

**Agendum  
Oakland University  
Board of Trustees  
Audit Committee  
October 11, 2017**

**DRAFT FINANCIAL STATEMENTS, JUNE 30, 2017 AND 2016**

1. **Division and Department:** Finance and Administration, Controller's Office
2. **Introduction:** The draft Financial Statements, June 30, 2017 and 2016 for Oakland University (University) have been completed (Attachment A).

The audit opinion of Plante & Moran P.L.L.C. (P&M) states, in part, "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as of June 30, 2017, and the respective changes in its financial position, and where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America."

P&M's draft Board of Trustees Letter (Attachment B) summarizes the audit engagement and required communications. Management's draft Representation Letter (Attachment C) details the representations made by the University Administration to P&M regarding the audit work performed.

Representatives from P&M will present the draft Financial Statements to the Board of Trustees' Audit Committee.

3. **Previous Board Action:** As a result of a competitive bid process, the public accounting firm Plante & Moran was appointed by the Board of Trustees (Board) on February 13, 2017.
4. **Budget Implications:** The annual financial audits are budgeted for in the General Fund. No budget variances have occurred or are expected.
5. **Educational Implications:** None.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** The Financial Statements were prepared by the Controller's Office and reviewed by the Vice President for Finance and Administration, and President, and audited by P&M.
8. **Board Action to be Requested:** At the October 16, 2017 Formal Session the Board will be asked to accept the Financial Statements, June 30, 2017 and 2016.

**9. Attachments:**

- A. Draft Financial Statements, June 30, 2017 and 2016
- B. Draft Board of Trustees Letter dated October 11, 2017
- C. Draft Representation Letter dated October 11, 2017

**Submitted by Vice President for Finance and Administration**  
**and Treasurer John W. Beaghan:**

*JWB*  
(Please initial)

**Reviewed by Secretary Victor A. Zambardi:**

*VZ*  
(Please initial)

**Reviewed by President Ora Hirsch Pescovitz:**

*OHP*  
(Please initial)

**Oakland University**  
**Contents**  
**June 30, 2017 and 2016**

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**Introduction**

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University, Oakland or OU) for the fiscal year ended June 30, 2017 with selected comparative information for the years ended June 30, 2016 and 2015.

The University is a state-supported institution of over 20,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as programs in continuing education. The University is recognized as one of the country's 112 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 132 baccalaureate degree programs and 138 graduate and certificate programs. The University's student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom.

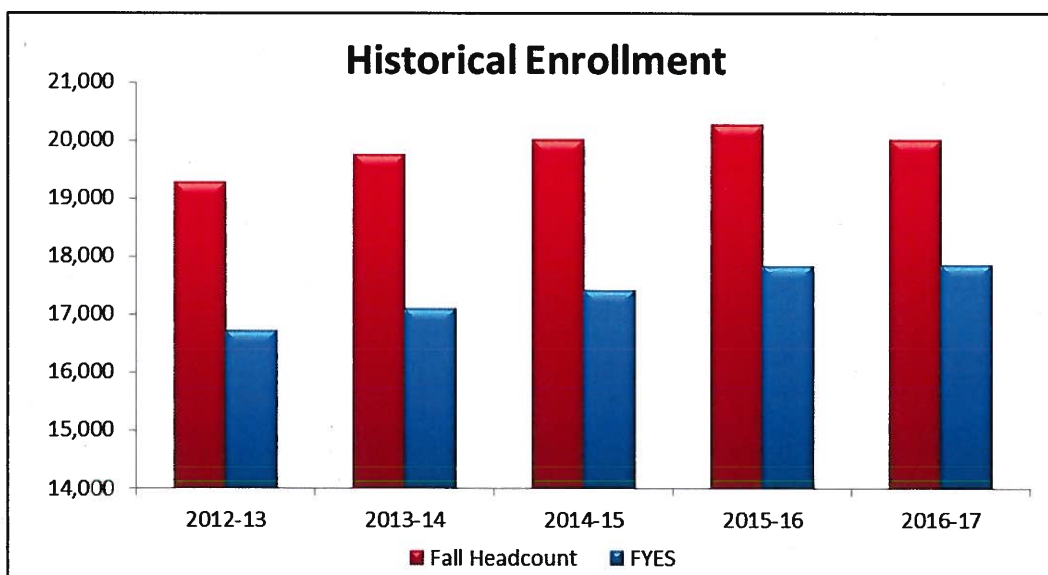
The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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

**Fiscal Year 2017 Enrollment and Operations Highlights**

- In fiscal year 2017, student headcount enrollment for the fall 2016 semester decreased 1.2% to 20,012. This was offset by a 2,062 increase in credit hours for the Fall 2016 and Winter 2017 semesters. Undergraduate enrollment was 16,568 (83%) and graduate enrollment was 3,444 (17%).
- Enrollment based on Fiscal Year Equated Students (FYES) increased 0.1% to 17,862. This represents the 23<sup>rd</sup> straight year of FYES enrollment growth.

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



- Forbes listed Oakland University among the top universities in Michigan. Oakland was the fourth highest rated public university in Michigan and first of all schools in Oakland, Macomb and Wayne Counties. OU was also ranked in the top 200 in US public colleges and US research universities.
- In June 2017, The National Council for Home Safety and Security ranked Oakland University the third safest large university in the US. The criteria used in their rankings include violent crimes, violations of the Violence Against Women Act, total arrests, and local crimes. Data used in the study came from the FBI's Uniform Crime Report and the National Center for Education Statistics.
- Oakland University's School of Business Administration was named in the Princeton Review's list of the best business schools. According to Robert Franek, Princeton Review Senior VP-Publisher, Oakland is one of the top schools to earn an MBA. Methodology used in the rankings includes school reported data as well as surveys of students.
- In May 2017, the Board of Trustees voted unanimously to appoint Ora Hirsch Pescovitz, M.D., as Oakland University's seventh president. Dr. Pescovitz previously worked as Senior Vice President and U.S. Medical Leader at Eli Lilly and Company. Her distinguished career in higher education includes service as the University of Michigan's first female Executive Vice President for Medical Affairs and Health System Chief Executive Officer (CEO), as well as a 21-year career in various roles at Indiana University, and President and CEO of Riley Hospital for Children.
- Oakland University's School of Engineering and Computer Science is a top producer of workers on self-driving, autonomous, vehicles. In May 2017, The San Francisco Business Times reported about 1.75% of all engineering jobs on autonomous vehicles are being filled by Oakland graduates, making it the fifth highest producer of workers in the field.
- In April 2017, Oakland University broke ground on expansion of the Oakland Center. The expansion will add 60,000 square feet to the building's existing 140,000 square foot frame. The \$46.6 million project is financed by a combination of general revenue bonds and a public-private partnership with Chartwells. The project is expected to be completed by Fall 2018.
- Oakland University's Project Upward Bound has been awarded a \$3 million grant by the Department of Education. Project Upward Bound prepares high school students from Pontiac and Oak Park for college success in summer academies and academic year programs. Funding will be used to implement academic, social, cultural, and career programming that focuses on empowering participants to earn postsecondary degrees.
- Oakland University's Biology Department received a grant of approximately \$1 million to research a deadly amphibian disease. The National Science Foundation awarded Dr. Thomas Raffel the grant for his research on the effects of temperature variation on fungus diseases. The infectious disease has been linked to mass amphibian deaths and extinctions throughout the world.

- Oakland University now offers a Master's program in Cyber Security which is the first of its kind in Michigan. Dr. Huirong Fu, professor and program coordinator, says the goal of the program is to provide students knowledge in theory and practice that helps them understand and develop techniques to confront new threats. Cyber security is a fast growing field as cybercrimes have affected 71 million Americans and cost \$110 billion in recent years.
- The Southern Student Housing Complex is well on its way to being completed for the Fall 2018 semester. The \$78 million residence hall will span 289,000 square feet and is financed by the issuance of general revenue bonds. The complex is being designed and constructed in accordance with Leadership in Energy and Environmental Design (LEED) Gold Standards to ensure the residence hall is environmentally conscious.

### **Overview of the Financial Statements**

This annual report consists of financial statements which have been prepared in accordance with the "business-type" activities requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The fundamental objective of the financial statements is to provide an overview of the University's economic condition. The statements and their primary purpose are discussed below.

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

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

### **Notes to the Financial Statements**

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University's notes to the financial statements can be found on pages 18-45 of this financial report.

**University Financial Statement Summaries**

*University Statements of Net Position*

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

Condensed Statements of Net Position	June 30,		Change
	2017	2016	
	<i>(in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 81,043	\$ 63,537	28%
Capital assets, net	538,937	500,924	8%
Other noncurrent assets	346,114	375,913	3%
Total assets	<u>966,094</u>	<u>940,374</u>	-8%
<b>Deferred outflows of resources</b>	11,637	15,835	-27%
<b>Liabilities</b>			
Current liabilities	72,462	62,644	16%
Noncurrent liabilities	394,153	404,678	-3%
Total liabilities	<u>466,615</u>	<u>467,322</u>	0%
<b>Net position</b>			
Net investment in capital assets	269,215	262,726	2%
Restricted nonexpendable	28,084	26,926	4%
Restricted expendable	43,762	37,561	17%
Unrestricted	170,055	161,674	5%
Total net position	<u>\$ 511,116</u>	<u>\$ 488,887</u>	5%

The University's total assets were \$966.1 million and \$940.4 million at June 30, 2017 and 2016, respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, library acquisitions, and construction in progress. Capital assets represent 56% and 53% of the University's total assets at June 30, 2017 and 2016, respectively. Capital expenditures totaled \$61.2 million in 2017 and \$33.8 million in 2016. Included in capital expenditures for 2017 were the Southern Student Housing Complex, expansion of the Oakland Center, Vandenberg Hall infrastructure improvements, and parking expansion projects. Additional capital expenditures include completion of a cogeneration system at the University's Central Heating Plant, a project consisting of constructing and installing a combined heat and power cogeneration system to provide a significant reduction in the University's future energy costs, campus infrastructure projects, and other campus enhancement projects. Depreciation expense was \$22.9 million in 2017 and \$22.0 million in 2016.

Current assets consist primarily of cash and cash equivalents and receivables due within one year. Cash and cash equivalents increased \$17.5 million to \$81.0 million at June 30, 2017 largely due to an increase in investment income, coupled with Summer Session II tuition payments due June 29<sup>th</sup>, and an increase in accounts payable. Accounts receivable decreased \$1.3 million to \$11.0 million at June 30, 2017. This is largely due to a \$1.7 million increase in the Allowance for Doubtful Accounts from continued aging of older receivables, offset with an increase of \$0.4 million in other related receivables. Other current assets of \$14.9 million include a State operating appropriation receivable of \$9.1 million, pledges receivable of \$2.8 million, \$1.4 million in deposits, and \$1.3 million in inventory.



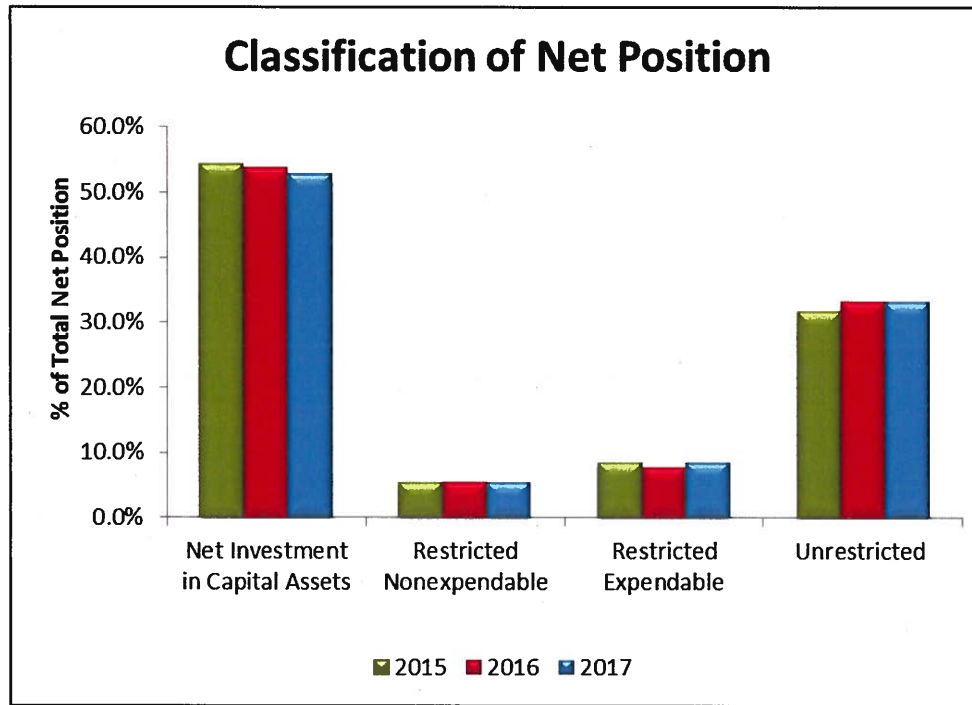
Other noncurrent assets consist primarily of restricted cash and cash equivalents, endowment and other long-term investments. Restricted Cash decreased \$37.9 million due to major construction related expenditures incurred during the year. Endowment investments were \$91.6 million at June 30, 2017 and \$82.0 million at June 30, 2016. The increase in the endowment fair market value was due to favorable outcomes in the market and generous contributions. The total return, net of fees, on the University's endowment investments was 12.4% for 2017 and -1.4% for 2016. Other long-term investments were \$147.3 million at June 30, 2017 and \$146.4 million at June 30, 2016, and include fixed income and equity securities. The increase is attributed to favorable market returns and a long term investment strategy. The total return on the University's other long-term investments was 3.5% for 2017 and 2016, net of fees. The University's investments are being managed according to Board of Trustees (Board) policies.

Deferred outflows of resources were \$11.6 million at June 30, 2017 and \$15.8 million as of June 30, 2016. Deferred outflows of resources consists of the accumulated change in fair value of the 2008 Swap, early extinguishment of debt, and the deferral of swap termination costs for the 2001 Bonds. The increase in the deferred outflows of resources is primarily due to the fair market value of the 2008 Swap.

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

The University's total liabilities were \$466.6 million at June 30, 2017 and \$467.3 million at June 30, 2016. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, and unearned revenue. Of the \$9.9 million increase in current liabilities, \$2.0 million is due to a pass through payment to Beaumont Health from insurance providers; a \$1.9 million increase in deferred revenue due to fiscal year 2018 tuition payments that were due June 29<sup>th</sup>; and an increase of \$5.8 million in accounts payable due to increased supplier obligations and construction activity at year end compared to June 30, 2016. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 80% of the University's total liabilities as of June 30, 2017 and 82% as of June 30, 2016. Noncurrent long-term liabilities decreased by \$10.5 million largely due to a \$9.5 million decrease in long term liabilities related to bond principal payments and amortization of bond premiums. An additional decrease of \$3.9 million was recognized in derivative instruments consisting of the accumulated change in fair value of the 2008 Swap. These decreases were offset by an increase in other postemployment benefits (OPEB) obligation by \$2.2 million as result of actuarial studies used to determine the cost of the current retiree health insurance benefit program.

The following graph shows net position by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net position:

	June 30,	
	2017	2016
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 4,012	\$ 3,620
Capital projects and repair reserves	50,690	51,409
Funds designated for departmental use	35,387	32,675
Funds functioning as endowments	18,052	16,733
Gifts and investment income reserves	39,833	36,320
Retirement and insurance reserves	8,951	6,984
Encumbrances and carryforwards	13,129	13,933
<b>Total Unrestricted Net Position</b>	<b>\$ 170,054</b>	<b>\$ 161,674</b>

Auxiliary enterprises consist of operating fund balances at year end for the various auxiliary units, the largest of which are University Housing, Meadow Brook Hall, Golf & Learning Center, and Oakland Center.

Capital projects and repair reserves consist of the unexpended portion of ongoing capital projects, reserves for plant renewal, and bond sinking funds.

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

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

Gifts and investment income reserves include the University's unrestricted gifts, and realized and unrealized investment income reserves. The increase for 2017 is predominately attributable to investment earnings.

Retirement and insurance reserves include the University's reserves and liability recorded to date for OPEB. The University has an actuarial accrued liability (AAL) of \$39.9 million as of June 30, 2017. The amount of the AAL that is recorded on the financial statements increased \$2.2 million during the year to \$15.5 million. In addition to the recorded liability, the University had an unrecorded AAL of \$24.4 million. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$22.8 million, earnings from which will be used to offset annual postemployment contributions. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The date of adoption is for the fiscal year ending June 30, 2018, with earlier adoption encouraged. GASB Statement No. 75 will require the unrecorded OPEB liability of \$24.4 million, which is currently disclosed in the footnotes, to be recorded on the face of the financial statements in the year of implementation.

The retirement and insurance balance also includes reserves for unemployment and workers' compensation for which the University is self-insured.

Encumbrances represent financial commitments (i.e. purchase order) for which the ordered items have not been received or paid by fiscal year end. Carryforwards are funds for departmental use in the upcoming fiscal year for which financial commitments have not been executed but have been planned.

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position	2017	2016	2015	% Change 2017-2016	% Change 2016-2015
		<i>(in thousands)</i>			
<b>Operating revenues</b>					
Net tuition	\$ 207,392	\$ 200,021	\$ 179,164	4%	12%
Grants and contracts	11,346	11,467	11,467	-1%	0%
Departmental activities	12,488	11,137	8,748	12%	27%
Auxiliary activities, net	32,024	30,932	27,758	4%	11%
Other	202	421	248	-52%	70%
Total operating revenues	<u>263,452</u>	<u>253,978</u>	<u>227,385</u>	4%	12%
<b>Operating expenses</b>	<u>326,619</u>	<u>316,690</u>	<u>298,281</u>	3%	6%
Operating loss	<u>(63,167)</u>	<u>(62,712)</u>	<u>(70,896)</u>	1%	-12%
<b>Nonoperating revenues (expenses)</b>					
State appropriations	49,921	48,372	48,384	3%	0%
Gifts	4,517	4,516	4,673	0%	-3%
Investment income, net	17,303	4,815	6,768	259%	-29%
Interest expense	(8,304)	(8,683)	(8,994)	-4%	-3%
Pell grants	20,758	20,845	21,879	0%	-5%
Other	(108)	(232)	22	-53%	-1,155%
Net nonoperating revenues	<u>84,087</u>	<u>69,633</u>	<u>72,732</u>	21%	-4%
Income before other revenues	<u>20,920</u>	<u>6,921</u>	<u>1,836</u>	202%	277%
Capital appropriations	162	1,857	16,603	-91%	-89%
Capital grants and gifts	63	16	253	294%	-94%
Additions to permanent endowments	1,084	932	1,630	16%	-43%
Total other revenues	<u>1,309</u>	<u>2,805</u>	<u>18,486</u>	-53%	-85%
Increase in net position	<u>22,229</u>	<u>9,726</u>	<u>20,322</u>	129%	-52%
<b>Net position</b>					
Beginning of year	488,887	479,161	458,839	2%	4%
End of year	<u>\$ 511,116</u>	<u>\$ 488,887</u>	<u>\$ 479,161</u>	5%	2%

Operating revenues were \$263.5 million in 2017, \$254.0 million in 2016, and \$227.4 million in 2015. The 4% increase in 2017 over 2016 was primarily due to increases in tuition revenue net of scholarship allowances, which was higher due to an increase in student credit hours and tuition rates increasing by an average 3.9% for undergraduates and graduates.

The University earned \$17.3 million in net investment income. This growth is comprised of \$7.2 million, a 3.5% rate of return, in University pooled working capital investments and \$10.1 million, a 12.4% rate of return, in the endowment investments.

Operating expenses were \$326.6 million in 2017, \$316.7 million in 2016, and \$298.3 million in 2015. The operating expense increase of 3% in 2017 over 2016 primarily resulted from supporting contractual agreements and increases in instruction, academic support, and student services.

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

***University Operating Expenses***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>% Change</u> <u>2017-2016</u>	<u>% Change</u> <u>2016-2015</u>
	<i>(in thousands)</i>				
<b>Education and general</b>					
Instruction	\$ 118,867	\$ 117,495	\$ 109,730	1%	7%
Research	9,096	8,747	8,744	4%	0%
Public service	5,082	5,701	5,132	-11%	11%
Academic support	49,978	44,477	42,856	12%	4%
Student services	33,998	30,869	29,476	10%	5%
Institutional support	29,560	26,725	24,981	11%	7%
Operations and maintenance of plant	20,010	21,748	19,772	-8%	10%
Depreciation	22,869	22,014	19,229	4%	14%
Student aid	10,421	12,795	13,434	-19%	-5%
Total education and general	<u>299,881</u>	<u>290,571</u>	<u>273,354</u>	3%	6%
<b>Auxiliary activities</b>	26,616	26,103	24,922	2%	5%
<b>Other expenses</b>	123	16	5	669%	220%
Total operating expenses	<u>\$ 326,620</u>	<u>\$ 316,690</u>	<u>\$ 298,281</u>	3%	6%

Education and general expenses increased 3% in 2017 over 2016 and 6% in 2016 over 2015. The increases are mainly attributable to an increase in academic program offerings to meet the needs of increased student credit hours, contractual agreements, and equipment purchases related to the University's capital and technology expansion programs.

Instruction for 2017 increased by \$1.4 million largely due to an increase in compensation of \$2.7 million due to the hiring of 9 new faculty positions and overall compensation increases for existing faculty offset by a \$1.0 million decrease in supplies and services. The Academic Support increase is predominantly due to an increase of \$3.9 million in compensation and \$2.3 million in technology upgrades offset by a \$0.6 million decrease in equipment purchases. The increase in Student Services is related to an increase of \$2.0 million in compensation increases and the hiring of academic advisors and counselors, coupled with a \$0.7 million Advertising & Marketing expense targeting undergrads. The increase in Depreciation for 2017 is largely due to the completion of projects and equipment purchases placed into service during 2017.

The University's operating loss was \$63.2 million in 2017, \$62.7 million in 2016, and \$70.9 million in 2015. Offsetting these losses were net nonoperating revenues of \$84.1 million in 2017, \$69.6 million in 2016, and \$72.7 million in 2015.

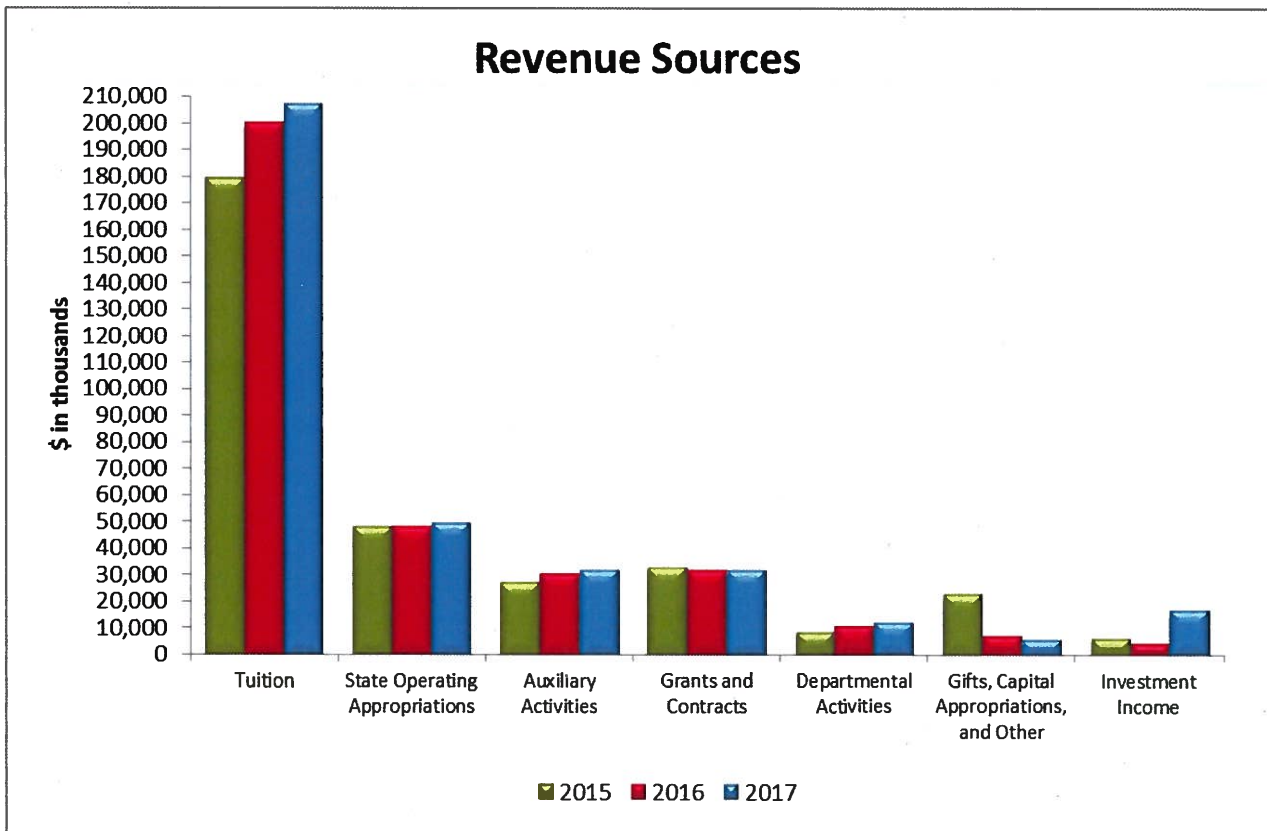
Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$49.9 million in 2017, \$48.4 million in 2016, and \$48.4 million in 2015.

Nonoperating revenues also include \$20.8 million from Federal Pell Grants in 2017. Pell Grant revenue for 2016 and 2015 was \$20.8 million and \$21.9 million, respectively.

Other revenues primarily consist of \$1.2 million of permanent endowments and gifts in addition to \$0.2 million in capital appropriations from the State Building Authority for the completion of the Engineering Center.

Net position increased \$22.2 million during 2017 and is primarily attributed to nonoperating activities including \$17.3 million of investment income, \$4.5 million in gifts, and \$1.1 million in additions to permanent endowments. The \$9.8 million increase in 2016 is primarily attributed to nonoperating activities including \$4.8 million of investment income, \$4.5 million in gifts, and \$0.9 million of additions to permanent endowments. The \$20.3 million increase in 2015 is primarily attributed to nonoperating activities including \$6.8 million of investment income, \$4.7 million in gifts, and \$1.6 million of additions to permanent endowments.

A graphic illustration of each revenue source is as follows:



*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>2017</u>	<u>2016</u>	<u>2015</u>
	<i>(in thousands)</i>		
<b>Cash from</b>			
Operating activities	\$ (30,762)	\$ (23,717)	\$ (48,992)
Noncapital financing activities	77,827	76,513	77,436
Capital financing activities	(73,428)	92,883	(53,690)
Investing activities	<u>7,227</u>	<u>(11,592)</u>	<u>11,685</u>
Net change in cash and cash equivalents	(19,136)	134,087	(13,561)
<b>Cash and cash equivalents</b>			
Beginning of year	<u>178,153</u>	<u>44,066</u>	<u>57,627</u>
End of year	<u>\$ 159,017</u>	<u>\$ 178,153</u>	<u>\$ 44,066</u>

The primary cash receipts from operating activities consist of tuition, auxiliary activities, and grant and contract revenues. Cash disbursements primarily include salaries and wages, benefits, supplies, utilities, and scholarships. The decrease in net cash from operating activities is primarily the result of an increase in tuition that was less than the increases in payments to employees and suppliers. This decrease in cash from operating activities is ultimately offset by increased cash from noncapital financing activities

Noncapital financing activities include State appropriation cash receipts of \$49.6 million in 2017, \$48.4 million in 2016, and \$47.9 million in 2015; Pell Grants totaling \$20.8 million in 2017, \$20.9 million in 2016, and \$21.9 million in 2015; and gift cash receipts of \$7.3 million in 2017, \$7.2 million in 2016, and \$7.3 million in 2015.

Capital financing activities for 2017 include capital expenditures of \$57.8 million and debt service payments in the amount of \$15.8 million. Cash disbursements for capital expenditures in 2017 included \$28.3 million for the Southern Student Housing Complex; \$14.0 million for renovations in Vandenberg Hall; \$4.2 million for the Oakland Center expansion; \$4.2 million in equipment, \$0.4 million in library books; \$1.2 million for parking lot expansion; \$1.2 million for the backup datacenter generator at Dodge Hall; \$0.9 million for the cogeneration system at the University's Central Heating Plant; \$0.6 million for renovations in Anibal and Pyle House; \$0.5 million for the Elliott Hall expansion design; and \$2.3 million in various infrastructure and building improvements.

Capital financing activities for 2016 include capital expenditures of \$29.6 million, debt service payments in the amount of \$16.1 million, the issuance of the 2016 Bonds for \$113.1 million with a \$20.8 million premium, and \$4.6 million in capital appropriations. Cash disbursements for capital expenditures in 2016 included \$7.9 million for the cogeneration system at the University's Central Heating Plant; \$5.2 million in equipment, \$0.4 million in library books; \$3.6 million for the Engineering Center; \$2.7 million for infrastructure repairs; \$1.7 million for the Southern Student Housing Complex; \$1.2 million for renovations in North Foundation and Vandenberg Halls; \$0.5 million in repairs to Hill and Van Wagoner House; \$0.5 million for technological upgrades to the O'Rena; and \$5.9 million in various infrastructure and building improvements.

Capital financing activities for 2015 include capital expenditures of \$80.1 million, debt service payments in the amount of \$16.3 million, the retirement of the 2009 Bonds for \$30.8 million which were refunded

by the 2014 Bonds for \$32.4 million, the issuance of the 2014 Certificates of Participation for \$16.0 million, and \$24.5 million in capital appropriations. Cash disbursements for capital expenditures in 2015 included \$25.4 million for the Engineering Center; \$14.0 million in equipment; \$9.2 million for a new parking structure; \$6.4 million for the Athletic and Recreation Outdoor Complex; \$5.7 million for Oak View, the new student housing complex; \$5.1 million for renovations in North Hamlin, North Foundation and Vandenberg Halls; \$4.4 million for the cogeneration system at the University's Central Heating Plant; \$4.3 million for the Athletic Dome; and \$3.0 million for construction of the Elliott Tower.

Cash from investing activities is due to the timing variations of purchases, sales, and investment income.

#### **Commitments**

The estimated cost to complete construction projects in progress is \$110.5 million as of June 30, 2017, due in large part to the ongoing construction costs of the new Southern Student Housing Complex in the amount of \$45.5 million, expansion of the Oakland Center for \$42.5 million, conversion of Anibal and Fitzgerald Halls into academic and administrative office space for \$5.9 million, parking expansion initiative for \$4.7 million, infrastructure renovations at Vandenberg Hall for \$4.5 million, architectural and engineering services for the expansion of Elliott Hall for \$1.3 million, and various campus enhancement projects totaling \$6.1 million. The Southern Student Housing Complex will be funded from proceeds from the 2016 Bonds. The Oakland Center expansion and conversion of the Anibal and Fitzgerald Halls will be funded from the 2016 Bonds and other sources. The parking expansion project and architectural and engineering services for the Elliott Hall expansion and other campus enhancements are funded from University resources.

#### **University Credit Rating**

On May 18, 2016, Moody's Investors Service reaffirmed the University's underlying credit rating as A1 - Stable.

#### **Deferred Plant Renewal**

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

#### **Factors or Conditions Impacting Future Periods**

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

- Enrollment Management
- Demographics, including number of high school graduates
- Stability of State appropriations (including performance funding)
- Increased globalization and mobilization of student population
- Program growth and development
- New initiatives
- New and emergent technologies
- Productivity improvements
- Cost of inflation



## Independent Auditor's Report

To the Board of Trustees  
Oakland University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oakland University (the "University"), a component unit of the State of Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Oakland University's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as June 30, 2017, and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The basic financial statements of Oakland University as of and for the year ended June 30, 2016 were audited by a predecessor auditor, which expressed an unmodified opinion on the basic financial statements. The predecessor auditor's report was dated September 22, 2016.

**Required Supplementary Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 on our consideration of the Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oakland University's internal control over financial reporting and compliance.

October 11, 2017

**Oakland University**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

**DRAFT**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 55,070,709	\$ 36,326,043
Accounts receivable, net (Note 3)	10,962,659	12,238,304
Appropriations receivable (Note 4)	9,076,494	8,794,892
Pledges receivable, net (Note 5)	2,770,161	3,044,395
Inventories	1,330,704	1,315,137
Deposits and prepaid expenses	1,405,656	1,400,541
Student loans receivable, net (Note 6)	426,940	417,685
Total current assets	<u>81,043,323</u>	<u>63,536,997</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	103,946,335	141,826,463
Endowment investments (Note 2)	91,628,927	82,002,869
Other long-term investments (Note 2)	147,290,160	146,378,496
Pledges receivable, net (Note 5)	630,725	2,598,920
Student loans receivable, net (Note 6)	1,349,561	1,399,074
Derivative Instruments - swap asset (Note 7)	710,653	1,172,410
Capital assets, net (Note 8)	538,937,348	500,924,141
Other assets (Note 10)	557,479	534,560
Total noncurrent assets	<u>885,051,188</u>	<u>876,836,933</u>
Total assets	<u>966,094,511</u>	<u>940,373,930</u>
<b>Deferred outflows of resources (Note 11)</b>	<b>11,636,920</b>	<b>15,834,805</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	31,697,523	24,706,603
Accrued payroll	10,710,560	9,616,248
Long-term liabilities – current portion (Note 12)	10,505,963	10,367,359
Unearned revenue	17,002,817	15,799,369
Deposits	2,545,544	2,154,305
Total current liabilities	<u>72,462,407</u>	<u>62,643,884</u>
Noncurrent liabilities		
Unearned revenue	9,540,080	8,941,556
Derivative Instruments - swap liability (Note 7)	6,822,139	10,659,755
Long-term liabilities (Note 12)	362,315,151	371,793,499
Other postemployment benefits (Note 13)	15,475,899	13,283,315
Total noncurrent liabilities	<u>394,153,269</u>	<u>404,678,125</u>
Total liabilities	<u>466,615,676</u>	<u>467,322,009</u>
<b>Net position</b>		
Net investment in capital assets	269,215,208	262,726,165
Restricted nonexpendable	28,083,652	26,925,302
Restricted expendable	43,762,414	37,560,954
Unrestricted	170,054,481	161,674,305
Total net position	<u>\$ 511,115,755</u>	<u>\$ 488,886,726</u>

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

**Oakland University**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2017 and 2016**

**DRAFT**

	<u>2017</u>	<u>2016</u>
<b>Operating revenues</b>		
Tuition (net of scholarship allowances of \$55,559,300 in 2017 and \$51,835,300 in 2016)	\$ 207,391,734	\$ 200,021,083
Federal grants and contracts	8,611,026	8,358,976
State, local, and private grants and contracts	2,735,443	3,107,535
Departmental activities	12,487,514	11,136,937
Auxiliary activities (net of scholarship allowances of \$5,015,600 in 2017 and \$4,691,700 in 2016)	32,024,356	30,932,042
Other operating revenues	202,310	420,958
Total operating revenues	<u>263,452,383</u>	<u>253,977,531</u>
<b>Operating expenses</b>		
Education and general		
Instruction	118,867,157	117,494,623
Research	9,096,058	8,746,592
Public service	5,082,052	5,701,231
Academic support	49,978,113	44,477,261
Student services	33,997,655	30,869,161
Institutional support	29,560,435	26,725,590
Operations and maintenance of plant	20,009,892	21,748,139
Depreciation	22,869,006	22,013,804
Student aid	10,421,060	12,794,769
Auxiliary activities	26,615,456	26,103,007
Other expenses	122,729	15,971
Total operating expenses (Note 18)	<u>326,619,613</u>	<u>316,690,148</u>
Operating loss	<u>(63,167,230)</u>	<u>(62,712,617)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations (Note 4)	49,920,700	48,371,900
Gifts	4,516,984	4,516,308
Investment income (net of investment expenses of \$415,856 in 2017 and \$359,416 in 2016)	17,303,254	4,815,082
Interest on capital asset related debt	(8,304,071)	(8,683,095)
Pell grants	20,757,848	20,844,616
Other	(107,648)	(231,573)
Net nonoperating revenues	<u>84,087,067</u>	<u>69,633,238</u>
Income before other revenues	<u>20,919,837</u>	<u>6,920,621</u>
Capital appropriations	162,167	1,857,036
Capital grants and gifts	62,753	16,059
Additions to permanent endowments	1,084,272	931,776
Total other revenues	<u>1,309,192</u>	<u>2,804,871</u>
Increase in net position	<u>22,229,029</u>	<u>9,725,492</u>
<b>Net position</b>		
Beginning of year	488,886,726	479,161,234
End of year	<u>\$ 511,115,755</u>	<u>\$ 488,886,726</u>

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

**Oakland University**  
**Statements of Cash Flows**  
**June 30, 2017 and 2016**

**DRAFT**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Tuition	\$ 211,064,464	\$ 198,523,079
Grants and contracts	10,832,555	12,291,325
Payments to suppliers	(70,433,488)	(68,813,315)
Payments to employees	(216,892,983)	(205,000,346)
Payments for scholarships and fellowships	(10,421,060)	(12,794,769)
Loans issued to students	(5,503)	(219,341)
Collection of loans from students	44,083	297,238
Auxiliary enterprise charges	32,101,796	32,000,067
Other receipts	12,948,287	19,999,307
Net cash from operating activities (Note 18)	<u>(30,761,849)</u>	<u>(23,716,755)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	49,639,098	48,370,482
Federal direct lending receipts	112,688,367	109,478,387
Federal direct lending disbursements	(112,688,367)	(109,478,387)
Gifts and grants for other than capital purposes	27,386,694	27,273,778
Endowment gifts	800,955	868,667
Net cash from noncapital financing activities	<u>77,826,747</u>	<u>76,512,927</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from capital debt	-	133,903,191
Capital appropriations	245,760	4,621,625
Capital grants, gifts, and other receipts	-	32,118
Purchases of capital assets	(57,813,259)	(29,550,776)
Principal paid on capital debt and leases	(7,188,777)	(6,708,656)
Interest paid on capital debt and leases	(8,671,373)	(9,415,194)
Net cash from capital financing activities	<u>(73,427,649)</u>	<u>92,882,308</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	54,127,771	59,275,700
Investment income	2,520,632	1,806,398
Purchase of investments	(49,421,114)	(72,674,534)
Net cash from investing activities	<u>7,227,289</u>	<u>(11,592,436)</u>
Net change in cash and cash equivalents	<u>(19,135,462)</u>	134,086,044
<b>Cash and cash equivalents</b>		
Beginning of year	178,152,506	44,066,462
End of year	<u>\$ 159,017,044</u>	<u>\$ 178,152,506</u>

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

**1. Organization, Basis of Presentation, and Significant Accounting Policies**

**Organization**

Oakland University (University) is an institution of higher education and is considered to be a component unit of the State of Michigan (State). Its Board of Trustees (Board) is appointed by the Governor of the State. Accordingly, the University is included in the State's financial statements as a discretely presented component unit. Transactions with the State relate primarily to appropriations for operations, capital improvements and grants from various State agencies.

**Basis of Presentation**

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

The University follows the "business-type" activities requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These statements require the following components of the University's financial statements:

- Management's Discussion and Analysis
- Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows
- Notes to the financial statements

GASB Statements No. 34 and 35 establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
  - Nonexpendable – Net position subject to externally imposed constraints which permanently restrict the University from expending such assets. Such assets include the University's permanent endowment funds.

Expendable – Net position where use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.

**1. Organization, Basis of Presentation, and Significant Accounting Policies (continued)**

- Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. Substantially all of the unrestricted net position is designated for academic, research, and outreach programs and initiatives, postemployment benefits, operating and stabilization reserves, capital projects and capital asset renewals, and replacements.

GASB Statements No. 34 and 35 also require the University to report revenues net of discounts and allowances. Gift and grant revenues are recognized at the later of the pledge date or when the eligibility requirement of the gifts and grants are met. In addition, direct lending is not reported as federal revenue and scholarship expenditures but is instead treated as an agency transaction.

**Significant Accounting Policies**

**Cash and Cash Equivalents**

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

**Cash Flow Reporting**

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

**Investments**

Investments are stated at fair market value.

**Inventories**

Inventories are primarily stated at actual cost. Included in the 2017 inventory are five homes in the Meadow Brook Subdivision owned by the University and valued at a total of \$874,500.

**Physical Properties**

Physical properties are stated at cost or, if acquired by gift, at acquired value at the date of acquisition. A capitalization threshold of \$5,000 is used for equipment. In addition, all equipment under a unit cost of \$5,000 purchased in bulk for a newly constructed building is capitalized and depreciated over seven years. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred. The University does not capitalize certain works of art or historical treasures that are held for exhibition, education, research or public service.

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

**1. Organization, Basis of Presentation, and Significant Accounting Policies (continued)**

**Deferred Outflows of Resources**

The Statements of Financial Position include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until then. Deferred outflows of resources consists of interest rate swap accumulated change in fair value, deferred amortization on refunding of debt, and the deferral of the swap termination cost for the 2001 Bonds.

**Unearned Revenue**

Unearned revenue consists primarily of summer semester tuition not earned during the current year and contractual advances.

**Revenue Recognition**

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

Tuition revenue related to the summer semester is recognized in the fiscal year in which the semester is conducted.

Scholarship allowance is the difference between the stated charge for tuition and the amount paid by the student or third parties making payments on behalf of the student. Student financial aid such as fee waivers, Pell grants, and scholarship awards are considered to be scholarship allowances if used to pay tuition and room and board. These allowances are netted against tuition and auxiliary revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

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

**Bond Issuance Costs**

Bond issuance costs are expensed when incurred.

**Income Tax Status**

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

**Reclassification**

Certain 2016 amounts on the Statements of Net Position have been reclassified to conform to the current year presentation.

Deferred inflows of resources, derivatives instruments – swap asset and derivatives instruments – swap liability have been restated to reflect generally accepted accounting principles. The effect on the 2016 balances was to reclassify the net amount of \$9,487,345 from “Deferred inflows of resources” to (\$10,659,755) “Derivatives instruments – swap liability” and \$1,172,410 to



**1. Organization, Basis of Presentation, and Significant Accounting Policies (continued)**

“Derivatives instruments – swap asset.” There was no effect on net position or net income resulting from this reclassification.

Certain 2016 balances on the Statements of Revenues, Expenses, and Changes in Net Position have been reclassified to conform to the current year presentation. Specifically, the University reclassified the following functional operating expenses to be more in line with industry guidelines:

	<u>As Previously Reported</u>	<u>As Reclassified</u>
<b>Operating expenses</b>		
Education and general:		
Instruction	126,953,471	117,494,623
Academic Support	35,018,413	44,477,261

There was no effect on net position or net income resulting from this reclassification.

**New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB). This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Statement No. 75 will require the University to record the unrecorded OPEB liability currently disclosed in the footnotes, and present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The date of adoption is for the fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which addresses the recognition and measurement of irrevocable split-interest agreements where the government is the beneficiary of the agreement. This standard will require the University to recognize on the face of the statements any assets, liabilities, and deferred inflows of resources at the inception of the agreement. The date of adoption is for the fiscal year ending June 30, 2018.

**2. Investments and Deposits with Financial Institutions**

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

**2. Investments and Deposits with Financial Institutions (continued)**

The working capital at June 30, 2017 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire investment pool.

The University's working capital consists of the following as of June 30, 2017 and 2016:

June 30, 2017	Fair Market Value	Investment Maturities (In Years)				
		<1 Year	1-5 years	6-10 years	>10 years	N/A
<b>University Working Capital</b>						
Cash and Cash Equivalents	\$ 55,070,709	\$ 55,070,709	\$ -	\$ -	\$ -	\$ -
Commonfund Limited Duration Fund	19,765,954	12,156,062	7,431,999	79,063	98,830	-
Commonfund Intermediate Bond Fund	19,871,260	5,087,043	13,393,229	1,390,988	-	-
Commonfund High Quality Bond Fund	24,481,197	1,150,616	7,833,983	10,771,727	4,724,871	-
Commonfund Contingent Asset Portfolio	16,390,940	868,720	10,047,646	5,474,574	-	-
Commonfund Core Equity Fund	20,772,852	-	-	-	-	20,772,852
Commonfund Strategic Equity Fund	25,272,789	-	-	-	-	25,272,789
JP Morgan Bond Fund	20,735,168	4,762,155	15,449,751	523,262	-	-
Cash with Trustees	103,946,335	103,946,335	-	-	-	-
Operating investments	<u>\$ 306,307,204</u>	<u>\$ 183,041,640</u>	<u>\$ 54,156,608</u>	<u>\$ 18,239,614</u>	<u>\$ 4,823,701</u>	<u>\$ 46,045,641</u>
<b>As Reported on the Statement of Net Position</b>						
Cash and cash equivalents	\$ 55,070,709					
Restricted cash and cash equivalents	103,946,335					
Other long-term investments	147,290,160					
	<u>\$ 306,307,204</u>					

**2. Investments and Deposits with Financial Institutions (continued)**

June 30, 2016	Fair Market Value	Investment Maturities (In Years)				N/A
		<1 Year	1-5 years	6-10 years	>10 years	
<b>University Working Capital</b>						
Cash and Cash Equivalents	\$ 36,326,043	\$ 36,326,043	\$ -	\$ -	\$ -	\$ -
Commonfund Limited Duration Fund	22,075,602	10,821,460	11,117,273	-	136,869	-
Commonfund Intermediate Bond Fund	17,809,292	3,880,645	12,895,708	1,032,939	-	-
Commonfund High Quality Bond Fund	25,190,936	3,136,272	9,753,930	7,597,586	4,703,148	-
Commonfund Contingent Asset Portfolio	11,400,060	647,523	8,868,107	1,884,430	-	-
Commonfund Core Equity Fund	20,312,094	-	-	-	-	20,312,094
Commonfund Strategic Equity Fund	29,372,331	-	-	-	-	29,372,331
JP Morgan Bond Fund	20,218,181	4,437,057	15,556,087	225,037	-	-
Cash with Trustees	141,826,463	141,826,463	-	-	-	-
Operating investments	<u>\$ 324,531,002</u>	<u>\$ 201,075,463</u>	<u>\$ 58,191,105</u>	<u>\$ 10,739,992</u>	<u>\$ 4,840,017</u>	<u>\$ 49,684,425</u>
<b>As Reported on the Statement of Net Position</b>						
Cash and cash equivalents	\$ 36,326,043					
Restricted cash and cash equivalents	141,826,463					
Other long-term investments	146,378,496					
	<u>\$ 324,531,002</u>					

Investment duration describes the level of interest rate risk in the portfolio. Changes in interest rates over time can impact the market value of the fixed income portion of the portfolio. At June 30, 2017, the Commonfund Limited Duration Fund had a duration of .6 years and an average credit quality of AA. The JP Morgan Bond Fund had a duration of 1.9 years and an average credit quality of AA. The Commonfund Intermediate Term Bond Fund had a duration of 2.0 years and an average credit quality of AA. The Commonfund Contingent Asset Portfolio had a duration of 1.4 years and an average credit quality of AAA. The Commonfund High Quality Bond Fund had a duration of 5.5 years and an average credit quality of A.

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name. The carrying amount of deposits, excluding those classified as investments, was \$31,845,254 at June 30, 2017, and \$31,983,763 at June 30, 2016. The deposits were reflected in the accounts of the banks at \$32,354,192 at June 30, 2017, and \$34,978,172 at June 30, 2016. Of the bank balance, \$31,737,610 at June 30, 2017, and \$34,327,295 at June 30, 2016, was uninsured and uncollateralized.

**2. Investments and Deposits with Financial Institutions (continued)**

The University's working capital is not exposed to foreign currency risk as of June 30, 2017.

These working capital produced net rates of return of 3.5% for the years ended June 30, 2017 and 2016.

As of June 30, 2017 and 2016, the University had an investment derivative with the following maturity:

<u>June 30, 2017</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 710,653	\$ -	\$ -	\$ -	\$ 710,653
<u>June 30, 2016</u>	<u>Fair Value</u>	<u>&lt;1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>&gt;10 years</u>
Constant Maturity Swap	\$ 1,172,410	\$ -	\$ -	\$ -	\$ 1,172,410

The investment derivative was approved by the Board. The investment derivative is included with deferred outflows of resources in the Statements of Net Position. See Notes 7 and 11 for further disclosures.

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

These endowment investment funds are uninsured and uncollateralized and produced a total net return of 12.4% and -1.4% for the years ended June 30, 2017 and 2016, respectively.

**2. Investments and Deposits with Financial Institutions (continued)**

University endowment funds consist of the following as of June 30, 2017 and 2016:

June 30, 2017	Total	Investment Maturities (In Years)				N/A
		<1 Year	1-5 years	6-10 years	>10 years	
<b>UBS Endowment Investment Pool</b>						
Large Cap Value	\$ 16,295,043	\$ 181,731	\$ -	\$ -	\$ -	\$ 16,113,312
Large Cap Growth	16,207,114	78,475	-	-	-	16,128,639
Mid Cap Value	3,196,053	3	-	-	-	3,196,050
Mid Cap Growth	7,230,161	1	-	-	-	7,230,160
Small Cap Core	5,796,832	1	-	-	-	5,796,831
Small Cap Growth	2,717,986	-	-	-	-	2,717,986
REIT	2,851,466	-	-	-	-	2,851,466
International Value	1,769,390	30	-	-	-	1,769,360
International Growth	6,389,802	65	-	-	-	6,389,737
Developing Markets	3,905,438	34	-	-	-	3,905,404
Fixed Income Core	8,267,522	292,453	3,721,256	3,537,130	716,683	-
Fixed Income Mutual Fund	3,501,918	325,234	1,142,454	1,645,062	389,168	-
High Yield Bonds	1,441,039	97,491	558,029	748,345	37,174	-
Fixed Income TIPS	990,359	1	-	-	-	990,358
Hedge Funds	8,220,429	73	-	-	-	8,220,356
Commodity Mutual Fund	1,054,221	-	-	-	-	1,054,221
Private Equity	1,794,104	24,948	-	-	-	1,769,156
Money Market Funds	50	50	-	-	-	-
	<u>\$ 91,628,927</u>	<u>\$ 1,000,590</u>	<u>\$ 5,421,739</u>	<u>\$ 5,930,537</u>	<u>\$ 1,143,025</u>	<u>\$ 78,133,036</u>

June 30, 2016	Total	Investment Maturities (In Years)				N/A
		<1 Year	1-5 years	6-10 years	>10 years	
<b>UBS Endowment Investment Pool</b>						
Large Cap Value	\$ 13,745,922	\$ 136,564	\$ -	\$ -	\$ -	\$ 13,609,358
Large Cap Growth	13,252,957	3	-	-	-	13,252,954
Mid Cap Value	2,766,316	3	-	-	-	2,766,313
Mid Cap Growth	6,080,059	(511)	-	-	-	6,080,570
Small Cap Core	4,735,135	51	-	-	-	4,735,084
Small Cap Growth	2,238,688	(412)	-	-	-	2,239,100
REIT	2,419,943	2	-	-	-	2,419,941
International Value	2,435,057	30	-	-	-	2,435,027
International Core	6,164,467	43	-	-	-	6,164,424
Developing Markets	3,208,349	246	-	-	-	3,208,103
Fixed Income Core	8,111,695	372,160	3,563,356	3,633,031	543,148	-
Fixed Income Mutual Fund	2,370,749	426,736	972,007	758,639	213,367	-
High Yield Bonds	2,231,746	77,468	830,432	1,323,846	-	-
Global Fixed	1,728,899	656,981	605,115	293,912	172,891	-
Hedge Funds	7,835,337	73	-	-	-	7,835,264
Energy MLP	168,103	168,103	-	-	-	-
Commodity Mutual Fund	1,142,103	-	-	-	-	1,142,103
Private Equity	1,367,344	2	-	-	-	1,367,342
	<u>\$ 82,002,869</u>	<u>\$ 1,837,542</u>	<u>\$ 5,970,910</u>	<u>\$ 6,009,428</u>	<u>\$ 929,406</u>	<u>\$ 67,255,583</u>

The fixed income investments within the Endowment pool have a fair market value of \$14.2 million as of June 30, 2017, with a credit quality that varies; with 40.6% of the securities rated AAA, 25.1% rated A and 17.5% rated BBB and 16.8% rated B to BB-. Money market funds carry credit ratings of A-1, P-1, and F-1.

The University is not exposed to foreign currency risk within the investment balance as of June 30, 2017.

**2. Investments and Deposits with Financial Institutions (continued)**

The private equity investment's estimated value is \$1,794,104 as of June 30, 2017 with an active total commitment by the University of \$3,100,000. Hedge fund investments are estimated at a value of \$8,220,429 as of June 30, 2017. Estimated values and returns are reviewed by the UBS Alternative Investments U.S. Team through the University's endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for the private equity and hedge funds. The estimated fair values are provided by external investment managers and advisers as of June 30, 2017. Alternative investments are not readily marketable; therefore, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

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

The majority (97%) of the endowment investment pool can be liquidated within 90 days or less at fair market value.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The fair value of various equity and debt securities held at June 30, 2017 and 2016 was determined primarily on Level 2 inputs. The University estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates.

**2. Investments and Deposits with Financial Institutions (continued)**

	Fair Value as of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Other Long-term Investments:				
Commonfund	\$ 19,765,954	\$ -	\$ 19,765,954	\$ -
Limited Duration Fund				
Commonfund	19,871,260	-	19,871,260	-
Intermediate Bond Fund				
Commonfund	24,481,197	-	24,481,197	-
High Quality Bond Fund				
Commonfund	16,390,940	-	16,390,940	-
Contingent Asset Portfolio				
Commonfund	5,421,714	5,421,714	-	-
Core Equity Fund				
Commonfund	25,272,789	-	25,272,789	-
Strategic Equity Fund				
JP Morgan Bond Fund	20,735,168	20,735,168	-	-
	<u>131,939,022</u>	<u>26,156,882</u>	<u>105,782,140</u>	<u>-</u>
Endowment Investment:				
Large Cap Value	16,295,043	16,295,043	-	-
Large Cap Growth	16,207,114	16,207,114	-	-
Mid Cap Value	3,196,053	3,196,053	-	-
Mid Cap Growth	7,230,161	7,230,161	-	-
Small Cap Core	5,796,832	5,796,832	-	-
Small Cap Growth	2,717,986	2,717,986	-	-
REIT	2,851,466	2,851,466	-	-
International Value	1,769,390	1,769,390	-	-
International Growth	6,389,802	6,389,802	-	-
Developing Markets	3,905,438	3,905,438	-	-
Fixed Income Core	8,267,522	8,267,522	-	-
Fixed Income Mutual Fund	3,501,918	3,501,918	-	-
High Yield Bonds	1,441,039	1,441,039	-	-
Fixed Income TIPS	990,359	990,359	-	-
Strategic Common Mutual Fund	1,054,221	1,054,221	-	-
Money Market Funds	50	50	-	-
	<u>81,614,394</u>	<u>81,614,394</u>	<u>-</u>	<u>-</u>
Investment Derivative Instruments:				
Constant Maturity Swap	710,653	-	710,653	-
Total investments by fair value level	<u>\$ 214,264,069</u>	<u>\$ 107,771,276</u>	<u>\$ 106,492,793</u>	<u>\$ -</u>

**Investments measured at the net asset value (NAV)**

	June 30, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Core Equity Fund	\$ 15,351,138	\$ -	Weekly	5 Days
Hedge Funds	8,220,429	-	Quarterly	7-105 Days
Private Equity	1,794,104	1,299,486	Not Applicable	Not Applicable
Total investments measured at NAV	<u>25,365,671</u>	<u>1,299,486</u>		
Total	<u>\$ 239,629,740</u>	<u>\$ 1,299,486</u>		

**2. Investments and Deposits with Financial Institutions (continued)**

	Fair Value as of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other Long-term Investments:				
Commonfund	\$ 22,075,602	\$ -	\$ 22,075,602	\$ -
Limited Duration Fund				
Commonfund	17,809,292	-	17,809,292	-
Intermediate Bond Fund				
Commonfund	25,190,936	-	25,190,936	-
High Quality Bond Fund				
Commonfund	11,400,060	-	11,400,060	-
Contingent Asset Fund				
Commonfund	14,421,587	14,421,587	-	-
Core Equity Fund				
Commonfund	29,372,331	-	29,372,331	-
Strategic Equity Fund				
JP Morgan Bond Fund	20,218,181	20,218,181	-	-
	<u>140,487,989</u>	<u>34,639,768</u>	<u>105,848,221</u>	<u>-</u>
Endowment Investment:				
Large Cap Value	13,745,922	13,745,922	-	-
Large Cap Growth	13,252,957	13,252,957	-	-
Mid Cap Value	2,766,316	2,766,316	-	-
Mid Cap Growth	6,080,059	6,080,059	-	-
Small Cap Core	4,735,135	4,735,135	-	-
Small Cap Growth	2,238,688	2,238,688	-	-
REIT	2,419,943	2,419,943	-	-
International Value	2,435,057	2,435,057	-	-
International Core	6,164,467	6,164,467	-	-
Developing Markets	3,208,349	3,208,349	-	-
Fixed Income Core	8,111,695	8,111,695	-	-
Fixed Income Mutual Fund	2,370,749	2,370,749	-	-
High Yield Bonds	2,231,746	2,231,746	-	-
Global Fixed	1,728,899	1,728,899	-	-
Energy MLP	168,103	168,103	-	-
Strategic Common Mutual Fund	1,142,103	1,142,103	-	-
	<u>72,800,188</u>	<u>72,800,188</u>	<u>-</u>	<u>-</u>
Investment Derivative Instruments:				
Constant Maturity Swap	1,172,410	-	1,172,410	-
Total by fair value level	<u>\$ 214,460,587</u>	<u>\$ 107,439,956</u>	<u>\$ 107,020,631</u>	<u>\$ -</u>

**Investments measured at the net asset value (NAV)**

	June 30, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Core Equity Fund	\$ 5,890,507	\$ -	Weekly	5 Days
Hedge Funds	7,835,337	-	Quarterly	7-105 Days
Private Equity	1,367,344	1,617,911	Not Applicable	Not Applicable
Total investments measured at NAV	<u>15,093,188</u>	<u>1,617,911</u>		
<b>Total</b>	<u>\$ 229,553,775</u>	<u>\$ 1,617,911</u>		



**3. Accounts Receivable**

Accounts receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Tuition	\$ 14,207,536	\$ 14,328,603
Auxiliary enterprises	1,339,027	1,345,514
Contracts and grants	2,757,438	2,757,391
Other receivables	<u>1,694,885</u>	<u>1,124,082</u>
Total accounts receivable	19,998,886	19,555,590
Less: Allowance for doubtful accounts	<u>(9,036,227)</u>	<u>(7,317,286)</u>
Total accounts receivable, net	<u>\$ 10,962,659</u>	<u>\$ 12,238,304</u>

**4. Appropriations Receivable**

The annual State operating appropriation paid to the University is made in 11 monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2017 and 2016, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$9,076,494 and \$8,794,892, respectively.

**5. Pledges Receivable**

Pledges receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<b>Pledges outstanding</b>		
Unrestricted	\$ 45,721	\$ 52,608
Restricted expendable	<u>3,680,702</u>	<u>6,156,417</u>
Total pledges outstanding	3,726,423	6,209,025
Less:		
Allowance for doubtful pledges	(142,640)	(169,906)
Present value discount	<u>(182,897)</u>	<u>(395,804)</u>
Total pledges outstanding, net	3,400,886	5,643,315
Less: Current portion, net	<u>(2,770,161)</u>	<u>(3,044,395)</u>
Noncurrent portion, net	<u>\$ 630,725</u>	<u>\$ 2,598,920</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. As of June 30, 2017 and 2016, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 4% and 3% net of discount at June 30, 2017 and 2016, respectively. Approximately \$2.3 million of the total net pledges outstanding as of June 30, 2017 is from a single donor.

**5. Pledges Receivable (continued)**

Payments on pledges receivable as of June 30, 2017 are expected to be received in the following years:

Past due	\$ 116,195
Due in one year	2,706,203
Due in two-five years	594,025
Thereafter	310,000
Total	<u>\$ 3,726,423</u>

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. As of June 30, 2017 and 2016, the University had \$29,200,729 and \$26,130,318, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$29,200,729 in conditional pledges for fiscal year 2017, approximately \$5.5 million is from a single donor.

**6. Student Loans Receivable**

Student loans receivable consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<b>Student loans</b>		
Federal loan programs	\$ 1,559,185	\$ 1,840,111
University loan funds	218,316	218,340
	<u>1,777,501</u>	<u>2,058,451</u>
Less: Allowance for doubtful loans	(1,000)	(241,692)
Total student loans, net	<u>1,776,501</u>	<u>1,816,759</u>
Less: Current portion, net	(426,940)	(417,685)
Noncurrent portion, net	<u>\$ 1,349,561</u>	<u>\$ 1,399,074</u>

In addition, the University distributed \$112,688,367 and \$109,478,387 for the years ended June 30, 2017 and 2016, respectively, for student loans through the U.S. Department of Education Federal Direct Loan program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements, but are reflected in the University's Statements of Cash Flows.

**7. Hedging Derivative Instruments**

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

**Investment Derivative Instrument:**

**2007 Constant Maturity Swap Agreement**

In June 2007, the University executed a Constant Maturity Swap (CMS) in an initial notional amount of \$34,370,000 effective October 1, 2007, the purpose of which was to reduce interest costs. 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 as of June 30, 2017 and 2016 was \$710,653 and \$1,172,410, respectively. These fair values are reported as Derivative Instruments – swap asset in the Statements of Net Position with the change in fair value of (\$461,757) and (\$794,340) for fiscal years ended June 30, 2017 and 2016, respectively, included in Investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. As of June 30, 2017, the counterparty's credit rating from Moody's Investors Service was Aa3. The CMS includes collateral requirements intended to mitigate credit risk. As of June 30, 2017, there is no collateral posting requirement by either the counterparty or the University. Under this agreement, the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

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

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

**7. Hedging Derivative Instruments (continued)**

**2008 Interest Rate Swap Agreement**

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. The notional amount as of June 30, 2017 was \$44,790,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.37%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap as of June 30, 2017 and 2016 was (\$6,822,139) and (\$10,659,755), respectively. These fair values are reflected as Derivative Instruments – swap liability on the Statements of Net Position. The fair value of the hedging derivative instrument classified as Level 2 (significant other observable inputs) at June 2017 and 2016 was valued based on 67% of U.S. Dollar LIBOR and represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the 2008 Swap is treated as an Effective Hedging Derivative Instrument. The accumulated change in fair value is recorded as a deferred outflow of resources.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap includes collateral requirements intended to mitigate credit risk. As of June 30, 2017, the University posted \$2,250,000 of collateral with the counterparty which was required under the agreement when the fair value is less than a negative \$5,000,000 at the University's current credit rating of A1 or zero should the University default. As of June 30, 2017, the counterparty's credit rating from Moody's Investors Service was Baa3.

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

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

**8. Capital Assets**

The following tables present the changes in the various capital asset categories for the University for fiscal years 2017 and 2016:

<u>Asset Classification</u>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2017</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	80,709,690	379,408	-	81,089,098
Buildings	558,361,867	30,640,640	127,419	588,875,088
Equipment	55,799,190	4,257,010	1,753,951	58,302,249
Library acquisitions	26,326,225	372,456	178,274	26,520,407
Construction in progress	28,356,918	57,873,100	32,279,346	53,950,672
Total	<u>754,178,804</u>	<u>93,522,614</u>	<u>34,338,990</u>	<u>813,362,428</u>
Accumulated depreciation				
Land improvements and infrastructure	(35,228,027)	(3,688,167)	-	(38,916,194)
Buildings	(163,227,860)	(13,364,796)	(119,856)	(176,472,800)
Equipment	(32,383,489)	(5,535,056)	(1,400,459)	(36,518,086)
Library acquisitions	(22,415,287)	(280,987)	(178,274)	(22,518,000)
Total	<u>(253,254,663)</u>	<u>(22,869,006)</u>	<u>(1,698,589)</u>	<u>(274,425,080)</u>
Total capital assets, net	<u>\$ 500,924,141</u>	<u>\$ 70,653,608</u>	<u>\$ 32,640,401</u>	<u>\$ 538,937,348</u>

<u>Asset Classification</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance June 30, 2016</u>
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	76,623,461	4,086,229	-	80,709,690
Buildings	547,438,621	11,023,246	100,000	558,361,867
Equipment	52,701,747	4,878,775	1,781,332	55,799,190
Library acquisitions	26,265,816	451,147	390,738	26,326,225
Construction in progress	15,035,426	30,062,076	16,740,584	28,356,918
Total	<u>722,689,985</u>	<u>50,501,473</u>	<u>19,012,654</u>	<u>754,178,804</u>
Accumulated depreciation				
Land improvements and infrastructure	(31,642,086)	(3,585,941)	-	(35,228,027)
Buildings	(150,462,218)	(12,851,803)	(86,161)	(163,227,860)
Equipment	(28,824,796)	(5,230,957)	(1,672,264)	(32,383,489)
Library acquisitions	(22,459,760)	(346,265)	(390,738)	(22,415,287)
Total	<u>(233,388,860)</u>	<u>(22,014,966)</u>	<u>(2,149,163)</u>	<u>(253,254,663)</u>
Total capital assets, net	<u>\$ 489,301,125</u>	<u>\$ 28,486,507</u>	<u>\$ 16,863,491</u>	<u>\$ 500,924,141</u>

**9. State Building Authority**

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

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

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

**10. Cash Surrender Value of Life Insurance Policies**

Included in other assets are the cash surrender value of life insurance policies in the amount of \$424,479 and \$401,561 for 2017 and 2016, respectively. The face value of these life insurance policies totaled \$8,033,072 in 2017 and 2016.

**11. Deferred Outflows of Resources**

The University accounts for deferred outflows of resources in accordance with authoritative guidance. The University recorded deferred outflows of \$11,636,920 as of June 30, 2017, which includes \$4,814,781 from an early extinguishment of general revenue bonds, 2014 Bonds, 2013B Bonds, and 2008 Bonds, and a deferral of swap termination costs for the 2001 Bonds, and \$6,822,139 the accumulated change in fair value of the 2008 Swap. As of June 30, 2016, the University recorded deferred outflows of \$15,834,805, which includes \$5,175,050 from an early extinguishment of general revenue bonds, 2014 Bonds, 2013B Bonds, and 2008 Bonds, and a deferral of swap termination costs for the 2001 Bonds, and \$10,659,755 estimated negative fair value of the 2008 Swap.

**12. Long-Term Liabilities**

Long-term liabilities consist of the following as of June 30, 2017 and 2016:

	Balance June 30, 2016	Additions/ Transfers	Reductions	Balance June 30, 2017	Current Portion
Note and installment purchase agreements payable	\$ 12,397,424	\$ -	\$ 1,088,777	\$ 11,308,647	\$ 913,766
General revenue bonds:					
Series 2016 bonds	113,130,000	-	-	113,130,000	-
Unamortized premium	20,726,916	-	1,138,977	19,587,939	1,163,552
Series 2014 bonds	26,565,000	-	655,000	25,910,000	680,000
Unamortized premium	3,804,015	-	332,712	3,471,303	319,093
Series 2013A bonds	56,825,000	-	1,075,000	55,750,000	1,130,000
Unamortized premium	5,723,820	-	447,930	5,275,890	421,399
Series 2013B bonds	19,455,000	-	1,750,000	17,705,000	1,770,000
Series 2012 bonds	42,505,000	-	865,000	41,640,000	895,000
Unamortized premium	3,808,958	-	291,877	3,517,081	278,406
Series 2008 bonds	46,355,000	-	1,565,000	44,790,000	1,630,000
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
2014 Certificates of participation	14,225,000	-	190,000	14,035,000	285,000
Unamortized premium	1,539,689	-	116,474	1,423,215	118,002
Total note, installment agreement, and bonds payable	<u>371,660,822</u>	<u>-</u>	<u>9,516,747</u>	<u>362,144,075</u>	<u>9,604,218</u>
Other liabilities:					
Compensated absences	5,576,980	1,185,535	838,108	5,924,407	375,745
Annuities payable and other	3,476,764	4,156	287,473	3,193,447	526,000
Federal portion of Perkins loan program	1,446,292	112,893	-	1,559,185	-
Total other liabilities	<u>10,500,036</u>	<u>1,302,584</u>	<u>1,125,581</u>	<u>10,677,039</u>	<u>901,745</u>
Total long-term liabilities	<u>\$ 382,160,858</u>	<u>\$ 1,302,584</u>	<u>\$ 10,642,328</u>	<u>\$ 372,821,114</u>	<u>\$ 10,505,963</u>
Total long-term liabilities	\$ 382,160,858			\$ 372,821,114	
Current portion	10,367,359			10,505,963	
Noncurrent portion	<u>\$ 371,793,499</u>			<u>\$ 362,315,151</u>	

**12. Long-Term Liabilities (continued)**

	Balance June 30, 2015	Additions/ Transfers	Reductions	Balance June 30, 2016	Current Portion
Note and installment purchase agreements payable	\$ 13,371,080	\$ -	\$ 973,656	\$ 12,397,424	\$ 986,880
General revenue bonds:					
Series 2016 bonds	-	113,130,000	-	113,130,000	-
Unamortized premium	-	20,773,191	46,275	20,726,916	1,138,977
Series 2014 bonds	27,200,000	-	635,000	26,565,000	655,000
Unamortized premium	4,147,225	-	343,210	3,804,015	332,712
Series 2013A bonds	57,860,000	-	1,035,000	56,825,000	1,075,000
Unamortized premium	6,196,102	-	472,282	5,723,820	447,930
Series 2013B bonds	21,185,000	-	1,730,000	19,455,000	1,750,000
Series 2012 bonds	43,340,000	-	835,000	42,505,000	865,000
Unamortized premium	4,110,198	-	301,240	3,808,958	291,877
Series 2008 bonds	47,855,000	-	1,500,000	46,355,000	1,565,000
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
2014 Certificates of participation	14,225,000	-	-	14,225,000	190,000
Unamortized premium	1,656,164	-	116,475	1,539,689	116,474
Total note, installment agreement, and bonds payable	<u>245,745,769</u>	<u>133,903,191</u>	<u>7,988,138</u>	<u>371,660,822</u>	<u>9,414,850</u>
Other liabilities:					
Compensated absences	5,080,363	496,617	-	5,576,980	427,329
Annuities payable and other	3,539,873	109,937	173,046	3,476,764	525,180
Federal portion of Perkins loan program	1,519,151	-	72,859	1,446,292	-
Total other liabilities	<u>10,139,387</u>	<u>606,554</u>	<u>245,905</u>	<u>10,500,036</u>	<u>952,509</u>
Total long-term liabilities	<u>\$ 255,885,156</u>	<u>\$ 134,509,745</u>	<u>\$ 8,234,043</u>	<u>\$ 382,160,858</u>	<u>\$ 10,367,359</u>
Total long-term liabilities	\$ 255,885,156			\$ 382,160,858	
Current portion	8,855,482			10,367,359	
Noncurrent portion	<u>\$ 247,029,674</u>			<u>\$ 371,793,499</u>	

**Note and Installment Purchase Agreements Payable**

In February 2015, the University entered into a lease-purchase agreement in the principal amount of \$85,743 to purchase printing equipment. The lease has a fixed interest rate of 4.94% per annum and requires 48 monthly payments of \$1,972.

In November 2012, the University entered into a lease-purchase agreement in the principal amount of \$169,771 to purchase golf equipment. The lease has a fixed interest rate of 1.98% per annum and requires 48 monthly payments of \$3,679. The lease was paid in full January 2017.

In July 2012, the University entered into a lease-purchase agreement in the principal amount of \$512,008 to purchase golf carts. The lease had a fixed interest rate of 1.98% per annum and required 60 monthly payments of \$7,353 and a balloon payment of \$102,401. The lease was paid in full October 2016 and the University took ownership of the golf carts.

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 interest rate of 3.785% to finance Phase II of its Energy Service Agreement projects.



**12. Long-Term Liabilities (continued)**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 913,766	\$ 412,586	\$ 1,326,352
2019	939,285	377,207	1,316,492
2020	961,357	341,331	1,302,688
2021	998,382	304,305	1,302,687
2022	1,036,833	265,854	1,302,687
2023-2027	5,814,811	698,627	6,513,438
2028	644,213	7,131	651,344
Total	<u>\$ 11,308,647</u>	<u>\$ 2,407,041</u>	<u>\$ 13,715,688</u>

**General Revenue Bonds Payable**

In June 2016, the University issued \$113,130,000 of general revenue bonds (2016 Bonds), with an average coupon rate of 5.00% and a net original issue premium of \$20,773,191. The proceeds are being utilized to fund the construction of a new 750 bed Southern Student Housing Complex, expansion of the Oakland Center, and conversion of existing student housing facilities into academic and administrative office space. The 2016 Bonds were issued with a final maturity of March 1, 2047. The pricing resulted in a 3.66% true interest cost.

In October 2014, the University issued \$28,060,000 of general revenue refunding bonds (2014 Bonds), with an average coupon rate of 4.98% and a net original issue premium of \$4,383,960. The 2014 Bonds were issued with a final maturity date of March 1, 2039. The proceeds were utilized to refund the Series 2009 Taxable-Build America Bonds (2009 Bonds) which funded a portion of the Human Health Building and several infrastructure projects. The refunding of the 2009 Bonds was subject to a redemption price equal to 103% of the par value of Bonds redeemed, or \$924,450 to be amortized over the term of the 2014 Bonds and is recorded as a deferred outflow. As a result of the refunding, the University will reduce its aggregate debt service payments over the remaining 24 year period by approximately \$3,016,000. The refunding will result in an economic gain of \$2,251,000. The aggregate outstanding principal on the 2009 Bonds totaled \$30,815,000, and was redeemed November 28, 2014 leaving a zero balance as of June 30, 2015. The pricing resulted in a 3.56% true interest cost.

In December 2014, the University partnered with UMB Bank to issue Certificates of Participation (2014 Certificates) for \$14,225,000 at a net original issue premium of \$1,729,013. The proceeds were used to finance the construction and installation of a combined heat and power cogeneration system at the central heating plant on the University's campus. The 2014 Certificates consist of 4 term certificates with maturity dates ranging from July 1, 2022 to July 1, 2031, yield rates ranging from 2.45% to 3.45%. The pricing resulted in a 3.88% true interest cost. The debt service on the 2014 Certificates will be funded by monthly lease payments the University will make to UMB Bank through July 2031.

In June 2013, the University issued \$57,860,000 of general revenue bonds (2013A Bonds), with an average coupon rate of 4.98% and a net original issue premium of \$7,141,047. The proceeds were utilized to fund the construction of Oak View Hall; a facilities management building; a 1,240 space parking structure; road improvements; and an athletic and recreation complex. The 2013A Bonds

**12. Long-Term Liabilities (continued)**

were issued with a final maturity of March 1, 2043. The pricing resulted in a 4.03% true interest cost.

In June 2013, the University issued \$23,290,000 of federally taxable general revenue refunding bonds (2013B Bonds), with an average coupon rate of 2.99%. The proceeds were utilized to refund the Series 2004 general revenue refunding bonds (2004 Bonds) with an average coupon rate of 5.12%. The advance refunding of the 2004 Bonds resulted in a deferral on early extinguishment of \$1,134,224 that will be amortized over the term of the 2013B Bonds and is recorded as a deferred outflow. The 2013 Bonds were issued with a final maturity date of May 15, 2026. The pricing resulted in a 2.99% true interest cost.

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

In June 2008, the University issued \$53,280,000 of general revenue refunding bonds (2008 Bonds) to refund the 2001 general revenue bonds (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 value of \$4,860,000 paid to the counterparty and reissued a new 2008 Swap synthetically fixing the rate on the full amount of the issue to 3.37%. The 2001 Swap termination cost has been deferred and will be amortized over the term of the refunding bonds and is recorded as a deferred outflow. The 2008 Bonds were issued with a final maturity date of March 1, 2031.

In September 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited-obligation revenue variable-rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates as of June 30, 2016 and 2015 were 0.42% and 0.08%, 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 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.

**12. Long-Term Liabilities (continued)**

The following table summarizes debt service requirements for the outstanding bonds and certificates payable as of June 30, 2017:

	<b>Principal</b>	<b>Interest</b>	<b>Hedging Derivative, Net</b>	<b>Total</b>
2018	\$ 6,390,000	\$ 13,277,770	\$ 1,280,056	\$ 20,947,826
2019	8,510,000	13,118,020	1,232,273	22,860,293
2020	8,960,000	12,832,545	1,182,562	22,975,107
2021	9,420,000	12,525,824	1,130,777	23,076,601
2022	9,905,000	12,200,297	1,076,823	23,182,120
2023-2027	61,870,000	54,850,280	4,466,887	121,187,167
2028-2032	68,455,000	43,334,555	1,436,808	113,226,363
2033-2037	50,175,000	31,238,750	-	81,413,750
2038-2042	57,815,000	17,678,750	-	75,493,750
2043-2047	36,060,000	5,196,000	-	41,256,000
	<u>317,560,000</u>	<u>\$ 216,252,791</u>	<u>\$ 11,806,186</u>	<u>\$ 545,618,977</u>
Unamortized premium	33,275,428			
	<u>\$ 350,835,428</u>			

**Other Liabilities**

Accrued compensated absences include accrued vacation and sick pay 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.

In September 2013, the University received a charitable gift annuity (CGA) totaling \$7.0 million as a result of realizing a donor's bequest. Based on the life expectancy of the annuitant at the time the CGA was received, the University's obligation, or present value liability, of the annuity payments approximated \$3.7 million. As of June 30, 2017, the annuity payable was approximately \$2.8 million.

**13. Postemployment Benefits Other than Pensions**

**Plan Description**

In addition to the employee benefits discussed in Note 14, the University provides postemployment healthcare benefits to eligible University retirees and their spouses as part of a single-employer defined benefit plan. The plan is administered by the University. Substantially all University employees may become eligible for coverage if they meet retirement eligibility requirements. The net periodic costs are expensed as employees render the services necessary to earn the postemployment benefits. In general, retirees at least 62 years of age with 15 years of service who were hired before July 1, 2005, depending on the employee group, are eligible for medical benefits in accordance with various labor agreements or within the provisions of University policy. Employees with 25 years of service are eligible for retirement at any age. Except for certain prior retirees, the University shares the cost of coverage with retirees, charging the retirees a contribution equal to the excess of the prevailing premium cost of coverage over a stipulated University subsidy amount. Postemployment healthcare benefits are currently provided to 262 retirees and spouses. Certain employees hired after July 1, 2005, 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, 2017, the University and plan members receiving benefits contributed \$1,831,058 and \$1,071,051, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from \$27 to \$1,129 per month for retiree-only coverage, and from \$64 to \$2,710 per month for retiree and spouse coverage.

For the year ended June 30, 2016, the University and plan members receiving benefits contributed \$1,663,824 and \$964,231, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from \$26 to \$1,051 per month for retiree-only coverage, and from \$61 to \$2,523 per month for retiree and spouse coverage.

**13. Postemployment Benefits Other than Pensions (continued)**

**Annual OPEB Cost and Net OPEB Obligation**

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

The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are summarized below for the years ended June 30, 2017 and the two preceding years. The amounts are based on the June 30, 2016 actuarial valuation.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 4,598,694	\$ 4,323,625	\$ 3,732,363
Interest on net OPEB obligation	783,716	655,150	545,004
Adjustment to ARC	<u>(1,358,768)</u>	<u>(1,135,866)</u>	<u>(954,903)</u>
Annual OPEB cost (expense)	4,023,642	3,842,909	3,322,464
Contributions made	<u>(1,831,058)</u>	<u>(1,663,824)</u>	<u>(1,614,860)</u>
Increase in net OPEB obligation	2,192,584	2,179,085	1,707,604
Net OPEB obligation – beginning of year	<u>13,283,315</u>	<u>11,104,230</u>	<u>9,396,626</u>
Net OPEB obligation – end of year	<u>\$ 15,475,899</u>	<u>\$ 13,283,315</u>	<u>\$ 11,104,230</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 4,023,642	45.5%	\$ 15,475,899
2016	\$ 3,842,909	43.3%	\$ 13,283,315
2015	\$ 3,322,464	48.6%	\$ 11,104,230

**13. Postemployment Benefits Other than Pensions (continued)**

**Funded Status and Funding Progress**

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but are financed on a pay-as-you-go basis. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$22.8 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, 2017 and the two preceding years were \$1,831,058, \$1,663,824, and \$1,614,860, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

<b>Schedule of Funding Progress</b>						
<b>Oakland University Retired Employees Healthcare Plan</b>						
<b>Actuarial Valuation Date as of</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2017	\$ -	\$ 39,911,913	\$ 39,911,913	0.00%	\$ 120,517,399	33.1%
6/30/2016	\$ -	\$ 38,362,084	\$ 38,362,084	0.00%	\$ 112,272,440	34.2%
6/30/2015	\$ -	\$ 35,520,230	\$ 35,520,230	0.00%	\$ 105,730,414	33.6%

The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the Unit Credit Actuarial Cost Method of valuation. The unfunded actuarial accrued liability totaled \$39.9 million as of June 30, 2017. The actuarial valuation is completed on a biannual basis with the last one as of June 30, 2016. The unfunded actuarial accrued liability is being amortized over a period of thirty years from the July 1, 2007 valuation date in level dollar payments. Gains and losses are amortized over a period of 15 years from the valuation date.

**Actuarial Methods and Assumptions**

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

**13. Postemployment Benefits Other than Pensions (continued)**

Actuarial assumptions included a discount rate of 5.9%, various mortality, turnover and healthcare cost trend rates, an assumption that 80% of subsidized current employees and 50% of access only current employees eligible for medical coverage will elect medical coverage, and an assumption that 70% of future retirees that take coverage elect family coverage. The University will review its assumptions on a bi-annual basis and make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The University believes that the assumptions utilized in recording its obligations for the plan are reasonable based on its experience.

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

**14. 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, 2017 and 2016 were \$17,018,060 and \$16,065,648, 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, 2017, the date of the most recent actuarial valuation, the plan had a total liability of approximately \$53,000 and was over funded by approximately \$75,000.

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.

Changes in the self-insured employee benefit liabilities during 2017, 2016, and 2014 were considered current and are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 316,862	\$ 580,628	\$ 552,638
Claims incurred and changes in estimates	262,156	6,432	532,686
Claim payments	<u>(281,403)</u>	<u>(270,198)</u>	<u>(504,696)</u>
Balance, end of year	<u>\$ 297,615</u>	<u>\$ 316,862</u>	<u>\$ 580,628</u>

**15. Liability and Property Insurance**

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

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

**16. 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 and staff residence mortgages. As of June 30, 2017, the amount subject to guarantee by the University was \$2,021,493.

The estimated costs to complete construction projects in progress is \$110.5 million as of June 30, 2017, due in large part to the ongoing construction costs of the new Southern Student Housing Complex in the amount of \$45.5 million, expansion of the Oakland Center for \$42.5 million, conversion of Anibal and Fitzgerald Halls into academic and administrative office space for \$5.9 million, parking expansion initiative for \$4.7 million, infrastructure renovations at Vandenberg Hall for \$4.5 million, architectural and engineering services for the expansion of Elliott Hall for \$1.3 million, and various campus enhancement projects totaling \$6.1 million. The Southern Student Housing Complex will be funded from proceeds from the 2016 Bonds. The Oakland Center expansion and conversion of the Anibal and Fitzgerald Halls will be funded from the 2016 Bonds. The parking expansion project and architectural and engineering services for the Elliott Hall expansion and other campus enhancements are funded from University resources.

**17. Expenditures by Natural Classification**

Operating expenses by natural classification for the years ended June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Employee compensation and benefits	\$ 220,527,307	\$ 209,266,474
Supplies and other services	72,802,240	72,615,101
Student aid	10,421,060	12,794,769
Depreciation	22,869,006	22,013,804
Total	<u>\$ 326,619,613</u>	<u>\$ 316,690,148</u>



**18. Cash Flow Statement**

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

	<u>2017</u>	<u>2016</u>
<b>Operating loss</b>	<b>\$ (63,167,230)</b>	<b>\$ (62,712,617)</b>
<b>Adjustments to reconcile net operating loss to net cash used by operating activities</b>		
Depreciation expense	22,869,006	22,013,804
Changes in assets and liabilities:		
Accounts receivable, net	1,192,052	452,799
Inventories	(15,567)	(374,077)
Deposits and prepaid expense	(5,115)	(243,849)
Student loans receivable	40,258	74,085
Accounts payable and accrued expenses	2,384,320	4,175,863
Accrued payroll	1,094,312	1,590,425
Compensated absences	347,427	496,617
Unearned revenue	1,801,972	8,707,797
Deposits	391,239	(3,828)
Federal portion of student loan program	112,893	(72,859)
Other postemployment benefits	2,192,584	2,179,085
Net cash used by operating activities	<u><u>\$ (30,761,849)</u></u>	<u><u>\$ (23,716,755)</u></u>

**19. Related-Party Transactions**

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

Foundation net assets as of June 30, 2017 were as follows:

Assets	<u>\$ 199,279</u>
Net assets	<u><u>\$ 199,279</u></u>

The assets remaining are endowment funds. The June 30, 2017 University financial statements do not include the Foundation's assets or activity.

October 11, 2017

Board of Trustees  
Oakland University  
201 Meadow Brook Road, Room 13  
Rochester, MI 48309-4401

Dear Board of Trustees:

We have audited the financial statements of Oakland University (the "University") as of and for the year ended June 30, 2017, and have issued our report thereon dated October 11, 2017. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 13, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the University. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the University's financial statements has also been conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Under Government Auditing Standards, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the University, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 11, 2017 regarding our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. This letter accompanies the University's Schedule of Federal Awards.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 26, 2017.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the University are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2017.

We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements are as follows:

- **Alternative investments** - The valuation of alternative investments held by the University is a significant accounting estimate. Management's estimate of these investments is based on valuations provided by a third-party investment manager. We evaluated the key factors and assumptions used to develop the valuations of these investments in determining that they are reasonable in relation to the financial statements taken as a whole.
- **Other postemployment benefit obligations** - The University's management has contracted with an independent actuary to calculate the OPEB obligation based on benefit cost, participant data, and funding status. We have evaluated the key factors, actuarial assumptions and the underlying census data in determining that they are reasonable in relation to the financial statements taken as a whole.
- **Fair value of derivative instruments** - The University is party to derivative financial instruments (interest rate swaps) that are reported at fair value on the statement of net position. Management established an estimate of the fair value of the interest rate swaps based upon the calculation provided by the counterparty to the transactions. We evaluated the key factors and assumptions used to develop the valuations of these derivatives in determining that they are reasonable in relation to the financial statements taken as a whole.
- **Allowances for uncollectible accounts** - Management estimates the fair value of tuition accounts receivable and pledges receivable by establishing an allowance for estimated uncollectible amounts. We evaluated the allowance for uncollectible accounts to determine the amounts recorded are reasonable.

- **Scholarship allowances** - Management estimates the scholarship allowances for tuition revenue using an assumed relationship between financial aid awarded and tuition revenue. We evaluated this estimate to determine it was reasonable in relation to overall financial statements.

As described above, we evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

#### *Disagreements with Management*

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

#### *Significant Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 11, 2017.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the University's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the Management's Discussion and Analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of Board of Trustees and management of Oakland University and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

Paul E. Edwards, CPA  
Partner

Dana M. Coomes, CPA  
Partner

## Appendix A - Other Recommendations and Related Information

In addition to the matters discussed above, there are a number of financial reporting and recent legislative changes that may impact the University in future years. Please find a summary of these matters below.

**Accounting for OPEB** - In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Under GASB Statement No. 75, the University, will be required to recognize its unfunded net other postemployment benefits (OPEB) liability, OPEB expense, and deferred OPEB outflows (inflows) within its financial statements. Institutions will see a significant increase in the liability reflected on their statements of net position along with an impact to OPEB expenses and a corresponding reduction to unrestricted net position. There are also expanded disclosures and required supplemental information to be added to the University's financial statements. The University will also be required to track certain components of the net OPEB liability (deferred inflows/outflows) and amortize over the appropriate periods in accordance with the standard. Management estimates its net OPEB liability will increase by approximately \$24.4 million. The provisions of this statement are effective for financial statements for the year ending June 30, 2018.

**Irrevocable Split-Interest Agreements** - In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The standard outlines recognition criteria for split-interest agreements donated directly to a public institution, as well as funds held in trust by others for the benefit of the institution. Examples of these types of arrangements include charitable lead trusts, charitable remainder trusts, charitable annuity gifts, and life-interests in real estate. There are two common situations, when an institution holds the gift assets and when another entity (bank) holds the assets in trust. When the institution has received the assets and is also a beneficiary of an irrevocable split-interest agreement, the institution would recognize assets, liabilities, and deferred inflows of resources when the agreement is executed and the resources are received; which is a change from current practice where the asset, liability and revenue is recognized at receipt of the gift. When another entity (bank) holds the assets in trust, current standards preclude the institution from recognizing interests in a trust for which the institution is not the holder or intermediary, such arrangements are commonly known as "funds held in trust by others." The standard now changes this to recognizing an asset and a related deferred inflow or outflow. The effective date is for the financial statements for the year ended June 30, 2018. Management estimates the impact of the pronouncement will be to increase restricted nonexpendable net position by approximately \$3.5 million.

**Accounting for Leases** - In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The University is still determining the effects of applying the new lease guidance to the financial statements, but is not expected to have a significant effect on the University's financial statements. The provisions of this statement are effective for the University's financial statements for the year ended June 30, 2021.

**Financial Forecasting and Modeling** – We understand management provides the Board with various financial forecasts and models on a regular basis. In light of the University's increasing investment in capital improvements and debt service obligations, we highly encourage the continuance of this process.

DRAFT



Office of the Vice President for Finance and Administration  
and Treasurer to the Board of Trustees

October 11, 2017

Plante & Moran, PLLC  
19176 Hall Road, Suite 300  
Clinton Township, MI 48038

Auditors:

We are providing this letter in connection with your audit of the basic financial statements of Oakland University ("University") as of June 30, 2017 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Oakland University in conformity with generally accepted accounting principles accepted in the United States (U.S. GAAP). We accept responsibility for the preparation and fair presentation of the basic statements of financial position, results of operations, and cash flows in accordance with U.S. GAAP. We also confirm that we are responsible for the presentation of any required supplemental information (RSI) to which you have provided an opinion in relation to the financial statements as a whole. We believe that this information, including its form and content, is fairly presented in accordance with the applicable criteria.

We acknowledge our responsibility for the completeness of the financial statements, and design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error and for the design, implementation, and maintenance of internal control to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We also acknowledge our responsibility for providing you with all relevant information and access.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

For purposes of disclosure in this letter, individual matters related to financial amounts and disclosures should be considered material if in excess of \$2,400,000. However, materiality limits do not apply to representations that are not directly related to amounts included in the financial statements or to any item regarding fraud by management or employees who have significant roles in internal control.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of the date of this letter, the following representations made to you during your audit.

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 13, 2017, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We are unaware of any violations of U.S. GAAP in the University's accounting principles and the practices and methods followed in applying them.

Finance and Administration



3. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
4. There have been no changes during the year in the University's accounting principles and practices or in the methods of applying them.
5. We are not aware of any litigation, claims, unasserted claims or assessments that should be accrued or disclosed in the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Accounting Standards Codification Topic Section 450, "Contingencies".
6. The University has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
8. There are no:
  - a. Unrecorded related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing agreements, guarantees and pledges of University assets as collateral, including the provision of products or services without charge.
  - b. Guarantees and pledges of University assets as collateral, whether written or oral, under which the University is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, except for the collateral posted for the swaps of \$2,250,000.
  - d. Lines-of-credit or similar arrangements.
  - e. Agreements to repurchase assets previously sold.
  - f. Violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - g. Circumstances that we are aware of that make it reasonably possible that the University would be named a responsible party in a significant remediation of environmental contamination.
  - h. Other material liabilities or loss contingencies for which the risk that the University will suffer a loss in excess of \$2,400,000 is more than remote.
9. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
10. Adequate provision has been made to cover possible losses that may result from:
  - a. The collection of receivables.
  - b. Significant excess or obsolete inventory.
  - c. Purchase or sales commitments.
  - d. Permanent declines in the value of investments.
  - e. Impairments of long-lived assets.
11. The University has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged, except for the State Building Authority buildings as disclosed in footnote 9 of the financial statements.
12. Deposits and investment securities are properly classified by category of custodial credit risk.

13. All significant contracts and contracts not in the normal course of business entered into by the University have been presented to you for your evaluation.
14. The University has no deferred compensation plans or share based compensation plans sponsored by the University, or any related party except for the practice to allow faculty to earn pay over eight months and receive payment over twelve months.
15. The University is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, grants, and donor restrictions that could have a material effect on the basic financial statement amounts in the event of noncompliance including legal and contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, grants, and donor restrictions to you.
16. All significant estimates and material concentrations, as hereinafter defined, known to us have been disclosed to you. Significant estimates are those estimates used in the development of accounting information that could change materially within the next year. Material concentrations refer to concentrations in the volume of business, revenue sources, the sources of supply, and markets in which we operate, that make us vulnerable to events that could occur within the next year that would have a significant disruptive effect on the University.
17. All borrowings are in accordance with State of Michigan requirements.
18. The University has transferred certain risks to third-party insurance carriers and shared-risk insurance pools and the financial statements reflect assessments or other liabilities, if any, related to these transactions. The Institution also retains the risk for certain insurance liabilities and any liabilities related to such risks are properly reflected in the financial statements.
19. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable depreciated in accordance with University policy.
20. The University has identified and properly accounted for all non-exchange transactions.
21. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:
  - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance sheet credit risk and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
22. There are no component units of the University as defined by GASB No. 14, 39, 61 and 80. There are no investments in joint ventures in which the University holds an equity interest.
23. The basic financial statements properly classify all activities.
24. Net asset components (net investment in capital; restricted; and unrestricted) are properly classified and, if applicable, approved.
25. The University has complied with all tax and debt limits and with debt related covenants.
26. The University has complied with all applicable laws and regulations in adopting, approving and amending budgets, if applicable.
27. We are responsible for making the fair value measurements and disclosures included in the financial statements, of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As such, management has established an accounting and financial reporting process for determining the fair value measurements and disclosures, selections of appropriate valuation methods, identification of and

support for significant assumptions used, preparation of valuation, and determination of the presentation and disclosure of the fair value measurements are in accordance with U.S. GAAP. We understand that while we may look to knowledgeable third parties for assurance with the determination of the value, we have obtained sufficient corroborating information to support the investment's valuation.

28. The Institution has defined contribution retirement plans with TIAA-CREF and Fidelity Investments, as well as a defined benefits plan covering certain employees as disclosed in the financial statements.
29. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under the Internal Revenues Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that could jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
30. Receivables reported in the basic financial statements represent valid claims arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
31. The University has identified, recorded and made the appropriate disclosures for all derivative instruments reported at fair value in the financial statements in accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.
32. We agree with the findings of specialists in evaluating the Other Postemployment Benefits (OPEB) liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instruction to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
33. In accordance with *Government Auditing Standards*, we have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.
34. We will only use the unprotected PDF of the financial statements to either include in another PDF that will be protected before distribution or to upload to a secure web portal for board/committee use.
35. There are no interim financial statements available as of a date subsequent to the date of the statements you are auditing.
36. If we publish our financial statements in any manner that includes your auditor's report or any other reference to Plante Moran, it is understood that we will allow you to review such publication prior to production.

### Information Provided

1. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others when the fraud could have a material effect on the financial statements.
4. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
5. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
6. Management has identified and disclosed to the auditor the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the determination of financial statement amounts. Management has made available all documentation related to the compliance requirements. Management's interpretations of any compliance requirements that have varying interpretations have been provided.
7. Management identified and disclosed to the auditor violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements or questioned costs whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency or for the auditor reporting on noncompliance.
8. Management has a process to track the status of audit findings and recommendations.
9. Management has provided views on the auditors' reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
10. Related to your audit of our federal awards:
  - a. Management is responsible for complying, and has complied, with the requirements of the Uniform Guidance.
  - b. In regards to the Schedule of Expenditures of Federal Awards (SEFA):
    - 1) Management is responsible for and has accurately prepared the schedule in accordance with the Uniform Guidance which includes expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
    - 2) The methods of measurement or presentation have not changed from those used in the prior period.
    - 3) There were no significant assumptions or interpretations underlying the measurement or presentation of the SEFA.
    - 4) Management will make the audited financial statement readily available to all intended users of the SEFA no later than the issuance date by the entity of the SEFA and the auditor's report thereon.
  - c. Management is responsible for, and has accurately prepared:
    - 1) The summary schedule of prior audit findings, which includes all findings, required to be included by the Uniform Guidance, if applicable.
    - 2) The appropriate sections of the data collection form.

- d. Management is responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
- e. Management is responsible for the design, implementation, and maintenance of internal control relevant to financial reporting and compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- f. Management has identified and disclosed to the auditor, upon their request for a specific federal program, the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program and on financial statement amounts. Management has made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements. Management's interpretations of any compliance requirements that have varying interpretations have been provided.
- g. Management has identified all awards/contracts that are required to be administered under 2 CFR Part 200 (the new Uniform Grant Guidance, or "Super Circular") and has provided all the award letters/contracts requested.
- h. Management has provided:
  - 1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as all contracts and grant agreements (including amendments) and any other correspondence relevant to the programs and related activities subject to audit;
  - 2) Additional information that the auditor has requested from management for the purpose of the audit;
  - 3) Unrestricted access to persons within the entity from whom the auditor determined it necessary to obtain audit evidence.
- i. Management has disclosed to the auditor any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- j. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken, including all management decision, both throughout the audit period as well as from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. Management has complied with the applicable compliance requirements in connection with federal awards, except as disclosed to the auditor. In addition, management has disclosed all known instances of noncompliance or suspected noncompliance, if any, occurring subsequent to the period for which compliance is audited.
- l. Management identified and disclosed to the auditor violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements or questioned costs whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency or for the auditor reporting on noncompliance, as applicable.
- m. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the SEFA. The copies of federal

- program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- n. Management acknowledges its responsibility for taking corrective action on audit findings of the compliance audit. Management has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that the auditor reports.
  - o. Management has a process to track the status of audit findings and recommendations.
  - p. Management has provided views on the auditors' reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
  - q. Management has reviewed the auditors' reported findings and determined that the findings contain no personally identifiable information.
  - r. Related to awards provided to its subrecipients, management has:
    - 1) Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
    - 2) Issued management decisions on a timely basis after their receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and has ensured that subrecipients have taken the appropriate and timely corrective action on findings.
    - 3) Considered the results of subrecipient audits and has made any necessary adjustments to their own books and records.
  - s. If applicable, management has disclosed all contracts or other agreements with the service organizations and all communications from the service organization relating to noncompliance at the service organization.
  - t. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies, have occurred subsequent to the date as of which compliance is audited.

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Ora Hirsch Pescovitz  
President

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John W. Beaghan  
Vice President for Finance and Administration  
and Treasurer to the Board of Trustees

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James L. Hargett  
Assistant Vice President and Controller