Oakland University

FINANCIAL STATEMENTS

June 30, 2011 and 2010

Oakland University

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Oakland University
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AHP CPAs & ADVISORS

Report of Independent Auditors

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying financial statements of Oakland University (University), a component unit of the State of Michigan, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 on our consideration of Oakland University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2-12 be presented to supplement the basic 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 audit 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.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
September 9, 2011

Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University or OU) for the fiscal year ended June 30, 2011 with selected comparative information for the year ended June 30, 2010.

The University is a state-supported institution of over 19,000 students offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as, programs in continuing education. The University is recognized as one of the country's 83 doctoral research-intensive universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 131 baccalaureate degree programs and 126 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.

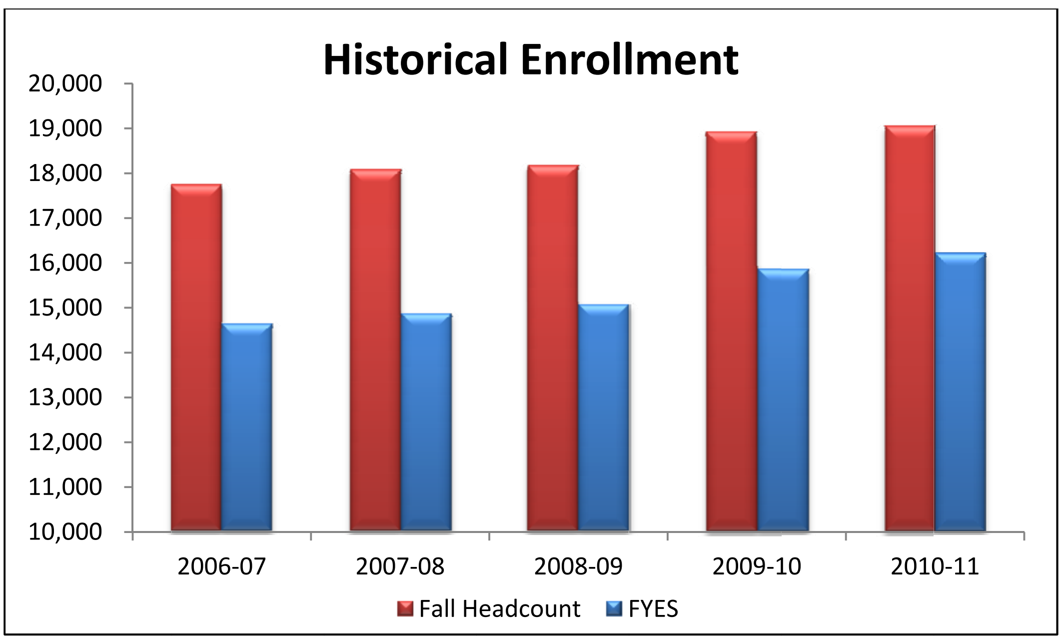
This analysis is designed to focus on current financial activities; it should be read in conjunction with the financial statements and footnotes to the financial statements. This discussion and the financial statements and related footnotes have been prepared by and are the responsibility of University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

Enrollment and Operations Highlights

- In fiscal year 2011, enrollment based on Fiscal Year Equated Students (FYES) increased 2.2% to 16,215.

- Student headcount enrollment for the fall 2010 semester increased 0.7% to a record 19,053. Undergraduate enrollment was 15,530 (81.5%) and graduate enrollment was 3,523 (18.5%).

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



- In August 2011, Oakland University will enroll its first class of 50 students to the Oakland University William Beaumont School of Medicine (OUWBSM). Plans call for enrollment to grow by 25 students each year plateauing at cohorts of 125 and full enrollment of 500 students to address the predicted shortage of more than 4,000 physicians in Michigan in the next 10 years. Additionally, the school aims to reverse the exodus of talent in Michigan as it has attracted faculty from 5 states and students from 8 states to Michigan.

- In fall of 2011, Oakland University will open the doors for its new Anton/Frankel Center (Center) in Mount Clemens. The $1.5 million facility was donated to the University from Gebran Anton and Stuart Frankel. Additionally, the University received $1.6 million in grant funding from the U.S. Department of Housing and Urban Development (HUD) for renovations. The new Center will provide classrooms, as well as offices for advising, student support services, faculty and staff. More than 30 courses will be offered at the Center, expanding OU's academic and student support programs, as well as increasing the number of degree programs that can be completed in Macomb County.

- In April 2011, Oakland University announced a new concurrent enrollment program with Mott Community College. This, in conjunction with established partnerships with Oakland, Macomb, and St. Clair County Community Colleges, provides a seamless higher education experience where students will be able to earn their associate's degree while continuing to work toward their bachelor's degree.

- In March 2011, Oakland University's School of Engineering and Computer Science, and the OU INCubator launched the Clean Energy Research Center (CERC). The CERC will focus its efforts on industrial energy audits, commercialization of new technology, securing investment capital and transferring clean and alternative energy technologies to existing infrastructure. While developing an educational platform that enables OU faculty and students to research and develop clean energy alternatives, it also aims to build commercial partnerships with Michigan businesses.

- In December 2010, the State of Michigan appropriated $30 million in its Capital Outlay Budget to Oakland University to help fund a $74.6 million Engineering Center, intended to be the new 127,000 square foot home of the School of Engineering and Computer Science.

- In December 2010, the University's Board of Trustees adopted the Early Retirement Incentive Plan (Plan). The Plan is a strategic opportunity to reduce compensation costs, limit future tuition increases, manage employment levels, and provide opportunities for employee promotions. The Plan was designed to primarily attract participants who were likely to retire in the next 3 – 7 years. The projected savings is anticipated to be $1.3 million over the next eight years.

- Grant funding from the National Institutes of Health and National Science Foundation totaling $4.1 million was awarded to Oakland University researchers during the 2011 fiscal year. These grants allow researchers to pursue health and science-related projects that range from studying cataracts, transforming nursing education, explosives detection, and microwave signal processing.

- The Oakland University Board of Trustees approved three new degree programs during 2010; the Master of Science in Mechatronics, Master of Arts in Communication, and Bachelor of Arts in Liberal Studies. These new programs illustrate the versatile academic opportunities that make OU one of the leading public universities in the state.

- Oakland University's School of Education and Human Services received a $4.0 million grant over the course of five years from the U.S. Department of Education. This grant will support the Reading Recovery program, which is a short-term early literacy intervention program designed to assist first grade children who have extreme difficulties learning to read.

- The Department of Psychology at Oakland University's Riverview Institute in Detroit and seven partner organizations have received a five-year, $4.5 million grant from the U.S. Department of Agriculture's National Institute of Food and Agriculture Childhood Obesity Prevention Program to establish the Child Health Incubator Research Project (CHIRP). Participating institutions will collaborate in efforts to challenge food myths and social and economic realities that undermine the health and well-being of young children in Detroit.

- In April 2010, Oakland University broke ground on the 160,000 square foot, $64.6 million Human Health Building. As part of the State of Michigan's 2008 Capital Outlay Budget, Oakland University will receive $40 million in State funding to support construction of the new facility. The University also received a $2.7 million grant from the U.S. Department of Energy for the installation of a geothermal heat pump system in the building and a $75,000 grant from the Kresge Foundation to support sustainability. The system will reduce energy-related carbon emissions and cut the energy costs of the building by almost 50%. The remaining $21.8 million in costs has been financed through the issuance of University general revenue bonds. As of June 30, 2011, the structure is 33% complete and slated to open in fall 2012. The facility will house the School of Nursing and the School of Health Sciences with state-of-the-art classrooms and seminar facilities, an interactive media center, physical therapy clinics, and learning labs.

Overview of the Financial Statements
This annual report consists of financial statements which have been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The fundamental objective of the financial statements is to provide an overview of the University's economic condition. The statements and their primary purpose are discussed below.

- <u>Statement of Net Assets</u>. This statement presents information on all University assets, liabilities and net assets (assets less liabilities) as of the end of the fiscal year. Net assets are displayed in four components – invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted. The difference between total assets and liabilities (net assets) is one indicator of the current financial condition of the University, while the change in net assets serves as a useful indicator of whether the financial position is improving or deteriorating.

- <u>Statement of Revenues, Expenses, and Changes in Net Assets</u>. 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 assets have changed during the fiscal year.

- <u>Statement of Cash Flows</u>. This statement presents information about the University's cash receipts and cash payments during its fiscal year. Cash activities are classified in the following categories: operating activities, noncapital financing activities, capital financing activities, and investing activities.

The University's financial statements can be found on pages 13, 14, and 15 of this financial report.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The University’s notes to the financial statements can be found on pages 16-36 of this financial report.

University Financial Statement Summaries

University Statements of Net Assets

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

Condensed Statements of Net Assets	June 30, 2011	June 30, 2010	Change
	(in thousands)		
Assets			
Current assets	$ 56,161	$ 95,304	-41%
Capital assets	271,045	245,638	10%
Other noncurrent assets	208,817	157,160	33%
Total assets	536,023	498,102	8%
Liabilities			
Current liabilities	41,008	33,550	22%
Noncurrent liabilities	139,520	143,471	-3%
Total liabilities	180,528	177,021	2%
Net assets			
Invested in capital assets, net of related debt	151,828	145,976	4%
Restricted nonexpendable	18,056	16,836	7%
Restricted expendable	39,818	36,903	8%
Unrestricted	145,793	121,366	20%
Total net assets	$ 355,495	$ 321,081	11%

The University’s total assets were $536.0 million and $498.0 million at June 30, 2011 and 2010, respectively. The University’s largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, and construction in progress. Capital assets represent 51% and 49% of the University’s total assets at June 30, 2011 and 2010, respectively. Capital expenditures totaled $37.5 million in 2011 and $15.1 million in 2010. Included in capital expenditures for 2011 were the Human Health Building project, the campus infrastructure project, equipment and technology additions and other campus enhancement projects. Depreciation expense was $12.0 million in 2011 and $11.9 million in 2010.

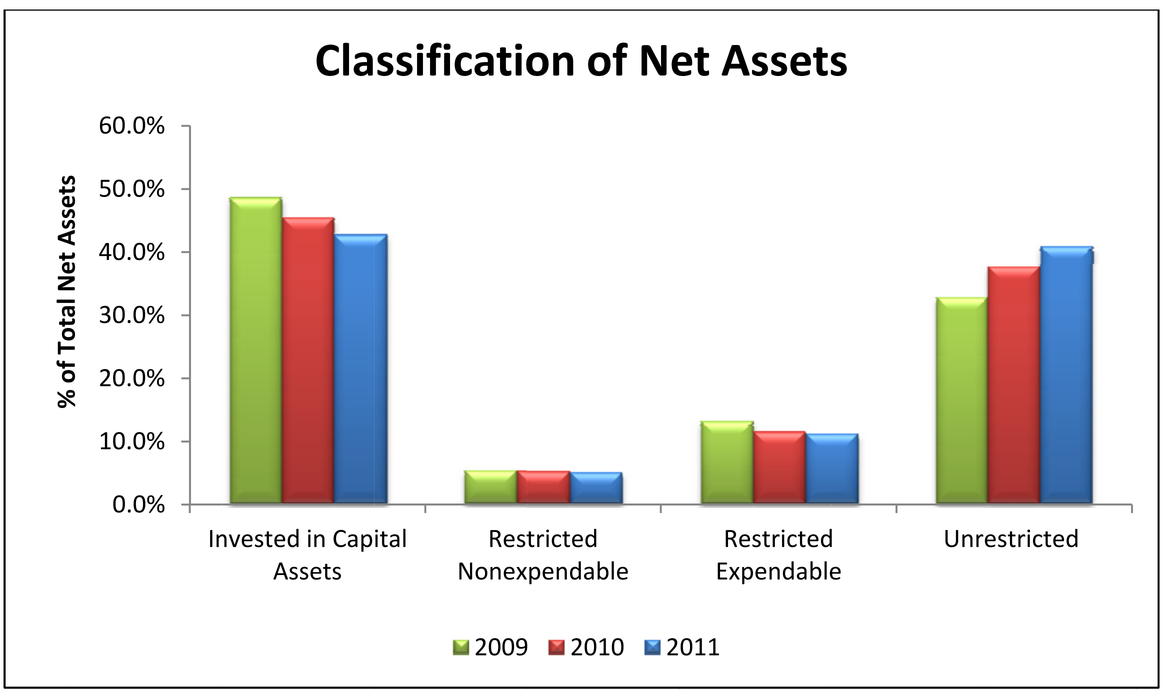
Current assets consist primarily of cash and cash equivalents, and receivables due within one year. Cash and cash equivalents were $32.7 million at June 30, 2011 and $73.0 million at June 30, 2010. The decrease in cash of $40.3 million is due to a reallocation of cash during 2011 to long-term investments, and $33.7 million in bond proceeds received in 2010. As of June 30, 2011 and 2010, $14.6 million and $30.8 million of the bond proceeds were unexpended, respectively.

Other noncurrent assets consist primarily of endowment and other long-term investments. Endowment investments were $56.9 million at June 30, 2011 and $46.8 million at June 30, 2010. This increase in endowment fair market value was primarily due to a favorable outcome produced in the market. The total return, net of fees, on the University's endowment investments was 19.7% for 2011 and 13.9% for 2010. Other long-term investments were $132.7 million at June 30, 2011 and $87.8 million at June 30, 2010 and include intermediate-term fixed income and equity securities. The increase in other long-term investments is a result of positive investment performance for the year, as well as, donor gifts. The total return on the University's other long-term investments was 6.7% for 2011, and 8.5% for 2010, both net of fees. See "Statements of Cash Flows" section of this report for additional detail.

All investments held by the University can be liquidated to cash within one week or less, with the exception of a private equity holding in the endowment investment pool.

The University's total liabilities were $180.5 million at June 30, 2011 and $177.0 million at June 30, 2010. Current liabilities consist primarily of accounts payable, accrued expenses, and deferred revenue. The $7.5 million increase in current liabilities is attributed primarily to the increase in construction in progress, accounts payable, and accrued payroll. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 77% and 81% of the University's total liabilities at June 30, 2011 and 2010, respectively. The $4.0 million decrease in noncurrent liabilities is attributed primarily to the reduction in the fair value of the derivative liability, as well as the payoff of several long-term debt instruments.

The following graph shows net assets by classification and restriction:



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

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

The following summarizes the internal Board of Trustees and University management designations of unrestricted net assets:

	June 30, 2011	June 30, 2010
	(in thousands)	
Auxiliary enterprises	$ 8,337	$ 5,325
Capital projects and repair reserves	40,368	36,902
Funds designated for departmental use	24,539	20,462
Funds functioning as endowments	26,907	22,021
Gifts and investment income reserves	27,286	17,004
Retirement and insurance reserves	(3,006)	(2,009)
Encumbrances and carryforwards	9,053	8,490
Other unrestricted	12,309	13,171
	$ 145,793	$ 121,366

Capital projects and repair reserves consist of the unexpended portion of ongoing capital projects, reserves for plant renewal, and bond sinking funds. The 2011 increase over 2010 is primarily due to an increase in various ongoing capital projects such as classroom and lab renovations.

Funds designated for departmental use consist of specific projects earmarked by various departments. The increase in 2011 is largely due to additional funding for instructional and academic support initiatives.

Funds functioning as endowments were created by the Board of Trustees 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, deferred plant renewal, and retirement obligations. The 2011 increase over 2010 is primarily due to the net return on investments of 19.7% in the endowment pooled investments as well as a net increase in funding for the retirement obligations.

Gifts and investment income reserves include the University's unrestricted gifts; and realized and unrealized investment income reserves. The increase over 2010 is predominately due to $6.9 million in unrealized gains and $3.1 million in realized gains.

University Statements of Revenues, Expenses and Changes in Net Assets

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets	**2011**	**2010**	**2009**	**% Change 2011-2010**	**% Change 2010-2009**
		(in thousands)			
Operating revenues					
Net tuition	$ 137,613	$ 130,318	$ 119,397	6%	9%
Grants and contracts	17,768	15,079	16,164	18%	-7%
Auxiliary activities	22,599	21,304	21,261	6%	0%
Departmental activities	5,470	5,229	5,384	5%	-3%
Other	418	430	428	-3%	0%
Total operating revenues	183,868	172,360	162,634	7%	6%
Operating expenses	243,312	230,941	222,771	5%	4%
Operating loss	(59,444)	(58,581)	(60,137)	-1%	3%
Nonoperating revenues (expenses)					
State appropriations	50,761	50,691	52,452	0%	-3%
Gifts	4,295	4,126	19,076	4%	-78%
Investment income	20,879	17,884	(12,553)	17%	242%
Distributed to annuity and life income fund beneficiaries	(60)	(61)	(69)	2%	12%
Interest expense	(4,919)	(4,257)	(4,774)	-16%	11%
Federal grants	20,038	16,366	8,265	22%	98%
Other	142	135	142	5%	-5%
Net nonoperating revenues	91,136	84,884	62,539	7%	36%
Income before other revenues	31,692	26,303	2,402	20%	995%
Capital grants and gifts	1,496	38	13	3,837%	192%
Additions to permanent endowments	1,226	1,054	688	16%	53%
Total other revenues	2,722	1,092	701	149%	56%
Increase in net assets	34,414	27,395	3,103	26%	783%
Net assets					
Beginning of year	321,081	293,686	290,583	9%	1%
End of year	$ 355,495	$ 321,081	$ 293,686	11%	9%

Operating revenues were $184 million in 2011, $172 million in 2010 and $163 million in 2009. The 7% increase in 2011 over 2010 was primarily due to increases in tuition revenue, net of scholarship allowances, which was higher due to an enrollment increase in FYES of 2.2% and, effective for the fall 2010 semester, tuition rates increasing by 5.76% for undergraduates and 5.77% for graduates.

Operating expenses were $243 million in 2011, $231 million in 2010 and $223 million in 2009. The operating expense increase of 5% in 2011 over 2010 resulted from supporting enrollment, expanded research funding, contractual agreements and increases in academic and institutional support.

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

University Operating Expenses

	2011	2010	2009	% Change 2011-2010	% Change 2010-2009
		(in thousands)			
Education and general					
Instruction	$ 99,012	$ 93,405	$ 90,732	6%	3%
Research	9,531	8,230	7,148	16%	15%
Public service	2,943	3,303	2,289	-11%	44%
Academic support	19,128	17,099	15,850	12%	8%
Student services	17,368	16,641	15,977	4%	4%
Institutional support	28,752	28,600	27,280	1%	5%
Operations and maintenance of plant	17,891	17,741	17,378	1%	2%
Depreciation	12,040	11,913	12,123	1%	-2%
Student aid	12,888	11,225	10,659	15%	5%
Total education and general	219,553	208,157	199,436	5%	4%
Auxiliary activities	23,743	22,766	23,323	4%	-2%
Other expenses	16	18	12	-11%	50%
Total operating expenses	$ 243,312	$ 230,941	$ 222,771	5%	4%

Education and general expenses increased 5% in 2011 over 2010 and 4% in 2010 over 2009. The increases are mainly attributable to an increase in academic program offerings to meet the needs of the higher enrollment and contractual agreements.

The increase in Instruction for 2011 is due to $1.2 million dedicated to the Oakland University William Beaumont School of Medicine (OUWBSM) in preparation for the inaugural semester beginning August 2011, $2.1 million in salaries and fringe benefits, $1.2 million for an early retirement incentive program, and several new academic programs; Research expansion is the result of new grant funding from the U.S. Department of Defense totaling $1.4 million and increased funding of $0.4 million from the National Science Foundation; Academic Support is predominantly due to additional funding for OUWBSM programs of $1.2 million and $0.4 million for an early retirement incentive program; Student Services increase is related to the OUWBSM class preparation; and the increase in Student Aid is the result of additional institutional need and merit based grants.

The University's operating loss was $59.4 million in 2011, $58.6 million in 2010 and $60.1 million in 2009. Offsetting these losses were net nonoperating revenues of $91.1 million in 2011, $84.9 million in 2010 and $62.5 million in 2009.

Non-operating revenue is largely comprised of State appropriations, and as reflected in the State's approved appropriation bills, were $50.8 million in 2011, $50.7 million in 2010, and $52.5 million in 2009.

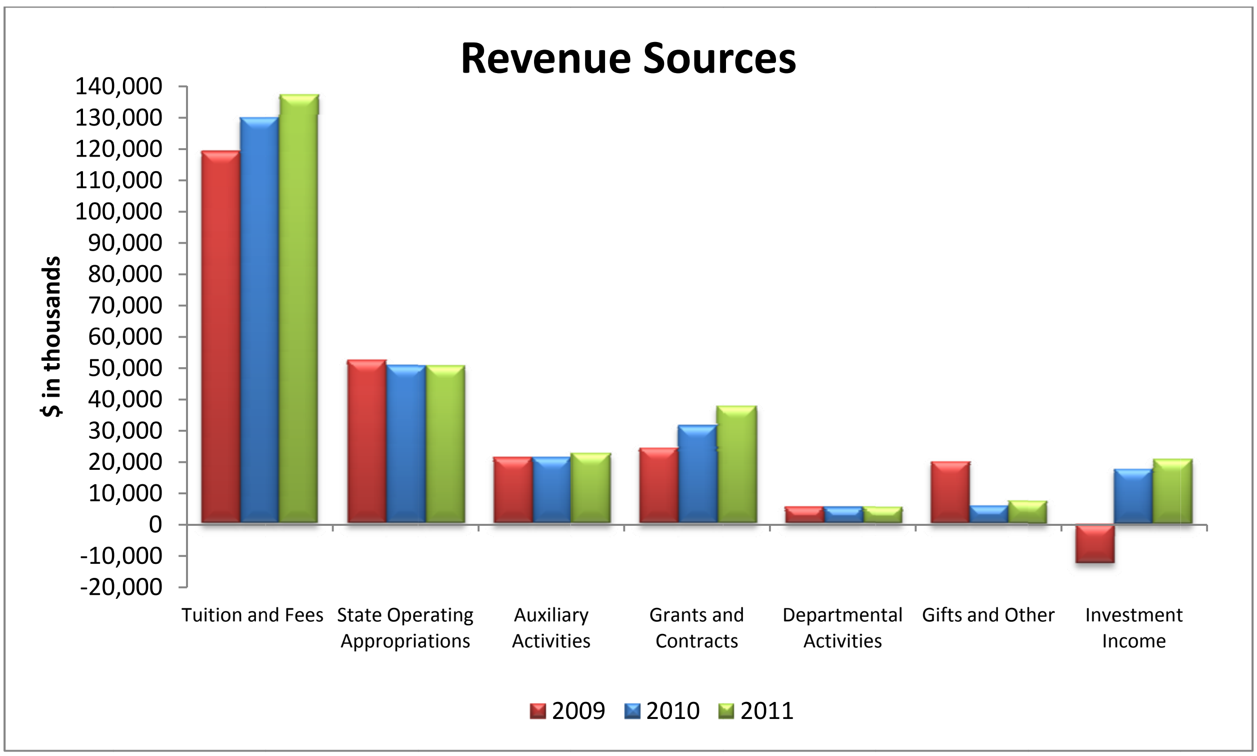
Gifts increased in 2009 predominantly due to the generosity of one anonymous donor to Oakland University for OUWBSM.

Due to partial market recovery, the University experienced income of $20.9 million on investments. This growth is comprised of $11.7 million in the University's pooled investments and $9.2 million in the endowment pool.

Nonoperating revenues also include $20.0 million from Federal Pell Grants in 2011. Pell Grant revenue for 2010 and 2009 was $16.4 and $8.3 million, respectively. The change in Pell Grant revenue from 2010 to 2011 is due to an increase in the number of grant recipients due to a change in eligibility requirements and an increase in the maximum award amount.

Other revenues increased $1.6 million to $2.7 million in 2011 primarily due to the Anton/Frankel Center donated to the University valued at $1.5 million. Other revenue was $1.1 million in 2010 and $0.7 million in 2009.

A graphic illustration of each revenue source is as follows:



University Statements of Cash Flows

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

Condensed Statements of Cash Flows	**2011**	**2010**	**2009**
		(in thousands)	
Cash provided (used) by			
Operating activities	$ (43,710)	$ (46,882)	$ (46,556)
Noncapital financing activities	78,089	73,808	67,028
Capital financing activities	(39,951)	12,894	(18,171)
Investing activities	(34,743)	(1,270)	(1,584)
Net increase (decrease) in cash	(40,315)	38,550	717
Cash and cash equivalents			
Beginning of year	73,033	34,483	33,766
End of year	$ 32,718	$ 73,033	$ 34,483

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 used by operating activities is a result of increases in tuition and grants and contracts revenue that were greater than the increases in payments to employees, suppliers, and financial aid recipients.

State appropriations are the primary source of noncapital financing activities. Noncapital State appropriation cash receipts were $50.8 million in 2011 and $50.7 million in 2010. Cash received from Pell Grants increased for the year ended June 30, 2011 and the two preceding years by $5.1 million, $6.6 million and $1.7 million, respectively.

Capital financing activities for 2011 include capital expenditures of $33.2 million in addition to debt service payments totaling $8.3 million. Cash disbursements for capital expenditures in 2011 included $13.8 million for the Human Health Building; $6.9 million for infrastructure upgrades; $4.1 million in equipment; and improvements to the Anton/Frankel Center totaling $1.7 million (the University received a federal grant of $1.6 million to partially offset the expense for this project). Capital financing activities for 2010 include capital expenditures of $14.3 million along with debt service payments of $6.5 million. Cash disbursements for capital expenditures in 2010 included $2.9 million for the Human Health Building; $4.2 million in building renovations; $2.7 million for infrastructure upgrades; $1.0 million for Katke Cousings irrigation system; and $2.0 million for equipment. Capital financing activities for 2010 include the issuance of $33.7 million of Build America Bonds. Capital financing activities for 2009 include capital expenditures of $9.9 million in addition to debt service payments totaling $8.3 million. Cash disbursements for capital expenditures in 2009 included $2.8 million for academic lab renovations; $2.7 million in building renovations; $1.0 million for the Kresge Library technology center; $0.7 million in infrastructure outlay; and $2.6 million for equipment.

Cash used in investing activities during 2011 relates to purchases of long-term investments in excess of sales, maturities, and investment fees and other expenses.

Commitments
The estimated cost to complete construction projects in progress is $69.1 million as of June 30, 2011. These projects have been funded from the State Capital Outlay, and the Department of Energy Grant for the $64.5 million Human Health Building, as well as, private gifts, proceeds from general revenue bonds, and other University funds.

University Credit Rating
In May 2010, Moody's Investors Service discontinued its Municipal Rating Scale, under which universities have traditionally received credit and bond ratings, and released its new Global Rating Scale. The University's new Global Rating Scale underlying credit rating is A1 Stable.

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

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

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

Oakland University
Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents (Note 2)	$ 32,718,493	$ 73,032,576
Accounts receivable, net (Note 3)	9,878,346	9,160,556
Appropriations receivable (Note 4)	9,229,328	9,216,495
Pledges receivable, net (Note 5)	2,436,570	2,451,958
Inventories	856,101	512,252
Deposits and prepaid expenses	764,095	674,205
Student loans receivable, net (Note 6)	278,596	256,507
Total current assets	56,161,529	95,304,549
Noncurrent assets		
Endowment investments (Note 2)	56,877,139	46,763,652
Other long-term investments (Note 2)	132,725,596	87,826,874
Pledges receivable, net (Note 5)	10,143,613	11,663,154
Student loans receivable, net (Note 6)	1,490,935	1,621,200
Capital assets, net (Notes 7)	271,044,564	245,637,567
Deferred outflow of resources (Note 11)	5,633,484	7,122,462
Other assets (Note 9)	1,947,107	2,162,367
Total noncurrent assets	479,862,438	402,797,276
Total assets	536,023,967	498,101,825
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	15,959,623	10,189,678
Accrued payroll	9,509,721	8,015,236
Long-term liabilities - current portion (Note 10)	4,535,164	3,711,462
Deferred revenue	9,651,598	10,251,307
Deposits	1,352,154	1,381,869
Total current liabilities	41,008,260	33,549,552
Noncurrent liabilities		
Deferred revenue	804,455	1,363,205
Long-term liabilities (Note 10)	132,050,780	134,119,657
Other postemployment benefits (Note 12)	4,503,870	3,729,112
Derivative instrument liability (Note 11)	2,161,116	4,259,303
Total noncurrent liabilities	139,520,221	143,471,277
Total liabilities	180,528,481	177,020,829
Net assets		
Invested in capital assets, net of related debt	151,828,575	145,976,168
Restricted nonexpendable	18,056,555	16,836,067
Restricted expendable	39,817,725	36,902,650
Unrestricted	145,792,631	121,366,111
Total net assets	$ 355,495,486	$ 321,080,996

Oakland University
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2011 and 2010

	2011	2010
Operating revenues		
Tuition (net of scholarship allowances of		
$28,702,730 in 2011 and $23,469,453 in 2010)	$ 137,613,227	$ 130,318,234
Federal grants and contracts	14,524,359	11,167,635
State, local and private grants and contracts	3,243,564	3,911,752
Departmental activities	5,470,049	5,228,655
Auxiliary activities (net of scholarship allowances of		
$2,514,367 in 2011 and $1,987,729 in 2010)	22,598,363	21,304,220
Other operating revenues	418,236	429,726
Total operating revenues	183,867,798	172,360,222
Operating expenses		
Education and general		
Instruction	99,012,123	93,405,352
Research	9,531,111	8,229,811
Public service	2,943,245	3,302,821
Academic support	19,127,494	17,099,044
Student services	17,367,693	16,641,165
Institutional support	28,752,493	28,600,313
Operations and maintenance of plant	17,890,780	17,740,668
Depreciation	12,040,289	11,912,863
Student aid	12,888,164	11,225,338
Auxiliary activities	23,742,562	22,765,741
Other expenses	15,754	18,360
Total operating expenses (Note 16)	243,311,708	230,941,476
Operating loss	(59,443,910)	(58,581,254)
Nonoperating revenues (expenses)		
State appropriations (Note 4)	50,761,300	50,690,700
Gifts	4,294,656	4,125,543
Investment income (net of investment expenses of		
$493,124 in 2011 and $404,151 in 2010)	20,878,848	17,883,915
Distributions to annuity and life income fund beneficiaries	(59,818)	(60,778)
Interest on capital asset related debt	(4,918,933)	(4,256,442)
Federal grants	20,037,823	16,366,241
Other	141,921	135,245
Net nonoperating revenues	91,135,797	84,884,424
Income before other revenues	31,691,887	26,303,170
Capital grants and gifts	1,496,753	37,570
Additions to permanent endowments	1,225,850	1,053,828
Total other revenues	2,722,603	1,091,398
Increase in net assets	34,414,490	27,394,568
Net assets		
Beginning of year	321,080,996	293,686,428
End of year	$ 355,495,486	$ 321,080,996

The accompanying notes are an integral part of these financial statements

Oakland University
Statements of Cash Flows
June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Tuition	$ 136,863,257	$ 129,660,780
Grants and contracts	17,787,298	13,108,170
Payments to suppliers	(54,131,723)	(51,527,747)
Payments to employees	(158,591,065)	(154,679,315)
Payments for scholarships and fellowships	(12,888,164)	(11,225,338)
Loans issued to students	(198,379)	(190,240)
Collection of loans from students	321,912	271,180
Auxiliary enterprise charges	22,196,585	21,204,880
Other receipts	4,930,448	6,495,989
Net cash used by operating activities (Note 17)	(43,709,831)	(46,881,641)
Cash flows from noncapital financing activities		
State appropriations	50,748,467	51,010,968
Federal direct lending receipts	100,126,137	91,480,848
Federal direct lending disbursements	(100,126,137)	(91,480,848)
Gifts and grants for other than capital purposes	26,115,311	21,743,131
Endowment gifts	1,225,850	1,053,828
Net cash provided by noncapital financing activities	78,089,628	73,807,927
Cash flows from capital financing activities		
Proceeds from capital debt	-	33,650,000
Capital grants, gifts, and other payments	1,496,753	-
Purchases of capital assets	(33,161,086)	(14,286,037)
Principal paid on capital debt and leases	(3,703,537)	(2,951,693)
Interest paid on capital debt and leases	(4,583,442)	(3,518,786)
Net cash provided (used) by capital financing activities	(39,951,312)	12,893,484
Cash flows from investing activities		
Proceeds from sales and maturities of investments	117,961,724	1,492,918
Investment income (loss)	6,332,505	2,185,039
Purchase of investments	(159,036,797)	(4,947,973)
Net cash used by investing activities	(34,742,568)	(1,270,016)
Net increase (decrease) in cash and cash equivalents	(40,314,083)	38,549,754
Cash and cash equivalents		
Beginning of year	73,032,576	34,482,822
End of year	$ 32,718,493	$ 73,032,576

The accompanying notes are an integral part of these financial statements

1. Significant Accounting Policies

Organization

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

Basis of Accounting

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Codification sections applicable on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected to not apply FASB Codification sections applicable after November 30, 1989.

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

Cash Equivalents

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

Investments

Investments are stated at fair market value.

Derivatives

The University is party to interest rate swap agreements which are considered to be derivatives and are recorded at fair value on the statement of net assets as long-term assets or liabilities.

Inventories

Inventories are stated at the lower of average cost or market. Included in 2011 inventory are three homes in the Meadow Brook Subdivision owned by the University and valued at $529,500.

Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at the date of gift. A capitalization threshold of $5,000 is used for equipment. Depreciation is computed using the straight-line method over the estimated useful life of the property. When assets are retired or 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 and fall semesters are recognized in the fiscal year in which the semesters are predominantly conducted.

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

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

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.

2. Investments and Deposits with Financial Institutions

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. These investments are administered according to the University's "Pooled Cash Investment Policy." The policy requires that no short-term investment may have a maturity greater than one year and no more than 10% of the total of these funds available for investment may be invested in any one issuer. Credit quality on short-term investments is limited to P-1, A-1, or F-1. Credit quality on intermediate-fixed investments is limited to "AA" through "AAA" with a maximum maturity of 15 years and an average maturity of between three and six years. Equity holdings are limited to 5% of the equity portfolio at fair market value in any one company and 5% of the outstanding stock of any one company. The operating cash portfolios at June 30, 2011 and 2010 do 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.

At June 30, 2011 and 2010 operating cash was invested in a short-term mutual fund, two pooled intermediate-fixed funds, and pooled equity funds in the following fair 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 fair market value of the portfolio.

June 30, 2011	Total	<1 Year	1-5 years	6-10 years	>10 years
University Operating Pooled Cash					
Swept Money Market Mutual Fund	$ 19,619,433	$ 19,619,433	$ -	$ -	$ -
Commonfund Intermediate High Quality Bond Fund	51,045,530	5,553,754	21,275,777	14,639,857	9,576,142
JP Morgan Equity Funds Intrepid Equities	45,821,774	-	-	-	45,821,774
WAM Treasuries	344,799	-	-	-	344,799
JP Morgan Bond Fund	35,861,978	6,562,625	29,299,353	-	-
Cash with Trustees	14,621,594	14,621,594	-	-	-
Operating Investments	167,315,108	46,357,406	50,575,130	14,639,857	55,742,715
Net cash overdraft	(1,871,019)	(1,871,019)	-	-	-
	$ 165,444,089	$ 44,486,387	$50,575,130	$ 14,639,857	$ 55,742,715

Cash and cash equivalents	$ 32,718,493
Other long-term investments	132,725,596
	$ 165,444,089

June 30, 2010	**Total**	**<1 Year**	**1-5 years**	**6-10 years**	**>10 years**
University Operating Pooled Cash					
Swept Money Market Mutual Fund	$ 38,209,616	$ 38,209,616	$ -	$ -	$ -
Commonfund Intermediate High Quality Bond Fund	72,923,579	-	-	72,923,579	-
JP Morgan Equity Funds Intrepid Equities	14,565,861	-	-	-	14,565,861
WAM Treasuries	337,505	-	-	-	337,505
Comerica CD's	4,898,000	4,898,000	-	-	-
Cash with Trustees	30,800,910	30,800,910	-	-	-
Operating Investments	161,735,471	73,908,526	-	72,923,579	14,903,366
Net cash overdraft	(876,021)	(876,021)	-	-	-
	$160,859,450	$ 73,032,505	$ -	$ 72,923,579	$ 14,903,366

Cash and cash equivalents	$ 73,032,576
Other long-term investments	87,826,874
	$160,859,450

At June 30, 2011 the Commonfund Intermediate High Quality Bond Fund had a weighted-average maturity of 4.3 years and an average credit quality of AA. The weighted-average maturity of a fixed income fund, such as the High Quality Bond Fund, is one measure of the risk that its market value will change with changes in interest rates.

The University is exposed to foreign currency risk included within the University operating pooled cash investment balance. The current investments that are subject to foreign currency risk consist of the JP Morgan International Opportunities Fund, within the JP Morgan Bond Fund, in the amount of $6,772,601 as of June 30, 2011.

These investments produced net rates of return of 6.7% and 8.5% for the years ended June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, the University had investment derivatives with the following maturities:

June 30, 2011	**Fair Value**	**<1 Year**	**1-5 years**	**6-10 years**	**>10 years**
Constant Maturity Swap	$ 3,472,638	$ -	$ -	$ -	$ 3,472,638

June 30, 2010	**Fair Value**	**<1 Year**	**1-5 years**	**6-10 years**	**>10 years**
Constant Maturity Swap	$ 2,863,159	$ -	$ -	$ -	$ 2,863,159

The investment derivative was approved by the Board of Trustees. The investment derivative is included with deferred outflow of resources in the Statements of Net Assets. See Note 11 for further disclosures.

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

These investment funds are uninsured and uncollateralized and produced a total net return of 19.7% and 13.9% for the years ended June 30, 2011 and 2010, respectively.

University pooled endowment investment funds consist of the following as of June 30, 2011 and 2010:

June 30, 2011	Total	<1 Year	1-5 years	6-10 years	>10 years
UBS Endowment Investment Pool					
Large Cap Value	$ 7,493,308	$ -	$ -	$ -	$ 7,493,308
Large Cap Growth	7,239,617	-	-	-	7,239,617
Mid Cap Value	2,964,056	-	-	-	2,964,056
Mid Cap Growth	3,275,998	-	-	-	3,275,998
Small Cap Core	2,663,684	-	-	-	2,663,684
REIT	401,464	-	-	-	401,464
International Value	5,238,069	-	-	-	5,238,069
International Core	4,128,310	-	-	-	4,128,310
Developing Markets	1,027,971	-	-	-	1,027,971
Fixed Income Core	11,690,496	1,402,242	4,918,324	3,911,390	1,458,540
High Yield Bonds	2,530,101	144,562	747,916	1,516,383	121,240
Global Fixed	3,927,585	362	1,994,109	1,933,114	-
Hedge Funds	2,099,759	-	-	-	2,099,759
Commodity Stock Funds	1,929,522	-	-	-	1,929,522
Private Equity	162,876	-	-	-	162,876
Cash	30	30	-	-	-
	56,772,846	1,547,196	7,660,349	7,360,887	40,204,414
Charitable Trusts – Equity Funds	104,293	-	-	-	104,293
	$ 56,877,139	$ 1,547,196	$ 7,660,349	$ 7,360,887	$ 40,308,707

June 30, 2010	Total	<1 Year	1-5 years	6-10 years	>10 years
UBS Endowment Investment Pool					
Large Cap Value	$ 5,939,977	$ -	$ -	$ -	$ 5,939,977
Large Cap Growth	5,368,432	-	-	-	5,368,432
Mid Cap Value	3,965,408	-	-	-	3,965,408
Mid Cap Growth	2,506,790	-	-	-	2,506,790
Small Cap Core	2,710,689	-	-	-	2,710,689
REIT	1,707,371	-	-	-	1,707,371
International Value	4,007,461	-	-	-	4,007,461
International Core	3,242,094	-	-	-	3,242,094
Fixed Income Core	2,791,823	449,888	893,289	-	1,448,646
High Yield Bonds	2,984,079	245,287	1,076,348	1,545,084	117,360
Taxable Fixed Income	7,037,302	121,766	3,824,780	2,459,703	631,053
Global Fixed	1,182,999	-	-	1,182,999	-
Global Fixed	1,317,295	434,707	289,805	210,767	382,016
Domestic Fixed Income	884,551	-	539,576	194,602	150,373
Domestic Fixed Income	879,552	-	536,527	193,501	149,524
Cash	22	22	-	-	-
Accruals	145,267	145,267	-	-	-
	46,671,112	1,396,937	7,160,325	5,786,656	32,327,194
Charitable Trusts – Equity Funds	92,540	-	-	-	92,540
	$ 46,763,652	$ 1,396,937	$ 7,160,325	$ 5,786,656	$ 32,419,734

The credit quality of the fixed income investments in the portfolio vary with 87% of the portfolio carrying a credit rating of A or better and 13% of the portfolio rated less than investment grade. Cash items in the portfolio carry credit ratings of A-1, P-1, and F-1.

The University is not exposed to foreign currency risk within the endowment investment balance as of June 30, 2011.

The private equity investment's estimated market value is $163,390 with a total commitment by the University of $1,000,000 over a five-year period. Hedge fund investments are estimated at a market value of $2,099,759. Estimated market values and returns are reviewed by the UBS Alternative Investments U.S. Team through our endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for these alternative investments, private equity, and hedge funds. These estimated fair values are provided by external investment managers and advisers as of June 30, 2011. Because alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

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

For donor restricted endowments, the Uniform 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.

With the exception of the private equity placement, both the pooled cash and endowment investment pools can be liquidated to cash within one week or less at fair market value.

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2011 and 2010:

	2011	2010
Tuition	$ 7,806,608	$ 7,080,843
Auxiliary enterprises	1,188,224	953,052
Contracts and grants	3,916,945	4,058,097
Other receivables	822,707	479,717
Total accounts receivable	13,734,484	12,571,709
Less: Allowance for doubtful accounts	(3,856,138)	(3,411,153)
Total accounts receivable, net	$ 9,878,346	$ 9,160,556

4. Appropriations Receivable

The annual State operating appropriation paid to the University is made in eleven monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2011 and 2010, the accrual of the July and August State operating appropriation payments created an appropriation receivable of $9,229,328 and $9,216,495, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2011 and 2010:

	2011	2010
Pledges outstanding		
Unrestricted	$ 43,260	$ 114,235
Restricted expendable	15,060,743	17,228,782
Total pledges outstanding	15,104,003	17,343,017
Less		
Allowance for doubtful pledges	(101,857)	(124,827)
Present value discount	(2,421,963)	(3,103,078)
Total pledges outstanding, net	12,580,183	14,115,112
Less: Current portion, net	(2,436,570)	(2,451,958)
Noncurrent portion, net	$ 10,143,613	$ 11,663,154

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. At June 30, 2011 and 2010, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 1% net of discount at June 30, 2011 and 2010.

Payments on pledges receivable at June 30, 2011 are expected to be received in the following years:

Past due	$ 23,817
Due in one year	2,461,762
Due in two-five years	8,563,424
Thereafter	4,055,000
Total	$ 15,104,003

Approximately $11.7 million of the total pledges outstanding is from a single donor. 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, 2011 and 2010 the University had $31,084,870 and $31,332,947, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements. Of the $31,084,870 in conditional pledges for fiscal year 2011, $15,000,000 is from a single donor.

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2011 and 2010:

	2011	**2010**
Student loans		
Federal loan programs	$ 1,982,294	$ 2,091,480
University loan funds	74,692	71,836
	2,056,986	2,163,316
Less: Allowance for doubtful loans	(287,455)	(285,609)
Total student loans, net	1,769,531	1,877,707
Less: Current portion, net	(278,596)	(256,507)
Noncurrent portion, net	$ 1,490,935	$ 1,621,200

In addition, the University distributed $100,126,137 and $91,480,848 for the years ended June 30, 2011 and 2010, 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 tables present the changes in the various capital asset categories for the University for fiscal years 2011 and 2010:

Asset Classification	Balance June 30, 2010	Additions	Reductions/ Transfers	Balance June 30, 2011
Land	$ 4,324,914	$ 300,000	$ -	$ 4,624,914
Land improvements and infrastructure	46,233,363	9,679,004	-	55,912,367
Buildings	291,659,166	8,716,771	-	300,375,937
Equipment	37,791,239	4,109,378	5,421,506	36,479,111
Library acquisitions	26,249,153	646,552	300,265	26,595,440
Construction in progress	20,591,905	31,270,059	17,245,776	34,616,188
Total	426,849,740	54,721,764	22,967,547	458,603,957
Accumulated depreciation				
Land improvements and infrastructure	(18,344,703)	(2,324,273)	-	(20,668,976)
Buildings	(110,836,983)	(6,428,785)	-	(117,265,768)
Equipment	(29,863,321)	(2,370,823)	(5,255,780)	(26,978,364)
Library acquisitions	(22,167,166)	(779,384)	(300,265)	(22,646,285)
Total	(181,212,173)	(11,903,265)	(5,556,045)	(187,559,393)
Total capital assets (net)	$ 245,637,567	$ 42,818,499	$ 17,411,502	$ 271,044,564

Asset Classification	Balance June 30, 2009	Additions	Reductions/ Transfers	Balance June 30, 2010
Land	$ 4,324,914	$ -	$ -	$ 4,324,914
Land improvements and infrastructure	44,726,518	1,506,845	-	46,233,363
Buildings	286,332,287	5,326,879	-	291,659,166
Equipment	42,878,870	2,087,098	7,174,729	37,791,239
Library acquisitions	25,566,125	726,278	43,250	26,249,153
Construction in progress	15,105,172	12,320,456	6,833,723	20,591,905
Total	418,933,886	21,967,556	14,051,702	426,849,740
Accumulated depreciation				
Land improvements and infrastructure	(16,282,313)	(2,062,390)	-	(18,344,703)
Buildings	(104,476,741)	(6,360,242)	-	(110,836,983)
Equipment	(34,372,786)	(2,399,810)	(6,909,275)	(29,863,321)
Library acquisitions	(21,361,195)	(849,221)	(43,250)	(22,167,166)
Total	(176,493,035)	(11,671,663)	(6,952,525)	(181,212,173)
Total capital assets (net)	$ 242,440,851	$ 10,295,893	$ 7,099,177	$ 245,637,567

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, the Business and Technology Building (Elliott Hall) and the Human Health Building. 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 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 one dollar. The cost and accumulated depreciation for these facilities is included in the accompanying statements of net assets.

9. Cash Surrender Value of Life Insurance Policies

Included in other assets are the cash surrender value of life insurance policies in the amount of $1,014,367 and $1,180,167 for 2011 and 2010, respectively. The face value of these life insurance policies totaled $6,098,522 in 2011 and $5,360,500 in 2010.

10. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2011 and 2010:

	Balance June 30,2010	Additions/ Transfers	Reductions	Balance June 30,2011	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	$ 16,666,617	$ -	$ 698,537	$ 15,968,080	$ 710,538
Bonds payable:					
General revenue bonds, series 1997	1,175,000	-	1,175,000	-	-
Variable rate demand bonds, series 1998	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004	26,925,000	-	1,140,000	25,785,000	1,195,000
Unamortized premium	883,696	-	101,012	782,684	98,894
Unamortized deferral on extinguishment	(964,890)	-	(110,291)	(854,599)	(107,980)
General revenue refunding bonds, series 2008	53,280,000	-		53,280,000	1,270,000
2008 Bonds – deferral	(4,854,314)	-	(234,886)	(4,619,428)	(234,886)
Bonds, series 2009	33,650,000	-	690,000	32,960,000	700,000
Total, note, installment agreement and bonds payable	131,361,109	-	3,459,372	127,901,737	3,631,566
Other liabilities:					
Compensated absences	4,239,319	79,218	-	4,318,537	237,577
Early retirement plan	-	2,207,892	-	2,207,892	605,814
Annuities payable and other	429,582	5,329	11,645	423,266	60,207
Federal portion of Perkins loan program	1,801,109	25,779	92,376	1,734,512	-
Total other liabilities	6,470,010	2,318,218	104,021	8,684,207	903,598
Total long-term liabilities	$ 137,831,119	$ 2,318,218	$ 3,563,393	$ 136,585,944	$ 4,535,164

	2010	2011
Total long-term liabilities	$ 137,831,119	$ 136,585,944
Current portion	3,711,462	4,535,164
Noncurrent portion	$ 134,119,657	$ 132,050,780

	Balance June 30,2009	Additions/ Transfers	Reductions	Balance June 30,2010	Current Portion
Note, installment purchase agreement and bonds payable:					
Note and installment purchase agreement payable	$ 17,353,310	$ -	$ 686,693	$ 16,666,617	$ 698,537
Bonds payable:					
General revenue bonds, series 1997	2,355,000	-	1,180,000	1,175,000	1,175,000
Variable rate demand bonds, series 1998	4,600,000	-	-	4,600,000	-
General revenue refunding bonds, series 2004	28,010,000	-	1,085,000	26,925,000	1,140,000
unamortized premium	986,380	-	102,684	883,696	102,884
unamortized deferral on extinguishment	(1,077,009)	-	(112,119)	(964,890)	(112,337)
General revenue refunding bonds, series 2008	53,280,000	-		53,280,000	-
2008 Bonds – deferral	(5,089,201)	-	(234,887)	(4,854,314)	(234,885)
Bonds, series 2009		33,650,000		33,650,000	690,000
Total, note, installment agreement and bonds payable	100,418,480	33,650,000	2,707,371	131,361,109	3,459,199
Other liabilities:					
Compensated absences	4,614,621	-	375,302	4,239,319	193,057
Annuities payable and other	478,599	1,215	50,232	429,582	59,206
Federal portion of Perkins loan program	1,868,951	39,809	107,651	1,801,109	-
Total other liabilities	6,962,171	41,024	533,185	6,470,010	252,263
Total long-term liabilities	$ 107,380,651	$ 33,691,024	$ 3,240,556	$ 137,831,119	$ 3,711,462

	June 30,2009	June 30,2010
Total long-term liabilities	$ 107,380,651	$ 137,831,119
Current portion	3,020,520	3,711,462
Noncurrent portion	$ 104,360,131	$ 134,119,657

Note and Installment Purchase Agreement Payable

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

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

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

	Principal	Interest	Total
2012	$ 710,538	$ 592,149	$ 1,302,687
2013	737,903	564,784	1,302,687
2014	766,322	536,365	1,302,687
2015	795,836	506,851	1,302,687
2016	826,487	476,200	1,302,687
2017-2021	4,635,136	1,878,296	6,513,432
2022-2026	5,599,166	914,271	6,513,437
2027-2028	1,896,692	57,341	1,954,033
Total	$ 15,968,080	$ 5,526,257	$ 21,494,337

Bonds Payable

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

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 at June 30, 2011 and 2010 were 0.14% and 0.33%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees and letter of credit fees. On February 1, 2006 the University Board of Trustees and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of $4,600,000.

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

In June 2008, the University issued $53,280,000 general revenue refunding bonds (2008 Bonds) to refund the 2001 Bonds. The 2008 Bonds are variable rate demand obligations with a maturity date of March 1, 2031. In conjunction with this issue, the University terminated the related 2001 Swap at a termination 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 3.373%. The 2001 Swap termination cost has been deferred and will be amortized over the term of the refunding bonds. These bonds will mature March 1, 2031. The aggregate amount of outstanding principal on the 2001 Bonds which has been defeased was $48,000,000 as of June 30, 2008.

In December 2009, the University issued $33,650,000 general revenue bonds (2009 Bonds) (Taxable – Build America Bonds) to fund a portion of the Human Health Building and several infrastructure projects. The 2009 Bonds were issued in fixed rate mode and include an election by the University to receive payments from the Federal Government under the Build America Bond program created under the American Recovery and Reinvestment Act of 2009. The 2009 Bonds were issued with a final maturity of March 1, 2039. The pricing resulted in a 4.427% true interest cost after adjusting for the Federal interest subsidy.

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

	Principal	Interest	Hedging Derivative, Net	Total
2012	$ 3,165,000	$ 3,644,350	$ 1,703,362	$ 8,512,712
2013	3,305,000	3,558,793	1,662,760	8,526,553
2014	3,430,000	3,465,874	1,620,080	8,515,954
2015	3,570,000	3,365,347	1,575,961	8,511,308
2016	3,730,000	3,254,653	1,529,924	8,514,577
2017-2021	21,120,000	14,449,426	6,888,575	42,458,001
2022-2026	30,935,000	10,460,652	5,413,481	46,809,133
2027-2031	33,785,000	6,539,777	2,704,023	43,028,800
2032-2036	7,910,000	3,761,750	-	11,671,750
2037-2039	5,675,000	824,037	-	6,499,037
	116,625,000	$ 53,324,659	$ 23,098,166	$193,047,825
Less: Deferral on extinguishment, net	(4,691,343)			
	$111,933,657			

Other Liabilities

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

The Early Retirement Incentive Plan is a 2011 cost containment initiative that provides an incentive for qualifying employees to retire from the University. The benefits are paid monthly to 36 participants’ 403(b) accounts over a five year period beginning in 2012. Benefit payments and fees total $2.2 million and will be funded over a three year period.

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

11. Derivatives

The University adopted the provisions of GASB 53 in 2010. The derivatives were valued using an independent pricing service. The following provides a description of each swap agreement.

Investment Derivative Instrument:

2007 Constant Maturity Swap Agreement

In June 2007, the University executed a Constant Maturity Swap (CMS) in an initial notional amount of $34,370,000 effective October 1, 2007, the purpose of which is to reduce interest rates. 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 values of the CMS at June 30, 2011 and 2010 were $3,472,368 and $2,863,159, respectively. These fair values are included as a reduction of the derivative liability in the Statement of Net Assets with the change in fair value of $609,209 and $845,701 for fiscal years ended June 30, 2011 and 2010, respectively, included in Investment income in the Statements of Revenues, Expenses and Changes in Net Assets. 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. At June 30, 2011 the counterparty's credit rating from Moody's Investors Service was Aa1. The CMS includes collateral requirements intended to mitigate credit risk. At June 30, 2011 there is no collateral posting requirements of 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.

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 3.373% and is based on 67% of US Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. Under the 2008 swap agreement the University pays a synthetic fixed rate of 3.373%. 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 at June 30, 2011 and 2010 was ($5,633,484) and ($7,122,462), respectively. These fair values are reflected in the Deferred outflow of resources and Derivative instrument liability sections of the Statement of Net Assets. 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 53 standards, 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. At June 30, 2011 there is no collateral posting requirement of either the counterparty or the University. Collateral posting by the University may be required under the agreement when the fair value exceeds ($5,000,000) at the University's current credit rating of A1 or zero should the University default. At June 30, 2011 the counterparty's credit rating from Moody's Investors Service was A1.

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. If the 2008 Swap is terminated, the University may be required to pay an amount equal to the fair value if it is negative.

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 312 retirees and spouses. Certain employees hired after July 1, 2005, depending on the employee group, may be eligible for participation in the University's post employment 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, 2011, the University and plan members receiving benefits contributed $1,521,614 and $971,649, respectively, to the plan. Approximately 61% of total premiums were paid by the University with the remaining 39% paid by plan members. Required contributions for plan members range from no cost to $893 per month for retiree-only coverage, and from no cost to $2,142 per month for retiree and spouse coverage.

For the year ended June 30, 2010, the University and plan members receiving benefits contributed $1,427,568 and $860,499, respectively, to the plan. Approximately 62% of total premiums were paid by the University with the remaining 38% paid by plan members. Required contributions for plan members range from no cost to $811 per month for retiree-only coverage, and from no cost to $1,824 per month for retiree and spouse coverage

Annual OPEB Cost and Net OPEB Obligation

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

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, 2011 and 2010:

	2011	**2010**
Annual Required Contribution (ARC)	$ 2,447,761	$ 2,273,539
Interest on net OPEB obligation	315,674	233,624
Adjustment to ARC	(467,063)	(345,666)
Annual OPEB cost (expense)	2,296,372	2,161,497
Contributions made	(1,521,614)	(1,427,568)
Increase in net OPEB obligation	774,758	733,929
Net OPEB obligation – beginning of year	3,729,112	2,995,183
Net OPEB obligation – end of year	$ 4,503,870	$ 3,729,112

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB cost Contributed	Net OPEB Obligation
2011	$ 2,296,372	66.3%	$ 4,503,870
2010	$ 2,161,497	66.0%	$ 3,729,112
2009	$ 2,863,265	45.7%	$ 2,995,183

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but instead are financed on a pay-as-you-go basis. The University thus far has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board of Trustees approved quasi-endowment valued at approximately $10.6 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, 2011 and the two preceding years were $1,521,614, $1,427,568, and $1,307,162, respectively. The funded status of the plan for the year ended June 30, 2011 and the two preceding years is as follows:

Schedule of Funding Progress
Oakland University Retired Employees Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	-	$ 22,494,968	$ 22,494,968	0.00%	$ 86,226,076	26.1%
6/30/2010	-	$ 21,538,021	$ 21,538,021	0.00%	$ 82,604,660	26.1%
6/30/2009	-	$ 25,348,481	$ 25,348,481	0.00%	$ 76,840,085	33.0%

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 $22.5 million as of the June 30, 2011 actuarial valuation date. 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 fifteen 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. During fiscal year 2010, the University changed its actuary. The methodology used by the new actuary resulted in expected costs paid by the University to be extended to later years, resulting in a lower current year AAL.

Actuarial assumptions included a discount rate of 7.8%, 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, 2011 and 2010 were $12,462,617 and $12,339,391, 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, 2011, the date of the most recent actuarial valuation, the present value of benefits accrued under the plan was fully funded.

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

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

14. Liability and Property Insurance

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

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

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 residence mortgages. As of June 30, 2011, the amount subject to guarantee by the University was $1,830,884.

The estimated costs to complete construction projects in progress are $69,132,340 as of June 30, 2011. These projects have been funded from the State Capital Outlay, Department of Energy grant and Kresge Foundation grant for the $64.6 million Human Health Building, as well as, private gifts, proceeds from general revenue bonds and other University funds.

16. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Employee compensation and benefits	$ 163,147,417	$ 155,287,910
Supplies and other services	55,235,838	52,515,365
Student aid	12,888,164	11,225,338
Depreciation	12,040,289	11,912,863
Total	$ 243,311,708	$ 230,941,476

17. Cash Flow Statement

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

	2011	2010
Operating loss	$ (59,443,910)	$ (58,581,254)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	12,040,289	11,912,863
Changes in assets and liabilities:		
Accounts receivable, net	(717,790)	137,789
Inventories	(343,849)	(200,671)
Deposits and prepaid expense	(102,293)	(116,856)
Student loans receivable	108,176	101,475
Accounts payable and accrued expenses	1,447,965	1,188,289
Accrued payroll	1,494,485	249,967
Compensated absences	2,287,109	(375,301)
Deferred revenue	(1,158,459)	(2,034,826)
Deposits	(29,715)	170,799
Federal portion of student loan program	(66,597)	(67,844)
Other postemployment benefits	774,758	733,929
Net cash used by operating activities	$ (43,709,831)	$ (46,881,641)

18. Related Party

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

Oakland University Foundation net assets as of June 30, 2011 were as follows:

Assets	$ 179,007
Net assets	$ 179,007

The assets remaining are endowment funds. The June 30, 2011 University financial statements do not include the remaining Foundation's assets or activity.

Oakland
UNIVERSITY

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