

FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Oakland University
Contents
June 30, 2016 and 2015

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Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's 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.

Auditors' 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 September 22, 2016 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the University's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Auburn Hills, Michigan
September 22, 2016

Oakland University

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016 with selected comparative information for the years ended June 30, 2015 and 2014.

The University is a state-supported institution of over 20,200 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 133 baccalaureate degree programs and 136 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.

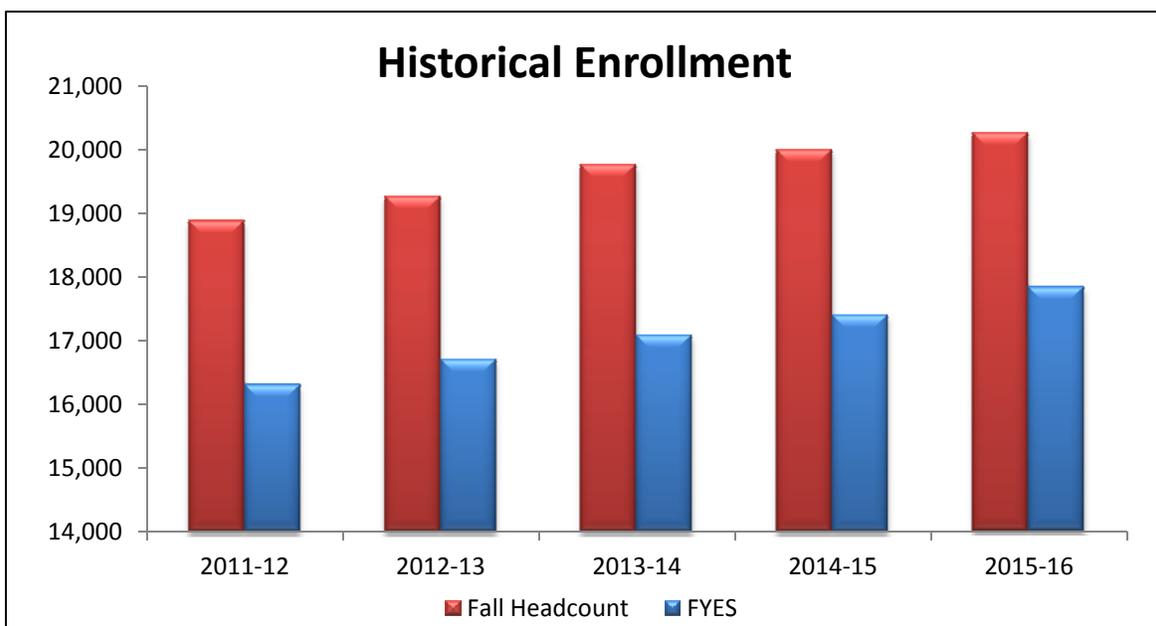
The University is considered a component unit of the State of Michigan (State). Accordingly, the University's financial statements are included in the State's comprehensive annual financial report.

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 and the financial statements and related footnotes have been prepared by and are the responsibility of University management.

Fiscal Year 2016 Enrollment and Operations Highlights

- In fiscal year 2016, student headcount enrollment for the fall 2015 semester increased 1.3% to a record 20,261. Undergraduate enrollment was 16,793 (83%) and graduate enrollment was 3,468 (17%).
- Enrollment based on Fiscal Year Equated Students (FYES) increased 2.5% to 17,840.

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



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- The Oakland University Board of Trustees (Board) approved a new Campus Master Plan to support the aspirations of the University's strategic vision. Through renovations, re-purposing, and new construction the Plan will provide more teaching facilities, support growth of the University's research enterprise, create a more residential campus, and promote community engagement.
- In June 2016, the University broke ground on the new Southern Student Housing Complex. The \$78 million complex, funded by general revenue bonds issued in June 2016, will accommodate 750 sophomores and juniors on campus. The facility will be the first housing unit on the south side of campus and will include dining, classroom, and meeting spaces. The project will be designed to meet LEED Gold Standards and is expected to be completed in August 2018.
- Through the issuance of general revenue bonds in June 2016, the University committed \$46 million to the renovation and expansion of the Oakland Center, as well as, renovations to Anibal House and Fitzgerald House. These projects will create additional dining spaces, banquet/meeting rooms, offices, and other support and service areas.
- In June 2016, the University's Engineering Center received two awards from the American Society of Civil Engineers' Architectural Engineering Institute. These awards honored both the mechanical and electrical systems, as well as, the overall design of the building. The \$74.6 million, 134,286 square foot building was the only facility in Michigan to be recognized.
- The University's School of Engineering and Computer Science introduced the Master of Science in Cybersecurity. The new program will provide students with the background knowledge to understand, adapt, and develop new techniques to confront emerging threats.
- The School of Business was recognized among the nation's best by the Princeton Review. This recognition reinforces the high quality education Oakland business students gain from expert faculty and top-notch curriculum.
- In February 2016, a University Engineering Team was the recipient of a \$1 million cash prize in an international drone competition. The winnings will be used to further develop the drone and support research into related projects.
- The University and the City of Pontiac celebrated the one year anniversary of the Pontiac Initiative. The partnership aims to advance the college readiness, economic development, service learning, and communication of the City of Pontiac while enhancing faculty research and learning opportunities for Oakland students.
- In November 2015, the University received a \$5 million life insurance bequest from long-time donors, and Oakland Alumni, Craig and Ann Stinson. The generous donation will be used to enhance the Stinson Student Advancement Center in the School of Business and naming the Stinson Family Student-Athlete Development Center in Athletics. The gift aims to help students bridge the gap between finishing their academic careers and becoming productive members in the working world. In accordance with current accounting standards, life insurance bequest intentions are not recognized in the financial statements, but referenced in the footnotes.

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- In October 2015, the University entered into an affiliation agreement with Wayne State University. The agreement will allow students to earn both a bachelor's and law degree in six years instead of the traditional seven.
- The Department of Physics was awarded a \$2.2 million grant from the National Institutes of Health. The five-year grant will be used to study the degradation of articular cartilage, which leads to osteoarthritis.

Overview of the Financial Statements

This annual report consists of financial statements which have been prepared in accordance with Governmental Accounting Standards Board (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 18-41 of this financial report.

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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
	2016	2015	
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 205,363	\$ 73,938	178%
Capital assets, net	500,924	489,301	2%
Other noncurrent assets	232,914	217,868	7%
Total assets	939,201	781,107	20%
Deferred outflows of resources	15,835	13,447	18%
Liabilities			
Current liabilities	62,644	49,291	27%
Noncurrent liabilities	394,018	260,157	51%
Total liabilities	456,662	309,448	48%
Deferred inflows of resources	9,487	5,945	60%
Net position			
Net investment in capital assets	262,726	258,454	2%
Restricted nonexpendable	26,926	25,851	4%
Restricted expendable	37,561	41,153	-9%
Unrestricted	161,674	153,703	5%
Total net position	\$ 488,887	\$ 479,161	2%

The University's total assets were \$939.2 million and \$781.1 million at June 30, 2016 and 2015, 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 53% and 63% of the University's total assets at June 30, 2016 and 2015, respectively. The decrease is the result of bond proceeds received, in current assets, that have not yet been expended on capital assets. Capital expenditures totaled \$33.8 million in 2016 and \$57.9 million in 2015. Included in capital expenditures for 2016 were the 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. Additional capital expenditures include Vandenberg Hall infrastructure improvements, the initial construction stages of the Southern Student Housing Complex, refurbishment of the Food Court at the Oakland Center, campus infrastructure projects, and other campus enhancement projects. Depreciation expense was \$22.0 million in 2016 and \$19.2 million in 2015.

Current assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, and receivables due within one year. Cash and cash equivalents, including restricted cash and cash equivalents, increased \$134.1 million to \$178.2 million at June 30, 2016 primarily due to the issuance of the 2016 Bonds in June 2016. Accounts receivable decreased \$3.2 million to \$12.2 million at June 30, 2016. This is largely due to a \$2.8 million decrease in the State Building Authority capital appropriation receivable related to the Engineering Center, coupled with a decrease of \$0.5 million in grant related

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Management's Discussion and Analysis
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receivables. Other current assets of \$15.0 million include a State operating appropriation receivable of \$8.8 million and pledges receivable of \$3.0 million.

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were \$82.0 million at June 30, 2016 and \$84.0 million at June 30, 2015. The decrease in the endowment fair market value was primarily due to market declines. The total return, net of fees, on the University's endowment investments was -1.4% for 2016 and 3.7% for 2015. Other long-term investments were \$146.4 million at June 30, 2016 and \$127.2 million at June 30, 2015, 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 2016 and 2.2% for 2015, both net of fees. The University's investments are being managed according to Board policies.

Deferred outflows of resources were \$15.8 million at June 30, 2016 and \$13.4 million as of June 30, 2015. Deferred outflows of resources consists of the estimated 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.

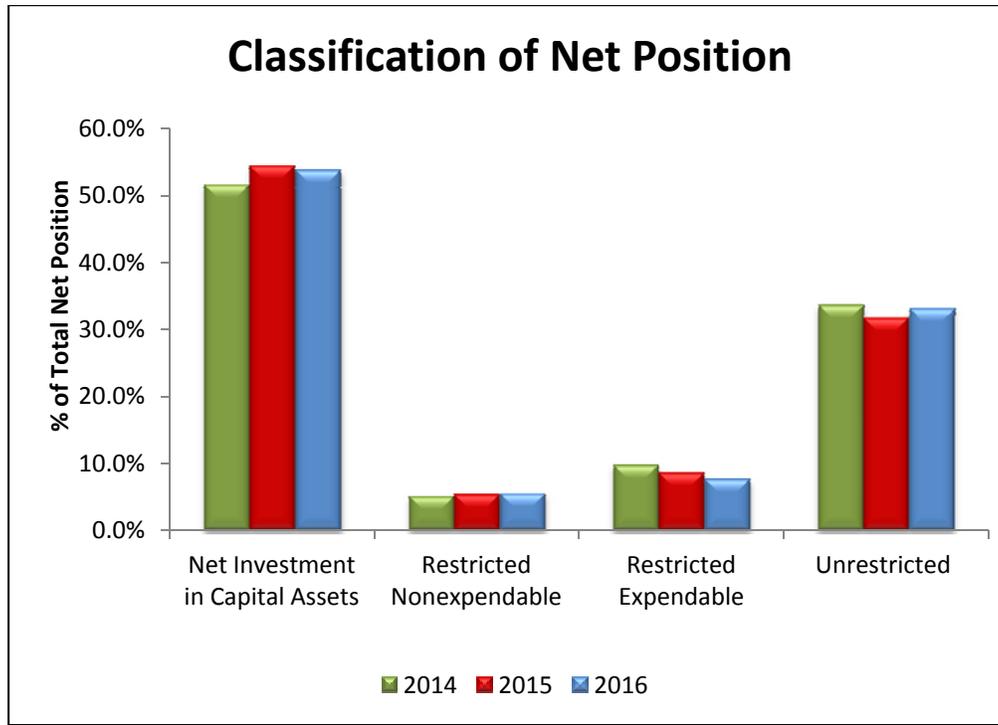
All investments held by the University can be liquidated to cash within 90 days or less without incurring additional fees, with the exception of the private equity holding and hedge funds.

The University's total liabilities were \$456.7 million at June 30, 2016 and \$309.4 million at June 30, 2015. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, and unearned revenue. Of the \$13.4 million increase in current liabilities, \$6.4 million is due to a pass through payment to William Beaumont Hospital from insurance providers in addition to an increase of \$4.3 million in accounts payable due to increased construction activity at year end compared to June 30, 2015. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 86% of the University's total liabilities as of June 30, 2016 and 84% as of June 30, 2015. Noncurrent long-term liabilities increased by \$133.9 million largely due to the issuance of the 2016 Bonds in the amount of \$113.1 million with a \$20.8 million premium, offset by bond payments and premium amortization expense of \$8.0 million; an increase in unearned revenue by \$6.0 million due to signing bonuses from external service providers to be amortized over a 10 year period; and 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.

Deferred inflows of resources were \$9.5 million at June 30, 2016 and \$5.9 million at June 30, 2015. Deferred inflows of resources consists of the estimated fair value of the 2008 Swap reduced by the estimated fair value of the 2007 Constant Maturity Swap (CMS) investment derivative. The increase in the deferred inflows of resources is primarily due to the decrease in the fair value of the 2008 Swap at June 30, 2016.

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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,	
	2016	2015
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 3,620	\$ 3,637
Capital projects and repair reserves	51,409	52,491
Funds designated for departmental use	32,675	29,332
Funds functioning as endowments	16,733	17,773
Gifts and investment income reserves	36,320	30,533
Retirement and insurance reserves	6,984	7,946
Encumbrances and carryforwards	13,933	11,991
	\$ 161,674	\$ 153,703

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

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 2016 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 \$38.4 million as of June 30, 2016. The amount of the AAL that is recorded on the financial statements increased \$2.2 million during the year to \$13.3 million. In addition to the recorded liability, the University had an unrecorded AAL of \$25.1 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 \$18.8 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 June 30, 2018 fiscal year, with earlier application encouraged. GASB Statement No. 75 will require the unrecorded OPEB liability of \$25.1 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.

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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	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
		<i>(in thousands)</i>			
Operating revenues					
Net tuition	\$ 200,021	\$ 179,164	\$ 165,846	12%	8%
Grants and contracts	11,467	11,467	13,423	0%	-15%
Departmental activities	11,137	8,748	7,815	27%	12%
Auxiliary activities, net	30,932	27,758	24,888	11%	12%
Other	421	248	249	70%	0%
Total operating revenues	<u>253,978</u>	<u>227,385</u>	<u>212,221</u>	12%	7%
Operating expenses	<u>316,690</u>	<u>298,281</u>	<u>282,579</u>	6%	6%
Operating loss	<u>(62,712)</u>	<u>(70,896)</u>	<u>(70,358)</u>	-12%	1%
Nonoperating revenues (expenses)					
State appropriations	48,372	48,384	45,652	0%	6%
Gifts	4,516	4,673	9,649	-3%	-52%
Investment income, net	4,815	6,768	22,358	-29%	-70%
Interest expense	(8,683)	(8,994)	(4,398)	-3%	105%
Pell grants	20,845	21,879	21,517	-5%	2%
Other	(232)	22	565	-1,155%	-96%
Net nonoperating revenues	<u>69,633</u>	<u>72,732</u>	<u>95,343</u>	-4%	-24%
Income before other revenues	<u>6,921</u>	<u>1,836</u>	<u>24,985</u>	277%	-93%
Capital appropriations	1,857	16,603	10,770	-89%	54%
Capital grants and gifts	16	253	216	-94%	17%
Additions to permanent endowments	932	1,630	3,580	-43%	-54%
Total other revenues	<u>2,805</u>	<u>18,486</u>	<u>14,566</u>	-85%	27%
Increase in net position	<u>9,726</u>	<u>20,322</u>	<u>39,551</u>	-52%	-49%
Net position					
Beginning of year	<u>479,161</u>	<u>458,839</u>	<u>419,288</u>	4%	9%
End of year	<u>\$ 488,887</u>	<u>\$ 479,161</u>	<u>\$ 458,839</u>	2%	4%

Operating revenues were \$254.0 million in 2016, \$227.4 million in 2015, and \$212.2 million in 2014. The 12% increase in 2016 over 2015 was primarily due to increases in tuition revenue net of scholarship allowances, which was higher due to an enrollment increase of 1.3% effective for the fall 2015 semester, and tuition rates increasing by an average 8.5% for undergraduates and graduates in addition to implementing differential tuition rates by school. Differential tuition rates have been set for the Schools of Business Administration, Engineering and Computer Science, Health Science, and Nursing. The resources needed to educate future professionals in these schools are greater than those required to educate other majors.

Operating expenses were \$316.7 million in 2016, \$298.3 million in 2015, and \$282.6 million in 2014. The operating expense increase of 6% in 2016 over 2015 primarily resulted from supporting increased enrollment, contractual agreements, and increases in instruction and academic support.

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

University Operating Expenses

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>% Change</u> <u>2016-2015</u>	<u>% Change</u> <u>2015-2014</u>
	<i>(in thousands)</i>				
Education and general					
Instruction	\$ 126,953	\$ 120,520	\$ 114,260	5%	5%
Research	8,747	8,744	9,081	0%	-4%
Public service	5,701	5,132	4,616	11%	11%
Academic support	35,018	32,066	30,213	9%	6%
Student services	30,869	29,476	28,104	5%	5%
Institutional support	26,726	24,981	24,759	7%	1%
Operations and maintenance of plant	21,748	19,772	20,056	10%	-1%
Depreciation	22,014	19,229	15,255	14%	26%
Student aid	12,795	13,434	13,719	-5%	-2%
Total education and general	<u>290,571</u>	<u>273,354</u>	<u>260,063</u>	6%	5%
Auxiliary activities	26,103	24,922	22,497	5%	11%
Other expenses	16	5	19	220%	-74%
Total operating expenses	<u>\$ 316,690</u>	<u>\$ 298,281</u>	<u>\$ 282,579</u>	6%	6%

Education and general expenses increased 6% in 2016 over 2015 and 5% in 2015 over 2014. The increases are mainly attributable to an increase in academic program offerings to meet the needs of higher enrollment, contractual agreements, and equipment purchases related to the University's capital and technology expansion programs.

Instruction for 2016 increased by \$6.4 million largely due to an increase in compensation of \$5.0 million due to the hiring of 11 new faculty positions and overall compensation increases for existing faculty and \$1.4 million in supplies and services. The Academic Support increase is predominantly due to an increase of \$1.1 million in compensation and \$1.8 million in technology upgrades. The increase in Student Services is related to an increase of \$1.9 million in compensation increases and the hiring of academic advisors and counselors, offset by a decrease in supplies and services. The increase in Depreciation for 2016 is largely due to the completion of projects and equipment purchases placed into service during 2016.

The University's operating loss was \$62.7 million in 2016, \$70.9 million in 2015, and \$70.4 million in 2014. Offsetting these losses were net nonoperating revenues of \$69.6 million in 2016, \$72.7 million in 2015, and \$95.3 million in 2014.

Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$48.4 million in 2016, \$48.4 million in 2015, and \$45.7 million in 2014.

The University earned \$4.8 million in net investment income. This growth is comprised of \$6.0 million, a 3.5% rate of return, in University pooled working capital investments, offset by a \$1.2 million loss, a -1.4% rate of decline, in the endowment investments due to market declines.

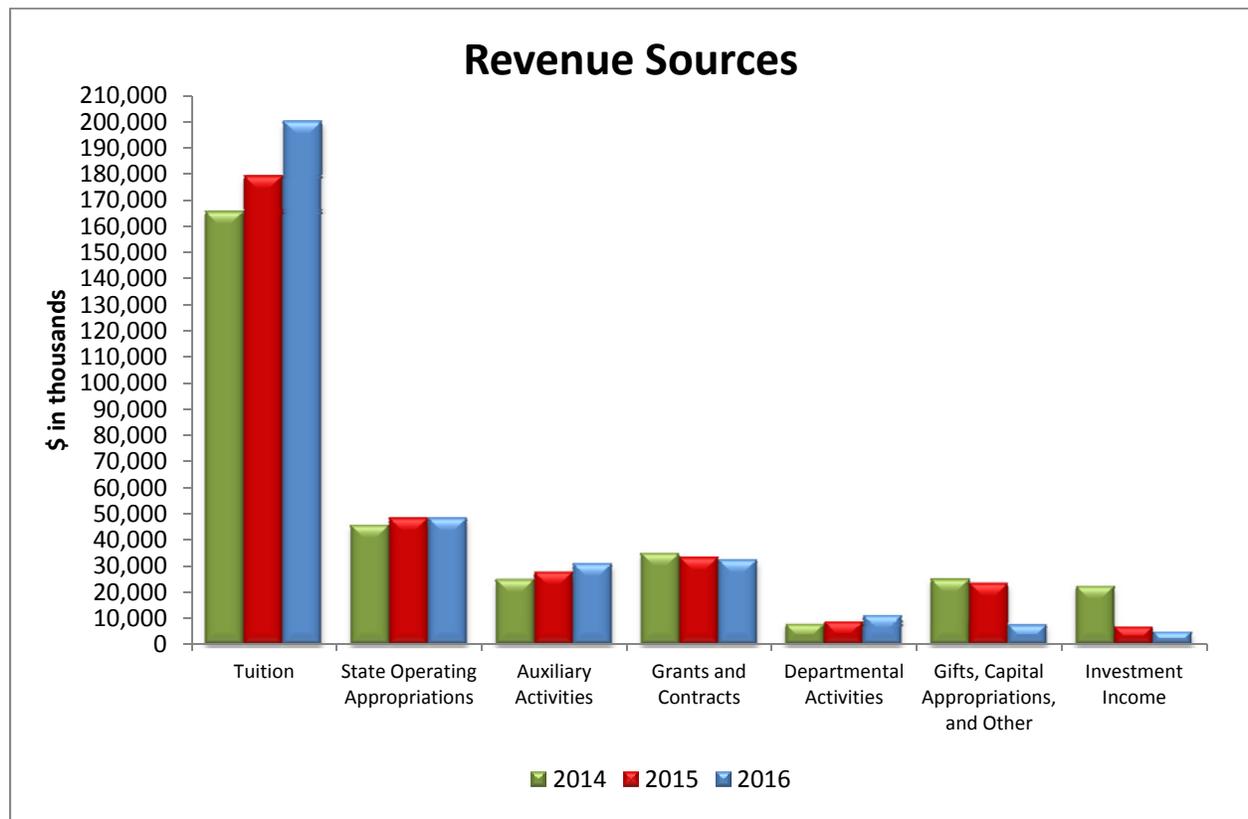
Nonoperating revenues also include \$20.8 million from Federal Pell Grants in 2016. Pell Grant revenue for 2015 and 2014 was \$21.9 million and \$21.5 million, respectively.

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Other revenues decreased \$15.7 million to \$2.8 million in 2016 primarily due to a \$14.7 million decrease from 2015 in capital appropriations from the State Building Authority for the completion of the Engineering Center. This is in addition to reductions in new endowments and gifts of \$1.0 million.

Net position increased \$9.8 million during 2016 and is primarily attributed to nonoperating activities including \$4.8 million of investment income, \$4.5 million in gifts, and \$0.9 million in 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. The \$39.6 million increase in 2014 is primarily attributed to nonoperating activities including \$22.4 million of investment income, \$9.6 million in gifts, and \$3.6 million of additions to permanent endowments.

A graphic illustration of each revenue source is as follows:



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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>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands)</i>		
Cash from			
Operating activities	\$ (23,717)	\$ (48,992)	\$ (59,161)
Noncapital financing activities	76,513	77,436	85,689
Capital financing activities	92,883	(53,690)	(104,132)
Investing activities	<u>(11,592)</u>	<u>11,685</u>	<u>(26,403)</u>
Net change in cash and cash equivalents	134,087	(13,561)	(104,007)
Cash and cash equivalents			
Beginning of year	<u>44,066</u>	<u>57,627</u>	<u>161,634</u>
End of year	<u>\$ 178,153</u>	<u>\$ 44,066</u>	<u>\$ 57,627</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 increases in tuition and auxiliary activities that were greater than the increase in payments to employees, suppliers, and financial aid recipients.

Noncapital financing activities include State appropriation cash receipts of \$48.4 million in 2016, \$47.9 million in 2015, and \$45.5 million in 2014; Pell Grants totaling \$20.9 million in 2016, \$21.9 million in 2015, and \$21.5 million in 2014; and gift cash receipts of \$7.2 million in 2016, \$7.3 million in 2015, and \$18.1 million in 2014.

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 and \$0.4 million in equipment and library books respectively; \$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.

Oakland University

Management's Discussion and Analysis

June 30, 2016 and 2015

Capital financing activities for 2014 include capital expenditures of \$95.7 million in addition to debt service payments totaling \$8.8 million. Cash disbursements for capital expenditures in 2014 included \$33.3 million for the Engineering Center; \$21.3 million for Oak View Hall; \$11.5 million for a new parking structure; \$4.1 million in equipment; \$3.8 million for renovations in Hannah and O'Dowd Halls; \$3.2 million for housing infrastructure renovations; \$2.7 million for construction of the Elliott Tower; \$1.4 million for the Facilities Management Building; and \$1.2 million for the Athletic and Recreation Outdoor Complex.

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

Commitments

The estimated costs to complete construction projects in progress is \$143.5 million as of June 30, 2016, due in large part to the ongoing construction costs of the new Southern Student Housing Complex in the amount of \$76.0 million, expansion of the Oakland Center for \$46.6 million, conversion of Anibal and Fitzgerald Halls into academic and administrative office space for \$6.0 million, infrastructure renovations at Vandenberg Hall for \$5.4 million, architectural and engineering services for the expansion of Elliott Hall for \$1.8 million, the installation of a backup generator at the Dodge Hall Data Center in the amount of \$1.3 million, and various campus enhancement projects totaling \$6.4 million. The Southern Student Housing Complex and conversion of the Anibal and Fitzgerald Halls will be funded from the 2016 Bonds. The Oakland Center expansion will be funded from the 2016 Bonds and University resources. The architectural and engineering services for the Elliott Hall expansion and installation of the generator at Dodge Hall Data Center 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 its plant to identify deferred plant renewal (previously referred to as deferred maintenance), 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.

- State and national economy
- 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
- Demographics, including number of high school graduates
- Continued development of the Oakland University William Beaumont School of Medicine
- Enrollment Management

Oakland University
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 36,326,043	\$ 30,595,895
Accounts receivable, net (Note 3)	12,238,304	15,455,692
Appropriations receivable (Note 4)	8,794,892	8,793,474
Pledges receivable, net (Note 5)	3,044,395	3,106,951
Inventories	1,315,137	941,060
Deposits and prepaid expenses	1,400,541	1,156,692
Student loans receivable, net (Note 6)	417,685	417,855
Restricted cash and cash equivalents (Note 2)	141,826,463	13,470,567
Total current assets	<u>205,363,460</u>	<u>73,938,186</u>
Noncurrent assets		
Endowment investments (Note 2)	82,002,869	84,026,372
Other long-term investments (Note 2)	146,378,496	127,153,135
Pledges receivable, net (Note 5)	2,598,920	4,695,319
Student loans receivable, net (Note 6)	1,399,074	1,472,989
Capital assets, net (Note 7)	500,924,141	489,301,125
Other assets (Note 9)	534,560	520,032
Total noncurrent assets	<u>733,838,060</u>	<u>707,168,972</u>
Total assets	<u>939,201,520</u>	<u>781,107,158</u>
Deferred outflows of resources (Note 11)	15,834,805	13,447,117
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	24,706,603	16,241,522
Accrued payroll	9,616,248	8,025,823
Long-term liabilities – current portion (Note 10)	10,367,359	8,855,482
Unearned revenue	15,799,369	14,009,667
Deposits	2,154,305	2,158,133
Total current liabilities	<u>62,643,884</u>	<u>49,290,627</u>
Noncurrent liabilities		
Unearned revenue	8,941,556	2,023,462
Long-term liabilities (Note 10)	371,793,499	247,029,674
Other postemployment benefits (Note 12)	13,283,315	11,104,230
Total noncurrent liabilities	<u>394,018,370</u>	<u>260,157,366</u>
Total liabilities	<u>456,662,254</u>	<u>309,447,993</u>
Deferred inflows of resources (Note 11)	9,487,345	5,945,048
Net position		
Net investment in capital assets	262,726,165	258,453,969
Restricted nonexpendable	26,925,302	25,851,409
Restricted expendable	37,560,954	41,152,404
Unrestricted	161,674,305	153,703,452
Total net position	<u>\$ 488,886,726</u>	<u>\$ 479,161,234</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Tuition (net of scholarship allowances of \$51,835,300 in 2016 and \$46,282,700 in 2015)	\$ 200,021,083	\$ 179,163,913
Federal grants and contracts	8,358,976	8,449,846
State, local, and private grants and contracts	3,107,535	3,017,052
Departmental activities	11,136,937	8,747,908
Auxiliary activities (net of scholarship allowances of \$4,691,700 in 2016 and \$4,288,400 in 2015)	30,932,042	27,758,222
Other operating revenues	420,958	247,995
Total operating revenues	<u>253,977,531</u>	<u>227,384,936</u>
Operating expenses		
Education and general		
Instruction	126,953,471	120,519,332
Research	8,746,592	8,744,300
Public service	5,701,231	5,132,379
Academic support	35,018,413	32,065,879
Student services	30,869,161	29,476,275
Institutional support	26,725,590	24,981,169
Operations and maintenance of plant	21,748,139	19,772,002
Depreciation	22,013,804	19,228,595
Student aid	12,794,769	13,434,311
Auxiliary activities	26,103,007	24,921,699
Other expenses	15,971	4,811
Total operating expenses (Note 16)	<u>316,690,148</u>	<u>298,280,752</u>
Operating loss	<u>(62,712,617)</u>	<u>(70,895,816)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	48,371,900	48,383,800
Gifts	4,516,308	4,673,430
Investment income (net of investment expenses of \$359,416 in 2016 and \$340,409 in 2015)	4,815,082	6,767,826
Interest on capital asset related debt	(8,683,095)	(8,993,747)
Pell grants	20,844,616	21,878,577
Other	(231,573)	21,504
Net nonoperating revenues	<u>69,633,238</u>	<u>72,731,390</u>
Income before other revenues	<u>6,920,621</u>	<u>1,835,574</u>
Capital appropriations	1,857,036	16,602,906
Capital grants and gifts	16,059	253,383
Additions to permanent endowments	931,776	1,630,415
Total other revenues	<u>2,804,871</u>	<u>18,486,704</u>
Increase in net position	<u>9,725,492</u>	<u>20,322,278</u>
Net position		
Beginning of year	479,161,234	458,838,956
End of year	<u>\$ 488,886,726</u>	<u>\$ 479,161,234</u>

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

Oakland University
Statements of Cash Flows
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Tuition	\$ 198,523,079	\$ 178,552,638
Grants and contracts	12,291,325	10,232,038
Payments to suppliers	(68,813,315)	(65,853,783)
Payments to employees	(205,000,346)	(196,371,638)
Payments for scholarships and fellowships	(12,794,769)	(13,434,311)
Loans issued to students	(219,341)	(333,064)
Collection of loans from students	297,238	292,383
Auxiliary enterprise charges	32,000,067	27,924,888
Other receipts	19,999,307	9,999,399
Net cash from operating activities (Note 17)	<u>(23,716,755)</u>	<u>(48,991,450)</u>
Cash flows from noncapital financing activities		
State appropriations	48,370,482	47,890,618
Federal direct lending receipts	109,478,387	112,468,123
Federal direct lending disbursements	(109,478,387)	(112,468,123)
Gifts and grants for other than capital purposes	27,273,778	28,065,896
Endowment gifts	868,667	1,479,352
Net cash from noncapital financing activities	<u>76,512,927</u>	<u>77,435,866</u>
Cash flows from capital financing activities		
Proceeds from capital debt	133,903,191	48,483,717
Capital appropriations	4,621,625	24,523,003
Capital grants, gifts, and other receipts	32,118	499,899
Purchases of capital assets	(29,550,776)	(80,066,843)
Principal paid on capital debt and leases	(6,708,656)	(36,573,393)
Interest paid on capital debt and leases	(9,415,194)	(10,556,521)
Net cash from capital financing activities	<u>92,882,308</u>	<u>(53,690,138)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	59,275,700	67,057,375
Investment income	1,806,398	7,770,158
Purchase of investments	(72,674,534)	(63,142,102)
Net cash from investing activities	<u>(11,592,436)</u>	<u>11,685,431</u>
Net change in cash and cash equivalents	134,086,044	(13,560,291)
Cash and cash equivalents		
Beginning of year	44,066,462	57,626,753
End of year	<u>\$ 178,152,506</u>	<u>\$ 44,066,462</u>

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

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

1. Significant Accounting Policies

Organization

These financial statements present the financial position, results of operations, and changes in net position of Oakland University (University).

Basis of Accounting

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).

Effective in the fiscal year ended June 30, 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 stated at the lower of average cost or market. Included in the 2016 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 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. Significant Accounting Policies (continued)

Deferred Outflows of Resources

Deferred outflows of resources consists of interest rate swap agreements stated at fair value, deferred amortization on refunding of debt, and the deferral of the swap termination cost for the 2001 Bonds.

Deferred Inflows of Resources

Deferred inflows of resources consists of the estimated fair value of the 2008 Swap reduced by the estimated fair value of the 2007 Constant Maturity Swap interest rate agreement.

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 of Michigan (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 and fall semesters are recognized in the fiscal year in which the semesters are predominantly conducted.

Revenues are reported net of discounts and allowances.

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 Statement of Revenues, Expenses, and Changes in Net Position.

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

Funds are appropriated to the University for operations by the State 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.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

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 working capital portfolio 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.

The operating cash portfolio at June 30, 2016 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 investment pool consists of the following as of June 30, 2016 and 2015:

<u>June 30, 2016</u>	<u>Fair Market Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>	<u>N/A</u>
University Operating Pooled Cash						
Cash and Cash Equivalents	\$ 36,326,043	\$ 36,326,043	\$ -	\$ -	\$ -	\$ -
Commonfund Limited Duration Fund	22,075,602	22,075,602	-	-	-	-
Commonfund Intermediate Bond Fund	17,809,292	-	17,809,292	-	-	-
Commonfund High Quality Bond Fund	25,190,936	-	25,190,936	-	-	-
Commonfund Contingent Asset Portfolio	11,400,060	-	11,400,060	-	-	-
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>\$ 204,665,165</u>	<u>\$ 69,956,375</u>	<u>\$ 225,037</u>	<u>\$ -</u>	<u>\$ 49,684,425</u>
As Reported on the Statement of Net Position						
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>					

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments and Deposits with Financial Institutions (continued)

<u>June 30, 2015</u>	<u>Fair Market Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>	<u>N/A</u>
University Operating Pooled Cash						
Cash and Cash Equivalents	\$ 30,595,895	\$ 30,595,895	\$ -	\$ -	\$ -	\$ -
Commonfund Intermediate Bond Fund	20,606,267	2,369,721	17,123,808	1,112,738	-	-
Commonfund High Quality Bond Fund	23,197,125	2,412,501	8,861,302	8,165,388	3,757,934	-
Commonfund Contingent Asset Portfolio	20,131,800	2,597,002	13,206,461	4,328,337	-	-
Commonfund Core Equity Fund	23,499,784	-	-	-	-	23,499,784
Commonfund Strategic Equity Fund	19,894,470	-	-	-	-	19,894,470
JP Morgan Bond Fund	19,823,689	3,908,689	15,264,000	651,000	-	-
Cash with Trustees	13,470,567	13,470,567	-	-	-	-
Operating investments	<u>\$ 171,219,597</u>	<u>\$ 55,354,375</u>	<u>\$ 54,455,571</u>	<u>\$ 14,257,463</u>	<u>\$ 3,757,934</u>	<u>\$ 43,394,254</u>
As Reported on the Statement of Net Position						
Cash and cash equivalents	\$ 30,595,895					
Restricted cash and cash equivalents	13,470,567					
Other long-term investments	127,153,135					
	<u>\$ 171,219,597</u>					

The investments are shown by category according to their respective duration to describe 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, 2016, the Commonfund Limited Duration Fund had a weighted average maturity of 1.4 years and an average credit quality of AAA. The JP Morgan Bond Fund had a weighted-average maturity of 2.0 years and an average credit quality of AA+. The Commonfund Intermediate Bond Fund had a weighted average maturity of 2.4 years and an average credit quality of AAA. The Commonfund Contingent Asset Portfolio had a weighted average maturity of 3.9 years and an average credit quality of AAA. The Commonfund High Quality Bond Fund had a weighted-average maturity of 7.8 years and an average credit quality of AA.

The University's working capital portfolio is not exposed to foreign currency risk as of June 30, 2016.

These working capital investments produced net rates of return of 3.5% and 2.2% for the years ended June 30, 2016 and 2015, respectively.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments and Deposits with Financial Institutions (continued)

As of June 30, 2016 and 2015, the University had an investment derivative with the following maturity:

June 30, 2016	Fair Value	<1 Year	1-5 years	6-10 years	>10 years
Constant Maturity Swap	\$ 1,172,410	\$ -	\$ -	\$ -	\$ 1,172,410

June 30, 2015	Fair Value	<1 Year	1-5 years	6-10 years	>10 years
Constant Maturity Swap	\$ 1,966,750	\$ -	\$ -	\$ -	\$ 1,966,750

The investment derivative was approved by the Board of Trustees (Board). The investment derivative is included with deferred inflows of resources in the Statements of Net Position. See Note 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 -1.4% and 3.7% for the years ended June 30, 2016 and 2015, respectively.

University pooled investment funds consist of the following as of June 30, 2016 and 2015:

June 30, 2016	Total	<1 Year	1-5 years	6-10 years	>10 years	N/A
UBS Endowment Investment Pool						
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	-	-	-	-
Strategic Common Mutual Fund	1,142,103	-	-	-	-	1,142,103
Private Equity	1,367,344	2	-	-	-	1,367,342
	\$ 82,002,869	\$ 1,837,542	\$ 5,970,910	\$ 6,009,428	\$ 929,406	\$ 67,255,583

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments and Deposits with Financial Institutions (continued)

<u>June 30, 2015</u>	<u>Total</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>	<u>N/A</u>
UBS Endowment Investment Pool						
Large Cap Value	\$ 6,653,063	\$ 74,989	\$ -	\$ -	\$ -	\$ 6,578,074
Large Cap Growth	15,683,570	43,802	-	-	-	15,639,768
Mid Cap Value	3,503,878	3	-	-	-	3,503,875
Mid Cap Growth	7,527,230	38	-	-	-	7,527,192
Small Cap Core	5,248,156	89	-	-	-	5,248,067
Small Cap Growth	3,732,350	2	-	-	-	3,732,348
REIT	2,633,856	-	-	-	-	2,633,856
International Value	5,985,267	4,613	-	-	-	5,980,654
International Core	4,680,712	80	-	-	-	4,680,632
Developing Markets	2,919,394	34	-	-	-	2,919,360
Fixed Income Core	6,973,127	228,170	4,038,073	2,316,855	390,029	-
Fixed Income Mutual Fund	2,385,839	596,460	1,789,379	-	-	-
High Yield Bonds	3,045,688	99,380	710,462	2,210,964	24,882	-
Global Fixed	2,889,630	1,502,608	1,387,022	-	-	-
Hedge Funds	7,473,625	138	-	-	-	7,473,487
Energy MLP	328,208	16	-	-	-	328,192
Natural Resources Mutual Fund	1,627,564	1	-	-	-	1,627,563
Private Equity	735,215	-	-	-	-	735,215
	<u>\$ 84,026,372</u>	<u>\$ 2,550,423</u>	<u>\$ 7,924,936</u>	<u>\$ 4,527,819</u>	<u>\$ 414,911</u>	<u>\$ 68,608,283</u>

The fixed income investments within the Endowment pool have a fair market value of \$14.4 million as of June 30, 2016, with a credit quality that varies; with 72.8% of the securities rated A+ or higher, 12.0% rated BBB and 15.2% rated 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, 2016.

The private equity investment's estimated market value is \$1,367,344 as of June 30, 2016 with an active total commitment by the University of \$2,000,000. Hedge fund investments are estimated at a market value of \$7,835,337 as of June 30, 2016. Estimated market 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, 2016. 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.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments and Deposits with Financial Institutions (continued)

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.

	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 Portfolio				
Commonfund	20,312,094	20,312,094	-	-
Core Equity Fund				
Commonfund	29,372,331	29,372,331	-	-
Strategic Equity Fund				
JP Morgan Bond Fund	20,218,181	20,218,181	-	-
	<u>146,378,496</u>	<u>146,378,496</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	-	-
Hedge Funds	7,835,337	-	7,835,337	-
Energy MLP	168,103	168,103	-	-
Strategic Common Mutual Fund	1,142,103	1,142,103	-	-
Private Equity	1,367,344	-	1,367,344	-
	<u>82,002,869</u>	<u>72,800,188</u>	<u>9,202,681</u>	-
Investment Derivative Instruments:				
Constant Maturity Swap	1,172,410	-	-	1,172,410
Total by fair value level	<u>\$ 229,553,775</u>	<u>\$ 219,178,684</u>	<u>\$ 9,202,681</u>	<u>\$ 1,172,410</u>

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

2. Investments and Deposits with Financial Institutions (continued)

	<u>Fair Value as of June 30, 2015</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Other Long-term Investments:				
Commonfund	\$ 20,606,267	\$ 20,606,267	\$ -	\$ -
Intermediate Bond Fund				
Commonfund	23,197,125	23,197,125	-	-
High Quality Bond Fund				
Commonfund	20,131,800	20,131,800	-	-
Contingent Asset Fund				
Commonfund	23,499,784	23,499,784	-	-
Core Equity Fund				
Commonfund	19,894,470	19,894,470	-	-
Strategic Equity Fund				
JP Morgan Bond Fund	19,823,689	19,823,689	-	-
	<u>127,153,135</u>	<u>127,153,135</u>	<u>-</u>	<u>-</u>
Endowment Investment:				
Large Cap Value	6,653,063	6,653,063	-	-
Large Cap Growth	15,683,570	15,683,570	-	-
Mid Cap Value	3,503,878	3,503,878	-	-
Mid Cap Growth	7,527,230	7,527,230	-	-
Small Cap Core	5,248,156	5,248,156	-	-
Small Cap Growth	3,732,350	3,732,350	-	-
REIT	2,633,856	2,633,856	-	-
International Value	5,985,267	5,985,267	-	-
International Core	4,680,712	4,680,712	-	-
Developing Markets	2,919,394	2,919,394	-	-
Fixed Income Core	6,973,127	6,973,127	-	-
Fixed Income Mutual Fund	2,385,839	2,385,839	-	-
High Yield Bonds	3,045,688	3,045,688	-	-
Global Fixed	2,889,630	2,889,630	-	-
Hedge Funds	7,473,625	-	7,473,625	-
Energy MLP	328,208	328,208	-	-
Natural Resources Mutual Fund	1,627,564	1,627,564	-	-
Private Equity	735,215	-	735,215	-
	<u>84,026,372</u>	<u>75,817,532</u>	<u>8,208,840</u>	<u>-</u>
Investment Derivative Instruments:				
Constant Maturity Swap	1,966,750	-	-	1,966,750
Total by fair value level	<u>\$ 213,146,257</u>	<u>\$ 202,970,667</u>	<u>\$ 8,208,840</u>	<u>\$ 1,966,750</u>

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Tuition	\$ 14,328,603	\$ 10,344,777
Auxiliary enterprises	1,345,514	1,232,140
Contracts and grants	2,757,391	3,314,971
Other receivables	1,124,082	6,350,117
Total accounts receivable	19,555,590	21,242,005
Less: Allowance for doubtful accounts	(7,317,286)	(5,786,313)
Total accounts receivable, net	\$ 12,238,304	\$ 15,455,692

Capital appropriation is paid to the University on a cost reimbursement basis for the construction of the Engineering Center from the State Building Authority. Included in other receivables is the reimbursement of incurred costs totaling \$83,593 and \$2,849,683 for the years ended June 30, 2016 and 2015, respectively.

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, 2016 and 2015, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$8,794,892 and \$8,793,474, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pledges outstanding		
Unrestricted	\$ 52,608	\$ 38,966
Restricted expendable	6,156,417	8,700,567
Total pledges outstanding	6,209,025	8,739,533
Less:		
Allowance for doubtful pledges	(169,906)	(217,849)
Present value discount	(395,804)	(719,414)
Total pledges outstanding, net	5,643,315	7,802,270
Less: Current portion, net	(3,044,395)	(3,106,951)
Noncurrent portion, net	\$ 2,598,920	\$ 4,695,319

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. As of June 30, 2016 and 2015, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 3% net of discount as of June 30, 2016 and 2015. Approximately \$4.1 million of the total net pledges outstanding is from a single donor.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

5. Pledges Receivable (continued)

Payments on pledges receivable as of June 30, 2016 are expected to be received in the following years:

Past due	\$ 189,759
Due in one year	2,933,411
Due in two-five years	2,715,855
Thereafter	370,000
Total	<u>\$ 6,209,025</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, 2016 and 2015, the University had \$26,130,318 and \$28,479,336, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the \$26,130,318 in conditional pledges for fiscal year 2016, approximately \$5.3 million is from a single donor.

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Student loans		
Federal loan programs	\$ 1,840,111	\$ 1,904,199
University loan funds	218,340	216,079
	<u>2,058,451</u>	<u>2,120,278</u>
Less: Allowance for doubtful loans	(241,692)	(229,434)
Total student loans, net	1,816,759	1,890,844
Less: Current portion, net	(417,685)	(417,855)
Noncurrent portion, net	<u>\$ 1,399,074</u>	<u>\$ 1,472,989</u>

In addition, the University distributed \$109,478,387 and \$112,468,123 for the years ended June 30, 2016 and 2015, 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.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

7. Capital Assets

The following tables present the changes in the various capital asset categories for the University for fiscal years 2016 and 2015:

Asset Classification	Balance June 30, 2015	Additions	Reductions/ Transfers	Balance June 30, 2016
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	722,689,985	50,501,473	19,012,654	754,178,804
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	(233,388,860)	(22,014,966)	(2,149,163)	(253,254,663)
Total capital assets, net	\$ 489,301,125	\$ 28,486,507	\$ 16,863,491	\$ 500,924,141

Asset Classification	Balance June 30, 2014	Additions	Reductions/ Transfers	Balance June 30, 2015
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	60,268,389	16,355,072	-	76,623,461
Buildings	395,500,599	153,094,348	1,156,326	547,438,621
Equipment	40,282,664	14,253,876	1,834,793	52,701,747
Library acquisitions	27,602,887	432,112	1,769,183	26,265,816
Construction in progress	141,228,786	52,271,280	178,464,640	15,035,426
Total	669,508,239	236,406,688	183,224,942	722,689,985
Accumulated depreciation				
Land improvements and infrastructure	(28,556,391)	(3,085,695)	-	(31,642,086)
Buildings	(140,099,794)	(10,767,138)	(404,714)	(150,462,218)
Equipment	(26,413,361)	(4,180,802)	(1,769,367)	(28,824,796)
Library acquisitions	(23,795,553)	(433,390)	(1,769,183)	(22,459,760)
Total	(218,865,099)	(18,467,025)	(3,943,264)	(233,388,860)
Total capital assets, net	\$ 450,643,140	\$ 217,939,663	\$ 179,281,678	\$ 489,301,125

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

8. 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.

9. Cash Surrender Value of Life Insurance Policies

Included in other assets are the cash surrender value of life insurance policies in the amount of \$401,561 and \$387,032 for 2016 and 2015, respectively. The face value of these life insurance policies totaled \$8,033,072 in 2016 and \$3,033,072 in 2015.

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2016 and 2015:

	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>	

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

10. Long-Term Liabilities (continued)

	Balance June 30, 2014	Additions/ Transfers	Reductions	Balance June 30, 2015	Current Portion
Note and installment purchase agreements payable	\$ 14,213,729	\$ 85,744	\$ 928,393	\$ 13,371,080	\$ 973,656
General revenue bonds:					
Series 2014 bonds	-	28,060,000	860,000	27,200,000	635,000
Unamortized premium	-	4,383,960	236,735	4,147,225	343,210
Series 2013A bonds	57,860,000	-	-	57,860,000	1,035,000
Unamortized premium	6,667,305	-	471,203	6,196,102	472,282
Series 2013B bonds	22,900,000	-	1,715,000	21,185,000	1,730,000
Series 2012 bonds	44,155,000	-	815,000	43,340,000	835,000
Unamortized premium	4,416,653	-	306,455	4,110,198	301,239
Series 2009 bonds	30,815,000	-	30,815,000	-	-
Series 2008 bonds	49,295,000	-	1,440,000	47,855,000	1,500,000
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
2014 Certificates of participation	-	14,225,000	-	14,225,000	-
Unamortized premium	-	1,729,013	72,849	1,656,164	116,474
Total note, installment agreement, and bonds payable	<u>234,922,687</u>	<u>48,483,717</u>	<u>37,660,635</u>	<u>245,745,769</u>	<u>7,941,861</u>
Other liabilities:					
Compensated absences	4,749,840	330,523	-	5,080,363	381,193
Early retirement plan	126,361	-	126,361	-	-
Annuities payable and other	3,690,936	-	151,063	3,539,873	532,428
Federal portion of Perkins loan program	1,524,041	-	4,890	1,519,151	-
Total other liabilities	<u>10,091,178</u>	<u>330,523</u>	<u>282,314</u>	<u>10,139,387</u>	<u>913,621</u>
Total long-term liabilities	<u>\$ 245,013,865</u>	<u>\$ 48,814,240</u>	<u>\$ 37,942,949</u>	<u>\$ 255,885,156</u>	<u>\$ 8,855,482</u>
Total long-term liabilities	\$ 245,013,865			\$ 255,885,156	
Current portion	<u>7,461,983</u>			<u>8,855,482</u>	
Noncurrent portion	<u>\$ 237,551,882</u>			<u>\$ 247,029,674</u>	

Note and Installment Purchase Agreements Payable

In February 2015, the University entered into a lease-purchase agreement in the principal amount of \$85,744 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.

In July 2012, the University entered into a lease-purchase agreement in the principal amount of \$512,008 to purchase golf carts. The lease has a fixed interest rate of 1.98% per annum and requires 60 monthly payments of \$7,353 and a balloon payment of \$102,401 due October 2017.

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.

Oakland University
Notes to Financial Statements
June 30, 2016 and 2015

10. 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>
2017	\$ 986,880	\$ 449,781	\$ 1,436,661
2018	1,015,663	413,091	1,428,754
2019	939,285	377,207	1,316,492
2020	961,357	341,331	1,302,688
2021	998,382	304,305	1,302,687
2022-2026	5,599,166	914,271	6,513,437
2027-2028	1,896,691	57,341	1,954,032
Total	<u>\$ 12,397,424</u>	<u>\$ 2,857,327</u>	<u>\$ 15,254,751</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 will be 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

10. 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.

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10. Long-Term Liabilities (continued)

The following table summarizes debt service requirements for the outstanding bonds and certificates payable as of June 30, 2016:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2017	\$ 6,100,000	\$ 11,518,303	\$ 1,446,958	\$ 19,065,261
2018	6,390,000	13,004,101	1,396,867	20,790,968
2019	8,510,000	12,853,610	1,344,724	22,708,334
2020	8,960,000	12,577,768	1,290,476	22,828,244
2021	9,420,000	12,281,082	1,233,966	22,935,048
2022-2026	59,110,000	56,002,710	5,236,201	120,348,911
2027-2031	72,475,000	45,339,486	2,381,324	120,195,810
2032-2036	47,785,000	33,628,000	-	81,413,000
2037-2041	56,935,000	20,525,500	-	77,460,500
2042-2046	40,860,000	7,239,000	-	48,099,000
2047	7,115,000	355,750	-	7,470,750
	<u>323,660,000</u>	<u>\$ 225,325,310</u>	<u>\$ 14,330,516</u>	<u>\$ 563,315,826</u>
Unamortized premium	<u>35,603,398</u>			
	<u>\$ 359,263,398</u>			

Other Liabilities

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

The Early Retirement Incentive Plan was a 2011 cost-containment initiative that provided an incentive for qualifying employees to retire from the University. The benefits were paid monthly to 36 participants' 403(b) accounts over a five-year period which began in 2012. The remaining benefit payment and fees were paid in full as of June 30, 2015.

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, 2016, the annuity payable was approximately \$3.1 million.

11. Deferred Outflows and Inflows of Resources

Deferred Outflows

The University accounts for deferred outflows and inflows of resources in accordance with authoritative guidance. The University recorded deferred outflows of \$15,834,805 as of June 30, 2016, 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. As of June 30, 2015, the University recorded deferred outflows of \$13,447,117, which includes \$5,535,319 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 \$7,911,798 estimated negative fair value of the 2008 Swap.

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.

Hedging Derivative Instrument:

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, 2016 was \$46,355,000. 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, 2016 and 2015 was (\$10,659,755) and (\$7,911,798), respectively. These fair values are reflected in the deferred outflows of resources section of the Statements of Net Position. The fair value 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 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, 2016, the University posted \$5,710,000 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, 2016, the counterparty's credit rating from Moody's Investors Service was Baa3.

11. Deferred Outflows and Inflows of Resources (continued)

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.

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, 2016 and 2015 was \$1,172,410 and \$1,966,750, respectively. These fair values are included as a reduction of the deferred inflows of resources section in the Statements of Net Position with the change in fair value of (\$794,340) and (\$655,876) for fiscal years ended June 30, 2016 and 2015, 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, 2016, 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, 2016, 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.

11. Deferred Outflows and Inflows of Resources (continued)

Deferred Inflows

The University recorded deferred inflows of resources of \$9,487,345 as of June 30, 2016, which includes the estimated negative fair value of the 2008 Swap of \$10,659,755, reduced by the estimated fair value of the University's CMS of \$1,172,410. Deferred inflows of resources as of June 30, 2015 were \$5,945,048, which includes the estimated negative fair value of the 2008 Swap of \$7,911,798, reduced by the estimated fair value of the CMS of \$1,966,750.

12. Postemployment Benefits Other than Pensions

Plan Description

In addition to the employee benefits discussed in Note 13, 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 269 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, 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.

For the year ended June 30, 2015, the University and plan members receiving benefits contributed \$1,614,860 and \$960,915, 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 \$24 to \$1,020 per month for retiree-only coverage, and from \$58 to \$2,447 per month for retiree and spouse coverage.

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12. 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, 2016 and 2015. The amounts are based on the June 30, 2016 actuarial valuation.

	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 4,323,625	\$ 3,732,363
Interest on net OPEB obligation	655,150	545,004
Adjustment to ARC	<u>(1,135,866)</u>	<u>(954,903)</u>
Annual OPEB cost (expense)	3,842,909	3,322,464
Contributions made	<u>(1,663,824)</u>	<u>(1,614,860)</u>
Increase in net OPEB obligation	2,179,085	1,707,604
Net OPEB obligation – beginning of year	<u>11,104,230</u>	<u>9,396,626</u>
Net OPEB obligation – end of year	<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 2016 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>
2016	\$ 3,842,909	43.3%	\$ 13,283,315
2015	\$ 3,322,464	48.6%	\$ 11,104,230
2014	\$ 3,169,522	50.2%	\$ 9,396,626

Oakland University
Notes to Financial Statements
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12. 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 \$18.8 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, 2016 and the two preceding years were \$1,663,824, \$1,614,860, and \$1,590,482, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress						
Oakland University Retired Employees Healthcare Plan						
Actuarial Valuation Date as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
6/30/2014	\$ -	\$ 34,275,155	\$ 34,275,155	0.00%	\$ 99,490,989	34.5%

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 \$38.4 million as of June 30, 2016. 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.

12. 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.

13. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis 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, 2016 and 2015 were \$16,065,648 and \$15,335,419, 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, 2015, the date of the most recent actuarial valuation, the plan had a total liability of approximately \$52,000 and was over funded by approximately \$66,000.

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.

14. 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.

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14. Liability and Property Insurance (continued)

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.

15. Contingencies and Commitments

In the normal course of its activities, the University is a party in various legal actions. Although some actions have been brought for large amounts, the University has not experienced any significant losses or costs. The University and its legal counsel are of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

The University is the guarantor on certain faculty and staff residence mortgages. As of June 30, 2016, the amount subject to guarantee by the University was \$1,924,013.

The estimated costs to complete construction projects in progress is \$143.5 million as of June 30, 2016, due in large part to the ongoing construction costs of the new Southern Student Housing Complex in the amount of \$76.0 million, expansion of the Oakland Center for \$46.6 million, conversion of Anibal and Fitzgerald Halls into academic and administrative office space for \$6.0 million, infrastructure renovations at Vandenberg Hall for \$5.4 million, architectural and engineering services for the expansion of Elliott Hall for \$1.8 million, the installation of a backup generator at the Dodge Hall Data Center in the amount of \$1.3 million, and various campus enhancement projects totaling \$6.4 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 University resources. The architectural and engineering services for the Elliott Hall expansion and installation of the generator at Dodge Hall Data Center and other campus enhancements are funded from University resources.

16. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Employee compensation and benefits	\$ 209,266,474	\$ 198,413,748
Supplies and other services	72,615,101	67,204,096
Student aid	12,794,769	13,434,311
Depreciation	22,013,804	19,228,595
Total	<u>\$ 316,690,148</u>	<u>\$ 298,280,750</u>

Oakland University
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17. Cash Flow Statement

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

	<u>2016</u>	<u>2015</u>
Operating loss	\$ (62,712,617)	\$ (70,895,816)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	22,013,804	19,228,595
Changes in assets and liabilities:		
Accounts receivable, net	452,799	(2,477,612)
Inventories	(374,077)	(27,185)
Deposits and prepaid expense	(243,849)	(9,595)
Student loans receivable	74,085	(40,563)
Accounts payable and accrued expenses	4,175,863	1,377,500
Accrued payroll	1,590,425	130,345
Compensated absences	496,617	204,161
Unearned revenue	8,707,797	1,333,788
Deposits	(3,828)	482,218
Federal portion of student loan program	(72,859)	(4,890)
Other postemployment benefits	2,179,085	1,707,604
Net cash used by operating activities	<u>\$ (23,716,755)</u>	<u>\$ (48,991,450)</u>

18. Related-Party Transactions

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

Foundation net assets as of June 30, 2016 were as follows:

Assets	<u>\$ 184,299</u>
Net assets	<u><u>\$ 184,299</u></u>

The assets remaining are endowment funds. The June 30, 2016 University financial statements do not include the Foundation's assets or activity.

OAKLAND UNIVERSITY

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