

Oakland University

Financial Statements

June 30, 2005 and 2004

Oakland University
Contents
June 30, 2005 and 2004

| | Page(s) |
|--|----------------|
| Report of Independent Auditors | 1 |
| Management’s Discussion and Analysis | 2–12 |
| Management’s Discussion and Analysis of the Oakland University Foundation | 13–15 |
| Financial Statements | |
| Statements of Net Assets..... | 16 |
| Statements of Net Assets of the Oakland University Foundation | 17 |
| Statements of Revenues, Expenses and Changes in Net Assets | 18 |
| Statements of Changes in Net Assets of the Oakland University Foundation | 19 |
| Statements of Cash Flows | 20 |
| Notes to Financial Statements..... | 21–37 |

Report of Independent Auditors

To the Board of Trustees of
Oakland University

In our opinion, the accompanying consolidated statement of net assets and the related consolidated statement of revenues, expenses and changes in net assets and cash flows, present fairly, in all material respects, the financial position of Oakland University (the "University") at June 30, 2005 and 2004, and its consolidated revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 2 to 12 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the information.

September 2, 2005

Oakland University

Management's Discussion and Analysis

June 30, 2005 and 2004

Introduction

Following is management's discussion and analysis of the financial activities of Oakland University for the fiscal year ended June 30, 2005 with selected comparative information for the year ended June 30, 2004. In accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Oakland University Foundation is reported as a component unit of Oakland University in this report.

Oakland University is a State-supported institution of more than 16,900 students offering a diverse set of academic programs, from baccalaureate to doctoral levels as well as programs in continuing education. The University currently offers 114 baccalaureate degree programs and 84 graduate and certificate programs and is recognized as one of the country's doctoral research-intensive universities.

The Oakland University Foundation is a not-for-profit corporation operated exclusively for educational and research purposes related to Oakland University, including such activities as soliciting or receiving gifts, rendering financial aid and promoting and supporting educational, research and other activities of Oakland University.

Oakland University ("University") is considered a component unit of the State of Michigan. Accordingly, the University together with the Oakland University Foundation ("Foundation") are included in the State's comprehensive annual financial report.

The order of presentation of the following discussion and analysis will first be directed to Oakland University and then the Oakland University Foundation. Since this analysis is designed to focus on current financial activities, it should be read in conjunction with the basic financial statements and footnotes to the basic financial statements. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

Oakland University

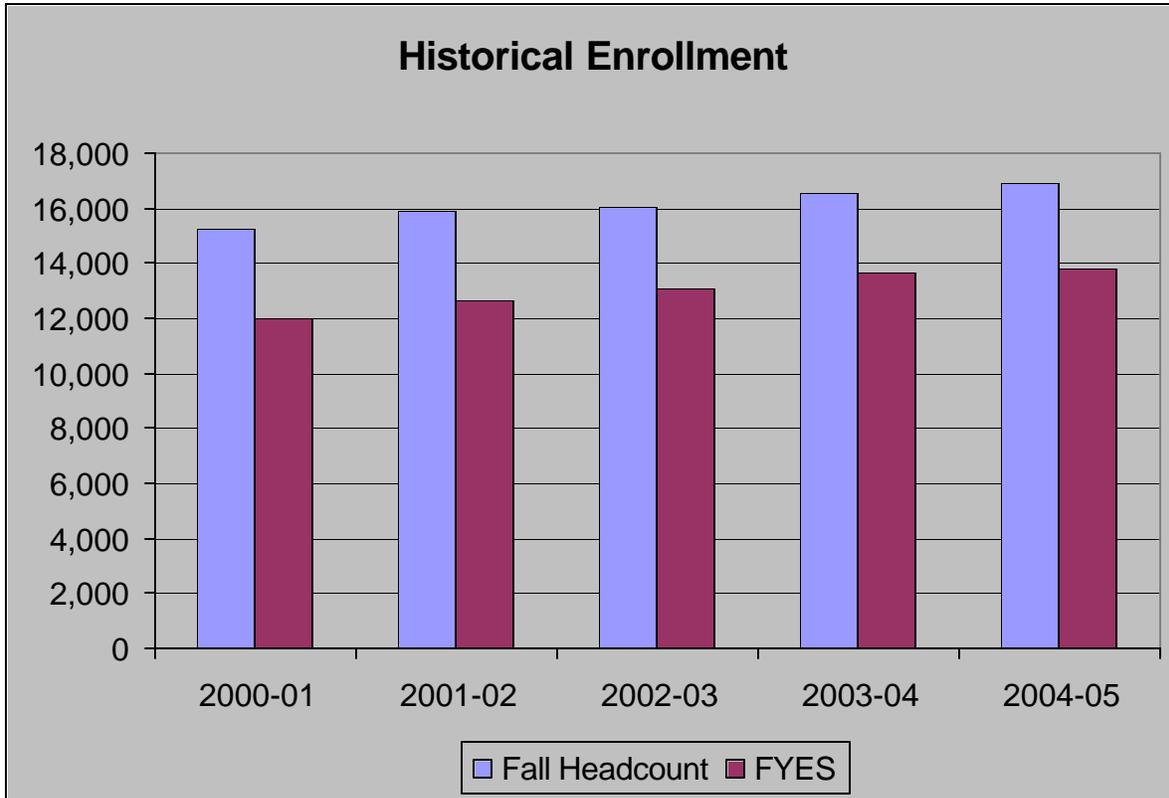
The following discussion and analysis pertains to Oakland University, the primary institution, and excludes matters relating to the Oakland University Foundation, its component unit, which are presented in the next section of this report.

Enrollment and Operations Highlights

- In fiscal year 2004-05, enrollment based on fiscal year equated students (FYES) increased 1.3% to 13,833.
- Student headcount enrollment for the fall semester increased 2.0% to 16,902. Undergraduate enrollment was 13,115 (77.6%) and graduate enrollment was 3,787 (22.4%).

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

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



- The University commenced its first-ever comprehensive capital campaign in April and set the campaign's financial target at \$110 million to be raised by the year 2010.
- Oakland University and Macomb Community College expanded their partnership by allowing students at Macomb to seamlessly transfer to the University for baccalaureate degree completion. The University launched a number of new degree programs that were offered at Macomb Community College.
- Work is under way on a \$7 million project to repair and restore Meadow Brook Hall. The project is funded by a gift from the Matilda R. Wilson Fund and completion is expected October 2006. Meadow Brook Hall is the fourth largest historic house museum in the United States. Matilda and Alfred Wilson donated their 1500-acre Meadow Brook estate, including the hall, in 1957 to establish Oakland University.
- Construction began on a \$1.3 million renovation to the University's main residence hall dining center. The renovated dining center will provide late-evening dining, numerous seating configurations and styles, areas to accommodate groups and a more aesthetically pleasing food service environment. The project will be completed September 2005.

Oakland University

Management's Discussion and Analysis

June 30, 2005 and 2004

Overview of the Financial Statements

This annual report consists of a series of financial statements, which have been prepared in accordance with the Governmental Accounting Standards Board Statement No. 35. The fundamental objective of the University's financial statements is to provide an overview of the University's economic condition. The various statements and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all University assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The difference between total assets and liabilities (net assets) is one indicator of the current financial condition of the University, while the change in net assets serves as a useful indicator of whether the financial position is improving or deteriorating.
- Statement of Revenues, Expenses and Changes in Net Assets. This statement presents the operating results of the University, as well as non-operating revenues and expenses. The statement also presents information that shows how the University's net assets have changed during the fiscal year.
- Statement of Cash Flows. This statement presents information about the University's cash receipts and cash payments during its fiscal year. Cash activities are classified in the following categories: operating activities, noncapital financing activities, capital financing activities and investing activities.

The financial statements can be found on pages 16, 18, and 20 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 notes to the financial statements can be found on pages 21-34 of this financial report.

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

University Financial Statement Summaries

University Statements of Net Assets

Net assets are summarized in the following schedule :

| Condensed Statements of Net Assets <i>(in thousands)</i> | June 30, | | Change |
|--|-----------------|-------------|---------------|
| | 2005 | 2004 | |
| Assets | | | |
| Current assets | \$ 47,712 | \$ 49,922 | -4% |
| Capital assets | 231,536 | 236,611 | -2% |
| Other noncurrent assets | 77,361 | 59,175 | 31% |
| Total assets | 356,609 | 345,708 | 3% |
| Liabilities | | | |
| Current liabilities | 24,546 | 22,001 | 12% |
| Noncurrent liabilities | 89,231 | 92,754 | -4% |
| Total liabilities | 113,777 | 114,755 | -1% |
| Net assets | | | |
| Invested in capital assets, net of related debt | 143,751 | 146,551 | -2% |
| Restricted nonexpendable | 5,287 | 5,166 | 2% |
| Restricted expendable | 26,030 | 24,544 | 6% |
| Unrestricted | 67,764 | 54,692 | 24% |
| Total net assets | \$ 242,832 | \$ 230,953 | 5% |

The University's total assets were \$357 million at June 30, 2005 and \$346 million at June 30, 2004. Current assets consist primarily of cash and cash equivalents, and receivables due within one year.

The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment and construction in progress. Capital assets represent 65% and 68% of the University's total assets at June 30, 2005 and 2004, respectively. Capital expenditures totaled \$6.9 million in 2005 and \$9.8 million in 2004. Included in capital expenditures for 2004 was \$3.4 million to complete the University's student center expansion. Depreciation expense was \$12 million in 2005 and 2004.

Other non-current assets consist primarily of endowment and other long-term investments. Endowment investments were \$18.8 million at June 30, 2005 and \$17.7 million at June 30, 2004. The total return on the University's endowment investments was 9.5% for 2005 and 17.7% for 2004. Distributions were paid to endowment beneficiary funds at the rate of 4.5% in 2005 and 2004 in accordance with University policy. Other long-term investments were \$54.4 million at June 30, 2005 and \$33.9 million at June 30, 2004 and include intermediate-term fixed income and equity securities. The total return on the University's other long-term investments was 3.6% for 2005 and 2.9% for 2004. The increase in other long-term investments during 2005 resulted primarily from investing cash generated from operations and gifts. See "Statements of Cash Flows" section of this report for additional detail.

Oakland University

Management's Discussion and Analysis

June 30, 2005 and 2004

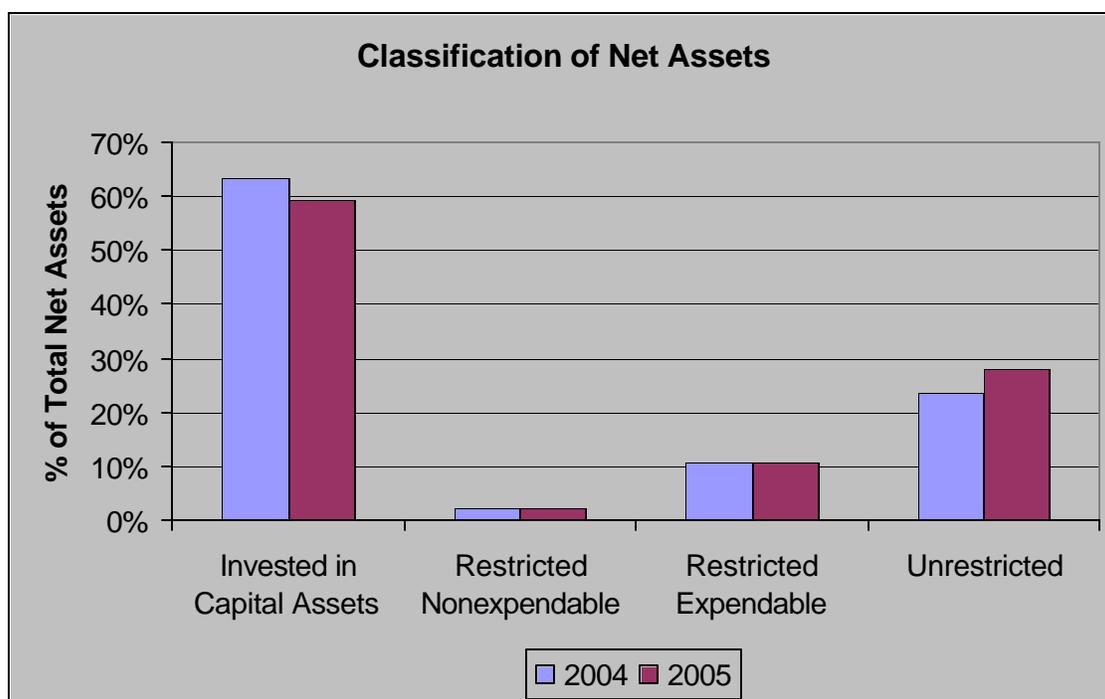
The University's total liabilities were \$114 million at June 30, 2005 and \$115 million at June 30, 2004. Current liabilities consist primarily of accounts payable, accrued expenses, and deferred revenue. The \$2.5 million increase in current liabilities relates primarily to the increase in year-end payroll accruals and construction project accounts payable from year to year.

Non-current liabilities are comprised primarily of bonds and notes payable and represented 78% and 81% of the University's total liabilities at June 30, 2005 and 2004, respectively. In September 2004, the University issued \$31.8 million of general revenue refunding bonds. The proceeds were utilized to refund series 1995 general revenue bonds totaling \$31.3 million. As a result of the refunding, the University will reduce its aggregate debt service payments over the next 21 years by approximately \$3.9 million. Proceeds from the bonds funded all or part of the following projects:

- School of Business Administration Building
- School of Education and Human Services Building
- School of Engineering and Computer Sciences Building
- Student recreation and athletics center
- University student apartments
- Parking structure
- Oakland Center improvements
- Electrical system upgrade

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

The following graph shows net assets by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net assets:

| <i>(in thousands)</i> | 2005 | 2004 |
|---------------------------------------|------------------|------------------|
| Auxiliary enterprises | \$ 3,513 | \$ 2,142 |
| Capital projects and repair reserves | 18,744 | 16,062 |
| Funds designated for departmental use | 13,493 | 9,965 |
| Funds functioning as endowments | 7,207 | 6,823 |
| Institutional reserves | 16,469 | 11,566 |
| Retirement and insurance reserves | 5,230 | 4,943 |
| Other unrestricted | 3,108 | 3,191 |
| | <u>\$ 67,764</u> | <u>\$ 54,692</u> |

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

University Statement of Revenues, Expenses and Changes in Net Assets

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

| Condensed Statements of Revenues, Expenses and Changes in Net Assets | 2005 | 2004 | 2003 | % Change 2005-2004 | % Change 2004-2003 |
|---|-------------------|-------------------|-------------------|-------------------------------|-------------------------------|
| <i>(in thousands)</i> | | | | | |
| Operating revenues | | | | | |
| Net tuition and fees | \$ 78,897 | \$ 75,682 | \$ 66,227 | 4% | 14% |
| Grants and contracts | 14,981 | 16,149 | 15,215 | -7% | 6% |
| Auxiliary activities | 19,439 | 19,191 | 20,944 | 1% | -8% |
| Departmental activities | 6,583 | 5,556 | 4,500 | 18% | 23% |
| Other | 365 | 338 | 385 | 8% | -12% |
| Total operating revenues | <u>120,265</u> | <u>116,916</u> | <u>107,271</u> | 3% | 9% |
| Operating expenses | <u>162,978</u> | <u>159,389</u> | <u>160,750</u> | 2% | -1% |
| Operating loss | (42,713) | (42,473) | (53,479) | 1% | -21% |
| Nonoperating revenues (expenses) | | | | | |
| State appropriations | 48,734 | 46,634 | 50,551 | 5% | -8% |
| Gifts | 4,745 | 3,875 | 3,976 | 22% | -3% |
| Investment income | 4,589 | 4,962 | 2,844 | -8% | 74% |
| Interest expense | (4,222) | (4,300) | (4,289) | -2% | - |
| Net nonoperating revenues | <u>53,846</u> | <u>51,171</u> | <u>53,082</u> | 5% | -4% |
| Income (loss) before other revenues | 11,133 | 8,698 | (397) | 28% | 2291% |
| Capital appropriations | 319 | 696 | 4,476 | -54% | -84% |
| Capital grants and gifts | 358 | 6,415 | 88 | -94% | 7190% |
| Additions to permanent endowments | 69 | 41 | 108 | 68% | -62% |
| Transfer to Meadow Brook Theatre Ensemble | - | (55) | - | - | - |
| Total other revenues | <u>746</u> | <u>7,097</u> | <u>4,672</u> | -90% | 52% |
| Increase in net assets | 11,879 | 15,795 | 4,275 | -25% | 269% |
| Net assets | | | | | |
| Beginning of year | <u>230,953</u> | <u>215,158</u> | <u>210,883</u> | 7% | 2% |
| End of year | <u>\$ 242,832</u> | <u>\$ 230,953</u> | <u>\$ 215,158</u> | 5% | 7% |

The University's operating revenues were \$120 million in 2005, \$117 million in 2004 and \$107 million in 2003. The 3% increase in 2005 over 2004 was primarily due to increases in tuition and fee revenue. Tuition and fee revenue increased by 4% net of scholarship allowances. This was caused by a 2.4% undergraduate and 3.4% graduate tuition rate increase and enrollment increases of 1.4% based on fiscal year equated students (FYES). The 9% increase in operating revenues in 2004 over 2003 was also primarily due to increases in tuition and fee revenue. Tuition and fee revenue increased by 14% net of scholarship allowances. This was caused by a 9.2% undergraduate and 9.1% graduate tuition rate increase and enrollment increases of 4.9% based on fiscal year equated students (FYES).

The 7% decrease in grant and contract revenues in 2005 compared with 2004 was due to a reduction in State and private grant activity reflecting the soft State economy. Grant and contract revenues increased 6% in 2004 over 2003.

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

Auxiliary activity revenues increased 1% in 2005 over 2004. During 2005 a new business plan was adopted for Meadow Brook Hall resulting in a 10% reduction in revenues in 2005 compared with 2004. Excluding Meadow Brook Hall, auxiliary activity revenues increased 3% in 2005 over 2004. The 8% decrease in auxiliary activity revenues in 2004 compared with 2003 was primarily due to the outsourcing of campus theatre operations and closing of the health institute to improve auxiliary economics.

The increase in departmental revenues in 2005 compared with 2004 resulted from several new and growing program initiatives. The increase in departmental revenues in 2004 over 2003 included additional charter school fees from the State of Michigan in addition to growing program revenues.

Operating expenses were \$163 million in 2005, \$159 million in 2004 and \$161 million in 2003. Operating expenses increased 2% in 2005 over 2004 reflecting budget containment efforts. Operating expenses decreased 1% in 2004 compared with 2003. The 1% decrease resulted primarily from budget reductions enacted to address the decline in State appropriations during 2004 along with the curtailment of the auxiliary activities discussed above. A breakdown of the University's operating expenses by functional classification follows:

University Operating Expenses

| <i>(in thousands)</i> | 2005 | 2004 | 2003 | % Change 2005-2004 | % Change 2004-2003 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------------------|-------------------------------|
| Education and general | | | | | |
| Instruction | \$ 66,921 | \$ 64,280 | \$ 65,186 | 4% | -1% |
| Research | 6,738 | 6,587 | 6,148 | 2% | 7% |
| Public service | 1,192 | 927 | 761 | 29% | 22% |
| Academic support | 10,623 | 9,911 | 10,058 | 7% | -1% |
| Student services | 11,416 | 11,134 | 11,444 | 3% | -3% |
| Institutional support | 19,251 | 18,494 | 18,485 | 4% | - |
| Operation and maintenance of plant | 11,624 | 12,269 | 11,651 | -5% | 5% |
| Depreciation | 11,994 | 11,986 | 11,280 | - | 6% |
| Student aid | 4,806 | 4,907 | 4,172 | -2% | 18% |
| Total education and general | <u>144,565</u> | <u>140,495</u> | <u>139,185</u> | 3% | 1% |
| Auxiliary activities | 18,390 | 18,889 | 21,554 | -3% | -12% |
| Other expenses | 23 | 5 | 11 | 360% | -55% |
| Total operating expenses | <u>\$ 162,978</u> | <u>\$ 159,389</u> | <u>\$ 160,750</u> | 2% | -1% |

Education and general expenses increased 3% in 2005 over 2004 and 1% in 2004 over 2003. These increases were partially offset by the reduction in auxiliary activity expenses in 2005 compared with 2004 and fully offset by the reduction in auxiliary activity expenses in 2004 compared with 2003.

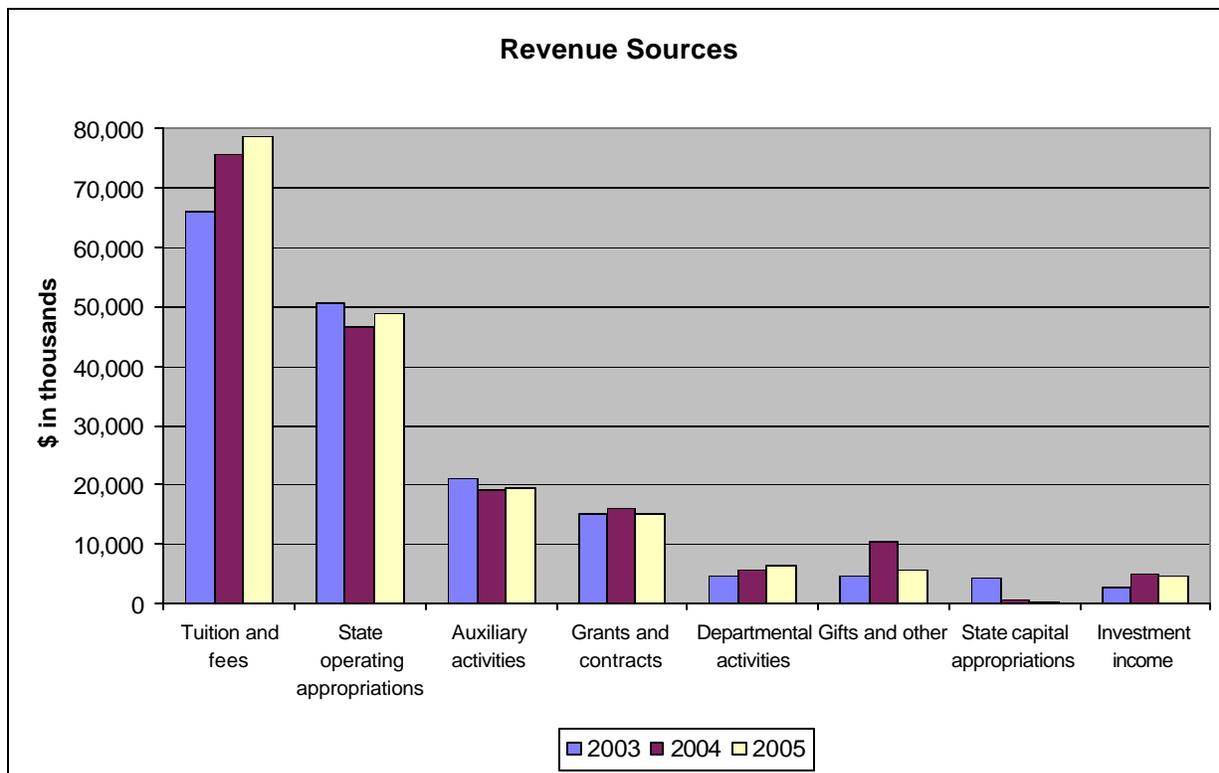
Oakland University Management's Discussion and Analysis June 30, 2005 and 2004

The University's operating loss was \$42.7 million in 2005, \$42.5 million in 2004 and \$53.5 million in 2003. Offsetting these losses were net nonoperating revenues of \$53.8 million in 2005, \$51.1 million in 2004 and \$53 million in 2003.

Total base State appropriations, as reflected in the State's approved appropriation bills, were \$48.1 million in 2005, \$49.1 million in 2004, and \$52.4 million in 2003, reflecting a steady annual decline in base State funding. The appropriations have been adjusted annually with multiple mid-year Executive Orders and Public Acts. The mid-year net adjustments were a \$4.3 million reduction in base appropriations since 2003, or 8.2%. In addition, a non-base reduction of \$844,800 was enacted by Executive Order 2005-7 in March 2005.

Other revenues were \$.7 million in 2005, \$7 million in 2004 and \$5 million in 2003. Included in other revenues in 2004 is the \$7 million pledge from the Matilda R. Wilson Fund to help restore Meadow Brook Hall. The pledge has been recorded at its discounted present value. Included in other revenues in 2003 are State capital appropriations related to the completion of the new Education and Human Services Building opened in 2003.

A graphic illustration of each revenue source is as follows:



Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

University Statement of Cash Flows

The following schedule summarizes cash flows:

Condensed Statements of Cash Flows

| <i>(in thousands)</i> | 2005 | 2004 | 2003 |
|----------------------------------|------------------|------------------|------------------|
| Cash provided (used) by | | | |
| Operating activities | \$ (28,682) | \$ (29,959) | \$ (40,961) |
| Noncapital financing activities | 53,897 | 51,491 | 55,529 |
| Capital financing activities | (12,013) | (17,327) | (23,099) |
| Investing activities | <u>(16,951)</u> | <u>1,245</u> | <u>1,485</u> |
| Net increase (decrease) in cash | (3,749) | 5,450 | (7,046) |
| Cash and cash equivalents | | | |
| Beginning of year | <u>32,302</u> | <u>26,852</u> | <u>33,898</u> |
| End of year | <u>\$ 28,553</u> | <u>\$ 32,302</u> | <u>\$ 26,852</u> |

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprise charges and grant and contracts revenues. Cash disbursements include salaries and wages, benefits, supplies, utilities and scholarships. The overall decrease in net cash used by operations reflects the increase in tuition and fees together with the timing of payments to suppliers and employees from year to year.

State appropriations are the primary source of noncapital financing. Noncapital State appropriation receipts were \$49 million in 2005, \$47 million in 2004 and \$51 million in 2003.

Capital financing activities for 2005 include the issuance of \$31.8 million of general revenue refunding bonds. As indicated above, the proceeds were used to refund series 1995 general revenue bonds totaling \$31.3 million. Capital financing activities for 2005 also include capital expenditures of \$6.4 million and debt service payments of \$38.9 million. Capital financing activities for 2004 include State appropriations for the Education and Human Services Building of \$2 million, capital expenditures of \$12.4 million and debt service payments of \$7 million. Capital financing activities for 2003 include the retirement of a capital lease funded by a \$4.8 million note payable, State appropriations for the Education and Human Services Building of \$7.7 million, capital expenditures of \$25.8 million and debt service payments of \$10.7 million.

Cash used in investing activities during 2005 relates to investment purchases in excess of sales, maturities and investment income. The University's other long-term investments increased by \$20.5 million during the year while cash and cash equivalents declined by \$3.7 million. Cash from investing activities in 2004 and 2003 includes investment income and proceeds from sales of investments.

Commitments

The estimated costs to complete construction projects in progress are \$8.8 million as of June 30, 2005. These projects have been funded from private gifts, bond proceeds and other University funds.

Oakland University

Management's Discussion and Analysis

June 30, 2005 and 2004

University Credit Rating

In connection with its September 2004 issuance of refunding bonds, Oakland University's underlying credit rating by Moody's Investors Service was reaffirmed at A2. All of the University's bonded debt is also fully insured, enhancing its credit ratings on its debt issues.

Deferred Maintenance

The University surveys its deferred maintenance annually adding new items and deleting ones that were addressed during the year. Each year, general revenue funds are budgeted to address deferred maintenance items. In addition, the University has established a quasi endowment fund that provides investment earnings that are also used to address deferred maintenance items.

Factors or Conditions Impacting Future Periods

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

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

The Oakland University Foundation

The following provides a discussion and analysis of financial performance of the Oakland University Foundation for the fiscal years ended June 30, 2005 and June 30, 2004. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

The fundamental objective of the Foundation financial statements is to provide an overview of assets held in support of Oakland University. The various statements (prepared on an accrual basis) and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all Foundation assets and liabilities and net assets (assets less liabilities) as of the end of the fiscal years.
- Statement of Changes in Net Assets. This statement presents a summary of additions and deductions to net assets and the change in the Foundation's net assets for the year.

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

Reporting Entity

The Oakland University Foundation is considered a component unit of Oakland University pursuant to Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which was effective for the fiscal year ended June 30, 2004. Accordingly, the Foundation is included in the University's annual financial report as a discretely presented component unit.

Foundation Financial Statement Summaries

Foundation Statement of Net Assets

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

| | 2005 | 2004 | Change |
|---------------------------|----------------------|---------------------|--------|
| Assets | | | |
| Cash and cash equivalents | \$ 280,100 | \$ 241,324 | 16 % |
| Pledges receivable, net | 1,636,562 | 1,697,329 | (4)% |
| Endowment investments | 11,871,464 | 10,900,593 | 9 % |
| Other investments | 636,754 | 517,103 | 23 % |
| Other assets | 691,561 | 577,940 | 20 % |
| Total assets | <u>15,116,441</u> | <u>13,934,289</u> | 8 % |
| Liabilities | | | |
| Due to Oakland University | 19,704 | 35,081 | (44)% |
| Bonds payable | 4,600,000 | 4,600,000 | 0 % |
| Other liabilities | 476,812 | 418,968 | 14 % |
| Total liabilities | <u>5,096,516</u> | <u>5,054,049</u> | 1 % |
| Net assets | | | |
| Restricted nonexpendable | 6,254,779 | 5,736,168 | 9 % |
| Restricted expendable | 2,876,604 | 2,552,362 | 13 % |
| Unrestricted | 888,542 | 591,710 | 50 % |
| Total net assets | <u>\$ 10,019,925</u> | <u>\$ 8,880,240</u> | 13 % |

Pledges receivable are commitments from donors of future gifts to the Foundation. Pledges receivable have been discounted to net present value and are less allowances for doubtful pledges. Pledges decreased during 2005 and 2004 due to payment of a number of large five-year pledges during 2005 and 2004.

The Foundation's endowment investment pool contains substantially all of the Foundation's endowment and other investments. The endowment investment pool returned 7.2% for 2005 and 15.8% for 2004. The Foundation invests principally in various mutual funds. The increases in investments during 2005 and 2004 are due to market returns and new gifts.

Other assets consist primarily of the cash surrender value of donated insurance policies where the Foundation is named as the sole beneficiary. The increase in other assets is due to the increase in the cash surrender value of life insurance policies. The decrease during 2004 is due to the cash-out of life insurance policies.

Oakland University
Management's Discussion and Analysis
June 30, 2005 and 2004

Bonds payable represent the liability connected with the issuance of bonds used to finance the golf course project. The bonds were issued in September of 1998 in the amount of \$4,600,000 and become due on September 1, 2023.

Other liabilities consist primarily of annuities payable. Under the terms of gift annuity agreements between donors and the Foundation, the Foundation is obligated to pay a fixed sum of money for the duration of the donors' lives from annuity funds contributed by the donors and held by the Foundation. Annuities payable are the estimated amounts to be paid under the agreements and are based on actuarial tables. The increase in annuities payable in 2005 is due to new annuity agreements. The increase in 2004 is due to a decrease in the present value discount rate used to calculate the liability.

The Foundation's net assets consist of restricted nonexpendable net assets, restricted expendable net assets and unrestricted net assets. Restricted nonexpendable net assets are gifts that have been received for endowment purposes. Restricted expendable net assets represent assets whose use is restricted by a party independent of the Foundation. Unrestricted net assets represent assets of the Foundation that have not been restricted by parties independent of the Foundation. This includes funds that the Board of Directors and management have designated for specific purposes.

Foundation Statement of Changes in Net Assets

The following schedule of Condensed Statements of Changes in Net Assets summarizes additions, deductions and changes in net assets:

| | 2005 | 2004 | 2003 | % Change 2005-2004 | % Change 2004-2003 |
|---------------------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| Additions | | | | | |
| Gifts and other income | \$ 2,295,961 | \$ 1,912,517 | \$ 1,814,922 | 20 % | 5 % |
| Investment income | <u>847,063</u> | <u>1,573,772</u> | <u>267,968</u> | (46)% | 487 % |
| Total additions | 3,143,024 | 3,486,289 | 2,082,890 | (10)% | 67 % |
| Deductions | | | | | |
| General support to Oakland University | 411,509 | 694,841 | 1,216,664 | (41)% | (43)% |
| Transfers to Oakland University | 1,238,532 | 776,524 | 1,015,919 | 59 % | (24)% |
| Other expenses | <u>353,298</u> | <u>337,793</u> | <u>341,613</u> | 5 % | (1)% |
| Total deductions | <u>2,003,339</u> | <u>1,809,158</u> | <u>2,574,196</u> | 11 % | (30)% |
| Change in net assets | 1,139,685 | 1,677,131 | (491,306) | (32)% | 441 % |
| Net assets | | | | | |
| Beginning of year | <u>8,880,240</u> | <u>7,203,109</u> | <u>7,694,415</u> | 23 % | (6)% |
| End of year | <u>\$10,019,925</u> | <u>\$ 8,880,240</u> | <u>\$ 7,203,109</u> | 13 % | 23 % |

Gifts and other income represent primarily pledges of gifts and cash gifts made to the Foundation during the fiscal year. The increase in 2005 is due to several large cash gifts made during the year ended June 30, 2005. The increase in 2004 is due to an increase in cash gifts made during the year ended June 30, 2004.

Oakland University Management's Discussion and Analysis June 30, 2005 and 2004

Investment income primarily represents realized and unrealized gains in endowment and other investments during the fiscal year. The decrease in investment income is due to a lower return on investments for the year ended June 30, 2005. The increase in investment income in 2004 is due to a higher return on investments for the year ended June 30, 2004.

General support activities include expenses to support the development program of the University as approved by the Board of Directors of the Foundation.

Transfers to Oakland University represent gifts received by the Foundation that were restricted for specific University purposes and unrestricted gifts received by the Foundation that were transferred to the University at the discretion of the Board of Directors of the Foundation.

Other expenses include operating expenses of the Foundation, such as supplies and services, debt service fees, interest expense, and distributions to annuity and life income fund beneficiaries.

Foundation Looking Ahead

Conditions influencing future fundraising efforts of the Foundation include the State and national economy, program growth and development, and new initiatives. The University commenced its first-ever comprehensive capital campaign in April of 2005 and set the campaign's financial target at \$110 million to be raised by the year 2010. The Foundation will provide guidance and advice to assist with the University's efforts in the capital campaign.

Oakland University
Statements of Net Assets
June 30, 2005 and 2004

| | 2005 | 2004 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 2) | \$ 28,552,902 | \$ 32,172,941 |
| Accounts receivable, net (Note 3) | 4,953,034 | 5,717,628 |
| Appropriation receivable (Note 4) | 7,901,763 | 8,378,733 |
| Pledges receivable, net (Note 5) | 5,216,172 | 2,843,670 |
| Inventories | 315,592 | 251,514 |
| Deposits and prepaid expenses | 358,486 | 185,698 |
| Student loans receivable, net (Note 6) | 413,927 | 372,279 |
| Total current assets | <u>47,711,876</u> | <u>49,922,463</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents (Note 2) | - | 129,387 |
| Endowment investments (Note 2) | 18,755,874 | 17,665,395 |
| Other long-term investments (Note 2) | 54,359,153 | 33,908,815 |
| Pledges receivable, net (Note 5) | 1,458,788 | 4,361,622 |
| Student loans receivable, net (Note 6) | 1,654,720 | 1,740,808 |
| Capital assets, net (Notes 7 and 8) | 231,536,007 | 236,610,864 |
| Other assets | 1,132,694 | 1,368,472 |
| Total noncurrent assets | <u>308,897,236</u> | <u>295,785,363</u> |
| Total assets | <u>\$ 356,609,112</u> | <u>\$ 345,707,826</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 4,403,263 | \$ 3,777,705 |
| Accrued payroll | 7,822,905 | 6,732,981 |
| Long-term liabilities - current portion (Note 9) | 5,578,356 | 5,248,237 |
| Deferred revenue and student fees | 5,299,267 | 4,973,725 |
| Deposits | 1,442,983 | 1,268,022 |
| Total current liabilities | <u>24,546,774</u> | <u>22,000,670</u> |
| Noncurrent liabilities | | |
| Deferred revenue | 1,274,471 | 1,705,463 |
| Long-term liabilities (Note 9) | 87,956,228 | 91,048,346 |
| Total noncurrent liabilities | <u>89,230,699</u> | <u>92,753,809</u> |
| Total liabilities | <u>113,777,473</u> | <u>114,754,479</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 143,750,727 | 146,550,473 |
| Restricted nonexpendable | 5,287,607 | 5,166,444 |
| Restricted expendable | 26,029,609 | 24,543,968 |
| Unrestricted | 67,763,696 | 54,692,462 |
| Total net assets | <u>\$ 242,831,639</u> | <u>\$ 230,953,347</u> |

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Net Assets of the Oakland University Foundation
(Component Unit)
June 30, 2005 and 2004

| | 2005 | 2004 |
|---|----------------------|---------------------|
| Assets | | |
| Cash and cash equivalents on deposit at Oakland University (Note 17) | \$ 280,100 | \$ 241,324 |
| Prepaid expenses | 8,115 | 8,088 |
| Pledges receivable, net (Note 18) | 1,636,562 | 1,697,329 |
| Investments (Note 19) | 12,508,218 | 11,417,696 |
| Cash surrender value of insurance policies (Note 20) | 683,446 | 569,852 |
| Total assets | <u>15,116,441</u> | <u>13,934,289</u> |
| Liabilities | | |
| Due to Oakland University | 19,704 | 35,081 |
| Accounts payable | 1,017 | 1,370 |
| Bonds payable (Note 21) | 4,600,000 | 4,600,000 |
| Annuities payable (Note 22) | 475,795 | 417,598 |
| Total liabilities | <u>5,096,516</u> | <u>5,054,049</u> |
| Net assets | | |
| Restricted nonexpendable | 6,254,779 | 5,736,168 |
| Restricted expendable | 2,876,604 | 2,552,362 |
| Unrestricted | 888,542 | 591,710 |
| Total net assets | <u>\$ 10,019,925</u> | <u>\$ 8,880,240</u> |

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|-----------------------|-----------------------|
| Operating revenues | | |
| Tuition and fees (net of scholarship allowances of \$7,556,837 in 2005 and \$8,169,663 in 2004) | \$ 78,896,982 | \$ 75,682,378 |
| Federal grants and contracts | 13,150,923 | 13,327,902 |
| State, local and private grants and contracts | 1,830,546 | 2,820,816 |
| Departmental activities | 6,582,952 | 5,555,685 |
| Auxiliary activities (net of scholarship allowances of \$768,798 in 2005 and \$865,676 in 2004) | 19,438,910 | 19,191,466 |
| Other operating revenues | 365,115 | 337,813 |
| Total operating revenues | <u>120,265,428</u> | <u>116,916,060</u> |
| Operating expenses | | |
| Education and general | | |
| Instruction | 66,920,789 | 64,279,749 |
| Research | 6,738,080 | 6,587,015 |
| Public service | 1,191,740 | 926,454 |
| Academic support | 10,622,707 | 9,911,228 |
| Student services | 11,416,514 | 11,134,164 |
| Institutional support | 19,251,267 | 18,493,744 |
| Operations and maintenance of plant | 11,624,025 | 12,269,238 |
| Depreciation | 11,993,725 | 11,985,756 |
| Student aid | 4,805,874 | 4,907,876 |
| Auxiliary activities | 18,390,375 | 18,888,861 |
| Other expenses | 23,057 | 5,166 |
| Total operating expenses (Note 10) | <u>162,978,153</u> | <u>159,389,251</u> |
| Operating loss | <u>(42,712,725)</u> | <u>(42,473,191)</u> |
| Nonoperating revenues (expenses) | | |
| State appropriations | 48,733,901 | 46,633,500 |
| Gifts | 4,745,251 | 3,875,389 |
| Investment income (net of investment expenses of \$184,311 in 2005 and \$167,623 in 2004) | 4,589,263 | 4,961,850 |
| Interest on capital asset related debt | (4,222,114) | (4,299,678) |
| Net nonoperating revenues | <u>53,846,301</u> | <u>51,171,061</u> |
| Income (loss) before other revenues | 11,133,576 | 8,697,870 |
| Capital appropriations | 317,754 | 696,981 |
| Capital grants and gifts | 357,569 | 6,414,895 |
| Additions to permanent endowments | 69,393 | 41,132 |
| Transfer to Meadow Brook Theatre Ensemble | - | (55,110) |
| Total other revenues | <u>744,716</u> | <u>7,097,898</u> |
| Increase in net assets | 11,878,292 | 15,795,768 |
| Net assets | | |
| Beginning of year | <u>230,953,347</u> | <u>215,157,579</u> |
| End of year | <u>\$ 242,831,639</u> | <u>\$ 230,953,347</u> |

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Changes in Net Assets of the
Oakland University Foundation
(Component Unit)
Year Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|---|----------------------|---------------------|
| Additions | | |
| Gifts and other income | \$ 2,295,961 | \$ 1,912,517 |
| Investment income, less investment expense of \$10,929 in 2005 and \$9,956 in 2004 | 847,063 | 1,573,772 |
| Total additions | <u>3,143,024</u> | <u>3,486,289</u> |
| Deductions | | |
| General support to Oakland University | 411,509 | 694,841 |
| Transfers to Oakland University | 1,238,532 | 776,524 |
| Supplies, services and other | 181,533 | 206,204 |
| Interest expense | 81,831 | 47,826 |
| Distributions to annuity and life income fund beneficiaries | 89,934 | 83,763 |
| Total deductions | <u>2,003,339</u> | <u>1,809,158</u> |
| Change in net assets | 1,139,685 | 1,677,131 |
| Net assets | | |
| Beginning of year | <u>8,880,240</u> | <u>7,203,109</u> |
| End of year | <u>\$ 10,019,925</u> | <u>\$ 8,880,240</u> |

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Cash Flows
Year Ended June 30, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Tuition and fees | \$ 79,217,279 | \$ 75,020,965 |
| Grants and contracts | 15,692,429 | 15,561,773 |
| Payments to suppliers | (32,290,330) | (30,338,204) |
| Payments to employees | (112,538,517) | (110,597,731) |
| Payments for scholarships and fellowships | (4,805,874) | (4,907,876) |
| Loans issued to students | (475,005) | (661,169) |
| Collection of loans from students | 526,045 | 463,285 |
| Auxiliary enterprise charges | 19,045,300 | 19,294,276 |
| Other receipts | 6,946,813 | 6,205,805 |
| Net cash used by operating activities (Note 11) | <u>(28,681,860)</u> | <u>(29,958,876)</u> |
| Cash flows from noncapital financing activities | | |
| State appropriations | 49,143,610 | 47,323,898 |
| Federal direct lending receipts | 39,300,122 | 34,320,938 |
| Federal direct lending disbursements | (39,300,122) | (34,320,938) |
| Gifts and grants for other than capital purposes | 4,683,941 | 4,180,964 |
| Endowment gifts | 69,393 | 41,132 |
| Transfer to Meadow Brook Theatre Ensemble | - | (55,110) |
| Net cash provided by noncapital financing activities | <u>53,896,944</u> | <u>51,490,884</u> |
| Cash flows from capital financing activities | | |
| Proceeds from capital debt | 32,192,282 | - |
| Capital appropriations | 385,015 | 2,001,729 |
| Capital grants, gifts and other payments | 659,873 | 34,850 |
| Purchases of capital assets | (6,382,706) | (12,410,458) |
| Principal paid on capital debt and leases | (34,897,251) | (2,713,292) |
| Interest paid on capital debt and leases | (3,970,169) | (4,239,714) |
| Net cash provided (used) by capital financing activities | <u>(12,012,956)</u> | <u>(17,326,885)</u> |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investments | 11,478,420 | 24,686,407 |
| Investment income | 2,156,488 | 1,648,180 |
| Purchase of investments | (30,586,462) | (25,089,411) |
| Net cash provided by investing activities | <u>(16,951,554)</u> | <u>1,245,176</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(3,749,426)</u> | <u>5,450,299</u> |
| Cash and cash equivalents | | |
| Beginning of year | <u>32,302,328</u> | <u>26,852,029</u> |
| End of year | <u>\$ 28,552,902</u> | <u>\$ 32,302,328</u> |

The accompanying notes are an integral part of these financial statements

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

1. Significant Accounting Policies

Organization

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

The University follows the “business-type” activities requirements of GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, which provides that the following sections be included in the University’s annual financial report:

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

The Oakland University Foundation (“Foundation”) was incorporated to encourage, promote and support Oakland University. Effective July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14* (GASB 39). Pursuant to GASB 39, the Foundation is reported in these financial statements as a component unit of the University and its footnote information is included on pages 34-37.

Basis of Accounting

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB pronouncements issued after November 30, 1989.

In the year ended June 30, 2005, the University adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, which establishes more comprehensive disclosure requirements regarding risks of deposits and investments. Implementation of this statement in 2005 had no effect on the University’s net assets at June 30, 2005 and 2004.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

Operating revenues of the University consist of tuition and fees, grants and contracts, departmental activities, auxiliary activities and other miscellaneous revenues. Transactions related to capital financing activities, noncapital financing activities, investing activities and State appropriations are components of nonoperating income or expenses. When an expense is incurred for which both restricted and unrestricted net assets are available, the University applies the restricted or unrestricted resources at its discretion.

Cash Equivalents

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

Investments

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

Inventories

Inventories are stated at lower of average cost or market.

Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at date of gift. A capitalization threshold of \$2,500 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The costs of maintenance and repairs are expended as incurred.

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

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

Revenue Recognition

Revenues related to the Summer session have been deferred to the subsequent fiscal year in which the session is predominantly conducted.

Operating revenues represent revenue earned from exchange transactions. The University's nonoperating revenues include State appropriations, gifts, investment income, capital appropriations, and grants. Gifts and grants are recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

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

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

Revenues are reported net of discounts and allowances.

Income Tax Status

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

Reclassifications

Certain fiscal year 2004 balances have been reclassified to conform with the current year presentation.

2. Investments and Deposits with Financial Institutions

In the year ended June 30, 2005, the University adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. These investments are administered according to the Oakland University Board of Trustees' "Pooled Cash Investment Policy". The policy requires that no short term investment may have a maturity greater than one year and no more than ten percent of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of fifteen years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolio at June 30, 2005 does not involve any concentration of credit risk as all investments in single issuers or issues amount to less than 5% of the entire University portfolio.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

At June 30, 2005 operating cash was invested in a short-term mutual fund, a pooled intermediate-fixed fund and a pooled equity fund in the following market value amounts. These investments are displayed by category according to their respective duration to describe the level of interest rate risk in this portfolio. This is the risk in a fixed income portfolio that a change in interest rates can affect the market value of the portfolio.

| | Total | < 1 Year | 1-5 Years | 6-10 Years | > 10 Years |
|----------------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|
| University Pooled Cash | | | | | |
| Dreyfus Money Market Mutual Fund | \$ 28,721,184 | \$ 28,721,184 | \$ - | \$ - | \$ - |
| Munder Bond Fund | | | | | |
| Government Securities | 26,458,167 | 4,436,100 | 18,496,952 | 3,525,115 | - |
| Corporate Bonds, Notes | 8,634,552 | 673,337 | 6,812,582 | 1,148,633 | - |
| Asset-Backed and Cash | 4,515,316 | 2,138,834 | 2,376,482 | - | - |
| Munder Equity Fund | | | | | |
| Equities | 9,161,645 | - | - | - | 9,161,645 |
| Mutual Funds | 1,581,410 | - | - | - | 1,581,410 |
| Asset-Backed and Cash | <u>58,440</u> | <u>58,440</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Operating cash investments | 79,130,714 | 36,027,895 | 27,686,016 | 4,673,748 | 10,743,055 |
| Net cash overdraft | <u>(773,599)</u> | <u>(773,599)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 78,357,115</u> | <u>\$ 35,254,296</u> | <u>\$ 27,686,016</u> | <u>\$ 4,673,748</u> | <u>\$ 10,743,055</u> |
| Cash and cash equivalents | \$ 28,552,902 | | | | |
| Other long-term investments | <u>49,804,213</u> | | | | |
| | <u>\$ 78,357,115</u> | | | | |

The University is exposed to foreign currency risk included within the investment balance. The current investments that are subject to foreign currency risk consist of the Munder Equity Mutual Funds in the amount of \$1,581,410 as of June 30, 2005.

These investments produced net rates of return of 3.6% and 2.9% , respectively , for the years ended June 30, 2005 and 2004.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

The Endowment is administered according to the University's Board of Trustees' "Investment Policy for Endowment" and is invested in two broadly diversified mutual funds, one in equities and one in bonds. While there is no policy restriction with regard to concentration of credit risk, the two mutual funds do follow their own limiting guidelines. The policy restricts debt investment to "high quality" that of "A" to "AAA" rated corporate bonds, U.S. Treasury and agency securities or issues of supranational organizations and foreign sovereigns.

These investment funds are uninsured and uncollateralized and produced a total net return of 9.5% and 17.7% respectively for the years ended June 30, 2005 and 2004 respectively. At June 30, 2005 investment consisted of the following:

| | 2005 | 2004 |
|---|----------------------|----------------------|
| University Pooled Investment Funds | | |
| Commonfund Multi-Strategy Equity Fund | \$ 16,747,223 | \$ 15,764,215 |
| Commonfund Multi-Strategy Bond Fund | 6,430,591 | 6,116,828 |
| Pooled investment funds | <u>23,177,814</u> | <u>21,881,043</u> |
| Money market funds | - | 129,387 |
| Other investments | 133,000 | 133,000 |
| | <u>\$ 23,310,814</u> | <u>\$ 22,143,430</u> |
| Endowment investments | \$ 18,755,874 | \$ 17,665,396 |
| Restricted cash and cash equivalents | - | 129,387 |
| Other long-term investments excluded from pooled cash | 4,554,940 | 4,348,647 |
| | <u>\$ 23,310,814</u> | <u>\$ 22,143,430</u> |

At June 30, 2005 the Commonfund Multi-Strategy Bond Fund had an weighted average maturity of 3.5 years and an average quality of AA+. The weighted average maturity of a fixed income fund such as the Commonfund Multi-Strategy Fund is one measure of the risk that its market value will change with a change in interest rates.

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

3. Accounts Receivable

The composition of accounts receivable at June 30, 2005 and 2004 is summarized as follows:

| | 2005 | 2004 |
|---------------------------------------|---------------------|---------------------|
| Tuition and fees | \$ 3,589,987 | \$ 3,621,302 |
| Auxiliary enterprises | 1,425,313 | 1,303,197 |
| Contracts and grants | 1,463,960 | 1,962,948 |
| Other receivables | <u>254,797</u> | <u>317,954</u> |
| Total accounts receivable | 6,734,057 | 7,205,401 |
| Less: Allowance for doubtful accounts | <u>(1,781,023)</u> | <u>(1,487,773)</u> |
| Total accounts receivable, net | <u>\$ 4,953,034</u> | <u>\$ 5,717,628</u> |

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

4. Appropriation Receivable

The annual State operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued as of the end of its fiscal year the payments to be received in July and August. As of June 30, 2005 and 2004, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$7,901,763 and \$8,378,733, respectively. The State operating appropriation has been reduced by \$844,800 pursuant to State Executive Order No. 2005-7. As of June 30, 2004, the State capital appropriation receivable was \$67,261.

5. Pledges Receivable

The composition of pledges receivable at June 30, 2005 and 2004 is summarized as follows:

| | 2005 | 2004 |
|--------------------------------|---------------------|---------------------|
| Pledges outstanding | | |
| Unrestricted | \$ 90,000 | \$ 35,578 |
| Restricted expendable | 7,185,965 | 8,199,593 |
| Total pledges outstanding | <u>7,275,965</u> | <u>8,235,171</u> |
| Less | | |
| Allowance for doubtful pledges | (160,448) | (283,682) |
| Present value discount | (440,557) | (746,197) |
| Total pledges outstanding, net | <u>6,674,960</u> | <u>7,205,292</u> |
| Less: Current portion | <u>(5,216,172)</u> | <u>(2,843,670)</u> |
| | <u>\$ 1,458,788</u> | <u>\$ 4,361,622</u> |

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2005 and 2004, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 23% net of discount at June 30, 2005 and 2004.

Payments on pledges receivable at June 30, 2005 are expected to be received in the following years ended June 30:

| | |
|-----------------------|---------------------|
| Due in one year | \$ 5,558,244 |
| Due in two-five years | 1,627,721 |
| Thereafter | <u>90,000</u> |
| Total | <u>\$ 7,275,965</u> |

In addition bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2005 and 2004 the University had \$2,918,382 and \$3,100,193 respectively, in conditional pledge commitments receivable not included in the accompanying financial statements.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

6. Student Loans Receivable

The composition of student loans receivable at June 30, 2005 and 2004 is summarized as follows:

| | 2005 | 2004 |
|------------------------------------|---------------------|---------------------|
| Student loans | | |
| Federal loan programs | \$ 2,335,196 | \$ 2,375,836 |
| University loan funds | 19,567 | 26,981 |
| | <u>2,354,763</u> | <u>2,402,817</u> |
| Less: Allowance for doubtful loans | (286,116) | (289,730) |
| Total student loans, net | <u>2,068,647</u> | <u>2,113,087</u> |
| Less: Current portion | (413,927) | (372,279) |
| | <u>\$ 1,654,720</u> | <u>\$ 1,740,808</u> |

In addition, the University distributed \$39,300,122 and \$34,320,938 for the years ended June 30, 2005 and 2004, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

7. Capital Assets

The following table presents the changes in the various capital asset categories for Oakland University for fiscal year 2005:

| Asset Classification | Balance July 1, 2004 | Additions | Reductions | Balance June 30, 2005 |
|--------------------------------------|---------------------------------|-----------------------|--------------------|----------------------------------|
| Land | \$ 4,324,914 | \$ - | \$ - | \$ 4,324,914 |
| Land improvements and infrastructure | 27,221,912 | 902,442 | - | 28,124,354 |
| Buildings | 269,594,890 | 1,348,305 | - | 270,943,195 |
| Equipment | 39,268,559 | 2,931,013 | 2,259,106 | 39,940,466 |
| Library acquisitions | 22,673,904 | 811,180 | 98,720 | 23,386,364 |
| Construction in progress (net) | 657,804 | 945,265 | - | 1,603,069 |
| Total | <u>363,741,983</u> | <u>6,938,205</u> | <u>2,357,826</u> | <u>368,322,362</u> |
| Accumulated depreciation | | | | |
| Land improvements and infrastructure | (8,475,282) | (1,234,070) | - | (9,709,352) |
| Buildings | (72,484,518) | (6,438,557) | - | (78,923,075) |
| Equipment | (29,091,808) | (3,091,405) | (2,168,742) | (30,014,471) |
| Library and acquisitions, net | (17,079,511) | (1,158,666) | (98,720) | (18,139,457) |
| Total | <u>(127,131,119)</u> | <u>(11,922,698)</u> | <u>(2,267,462)</u> | <u>(136,786,355)</u> |
| Total capital assets, net | <u>\$236,610,864</u> | <u>\$ (4,984,493)</u> | <u>\$ 90,364</u> | <u>\$231,536,007</u> |

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

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 Science and Engineering Building and the business and technology building (Elliott Hall). The Buildings were financed with SBA revenue bonds and State appropriations.

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

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

9. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|------------------------------|----------------------|----------------------|---------------------------|----------------------------|
| Note, installment purchase agreement and bonds payable: | | | | | |
| Note and installment purchase agreement payable | \$ 3,488,289 | \$ 422,282 | \$ 1,132,251 | \$ 2,778,320 | \$ 1,189,779 |
| Bonds payable | | | | | |
| General revenue bonds, series 1995 | 32,950,000 | | 32,115,000 | 835,000 | 835,000 |
| General revenue bonds, series 1997 | 7,555,000 | | 1,000,000 | 6,555,000 | 1,000,000 |
| General revenue bonds, series 2001 | 48,000,000 | | | 48,000,000 | - |
| General revenue refunding bonds, series 2004 | | 31,770,000 | 650,000 | 31,120,000 | 90,000 |
| unamortized premium | | 1,966,549 | 232,658 | 1,733,891 | 236,697 |
| unamortized deferral on extinguishment | | (2,147,239) | (254,036) | (1,893,203) | (258,445) |
| Total, note, installment agreement and bonds payable | 91,993,289 | 32,011,592 | 34,875,873 | 89,129,008 | 3,093,031 |
| Other liabilities: | | | | | |
| Compensated absences | 2,354,480 | 130,845 | - | 2,485,325 | 2,485,325 |
| Federal portion of Perkins loan program | 1,948,814 | 59,102 | 87,665 | 1,920,251 | - |
| Total other liabilities | 4,303,294 | 189,947 | 87,665 | 4,405,576 | 2,485,325 |
| Total long-term liabilities | <u>\$ 96,296,583</u> | <u>\$ 32,201,539</u> | <u>\$ 34,963,538</u> | <u>\$ 93,534,584</u> | <u>\$ 5,578,356</u> |

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

Note and Installment Purchase Agreement Payable

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

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

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

| | Principal | Interest | Total |
|-------|---------------------|-------------------|---------------------|
| 2006 | \$ 1,189,779 | \$ 68,513 | \$ 1,258,292 |
| 2007 | 1,224,435 | 33,857 | 1,258,292 |
| 2008 | 163,669 | 10,826 | 174,495 |
| 2009 | 68,625 | 7,594 | 76,219 |
| 2010 | 131,812 | 1,698 | 133,510 |
| Total | <u>\$ 2,778,320</u> | <u>\$ 122,488</u> | <u>\$ 2,900,808</u> |

Bonds Payable

In June 1995, the University issued general revenue bonds in the amount of \$37,000,000 to provide funds for a student recreation and athletics center. The bonds maturing in 2007 through 2026 were defeased and refunded in September 2004. The remaining bonds bear an interest rate of 6.0% and mature May 15, 2007. In September 1997, the University issued general revenue bonds in the amount of \$11,650,000 to provide funds for various campus improvement projects. The bonds bear interest rates from 4.6 to 5.1% and mature at various dates through 2011.

In August 2001, the University issued general revenue bonds in the amount of \$48,000,000 to provide for various campus improvement projects. The bonds are variable rate demand obligations and mature March 1, 2031.

In September 2004, the University issued \$31,770,000 of General Revenue Refunding Bonds that bear interest rates from 2.50 to 5.25% and mature at various dates through 2026, with an average coupon interest rate of 5.01% and a net original issue premium of \$1,967,000. The proceeds were utilized to refund Series 1995 General Revenue Bonds maturing in the years 2007 through 2026 totaling \$31,320,000 with an average coupon interest rate of 5.74%. The related loss on early extinguishment of debt of \$2,147,000 has been deferred and will be amortized over the term of the refunding bonds. As a result of the refunding, the University will reduce its aggregate debt service payments over the next 21 years by approximately \$3,929,000. The refunding results in an economic gain of \$2,592,000.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

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

| | Principal | Interest | Total |
|---------------------------------------|---------------------|----------------------|-----------------------|
| 2006 | \$ 1,925,000 | \$ 3,795,787 | \$ 5,720,787 |
| 2007 | 1,980,000 | 3,697,437 | 5,677,437 |
| 2008 | 2,080,000 | 3,623,487 | 5,703,487 |
| 2009 | 2,160,000 | 3,542,737 | 5,702,737 |
| 2010 | 2,265,000 | 3,434,862 | 5,699,862 |
| 2011-2015 | 11,925,000 | 15,478,772 | 27,403,772 |
| 2016-2020 | 14,820,000 | 12,633,302 | 27,453,302 |
| 2021-2025 | 18,840,000 | 8,951,583 | 27,791,583 |
| 2026-2030 | 24,780,000 | 4,153,040 | 28,933,040 |
| 2031 | 5,735,000 | 161,127 | 5,896,127 |
| | <u>86,510,000</u> | <u>\$ 59,472,134</u> | <u>\$ 145,982,134</u> |
| Less: Deferral on extinguishment, net | <u>(159,312)</u> | | |
| | <u>\$86,350,688</u> | | |

Interest includes payments and receipts under the swap agreement at the synthetic fixed rate of 4.62%. Interest on unswapped debt is projected based on 2.35%, the variable rate paid on the bonds at June 30, 2005.

Interest Rate Swap Agreement

In connection with the General Revenue Bonds, Series 2001 issue, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing Inc. in an initial notional amount of \$34,370,000 effective July 1, 2001. The agreement swaps the University's variable rate for a fixed rate of 4.62%. The notional amount declines over time and terminates March 1, 2031. Under the swap agreement the University pays a synthetic fixed rate of 4.62%. No amounts were paid or received when the swap was initiated.

The University is currently making payments under the swap agreement. The estimated fair value of the interest rate swap at June 30, 2005 was a liability of \$6,509,000. The fair value represents the estimated amount that the University would pay to terminate the swap, taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with government accounting standards, these amounts are not required to be included in the accompanying statements.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. Additionally, the swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. As these rates change, the overall synthetic rate on the bonds may change. The swap agreement includes collateral requirements intended to mitigate the credit risk.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

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

Other Liabilities

Accrued compensated absences includes accrued vacation for University employees.

10. Expenses by Natural Classification

The table below lists total operating expenses for Oakland University analyzed by natural classification:

| | 2005 | 2004 |
|------------------------------------|-----------------------|-----------------------|
| Employee compensation and benefits | \$ 113,759,286 | \$ 111,332,527 |
| Supplies and other services | 32,419,268 | 31,163,092 |
| Student aid | 4,805,874 | 4,907,876 |
| Depreciation | 11,993,725 | 11,985,756 |
| Total | <u>\$ 162,978,153</u> | <u>\$ 159,389,251</u> |

11. Cash Flow Statement

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

| | 2005 | 2004 |
|---|------------------------|------------------------|
| Operating loss | \$ (42,712,725) | \$ (42,473,191) |
| Adjustments to reconcile net operating loss to net cash used by operating activities | | |
| Depreciation expense | 11,993,725 | 11,985,756 |
| Changes in assets and liabilities | | |
| Accounts receivable, net | 894,011 | (115,917) |
| Inventories | (64,078) | 21,017 |
| Deposits and prepaid expense | (162,549) | (18,770) |
| Student loans receivable | 44,440 | (209,504) |
| Accounts payable and accrued expenses | 193,016 | 874,542 |
| Accrued payroll | 1,089,924 | 693,952 |
| Compensated absences | 130,845 | 40,843 |
| Deferred revenue and student fees | (234,867) | (1,518,190) |
| Deposits | 174,961 | 788,065 |
| Federal portion of student loan program | (28,563) | (27,479) |
| Net cash used by operating activities | <u>\$ (28,681,860)</u> | <u>\$ (29,958,876)</u> |

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

12. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis and 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, 2005 and 2004 were \$8,903,164 and \$8,751,574, 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, 2005, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan were fully funded.

The University provides termination benefits resulting from unused sick days to certain employee groups upon retirement which are funded and paid from the Retirement and Insurance Fund.

In addition to the above retirement plans the University provides certain post-employment health care plans to seven of its employee groups representing nearly all of its regular, full time employees. Substantially any or all of the employees in these groups may become eligible for one of these plans if they reach retirement age while working at the University. In general, retirees with 15 years of service and at least 62 years of age are eligible for post-employment health care benefits in accordance with various union agreements or within the provisions of University policy.

These health care benefits are currently provided for 321 people including retired employees, spouses and survivors. The benefits received by those who retired after May 1, 1994 are included in the University’s various health care plans and a capped payment of a portion of the health care plan premium is paid by the University. Those who retired prior to May 1, 1994, 74 retirees (98 people including spouses), receive the full premium payment as provided for in their earlier agreements with the University. The University recognizes the cost of providing these benefits on a pay-as-you-go basis, which is included in annual operating expenses. The pay-as-you-go cost of all post-employment health care benefits amounted to \$1,183,513 and \$983,953 for the fiscal years ended June 30, 2005 and June 30, 2004, respectively.

Certain organizations are required to record the estimated present value of other post-employment benefits (OPEB) as a liability in their financial statements. The University is not required to do so at this time but will be required to do so by GASB 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, in its financial statements covering the financial reporting period ending June 30, 2008. As a result, the University is studying actuarial assumptions and estimates to make a determination regarding its full OPEB liability before the required disclosure date. The impact of implementing this pronouncement could be material to the financial statements.

Other than this post-employment health care benefit, the University has no other post-employment benefits costs which would require disclosure under the new reporting standards.

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.

13. Liability and Property Insurance

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

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

14. Contingencies and Commitments

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

The University is the guarantor on certain residential mortgages in the University's Meadow Brook Subdivision. As of June 30, 2005, the amount subject to guarantee by the University was \$2,425,362.

The estimated costs to complete construction projects in progress are \$8,751,844 as of June 30, 2005. These projects have been funded from private gifts, bond sale proceeds, and other University funds.

15. Related Party Transactions

Effective June 4, 1997, the University and the Foundation, which is presented as a component unit of the University, entered into an operating agreement that sets forth the terms under which the Foundation will raise and manage funds for the benefit of the University.

Under the agreement and based on the approval of the Board of Directors of the Foundation, general support is provided to the University to support the development program. The amount provided was \$411,509 and \$694,841 for the years ended June 30, 2005 and 2004, respectively.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

Gifts received by the Foundation that are restricted by donors for specific purposes are transferred monthly by the Foundation to the University. Included in transfers to Oakland University are restricted gifts of \$1,238,532 for the year ended June 30, 2005 and \$719,748 for the year ended June 30, 2004. Also included in transfers to Oakland University are unrestricted gifts that were designated by the Board for specific purposes. No transfers of unrestricted gifts were made in the year ended June 30, 2005. Transfers of unrestricted gifts were \$56,776 for the year ended June 30, 2004.

16. Organization and Significant Accounting Policies of the Oakland University Foundation (Component Unit)

The Oakland University Foundation was incorporated in May 1958 to encourage, promote and support Oakland University.

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The Foundation follows the fiduciary fund requirements of GASB Statement No. 35, *Basic Financial Statements and Managements Discussion and Analysis for Public Colleges and Universities*, which provides that the following components be included in the Foundation's annual financial report:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets and statement of changes in net assets for the entity as a whole
- Notes to the financial statements

In the year ended June 30, 2005, the Foundation adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, which establishes more comprehensive disclosure requirements regarding risks of deposits and investments.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Investments and gifts are recorded at fair market value.

Cash Equivalents

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

Tax Status

The Internal Revenue Service has ruled that the Foundation qualifies for exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Foundation is not a private foundation within the meaning of IRC Section 509(a)(3).

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

17. Cash and Cash Equivalents on Deposit at Oakland University of the Oakland University Foundation (Component Unit)

Cash and cash equivalents are combined with cash and pooled investments of Oakland University which are uninsured and uncollateralized. The investments are administered according to the Oakland University Board of Trustees' "Pooled Cash Investment Policy". The Foundation portion of this pool as of June 30, 2005 was 0.35% or \$280,100. The University's underlying credit rating was A2 (Moody's Investment Service) at the fiscal year end.

18. Pledges Receivable of the Oakland University Foundation (Component Unit)

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2005 and 2004, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 25% net of discount at June 30, 2005 and 2004.

The composition of pledges receivable at June 30, 2005 and 2004 is summarized as follows:

| | 2005 | 2004 |
|--------------------------------|---------------------|---------------------|
| Pledges outstanding | | |
| Unrestricted | \$ 1,508,835 | \$ 1,648,437 |
| Restricted expendable | 880,307 | 851,163 |
| | <u>2,389,142</u> | <u>2,499,600</u> |
| Less | | |
| Allowance for doubtful pledges | 546,948 | 566,562 |
| Present value discount | 205,632 | 235,709 |
| | <u>\$ 1,636,562</u> | <u>\$ 1,697,329</u> |

Payments on pledges receivable at June 30, 2005 are expected to be received in the following years ended June 30:

| | |
|---------------|---------------------|
| Due in 1 year | \$ 1,092,329 |
| Due 2-5 years | 1,292,813 |
| Thereafter | 4,000 |
| | <u>\$ 2,389,142</u> |

In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. At June 30, 2005 and 2004, the Foundation had \$16,164,870 and \$16,001,671, respectively in conditional pledge commitments receivable, consisting primarily of bequests, that are not included in the accompanying financial statements.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

19. Investments of the Oakland University Foundation (Component Unit)

In the year ended June 30, 2005, the Foundation adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Foundation's investments are invested according to its Board of Director's "Investment Policy for Endowment" which requires that each investment manager's equity portfolio have more than 20 positions and no purchase would cause a position in their portfolio to exceed 5% of the issues outstanding, 5% of the portfolio at cost or 8% of the portfolio at market. Fixed income and cash equivalent guidelines require credit quality of "A" or better, a duration of +/- 20% of the Lehman Brothers Aggregate Bond Index, and no position in any one issuer can exceed 8% of the portfolio at market or 5% of the portfolio at cost.

The policy calls for investment in various index mutual funds. These investment funds are uninsured and uncollateralized and produced a total net return of 7.2% and 15.8% for the years ended June 30, 2005 and 2004 respectively. At June 30, 2005, investments consisted of the following:

| | 2005 | 2004 |
|--|----------------------|----------------------|
| World Asset Management Aggregate Bond Index Fund | \$ 2,426,372 | \$ 2,219,345 |
| World Asset Management Large Cap Index Fund | 8,490,532 | 7,845,629 |
| World Asset Management Mid Cap Index Fund | 843,201 | 754,765 |
| World Asset Management Small Cap Index Fund | 408,843 | 347,718 |
| Income Fund of America | 147,620 | 143,633 |
| Vanguard Wellington Fund | 108,958 | 106,606 |
| Other | 82,692 | - |
| | <u>\$ 12,508,218</u> | <u>\$ 11,417,696</u> |

The World Asset Management aggregate Bond Index Fund has an Interest Rate Risk calculated to an average maturity of 6.73 years.

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as the Board of Directors determines is prudent.

20. Cash Surrender Value of Insurance Policies of the Oakland University Foundation (Component Unit)

The cash surrender value of insurance policies reflects the current cash value of donated insurance policies where the Foundation is named as the sole beneficiary. At June 30, 2005 and 2004, face values of insurance policies totaled \$4,380,500 and \$4,280,500, respectively.

Oakland University
Notes to Financial Statements
June 30, 2005 and 2004

21. Bonds Payable of the Oakland University Foundation (Component Unit)

On July 2, 1998, the Foundation entered into an agreement with Oakland University to finance and manage construction of a new golf course on University land. The Foundation's effort was intended to provide the University with a golfing facility to enhance its educational and recreational programs and an opportunity for future revenue development. The golf course was completed in September of 2000 and all improvements became the property of the University upon completion.

On September 24, 1998 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 golf course project. The Foundation executed a Loan Agreement within this transaction which obligates it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. The bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rate at June 30, 2005 and 2004 was 2.35% and 1.13%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption.

An irrevocable direct pay letter of credit serves as collateral for the loan and the bonds. In connection with this letter of credit, the Foundation has agreed to a balance sheet covenant which requires that "discretionary liquid assets" be maintained of at least one dollar for each dollar guaranteed by the letter of credit. At June 30, 2005 the Foundation's discretionary liquid assets were determined to exceed this one-to-one ratio.

The letter of credit fee is determined by the discretionary assets liquidity coverage ratio, and the fee was .95% and .75% in 2005 and 2004, respectively.

The following table summarizes the fiscal years' debt service requirements for the bonds.

| | Principal | Interest | Total |
|-----------|---------------------|---------------------|---------------------|
| 2006-2010 | \$ - | \$ 540,500 | \$ 540,500 |
| 2011-2015 | - | 540,500 | 540,500 |
| 2016-2020 | - | 540,500 | 540,500 |
| 2021-2024 | 4,600,000 | 324,300 | 4,924,300 |
| | <u>\$ 4,600,000</u> | <u>\$ 1,945,800</u> | <u>\$ 6,545,800</u> |

Interest has been computed in the table above based on the variable interest rate of 2.35% at June 30, 2005.

22. Annuities Payable of the Oakland University Foundation (Component Unit)

Charitable gift annuities are arrangements in which donors contribute assets to the Foundation in exchange for a promise by the Foundation 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.