$215,158	$210,883	2%

The University's total assets were $334 million at June 30, 2003 and $336 million at June 30, 2002. Capital assets increased by $10 million during the year, net of depreciation. The increase was offset by a corresponding reduction in cash and cash equivalents for capital expenditures.

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 71% and 68% of the University's total assets at June 30, 2003 and 2002, respectively. Major capital expenditures during 2003 were $5.5 million for the Oakland Center expansion, $3.8 million for the new parking structure, $3.5 million for the new Education and Human Services Building and $2.2 million for the new student apartments.

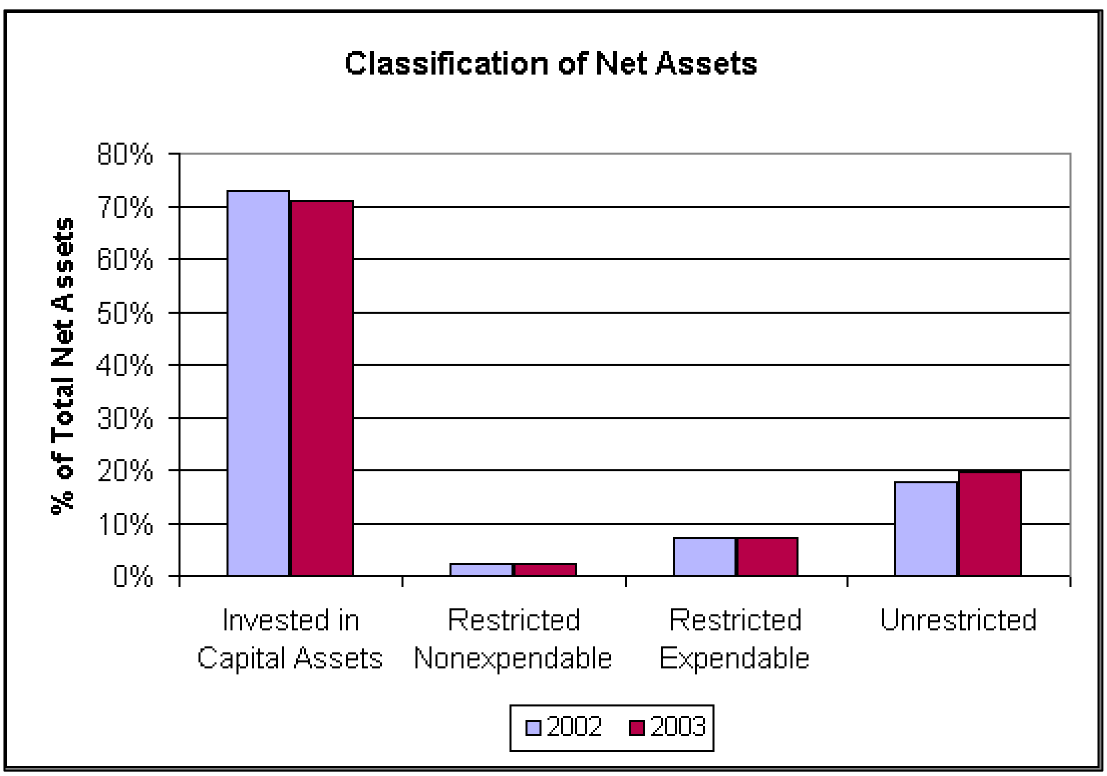
Other noncurrent assets of the University consist primarily of endowment and other long-term investments. Endowment investments were $15.5 million at June 30, 2003 and $16 million at June 30, 2002. The decrease was due in part to a special distribution of $571,000 made from the Meadow Brook Hall reserve in support of the Hall. Other long-term investments were $32 million at June 30, 2003 and $30 million at June 30, 2002. 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 $119 million at June 30, 2003 and $125 million at June 30, 2002. Noncurrent liabilities are comprised primarily of bonds and notes payable and represented 79% and 77% of the University's total liabilities at June 30, 2003 and 2002, respectively.

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

The following graph shows net assets by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net assets:

	June 30 (in thousands)	
	2003	**2002**
Auxiliary enterprises	$ 1,457	$ 1,677
Capital projects and repair reserves	10,528	6,976
Funds designated for departmental use	9,850	8,568
Funds functioning as endowments	6,017	6,610
Institutional reserves	8,532	8,304
Retirement and insurance reserves	4,378	3,443
Other unrestricted	1,682	1,731
	$42,444	$37,309

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 (in thousands)		
	2003	**2002**	**Change**
Operating revenues			
Net tuition and fees	$ 65,412	$ 58,263	12%
Grants and contracts	15,215	15,704	(3%)
Auxiliary activities	20,944	19,769	6%
Departmental activities	5,315	4,487	18%
Other	385	285	35%
Total operating revenues	107,271	98,508	9%
Operating expenses	160,821	151,303	6%
Operating loss	(53,550)	(52,795)	1%
Nonoperating revenues (expenses)			
State appropriations	50,551	52,385	(4%)
Gifts	3,976	3,514	13%
Investment income	2,844	216	1,217%
Interest expense	(4,218)	(3,506)	20%
Net nonoperating revenues	53,153	52,609	1%
Loss before other revenues	(397)	(186)	113%
Capital appropriations	4,476	18,592	(76%)
Capital grants and gifts	88	52	69%
Additions to permanent endowments	108	70	54%
Total other revenues	4,672	18,714	(75%)
Increase in net assets	4,275	18,528	(77%)
Net assets, beginning of year	210,883	192,355	10%
Net assets, end of year	$215,158	$210,883	2%

The University's operating revenues were $107 million in 2003 and $99 million in 2002. The 9% increase was primarily due to increases in tuition and fees and revenues from auxiliary activities. Tuition and fees, net of scholarship allowances, increased 12% in 2003 over 2002. The increase was caused by tuition rate and fee increases averaging 8.5%, and enrollment increases of 3.6% based on fiscal year equated students (FYES). The 6% increase in auxiliary activity revenues was primarily due to the opening of the new student apartments.

Operating expenses were $161 million in 2003 and $151 million in 2002. The 6% 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

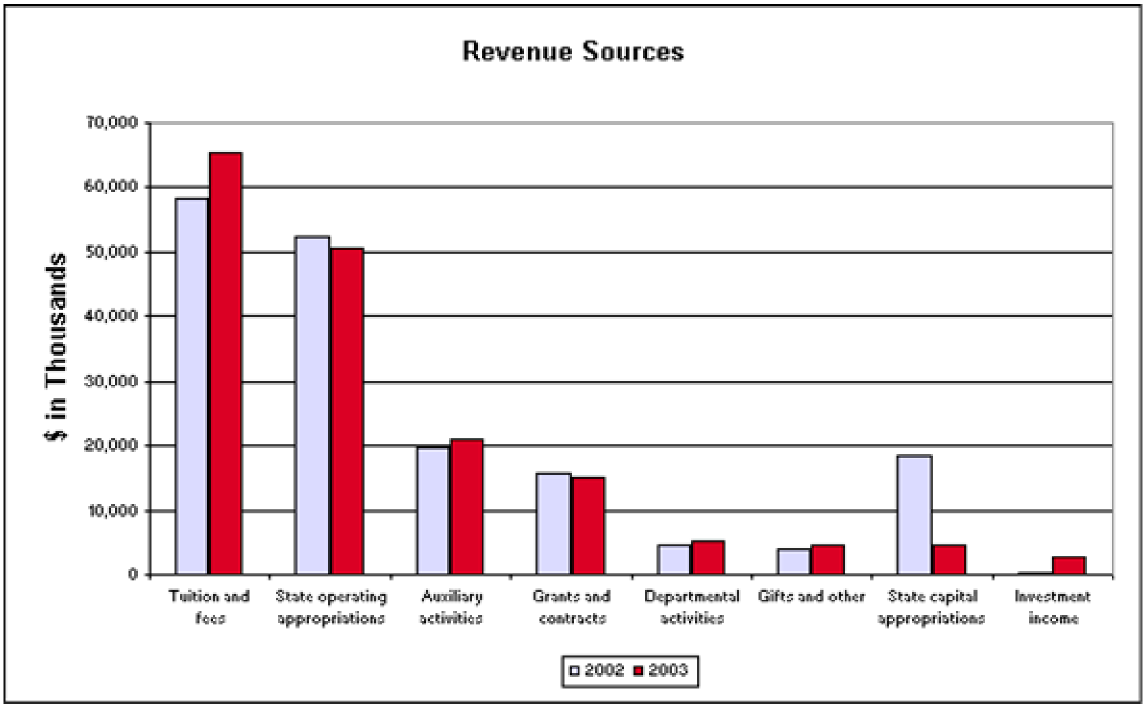
	Years ended June 30 (in thousands)		
	2003	**2002**	**Change**
Education and general:			
Instruction	$ 65,394	$ 60,213	9%
Research	6,148	7,804	(21%)
Public service	761	580	31%
Academic support	9,613	9,528	1%
Student services	11,681	10,941	7%
Institutional support	18,485	16,649	11%
Operation and maintenance of plant	11,651	10,468	11%
Depreciation	11,248	10,466	7%
Student aid	4,172	3,485	20%
Auxiliary activities	21,554	21,005	3%
Other expenditures	114	164	(30%)
Total operating expenses	$160,821	$151,303	6%

Education and general expenses increased by 6.9% in 2003. All functional categories of expense increased during the year except for research. Research expenses declined due to the completion of several major grants during the year.

The University's operating loss was $54 million in 2003 and $53 million in 2002. Offsetting these losses were net nonoperating revenues of $53 million in 2003 and 2002. Annual state appropriations, while budgeted for operations, are included in nonoperating revenues according to generally accepted accounting principles. Total nonoperating state appropriations were $51 million in 2003 and $52 million in 2002. The University's original state appropriation for 2003 was reduced during the year by $1.8 million or 3.5%.

Other revenues were $5 million in 2003 and $19 million in 2002. State of Michigan capital appropriations declined by $14 million in 2003 related to the completion of the new Education and Human Services Building.

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)	
	2003	**2002**
Cash provided (used) by:		
Operating activities	$(40,961)	$(45,719)
Noncapital financing activities	55,529	56,084
Capital financing activities	(23,099)	8,652
Investing activities	1,485	1,077
Net increase (decrease) in cash	(7,046)	20,094
Cash and cash equivalents, beginning of year	33,898	13,804
Cash and cash equivalents, end of year	$ 26,852	$ 33,898

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprise charges and grant and contract revenues. Cash disbursements include salaries and wages, benefits, supplies, utilities and scholarships. The overall decrease in net cash used by operations reflects the timing of payroll payments and accounts receivable collections from year to year.

State appropriation is the primary source of noncapital financing. Noncapital state appropriation receipts were $51 million in 2003 and $52 million in 2002.

Capital financing activities for 2003 include the retirement of a capital lease funded by a $4.8 million note payable, state appropriations for the new Education and Human Services Building of $7.7 million, capital expenditures of $25.8 million and debt service payments of $10.7 million. 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 $47.5 million and debt service payments of $5.8 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, have funded all or part of the following projects:

- University student apartments
- Education and Human Services Building
- Electrical system upgrade
- Parking structure
- Oakland Center improvements

Capital asset additions approximated $25.8 million in 2003 and $47.5 million in 2002.

University Credit Rating

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

Deferred Maintenance

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

Factors or Conditions Impacting Future Periods

Financial 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:

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

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, 2003 and 2002. 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, 2003 and 2002, 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 August 28, 2003 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
August 28, 2003

Oakland University

Statements of Net Assets

	June 30 2003	June 30 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents *(Note 2)*	$ 20,547,307	$ 11,289,575
Restricted cash and cash equivalents *(Note 3)*	6,304,722	22,607,927
Accounts receivable, net *(Note 4)*	6,432,599	7,362,874
Appropriation receivable *(Note 5)*	10,373,879	14,169,618
Inventories	272,531	548,683
Deposits and prepaid expenses	1,606,070	2,069,184
Student loans receivable, net	356,476	298,683
Total current assets	45,893,584	58,346,544
NONCURRENT ASSETS:		
Endowment investments *(Note 3)*	15,558,796	16,010,444
Other long-term investments *(Notes 2 and 3)*	32,298,740	30,489,244
Accounts receivable, net *(Note 4)*	325,734	661,842
Student loans receivable, net	1,547,107	1,695,032
Capital assets, net *(Notes 6 and 7)*	238,844,220	228,985,717
Total noncurrent assets	288,574,597	277,842,279
Total assets	334,468,181	336,188,823
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	5,597,727	11,352,563
Accrued payroll	6,039,029	5,420,588
Long-term liabilities-current portion *(Note 8)*	5,026,929	4,706,434
Deferred revenue and student fees	8,197,378	7,037,912
Deposits	479,957	897,436
Total current liabilities	25,341,020	29,414,933
NONCURRENT LIABILITIES:		
Long-term liabilities *(Note 8)*	93,969,582	95,890,499
Total noncurrent liabilities	93,969,582	95,890,499
Total liabilities	119,310,602	125,305,432
NET ASSETS		
Invested in capital assets, net of related debt	152,277,159	153,585,072
Restricted nonexpendable	5,075,976	4,998,022
Restricted expendable	15,361,139	14,991,012
Unrestricted	42,443,305	37,309,285
Total net assets	$ 215,157,579	$ 210,883,391

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	
	2003	**2002**
REVENUES:		
Operating revenues		
Tuition and fees (net of scholarship allowances of $7,528,167 in 2003 and $7,296,666 in 2002)	$ 65,412,200	$ 58,263,333
Federal grants and contracts	10,847,133	11,053,444
State, local and private grants and contracts	4,367,692	4,650,567
Departmental activities	5,314,890	4,486,979
Auxiliary activities (net of scholarship allowances of $769,838 in 2003 and $750,167 in 2002)	20,943,503	19,769,472
Other operating revenues	384,683	284,394
Total operating revenues	107,270,101	98,508,189
EXPENSES:		
Operating expenses		
Education and general		
Instruction	65,393,798	60,213,042
Research	6,148,222	7,804,432
Public service	761,323	580,457
Academic support	9,612,916	9,527,557
Student services	11,680,677	10,941,121
Institutional support	18,484,889	16,649,033
Operation and maintenance of plant	11,650,823	10,468,348
Depreciation	11,248,368	10,465,941
Student aid	4,172,043	3,484,880
Auxiliary activities	21,554,135	21,004,657
Other expenditures	113,627	163,929
Total operating expenses *(Note 9)*	160,820,821	151,303,397
OPERATING LOSS	(53,550,720)	(52,795,208)
Nonoperating revenues (expenses)		
State appropriations	50,551,147	52,384,700
Gifts	3,976,319	3,514,501
Investment income (net of investment expense)	2,843,901	215,901
Interest on capital asset related debt	(4,218,499)	(3,505,669)
Net nonoperating revenues	53,152,868	52,609,433
Loss before other revenues	(397,852)	(185,775)
Capital appropriations	4,476,202	18,592,810
Capital grants and gifts	88,066	51,827
Additions to permanent endowments	107,772	69,980
Total other revenues	4,672,040	18,714,617
Increase in net assets	4,274,188	18,528,842
NET ASSETS, beginning of year	210,883,391	192,354,549
NET ASSETS, end of year	$ 215,157,579	$ 210,883,391

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

Oakland University

Statements of Cash Flows

	Years ended June 30	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 66,743,618	$ 58,386,240
Grants and contracts	14,877,277	15,697,548
Payments to suppliers	(36,137,104)	(34,799,875)
Payments to employees	(108,747,631)	(104,497,469)
Payments for scholarships and fellowships	(4,172,043)	(3,363,362)
Loans issued to students	(447,054)	(492,716)
Collection of loans from students	547,987	594,303
Auxiliary enterprise charges	20,928,552	19,504,529
Other receipts	5,444,965	3,251,479
Net cash used by operating activities *(Note 10)*	(40,961,433)	(45,719,323)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	51,073,767	52,230,044
Federal direct lending receipts	29,931,796	20,298,062
Federal direct lending disbursements	(29,931,796)	(20,298,062)
Gifts and grants for other than capital purposes	4,347,283	3,784,141
Endowment gifts	107,772	69,980
Net cash provided by noncapital financing activities	55,528,822	56,084,165
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt	4,819,949	48,000,000
Capital appropriations	7,749,321	13,951,369
Capital grants, gifts and other payments	865,886	51,827
Purchases of capital assets	(25,792,931)	(47,541,945)
Principal paid on capital debt and leases	(6,512,418)	(2,342,748)
Interest paid on capital debt and leases	(4,228,722)	(3,466,195)
Net cash provided (used) by capital financing activities	(23,098,915)	8,652,308
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	31,628,709	30,047,830
Investment income	1,893,830	2,605,022
Purchase of investments	(32,036,486)	(31,576,141)
Net cash provided by investing activities	1,486,053	1,076,711
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,045,473)	20,093,861
CASH AND CASH EQUIVALENTS, beginning of year	33,897,502	13,803,641
CASH AND CASH EQUIVALENTS, end of year	$ 26,852,029	$ 33,897,502

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

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).

The University follows the "business-type" activities requirements of GASB Statement No. 34, which provides that the following components 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.

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.

1. Significant Accounting Policies (continued)

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 expensed as incurred.

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

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

Reclassifications

Certain fiscal year 2002 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. Gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

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

1. Significant Accounting Policies (continued)

Revenue Recognition (continued)

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

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 total return of 4.6% and 3.0% for the years ended June 30, 2003 and 2002, respectively.

At June 30, 2003 and 2002, the bank balances of cash and certificates of deposit were $156,919 and $493,202, respectively. Of the total bank balances, $100,000 at June 30, 2003 and $200,000 at June 30, 2002 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.

	2003	**2002**
Cash (overdraft) and certificates of deposit, net	$ (1,034,696)	$ (2,826,671)
Demand obligations	21,582,003	14,116,246
U.S. Treasury bonds and notes	4,892,140	2,132,416
U.S. government-backed securities	6,103,845	6,441,391
Corporate bonds and notes	12,041,997	12,674,417
Mutual funds	807,273	1,502,529
Common stock	4,098,762	3,493,749
Other investments	476,239	341,161
	$48,967,563	$37,875,238
Cash and cash equivalents	$20,547,307	$11,289,575
Other long-term investments in pooled cash	28,420,256	26,585,663
	$48,967,563	$37,875,238

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 5.2% and (6.4)% for the years ended June 30, 2003 and 2002, respectively. The University's investments in pooled investment funds are uninsured.

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

	2003	2002
Pooled investment funds	$19,304,280	$19,781,025
Money market funds	6,304,722	22,607,927
Other investments	133,000	133,000
	$25,742,002	$42,521,952
Endowment investments	$15,558,796	$16,010,444
Restricted cash and cash equivalents	6,304,722	22,607,927
Other long-term investments, excluding pooled cash portion	3,878,484	3,903,581
	$25,742,002	$42,521,952

According to the laws 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 $1,959,905 in 2003 and $2,137,927 in 2002.

	2003	2002
Tuition and fees	$2,707,133	$3,213,344
Auxiliary enterprises	569,600	594,204
Contracts and grants	2,096,245	2,465,665
Pledges	1,156,621	1,527,585
Other receivables	228,734	223,918
Total accounts receivable	$6,758,333	$8,024,716

5. Appropriation Receivable

The annual state operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued as of the end of its fiscal year the payments to be received in July and August. As of June 30, 2003 and 2002, the accrual of the July and August state operating appropriation payments created an appropriation receivable of $9,000,620 and $9,524,490, respectively. As of June 30, 2003 and 2002, the state capital appropriation receivable was $1,373,259 and $4,645,128, respectively.

6. Capital Assets

The following table presents the changes in the various capital asset categories for fiscal years 2003:

Asset Classification	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
Land	$ 4,324,914	–	–	$ 4,324,914
Land improvements and infrastructure	21,001,173	$ 5,325,066	–	26,326,239
Buildings	200,783,279	56,903,970	–	257,687,249
Equipment	40,288,323	3,420,518	$ 1,911,051	41,797,790
Library acquisitions	20,760,903	1,005,113	17,625	21,748,391
Construction in progress (net)	52,569,222	(45,515,677)	–	7,053,545
Total	339,727,814	21,138,990	1,928,676	358,938,128
Accumulated depreciation:				
Land improvements and infrastructure	(6,211,642)	(1,047,961)	–	(7,259,603)
Buildings	(60,753,532)	(5,443,852)	–	(66,197,384)
Equipment	(28,827,757)	(3,657,308)	(1,878,932)	(30,606,133)
Library acquisitions	(14,949,166)	(1,099,247)	(17,625)	(16,030,788)
Total	(110,742,097)	(11,248,368)	(1,896,557)	(120,093,908)
Total capital assets, net	$ 228,985,717	$ 9,890,622	$ 32,119	$ 238,844,220

7. State Building Authority

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

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

7. State Building Authority (continued)

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 synthetic fixed rate of 4.62%. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 4.62%. No amounts were paid or received when the swap was initiated. The University has not calculated the fair value of the swap agreement. The University is currently making payments under the swap agreement.

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

	Principal	Interest	Total
2004	$ 1,645,000	$ 4,061,131	$ 5,706,131
2005	1,795,000	3,983,331	5,778,331
2006	1,835,000	3,893,581	5,728,581
2007	1,885,000	3,797,481	5,682,481
2008	2,005,000	3,704,018	5,709,018
2009-2013	11,095,000	16,856,333	27,951,333
2014-2018	13,490,000	14,017,725	27,507,725
2019-2023	17,415,000	10,579,045	27,994,045
2024-2028	22,550,000	6,042,821	28,592,821
2029-2031	16,435,000	1,112,293	17,547,293
	$90,150,000	$68,047,759	$158,197,759

Interest includes payments and receipts under the swap agreement at the synthetic fixed rate of 4.62%. The variable rate paid on the bonds was 1.08% at June 30, 2003.

8. Long-Term Liabilities (continued)

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. However, as of June 30, 2003 the counterparty to the swap agreement was rated A by Standards & Poors, A+ by Fitch and A2 by Moody's. The swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest–paying financial instruments are based on different indexes. As these rates change, the overall synthetic rate on the bonds may change. The swap agreement includes collateral requirements intended to mitigate the credit risk.

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

The University capitalized construction period interest of $480,390 and $1,097,418 in the fiscal years ended June 30, 2003 and 2002, respectively, as part of the assets constructed.

Note Payable

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

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

	Principal	**Interest**	**Total**
2004	$1,068,292	$113,781	$1,182,073
2005	1,098,757	83,316	1,182,073
2006	1,129,787	52,286	1,182,073
2007	1,161,693	20,380	1,182,073
2008	98,052	224	98,276
	$4,556,581	$269,987	$4,826,568

8. Long-Term Liabilities (continued)

Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease, note and bonds payable:					
Capital lease obligations	$ 4,674,049	–	$4,674,049	–	–
Note payable	–	$4,819,950	263,369	$ 4,556,581	$1,068,292
Bonds payable:					
General revenue bonds, series 1995	34,425,000	–	720,000	33,705,000	755,000
General revenue bonds, series 1997	9,300,000	–	855,000	8,445,000	890,000
General revenue bonds, series 2001	48,000,000	–	–	48,000,000	–
Total lease, note and bonds payable	96,399,049	4,819,950	6,512,418	94,706,581	2,713,292
Other liabilities:					
Compensated absences	2,246,296	67,341	–	2,313,637	2,313,637
Federal portion of Perkins loan program	1,951,588	106,644	81,939	1,976,293	–
Total other liabilities	4,197,884	173,985	81,939	4,289,930	2,313,637
Total long-term liabilities	$100,596,933	$4,993,935	$6,594,357	$98,996,511	$5,026,929

9. Expenditures by Natural Classification

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

	2003	2002
Employee compensation	$109,433,413	$102,777,383
Supplies and other services	35,966,997	34,696,711
Student aid	4,172,043	3,363,362
Depreciation	11,248,368	10,465,941
Total	$160,820,821	$151,303,397

10. Cash Flow Statement

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

	2003	2002
Operating loss	$(53,550,720)	$(52,795,208)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation expense	11,248,368	10,465,941
Changes in assets and liabilities:		
Accounts receivable, net	895,419	31,958
Inventories	276,152	(229,022)
Deposits and prepaid expenses	463,114	(681,942)
Student loans receivable, net	90,132	113,747
Accounts payable and accrued expenses	(446,258)	125,858
Accrued payroll	618,441	(1,873,495)
Compensated absences	67,341	153,409
Deferred revenue and student fees	(230,648)	(409,505)
Deposits	(417,479)	(602,151)
Federal portion of student loan program	24,705	(18,913)
Net cash used by operating activities	$(40,961,433)	$(45,719,323)

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, 2003 and 2002 were $8,760,282 and $8,236,550, 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, 2003, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan were fully funded.

The University provides termination benefits resulting from unused sick days upon retirement for certain employee groups. These benefits are funded and paid by the University.

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, 2003 and 2002 were $881,753 and $838,300, respectively. The University is not required to and does not record a post-employment health care benefit obligation under current GASB guidance.

11. Employee Benefits (continued)

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.

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.

The University is the guarantor on certain faculty residence mortgages. As of June 30, 2003, the amount subject to guarantee by the University was $2,024,512.

The estimated costs to complete construction projects in progress are $9,662,626 as of June 30, 2003. These projects will be funded from State and State Building Authority appropriations, private gifts, bond sale proceeds, and other University funds.

As of June 30, 2003, future minimum payments required under operating leases for various equipment totaled $723,808 to be paid over the next four fiscal years. The future minimum payments as of June 30, 2002, totaled $1,140,902.

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, 2003 and 2002, the net assets of the Foundation were $7,203,109 and $7,694,415, respectively. The Foundation transferred $1,015,919 to the University during fiscal 2002-2003 and $942,758 during fiscal year 2001-2002.

The Foundation's cash and pooled investments held by the University are included in the University's statement of net assets. This amount was cash due the University of $179,895 at June 30, 2003 and cash due the Foundation of $248,034 at June 30, 2002.