



FINANCIAL STATEMENTS

June 30, 2018 *and* 2017

Oakland University
Contents
June 30, 2018 and 2017

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Oakland University
Contents
June 30, 2018 and 2017

	Page(s)
Report of Independent Auditors	1-2
Management’s Discussion and Analysis	3-15
Financial Statements	
Statements of Net Position.....	16
Statements of Revenues, Expenses, and Changes in Net Position.....	17
Statements of Cash Flows.....	18
Notes to Financial Statements.....	19-48
Required Supplemental Information.....	49-50

Independent Auditor's Report

To the Board of Trustees
Oakland University

Report on the Financial Statements

We have audited the accompanying financial statements of Oakland University (the "University"), a component unit of the State of Michigan, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Oakland University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oakland University as of June 30, 2018 and 2017 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 1 to the basic financial statements, effective July 1, 2017, the University adopted new accounting guidance under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. In accordance with Statement No. 75, the University is now recognizing its unfunded net other postemployment benefits (OPEB) liability and deferred OPEB outflows (inflows) within the statement of net position for the first time. This statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Our opinion is not modified with respect to this matter.

To the Board of Trustees
Oakland University

As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the University adopted new accounting guidance under GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. In accordance with Statement No. 81, the University must recognize assets, liabilities, and deferred inflows of resources for resources pursuant to irrevocable split-interest agreements at the inception of the agreements. Furthermore, this statement requires that the University recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the University controls the present service capacity of the beneficial interests. This statement requires that the University recognize revenue when the resources become applicable to the reporting period. Our opinion is not modified with respect to this matter.

Required Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 on our consideration of Oakland University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oakland University's internal control over financial reporting and compliance.



October 1, 2018

Oakland University

Management's Discussion and Analysis

June 30, 2018 and 2017

Introduction

Following is Management's Discussion and Analysis of the financial activities of Oakland University (University, Oakland or OU) for the fiscal year ended June 30, 2018 with selected comparative information for the years ended June 30, 2017 and 2016.

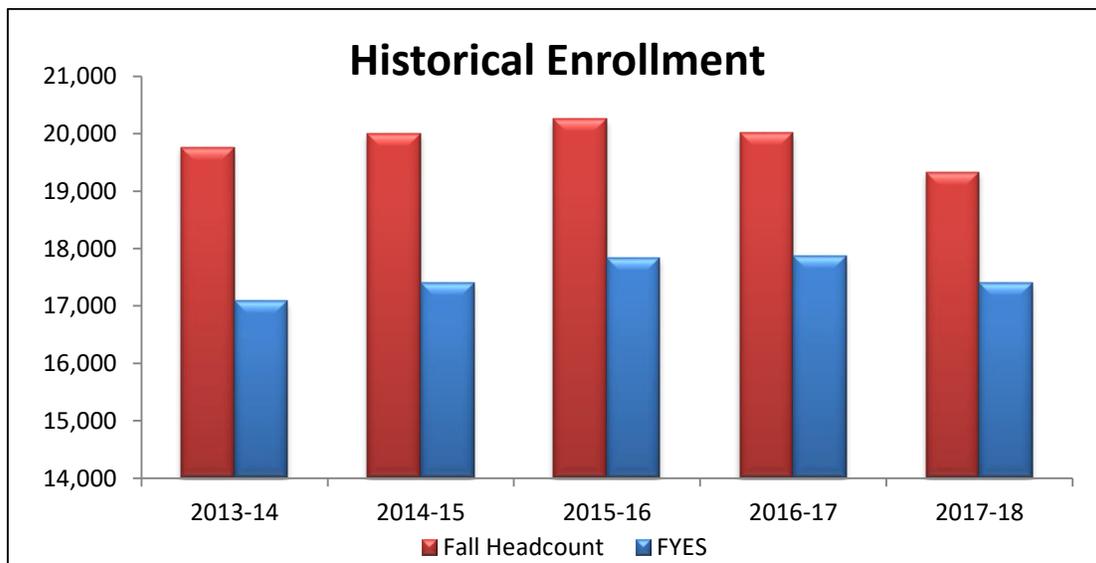
The University is a state-supported institution offering a diverse set of academic programs, from baccalaureate to doctoral levels, as well as programs in continuing education. The University is recognized as one of the country's 112 doctoral/research universities by the Carnegie Foundation for the Advancement of Teaching. The University currently offers 142 baccalaureate degree programs and 138 graduate and certificate programs. The University's student-centered education offers students opportunities to work directly on research projects with expert faculty who bring current knowledge into the classroom.

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

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

Fiscal Year 2018 Enrollment and Operations Highlights

- In fiscal year 2018, student headcount enrollment for the fall 2017 semester decreased 3.4% to 19,333. Undergraduate enrollment was 15,901 (82%) and graduate enrollment was 3,432 (18%). In fiscal year 2017, student headcount enrollment for the fall 2016 semester decreased 1.2% to 20,012. Undergraduate enrollment was 16,568 (83%) and graduate enrollment was 3,444 (17%). The enrollment decreases are attributable to the decline in high school graduates from Michigan. Projections indicate a continual decline through 2030.
- Enrollment based on Fiscal Year Equated Students (FYES) decreased 2.5% to 17,412, and increased 0.1% to 17,862 for fiscal years 2018 and 2017 respectively. A five-year summary of historical enrollment is presented below.



Oakland University

Management's Discussion and Analysis

June 30, 2018 and 2017

- In May 2018, the U.S. Government designated Oakland University a National Center of Academic Excellence in Cyber Defense Education. The Cyber Defense Designation is received by colleges and universities based on their robust degree programs and close alignment to specific cybersecurity-related Knowledge Units. This designation lasts for five years and is part of a national initiative to reduce vulnerability in U.S. information infrastructure by promoting higher education and research in cyber defense and producing a growing number of professionals with cyber defense expertise in various disciplines.
- Oakland University's School of Business was named to U.S. News & World Report's 2019 edition of Best Graduate Schools in the Part-Time MBA Program specialty. This ranking was based on the following five criteria: average peer assessment scores, average GMAT and GRE scores of part-time MBA students entering fall of 2017, average undergraduate GPA, average number of years of work experience, and the percentage of the total program enrollment that is in the part-time program.
- On April 20, 2018, Oakland University inaugurated its 7th president, Ora Hirsch Pescovitz, M.D. The ceremony took place in the O'rena where President Pescovitz gave her inaugural address, "Roots & Wings: The Case for Higher Education." The ceremony was immediately followed by a community celebration. Most recently Dr. Pescovitz was Senior Vice President at Eli Lilly and prior to that was Executive Vice President for Medical Affairs and Chief Executive Officer at the University of Michigan Health System.
- In March 2018, Oakland University's School of Nursing achieved accreditation by the American Nurses Credentialing Center. This accreditation distinguishes organizations that demonstrate quality and excellence in the curriculum design and delivery of continuing nursing education (CNE). Accredited organizations meet comprehensive, evidence-based criteria to ensure CNE activities are effectively planned, implemented and evaluated.
- In February 2018, The National Council for Home Safety and Security ranked Oakland University as the second safest college campus in the nation. Rankings were based on the most recent data from the FBI's Uniform Crime Reporting and the Campus Safety Security Survey put out by the U.S. Department of Education. Each school's safety score was calculated by analyzing crimes reported by universities, including rapes, robberies, assaults, burglaries, motor vehicle theft and arsons. Violent and property crime rates for the cities in which the schools were located, and the number of law enforcement officers employed by the institution per 1,000 students, were also factored into each school's score.
- In February 2018, the Master of Public Health program at Oakland University, which prepares students for public health leadership roles, was granted accreditation by the Council on Education for Public Health following an extensive evaluation process. The accreditation is for a five-year term, extending to July 1, 2023.
- Oakland University's newest residence hall, Hillcrest Hall, is well on its way to being completed by August 2018. This complex houses up to 750 students, seats up to 400 in its dining hall, as well as having meeting spaces, classrooms, and a fitness center. The \$78 million residence hall will span 289,000 square feet and is financed by the issuance of general revenue bonds. The complex is being designed and constructed in accordance with Leadership in Energy and Environmental Design (LEED) Gold Standards to ensure the residence hall is environmentally conscious.

Oakland University

Management's Discussion and Analysis

June 30, 2018 and 2017

- In April 2017, Oakland University broke ground on a 60,000 square foot expansion of the existing 140,000 square foot Oakland Center, which is scheduled to be completed in Fall of 2018. This expansion will offer better views of campus from the glass facades on the north, south, and east entrances, more space with connected open air spaces on all three floors, and better access to the building through improvements of the north entrance. The \$46.6 million project is financed by a combination of general revenue bonds and a public-private partnership with Chartwells. The project is expected to be completed by Fall 2018.

Overview of the Financial Statements

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

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

The University's financial statements can be found on pages 16, 17, and 18 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 19-48 of this financial report.

Required Supplemental Information

The required supplemental information provides additional information relative to other postemployment benefit liability. The University's required supplemental information can be found on pages 49-50 of this financial report.

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

University Financial Statement Summaries

University Statements of Net Position

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

Condensed Statements of Net Position

	2018	June 30, 2017	2016	%Change 2018-2017	%Change 2017-2016
		<i>(in thousands)</i>			
Assets					
Current assets	\$ 68,245	\$ 81,043	\$ 63,537	-16%	28%
Capital assets, net	606,438	538,937	500,924	13%	8%
Other noncurrent assets	301,324	346,114	375,913	-13%	-8%
Total assets	976,007	966,094	940,374	1%	3%
Deferred outflows of resources	10,679	11,637	15,835	-8%	-27%
Liabilities					
Current liabilities	74,468	72,462	62,644	3%	16%
Noncurrent liabilities	395,418	394,153	404,678	0%	-3%
Total liabilities	469,886	466,615	467,322	1%	0%
Deferred inflows of resources	8,705	-	-	100%	0%
Net investment in capital assets	272,271	269,215	262,726	1%	2%
Restricted nonexpendable	30,647	28,084	26,926	9%	4%
Restricted expendable	45,477	43,763	37,561	4%	17%
Unrestricted	159,700	170,054	161,674	-6%	5%
Total net position	\$ 508,095	\$ 511,116	\$ 488,887	-1%	5%

The University's total assets were \$976.0 million, \$966.1 million, and \$940.4 million at June 30, 2018, 2017, and 2016 respectively. The University's largest asset is its investment in capital assets, including land, land improvements, infrastructure, buildings, equipment, library acquisitions, and construction in progress. Capital assets represent 62%, 56%, and 53% of the University's total assets at June 30, 2018, 2017 and 2016, respectively. Capital expenditures totaled \$91.5 million in 2018, \$61.2 million in 2017, and \$33.8 million in 2016. Included in capital expenditures for 2018 were Hillcrest Hall, expansion of the Oakland Center, Vandenberg Hall infrastructure improvements and parking expansion projects. Additional capital expenditures include campus infrastructure projects, and other campus enhancement projects. Depreciation expense was \$23.7 million in 2018, \$22.9 million in 2017 and \$22.0 million in 2016.

Current assets consist primarily of cash and cash equivalents and receivables due within one year. Cash and cash equivalents decreased \$10.6 million to \$44.5 million at June 30, 2018 largely due to an increase in long term investments consistent with the University's long term investment strategy. Pledges receivable decreased \$2.0 million due to a large pledge payment from a major donor. Accounts receivable decreased \$0.5 million to \$10.5 million at June 30, 2018. This is largely due to a \$4.4 million decrease in tuition coupled by a \$1.8 million offset in the related allowance for doubtful accounts, in addition to a \$2.1 million increase in other receivables expected from the OUWBSM pass through payments from Beaumont Health from insurance providers.

Other noncurrent assets consist primarily of restricted cash and cash equivalents, endowment and other long-term investments. Restricted Cash decreased \$70.7 million due to major construction related

Oakland University

Management's Discussion and Analysis

June 30, 2018 and 2017

expenditures incurred during the year. Endowment investments were \$101.7 million at June 30, 2018, \$91.6 million at June 30, 2017, and \$82.0 million at June 30, 2016. The increase in the endowment fair market value was due to favorable outcomes in the market and generous contributions. The total returns, net of fees, on the University's endowment investments were 9.9% for 2018, 12.4% for 2017, and -1.4% for 2016. Other long-term investments were \$160.4 million at June 30, 2018, \$147.3 million at June 30, 2017, and \$146.4 million at June 30, 2016, and include fixed income and equity securities. The increase is attributed to favorable market returns and a long term investment strategy. The total return on the University's other long-term investments was 2.7% for 2018, and 3.5% for 2017 and 2016, net of fees. The University's investments are being managed according to Board of Trustees (Board) policies.

Deferred outflows of resources were \$10.7 million at June 30, 2018, \$11.6 million as of June 30, 2017, and \$15.8 million as of June 30, 2016. Deferred outflows of resources consists of the accumulated change in fair value of the 2008 Swap, early extinguishment of debt, and the deferral of swap termination costs for the 2001 Bonds, and University obligations for postemployment benefits due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The decrease in the deferred outflows of resources is primarily due to the accumulated change in the fair market value of the 2008 Swap.

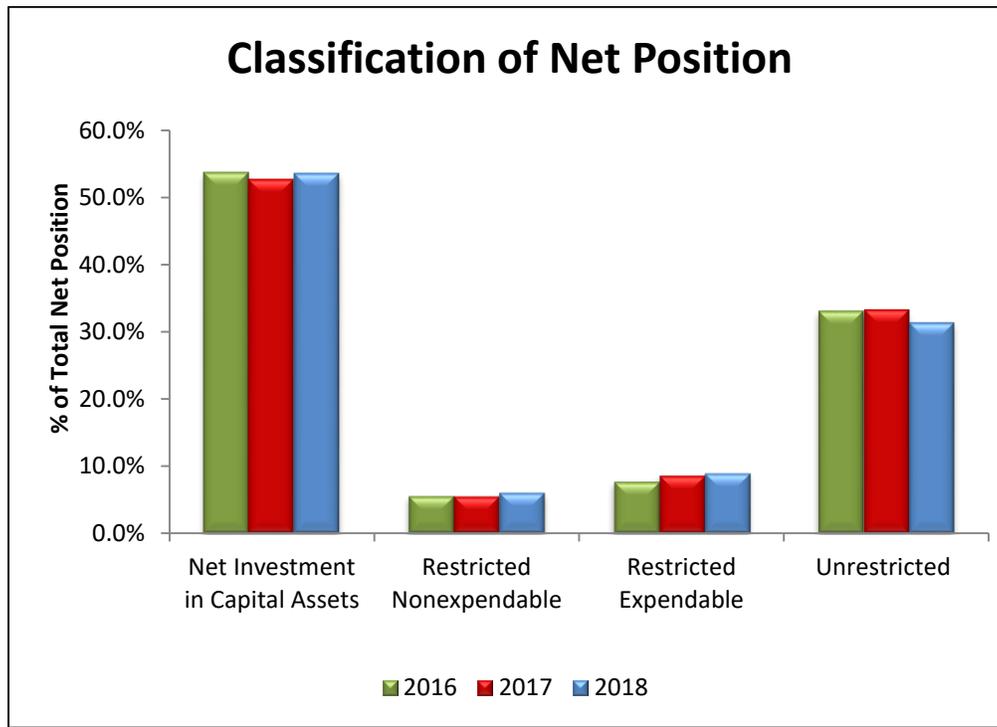
All investments held by the University can be liquidated to cash within 90 days or less without incurring additional fees, with the exception of the private equity holding and hedge funds.

The University's total liabilities were \$469.9 million at June 30, 2018, \$466.6 million at June 30, 2017, and \$467.3 million at June 30, 2016. Current liabilities consist primarily of accounts payable, accrued expenses, current portion of long-term liabilities, current portion of other postemployment benefits, and unearned revenue. Of the \$2.0 million increase in current liabilities, \$1.8 million is related to the first principle payment for the 2016 Bond due fiscal year 2019, a \$1.6 million increase in postemployment benefit obligations due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, a \$0.8 million increase in unearned revenue due to the timing of fiscal year 2019 tuition payments due June 15, 2018, offset by a \$2.0 million pass through payment to Beaumont Health from insurance providers in FY17. Noncurrent liabilities are comprised primarily of bonds and notes payable and represent 75% of the University's total liabilities as of June 30, 2018, 80% as of June 30, 2017, and 82% as of June 30, 2016. Noncurrent long-term liabilities increased by \$1.3 million largely due to a \$16.9 million increase in other postemployment benefits (OPEB) liability due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This increase was offset by a \$12.2 million decrease in long term liabilities related to bond principal payments and amortization of bond premiums. An additional decrease of \$2.2 million was recognized in derivative instruments consisting of the accumulated change in fair value of the 2008 Swap and a \$1.2 million decrease in unearned revenue.

Deferred inflows of resources were \$8.7 million as of June 30, 2018. Deferred Inflows of resources consists of \$2.5 million from changes in OPEB assumptions due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, an irrevocable split-interest agreement where the University is the trustee in the amount of \$2.8 million, and an additional irrevocable split-interest agreement held by a third party in which the University has a \$3.4 million beneficial interest in assets held by others due to the implementation of GASB Statement No. 81, *Irrevocable Split Interest Agreements*.

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

The following graph shows net position by classification and restriction:



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

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

The following summarizes the internal designations of unrestricted net position:

	June 30,	
	2018	2017
	<i>(in thousands)</i>	
Auxiliary enterprises	\$ 3,760	\$ 4,012
Capital projects and repair reserves	51,204	50,690
Funds designated for departmental use	39,203	35,387
Funds functioning as endowments	19,071	18,052
Gifts and investment income reserves	40,421	39,833
Retirement and insurance reserves	(6,511)	8,951
Encumbrances and carryforwards	12,552	13,129
Total Unrestricted Net Position	\$ 159,700	\$ 170,054

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

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

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

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

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

Gifts and investment income reserves include the University's unrestricted gifts, and realized and unrealized investment income reserves.

Retirement and insurance reserves include the University's reserves and liability recorded for OPEB. In 2018 the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires the entire OPEB liability to be recorded on the face of the financial statements in the year of implementation. Under prior guidance only a portion of the liability was recorded each year. Through 2017 the University had a recorded liability of \$15.5 million with the remainder disclosed in the footnotes, under GASB 75 the liability was recalculated using updated assumptions and as of June 30, 2017 calculated to be \$36.8 million, therefore a prior period adjustment of \$21.3 million was recorded. The actuarially determined liability was rolled forward to June 30, 2018 with an ending balance of \$34.0 million. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$26.6 million, earnings from which will be used to offset annual postemployment contributions.

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

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

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position	2018	2017	2016	% Change 2018-2017	% Change 2017-2016
		<i>(in thousands)</i>			
Operating revenues					
Net tuition	\$ 206,332	\$ 207,392	\$ 200,021	-1%	4%
Grants and contracts	11,118	11,346	11,467	-2%	-1%
Departmental activities	12,866	12,488	11,137	3%	12%
Auxiliary activities, net	31,241	32,024	30,932	-2%	4%
Other	625	202	421	209%	-52%
Total operating revenues	<u>262,182</u>	<u>263,452</u>	<u>253,978</u>	0%	4%
Operating expenses	<u>330,933</u>	<u>326,619</u>	<u>316,690</u>	1%	3%
Operating loss	<u>(68,751)</u>	<u>(63,167)</u>	<u>(62,712)</u>	9%	1%
Nonoperating revenues (expenses)					
State appropriations	51,243	49,921	48,372	3%	3%
Gifts	5,152	4,517	4,516	14%	0%
Investment income, net	14,170	17,303	4,815	-18%	259%
Interest expense	(7,782)	(8,304)	(8,683)	-6%	-4%
Pell grants	22,119	20,758	20,845	7%	0%
Other	134	(108)	(232)	-224%	-53%
Net nonoperating revenues	<u>85,036</u>	<u>84,087</u>	<u>69,633</u>	1%	21%
Income before other revenues	<u>16,285</u>	<u>20,920</u>	<u>6,921</u>	-22%	202%
Capital appropriations	-	162	1,857	-100%	-91%
Capital grants and gifts	93	63	16	48%	294%
Additions to permanent endowments	2,476	1,084	932	128%	16%
Total other revenues	<u>2,569</u>	<u>1,309</u>	<u>2,805</u>	96%	-53%
Increase in net position	<u>18,854</u>	<u>22,229</u>	<u>9,726</u>	-15%	129%
Net position					
Beginning of year	511,116	488,887	479,161	5%	2%
Change in Accounting Principles	(21,875)	-	-	100%	0%
End of year	<u>\$ 508,095</u>	<u>\$ 511,116</u>	<u>\$ 488,887</u>	-1%	5%

Operating revenues were \$262.2 million in 2018, \$263.5 million in 2017, and \$254.0 million in 2016. The \$1.3 million decrease in 2018 over 2017 was primarily due to increased scholarship allowances of \$6.5 million, or 11%, which was offset by an increase in tuition of \$5.0 million due to an increase of tuition rates by an average of 3.7% for undergraduates and graduates. The 4% increase in 2017 over 2016 was primarily due to increases in tuition revenue net of scholarship allowances, which was higher due to an increase in student credit hours and tuition rates increasing by an average 3.9% for undergraduates and graduates.

The University earned \$14.2 million in net investment income. This growth is comprised of \$5.8 million, a 2.7% rate of return, in University pooled working capital investments, and \$8.4 million, a 9.9% rate of return, in the endowment investments. Additionally, \$0.6 million of endowment investment income was recorded as deferred inflows of resources in accordance with GASB Statement No. 81, *Irrevocable Split Interest Agreements*. In fiscal year 2017, the University earned \$17.3 million in net investment income. This growth is comprised of \$7.2 million, a 3.5% rate of return, in University pooled working capital investments and \$10.1 million, a 12.4% rate of return, in the endowment investments.

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

Operating expenses were \$330.9 million in 2018, \$326.6 million in 2017, and \$316.7 million in 2016. The operating expense increase of 1% in 2018 over 2017 primarily resulted from supporting contractual agreements and increases in instruction, academic support, and student services. The operating expense increase of 3% in 2017 over 2016 primarily resulted from supporting contractual agreements and increases in instruction, academic support, and student services.

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

University Operating Expenses

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u> <u>2018-2017</u>	<u>% Change</u> <u>2017-2016</u>
		<i>(in thousands)</i>			
Education and general					
Instruction	\$ 120,991	\$ 118,867	\$ 117,495	2%	1%
Research	9,894	9,096	8,747	9%	4%
Public service	4,879	5,082	5,701	-4%	-11%
Academic support	51,355	49,978	44,477	3%	12%
Student services	34,302	33,998	30,869	1%	10%
Institutional support	28,408	29,560	26,725	-4%	11%
Operations and maintenance of plant	20,337	20,010	21,748	2%	-8%
Depreciation	23,659	22,869	22,014	3%	4%
Student aid	9,372	10,421	12,795	-10%	-19%
Total education and general	<u>303,197</u>	<u>299,881</u>	<u>290,571</u>	1%	3%
Auxiliary activities	27,736	26,616	26,103	4%	2%
Other expenses	-	123	16	-100%	669%
Total operating expenses	<u>\$ 330,933</u>	<u>\$ 326,620</u>	<u>\$ 316,690</u>	1%	3%

Education and general expenses increased 1% in 2018 over 2017 and 3% in 2017 over 2016. The increases are mainly attributable to an increase in academic program offerings to meet the needs of increased student credit hours, contractual agreements, and equipment purchases related to the University's capital and technology expansion programs.

Instruction for 2018 increased by \$2.1 million largely due to an increase in compensation of \$2.5 million due to overall compensation increases for existing faculty offset by a \$0.5 million decrease in supplies and services. The \$0.8 million increase in Research is related to the purchase of equipment and lab supplies funded by a grant from the National Science Foundation. The Academic Support increase is predominantly due to an increase of \$2.6 million in compensation due to hiring 6 new academic advisors and overall compensation increases for existing staff offset by a decrease in technology equipment purchases. The decrease in Institutional Support of \$1.2 million is primarily due to a decrease in one time contracted services. The increase in Depreciation for 2018 is largely due to the completion of projects and equipment purchases placed into service during 2018.

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

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

The University's operating loss was \$68.7 million in 2018, \$63.2 million in 2017, and \$62.7 million in 2016. Offsetting these losses were net nonoperating revenues of \$85.0 million in 2018, \$84.1 million in 2017, and \$69.6 million in 2016.

Nonoperating revenue is largely comprised of State appropriations and, as reflected in the State's approved appropriation bills, was \$51.2 million in 2018, \$49.9 million in 2017, and \$48.4 million in 2016.

Nonoperating revenues also include \$22.1 million from Federal Pell Grants in 2018. Pell Grant revenue for 2017 and 2016 was \$20.8 million each year.

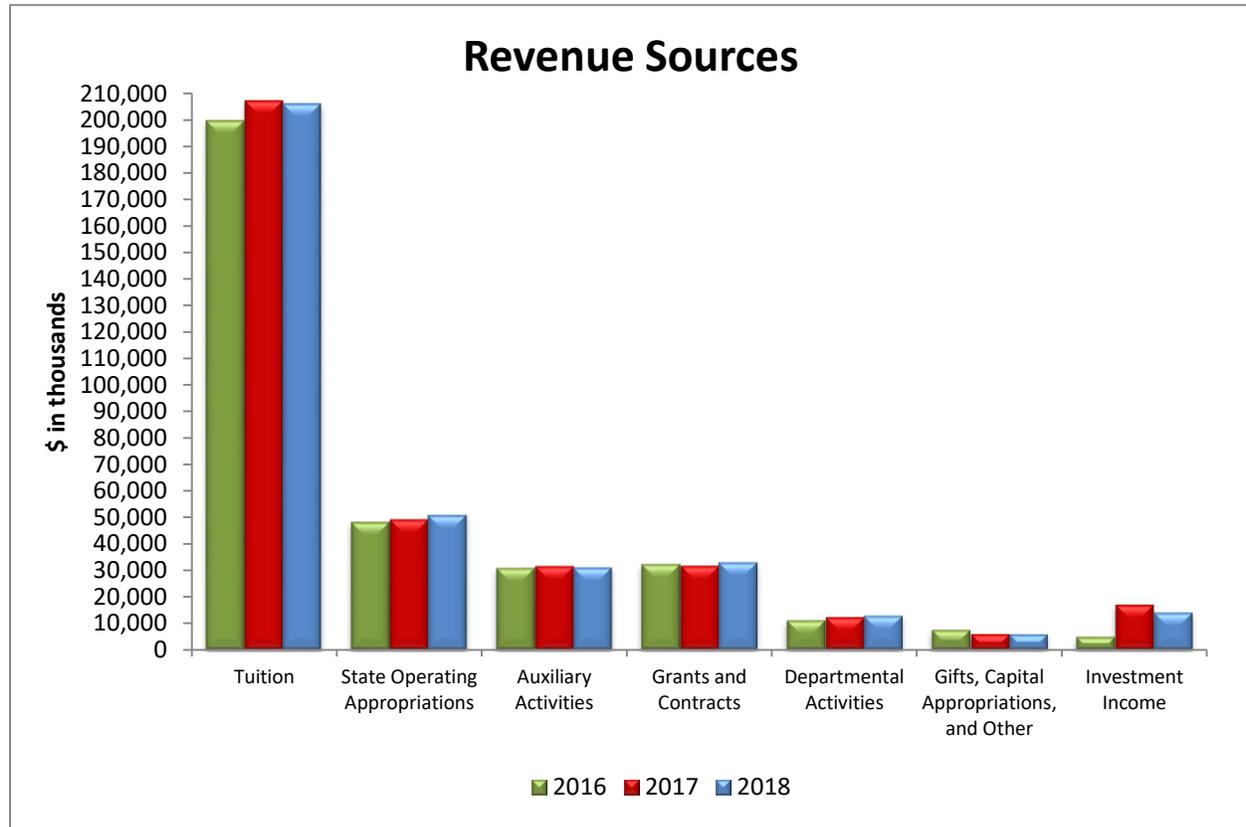
Other revenues primarily consist of \$2.6 million of permanent endowments and gifts.

Net position decreased \$3.0 million during 2018 due in large part to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The pronouncement requires governmental organizations to recognize the University's actuarially determined OPEB liability. Therefore, the University recorded a \$19.5 million adjustment to beginning net position. Additionally, the University implemented GASB Statement No. 81, *Irrevocable Split Interest Agreements* which required a \$2.4 million adjustment to beginning net position. These decreases are offset by an increase in nonoperating activities including \$14.2 million of investment income, \$5.2 million in gifts, and \$2.5 million in additions to permanent endowments, and a \$6.5 million increase in scholarship allowances.

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

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

A graphic illustration of each revenue source is as follows:



University Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		<i>(in thousands)</i>	
Cash from			
Operating activities	\$ (50,016)	\$ (30,762)	\$ (23,717)
Noncapital financing activities	83,045	77,827	76,513
Capital financing activities	(105,659)	(73,428)	92,883
Investing activities	(8,634)	7,227	(11,592)
Net change in cash and cash equivalents	<u>(81,264)</u>	<u>(19,136)</u>	<u>134,087</u>
Cash and cash equivalents			
Beginning of year	<u>159,017</u>	<u>178,153</u>	<u>44,066</u>
End of year	<u>\$ 77,753</u>	<u>\$ 159,017</u>	<u>\$ 178,153</u>

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

Oakland University

Management's Discussion and Analysis

June 30, 2018 and 2017

Noncapital financing activities include State appropriation cash receipts of \$51.0 million in 2018, \$49.6 million in 2017, and \$48.4 million in 2016; Pell Grants totaling \$22.1 million in 2018, \$20.8 million in 2017, and \$20.9 million in 2016; and gift cash receipts of \$9.8 million in 2018, \$7.3 million in 2017, and \$7.2 million in 2016.

Capital financing activities for 2018 include capital expenditures of \$88.7 million and debt service payments in the amount of \$16.9 million. Cash disbursements for capital expenditures in 2018 included \$42.6 million for Hillcrest Hall; \$25.1 million for the Oakland Center expansion; \$7.1 million for renovations in Vandenberg Hall; \$6.1 million for parking lot expansion; \$5.6 million and \$0.2 million in equipment and library books respectively; \$0.9 million for renovations in Sunset Terrace and Fitzgerald House; \$0.5 million for exterior lighting; \$0.3 million for the Business School expansion; and \$0.3 million in various infrastructure and building improvements.

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

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

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

Commitments

The estimated costs to complete construction projects in progress is \$26.6 million as of June 30, 2018, due in large part to the ongoing construction costs of the Hillcrest Hall in the amount of \$6.1 million, expansion of the Oakland Center for \$13.0 million, conversion of Wilson Hall for \$0.8 million, and the RAC Energy Saving project for \$0.7 million. Hillcrest Hall and the Oakland Center expansion will be funded from the 2016 Bonds. The various other campus enhancements are funded from University resources.

University Credit Rating

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

Deferred Plant Renewal

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

Oakland University
Management's Discussion and Analysis
June 30, 2018 and 2017

Factors or Conditions Impacting Future Periods

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

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

Oakland University
Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 44,508,674	\$ 55,070,709
Accounts receivable, net (Note 3)	10,452,892	10,962,659
Appropriations receivable (Note 4)	9,315,616	9,076,494
Pledges receivable, net (Note 5)	753,737	2,770,161
Inventories	1,221,859	1,330,704
Deposits and prepaid expenses	1,564,260	1,405,656
Student loans receivable, net (Note 6)	428,317	426,940
Total current assets	<u>68,245,355</u>	<u>81,043,323</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	33,244,106	103,946,335
Endowment investments (Note 2)	101,746,468	91,628,927
Other long-term investments (Note 2)	160,428,365	147,290,160
Pledges receivable, net (Note 5)	586,103	630,725
Student loans receivable, net (Note 6)	1,046,740	1,349,561
Derivative instruments - swap asset (Note 7)	258,811	710,653
Beneficial interest in assets held by others (Note 15)	3,412,850	-
Capital assets, net (Note 8)	606,437,893	538,937,348
Other assets (Note 10)	600,141	557,479
Total noncurrent assets	<u>907,761,477</u>	<u>885,051,188</u>
Total assets	<u>976,006,832</u>	<u>966,094,511</u>
Deferred outflows of resources (Note 11)	10,678,994	11,636,920
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	28,569,399	31,697,523
Accrued payroll	11,143,012	10,710,560
Long-term liabilities – current portion (Note 12)	12,667,161	10,505,963
Other postemployment benefits - current portion (Note 13)	1,592,152	-
Unearned revenue	17,827,189	17,002,817
Deposits	2,669,197	2,545,544
Total current liabilities	<u>74,468,110</u>	<u>72,462,407</u>
Noncurrent liabilities		
Unearned revenue	8,293,590	9,540,080
Derivative instruments - swap liability (Note 7)	4,632,330	6,822,139
Long-term liabilities (Note 12)	350,086,272	362,315,151
Other postemployment benefits (Note 13)	32,405,219	15,475,899
Total noncurrent liabilities	<u>395,417,411</u>	<u>394,153,269</u>
Total liabilities	<u>469,885,521</u>	<u>466,615,676</u>
Deferred inflows of resources (Note 15)	8,705,419	-
Net position		
Net investment in capital assets	272,271,212	269,215,208
Restricted nonexpendable	30,646,666	28,083,652
Restricted expendable	45,477,488	43,762,414
Unrestricted	159,699,520	170,054,481
Total net position	<u>\$ 508,094,886</u>	<u>\$ 511,115,755</u>

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

Oakland University
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Tuition (net of scholarship allowances of \$61,644,000 in 2018 and \$55,559,300 in 2017)	\$ 206,331,783	\$ 207,391,734
Federal grants and contracts	8,616,174	8,611,026
State, local, and private grants and contracts	2,501,723	2,735,443
Departmental activities	12,865,826	12,487,514
Auxiliary activities (net of scholarship allowances of \$5,433,300 in 2018 and \$5,015,600 in 2017)	31,240,758	32,024,356
Other operating revenues	625,240	202,310
Total operating revenues	<u>262,181,504</u>	<u>263,452,383</u>
Operating expenses		
Education and general		
Instruction	120,990,786	118,867,157
Research	9,894,476	9,096,058
Public service	4,879,635	5,082,052
Academic support	51,354,770	49,978,113
Student services	34,301,889	33,997,655
Institutional support	28,408,051	29,560,435
Operations and maintenance of plant	20,337,188	20,009,892
Depreciation	23,658,516	22,869,006
Student aid	9,371,574	10,421,060
Auxiliary activities	27,735,654	26,615,456
Other expenses	-	122,729
Total operating expenses (Note 18)	<u>330,932,539</u>	<u>326,619,613</u>
Operating loss	<u>(68,751,035)</u>	<u>(63,167,230)</u>
Nonoperating revenues (expenses)		
State appropriations (Note 4)	51,243,200	49,920,700
Gifts	5,151,916	4,516,984
Investment income (net of investment expenses of \$458,483 in 2018 and \$415,856 in 2017)	14,170,250	17,303,254
Interest on capital asset related debt	(7,782,380)	(8,304,071)
Pell grants	22,119,276	20,757,848
Other	134,064	(107,648)
Net nonoperating revenues	<u>85,036,326</u>	<u>84,087,067</u>
Income before other revenues	<u>16,285,291</u>	<u>20,919,837</u>
Capital appropriations	-	162,167
Capital grants and gifts	92,970	62,753
Additions to permanent endowments	2,475,915	1,084,272
Total other revenues	<u>2,568,885</u>	<u>1,309,192</u>
Increase in net position	<u>18,854,176</u>	<u>22,229,029</u>
Net position		
Beginning of year	511,115,755	488,886,726
Adjustment for change in accounting principles (Note 1)	(21,875,045)	-
End of year	<u>\$ 508,094,886</u>	<u>\$ 511,115,755</u>

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

Oakland University
Statements of Cash Flows
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Tuition	\$ 207,243,003	\$ 211,064,464
Grants and contracts	12,112,766	10,832,555
Payments to suppliers	(77,287,586)	(70,433,488)
Payments to employees	(225,589,675)	(216,892,983)
Payments for scholarships and fellowships	(9,371,571)	(10,421,060)
Loans issued to students	(7,578)	(5,503)
Collection of loans from students	306,279	44,083
Auxiliary enterprise charges	30,605,956	32,101,796
Other receipts	11,972,578	12,948,287
Net cash from operating activities (Note 19)	<u>(50,015,828)</u>	<u>(30,761,849)</u>
Cash flows from noncapital financing activities		
State appropriations	51,004,078	49,639,098
Federal direct lending receipts	107,988,852	112,688,367
Federal direct lending disbursements	(107,988,852)	(112,688,367)
Gifts and grants for other than capital purposes	29,423,640	27,386,694
Endowment gifts	2,616,696	800,955
Net cash from noncapital financing activities	<u>83,044,414</u>	<u>77,826,747</u>
Cash flows from capital financing activities		
Capital appropriations	-	245,760
Purchases of capital assets	(88,720,095)	(57,813,259)
Principal paid on capital debt and leases	(7,303,766)	(7,188,777)
Interest paid on capital debt and leases	(9,635,335)	(8,671,373)
Net cash from capital financing activities	<u>(105,659,196)</u>	<u>(73,427,649)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	65,443,559	54,127,771
Investment income	4,918,918	2,520,632
Purchase of investments	(78,996,131)	(49,421,114)
Net cash from investing activities	<u>(8,633,654)</u>	<u>7,227,289</u>
Net change in cash and cash equivalents	<u>(81,264,264)</u>	<u>(19,135,462)</u>
Cash and cash equivalents		
Beginning of year	159,017,044	178,152,506
End of year	<u>\$ 77,752,780</u>	<u>\$ 159,017,044</u>

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

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

Organization

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

Basis of Presentation

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

Cash and Cash Equivalents

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

Cash Flow Reporting

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

Investments

Investments are stated at fair market value.

Inventories

Inventories are primarily stated at actual cost. Included in the 2018 inventory are four homes in the Meadow Brook Subdivision owned by the University and valued at a total of \$719,500. The 2017 inventory included five homes valued at \$874,500.

Physical Properties

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

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

<u>Classifications</u>	<u>Life</u>
Buildings	40 years
Land improvements and infrastructure	20 years
Library acquisitions	10 years
Equipment and software	7 years

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

Deferred Outflows of Resources

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

Unearned Revenue

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

Deferred Inflows of Resources

The Statements of Net Position include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as revenue until then. Deferred inflows of resources consists of other postemployment benefit (OPEB) assumption changes, beneficial interest in assets held by others, and split interest agreements.

Revenue Recognition

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

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

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

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

Bond Issuance Costs

Bond issuance costs are expensed when incurred.

Income Tax Status

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

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

Adoption of New Standards

Effective in the fiscal ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and GASB Statement No. 81, *Irrevocable Split Interest Agreements*.

GASB Statement No. 75, requires governments providing OPEB plans to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

In accordance with the guidance, the University has reported a change in accounting principle adjustment as of July 1, 2017 to unrestricted net position of \$19,504,304. This adjustment is comprised of the total OPEB liability of \$21,335,362, offset by deferred outflows of resources of \$1,831,058 for contributions made after the measurement date. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75.

GASB Statement No. 81 provides recognition and measurement guidance of irrevocable split-interest agreements where the government is the beneficiary of the agreement. This standard requires the University to recognize assets, liabilities, and deferred inflows of resources at inception of the agreement. Previously, this amount was recognized as gift revenue and adjusted annually for present valuations. Accordingly, the University has adjusted the net position and recorded a deferred inflow of \$2,370,741.

Net Position	June 30, 2018
GASB No. 75 OPEB Adjustment	\$ 19,504,304
GASB No. 81 Split-Interest Agreement Adjustment	2,370,741
Adjustment for Change in Accounting Principles	\$ 21,875,045

Deferred Outflows of Resources		
June 30, 2017 As previously reported	GASB No. 75 Adoption	July 1, 2017 As restated
\$11,636,920	\$1,831,058	\$13,467,987

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions

Operating cash is pooled into investments and deposits, which are uninsured and uncollateralized. This pool is administered according to the University's "Working Capital Management and Investment Policy." The University's working capital is divided into three investment groups: short-term, intermediate-term, and long-term investments. Short-term investments are immediately available for use and have an average maturity of one year or less. Intermediate-term investments are liquid within five business days or less and have an average maturity of no more than five years. Long-term investments are liquid within 20 business days or less and have average maturities over five years. The long-term investment asset class is limited to 30% of the total investment pool and includes equities. All investment classes are rated investment grade or better by at least one rating agency.

The working capital at June 30, 2018 does not involve any concentration of credit risk as investments in any one entity, except the United States Government or its agencies, may not exceed 5% of the total investment pool. For non-amortizing securities, the maturity of any single debt instrument shall not exceed 15 years. No more than 50% of equity and bond investments are assigned to a single investment manager.

The University's working capital consists of the following as of June 30, 2018 and 2017:

June 30, 2018	Fair Market Value	Investment Maturities (In Years)				N/A
		<1 Year	1-5 years	6-10 years	>10 years	
University Working Capital						
Cash and Cash Equivalents	\$ 44,508,674	\$ 44,508,674	\$ -	\$ -	\$ -	\$ -
Commonfund Intermediate Bond Fund	23,920,426	3,588,064	19,614,750	717,612	-	-
Commonfund High Quality Bond Fund	36,137,134	1,445,485	15,177,596	13,370,740	6,143,313	-
Commonfund Contingent Asset Portfolio	28,221,678	13,264,189	14,110,839	846,650	-	-
Commonfund Core Equity Fund	20,473,595	-	-	-	-	20,473,595
Commonfund Strategic Equity Fund	30,684,833	-	-	-	-	30,684,833
JP Morgan Bond Fund	20,990,699	5,418,526	14,635,917	810,463	125,793	-
Cash with Trustees	33,244,106	33,244,106	-	-	-	-
Operating investments	<u>\$ 238,181,145</u>	<u>\$ 101,469,044</u>	<u>\$ 63,539,102</u>	<u>\$ 15,745,465</u>	<u>\$ 6,269,106</u>	<u>\$ 51,158,428</u>
As Reported on the Statement of Net Position						
Cash and cash equivalents	\$ 44,508,674					
Restricted cash and cash equivalents	33,244,106					
Other long-term investments	160,428,365					
	<u>\$ 238,181,145</u>					

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions (continued)

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

Investment duration describes the level of interest rate risk in the portfolio. Changes in interest rates over time can impact the market value of the fixed income portion of the portfolio. At June 30, 2018, the JP Morgan Bond Fund had a duration of 1.8 years and an average credit quality of AA. The Commonfund Intermediate Term Bond Fund had a duration of 2.0 years and an average credit quality of AA. The Commonfund Contingent Asset Portfolio had a duration of 1.3 years and an average credit quality of AAA. The Commonfund High Quality Bond Fund had a duration of 5.7 years and an average credit quality of A. At June 30, 2017, the Commonfund Limited Duration Fund had a duration of .6 years and an average credit quality of AA. The JP Morgan Bond Fund had a duration of 1.9 years and an average credit quality of AA. The Commonfund Intermediate Term Bond Fund had a duration of 2.0 years and an average credit quality of AA. The Commonfund Contingent Asset Portfolio had a duration of 1.4 years and an average credit quality of AAA. The Commonfund High Quality Bond Fund had a duration of 5.5 years and an average credit quality of A.

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name. The carrying amount of deposits, excluding those classified as investments, was \$26,238,427 at June 30, 2018, and \$31,845,254 at June 30, 2017. The deposits were reflected in the accounts of the banks at \$27,888,811 at June 30, 2018, and

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions (continued)

\$32,354,192 at June 30, 2017. Of the bank balance, \$27,268,021 at June 30, 2018, and \$31,737,610 at June 30, 2017, was uninsured and uncollateralized.

As of June 30, 2018 and June 30, 2017 the University's working capital is not exposed to foreign currency risk.

These working capital funds produced net rates of return of 2.7% and 3.5% for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, the University had an investment derivative with the following maturity:

<u>June 30, 2018</u>	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
Constant Maturity Swap	\$ 258,811	\$ -	\$ -	\$ -	\$ 258,811
<u>June 30, 2017</u>	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>
Constant Maturity Swap	\$ 710,653	\$ -	\$ -	\$ -	\$ 710,653

The investment derivative was approved by the Board and is included in non-current assets in the Statements of Net Position. See Notes 7 for further disclosures.

The University's endowment investments are administered according to the University's "Endowment Management and Investment Policy." The investment policy seeks to diversify investments among asset classes to provide a strategic asset allocation that enhances total returns and avoids undue credit risk exposure in any single asset class or investment category. The "Endowment Management and Investment Policy" restricts fixed income investments to "high quality" (primarily A to AAA rated) corporate bonds, U.S. Treasury, and agency securities or issues of supranational organizations and foreign sovereigns and no more than 20% of the fixed income portfolio may be invested in securities rated less than BBB or that are illiquid.

These endowment investment funds are uninsured and uncollateralized and produced a total net return of 9.9% and 12.4% for the years ended June 30, 2018 and 2017, respectively.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions (continued)

University endowment funds consist of the following as of June 30, 2018 and 2017:

<u>June 30, 2018</u>	<u>Total</u>	<u>Investment Maturities (In Years)</u>				<u>N/A</u>
		<u><1 Year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>>10 years</u>	
UBS Endowment Investment Pool						
Large Cap Value	\$ 16,382,778	\$ 196,654	\$ -	\$ -	\$ -	\$ 16,186,124
Large Cap Growth	18,138,709	86,739	-	-	-	18,051,970
Mid Cap Value	3,428,108	-	-	-	-	3,428,108
Mid Cap Growth	8,473,899	-	-	-	-	8,473,899
Small Cap Core	6,701,140	-	-	-	-	6,701,140
Small Cap Growth	3,228,130	-	-	-	-	3,228,130
International Value	3,241,708	29	-	-	-	3,241,679
International Growth	8,368,476	65	-	-	-	8,368,411
Developing Markets	4,620,087	67	-	-	-	4,620,020
Fixed Income Core	9,793,515	74,194	3,158,897	5,578,945	981,479	-
Fixed Income Mutual Fund	3,568,798	-	-	-	-	3,568,798
High Yield Bonds	1,320,358	79,667	603,103	611,988	25,600	-
Fixed Income TIPS	1,007,084	-	-	-	-	1,007,084
Hedge Funds	7,359,905	-	-	-	-	7,359,905
Commodity Mutual Fund	1,137,290	-	-	-	-	1,137,290
Private Equity	4,976,480	73,840	-	-	-	4,902,640
Money Market Funds	3	3	-	-	-	-
	<u>\$ 101,746,468</u>	<u>\$ 511,258</u>	<u>\$ 3,762,000</u>	<u>\$ 6,190,933</u>	<u>\$ 1,007,079</u>	<u>\$ 90,275,198</u>

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

The fixed income investments within the Endowment pool have a fair market value of \$15.7 million as of June 30, 2018. The breakdown of market value, related percentage of the overall endowment pool and associated credit quality for the fixed income investments is as follows: \$5.4 million (5.3%) rated AAA, \$8.0 million (7.8%) rated A, \$1.3 million (1.3%) rated BB, and \$1 million (1%) rated B. Money market funds carry credit ratings of A-1, P-1, and F-1.

The University is not exposed to foreign currency risk within the endowment investment balance as of June 30, 2018.

2. Investments and Deposits with Financial Institutions (continued)

The private equity investment's estimated net asset value is \$4,976,480 as of June 30, 2018 with an active total commitment by the University of \$9,610,000. Hedge fund investments are estimated at a net asset value of \$7,359,905 as of June 30, 2018. As of June 30, 2017, the private equity investment's estimated net asset value is \$1,794,104 with an active total commitment by the University of \$3,100,000. Hedge fund investments are estimated at a net asset value of \$8,220,429. Estimated net asset values and returns are reviewed by the UBS Alternative Investments U.S. Team through the University's endowment investment adviser UBS Financial Services, Inc.

Fair value is most often determined by open market prices except for the private equity and hedge funds. The estimated fair values are provided by external investment managers and advisers as of June 30, 2018. Alternative investments are not readily marketable; therefore, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

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

The majority (94%) of the endowment investment pool can be liquidated within 90 days or less at fair market value.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of various equity and debt securities held at June 30, 2018 and 2017 was determined primarily on Level 2 inputs. The University estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions (continued)

	Fair Value as of June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Other Long-term Investments:				
Commonfund	\$ 23,920,426	\$ -	\$ 23,920,426	\$ -
Intermediate Bond Fund				
Commonfund	36,137,134	-	36,137,134	-
High Quality Bond Fund				
Commonfund	28,221,678	-	28,221,678	-
Contingent Asset Portfolio				
Commonfund	7,247,653	7,247,653	-	-
Core Equity Fund				
Commonfund	30,684,833	-	30,684,833	-
Strategic Equity Fund				
JP Morgan Bond Fund	20,990,699	20,990,699	-	-
	<u>147,202,423</u>	<u>28,238,352</u>	<u>118,964,071</u>	<u>-</u>
Endowment Investment:				
Large Cap Value	16,382,778	16,382,778	-	-
Large Cap Growth	18,138,709	18,138,709	-	-
Mid Cap Value	3,428,108	3,428,108	-	-
Mid Cap Growth	8,473,899	8,473,899	-	-
Small Cap Core	6,701,140	6,701,140	-	-
Small Cap Growth	3,228,130	3,228,130	-	-
International Value	3,241,708	3,241,708	-	-
International Growth	8,368,476	8,368,476	-	-
Developing Markets	4,620,087	4,620,087	-	-
Fixed Income Core	9,793,515	9,793,515	-	-
Fixed Income Mutual Fund	3,568,798	3,568,798	-	-
High Yield Bonds	1,320,358	1,320,358	-	-
Fixed Income TIPS	1,007,084	1,007,084	-	-
Strategic Common Mutual Fund	1,137,290	1,137,290	-	-
Money Market Funds	3	3	-	-
	<u>89,410,083</u>	<u>89,410,083</u>	<u>-</u>	<u>-</u>
Investment Derivative Instruments:				
Constant Maturity Swap	258,811	-	258,811	-
Total investments by fair value level	<u>\$ 236,871,317</u>	<u>\$ 117,648,435</u>	<u>\$ 119,222,882</u>	<u>\$ -</u>

Investments measured at the net asset value (NAV)

	June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Core Equity Fund	\$ 13,225,942	\$ -	Weekly	5 Days
Hedge Funds	7,359,905	-	Quarterly	7-105 Days
Private Equity	4,976,480	4,510,551	Not Applicable	Not Applicable
Total investments measured at NAV	<u>25,562,327</u>	<u>4,510,551</u>		
Total	<u>\$ 262,433,644</u>	<u>\$ 4,510,551</u>		

The investment objective of the Core Equity Fund is to outperform its benchmark, the S&P 500 Index, over a full market cycle while managing risk through diversification of manager allocations. The Core Equity Fund consists principally of investments where the emphasis is on companies that the managers perceive to have values not fully reflected in current market prices. This fund uses Sub-Advisers who select stocks using quantitative and bottom-up fundamental analysis. The fund will provide access to large capitalization and, to a lesser extent, mid-capitalization companies.

Hedge funds in the Endowment portfolio utilize a diversified strategy approach by mixing managers focused on Fund of Funds investments, to managers focused on specific sectors, such as credit or commodities. Within the Fund of Funds, managers investment intent is further marginalized into event driven, opportunistic trading, as well as industry specific preferences.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments and Deposits with Financial Institutions (continued)

Most of the funds align into the low volatility category with the objective to participate consistently in up markets and provide favorable performance to the broader markets during depressed or down market cycles.

Private Equity (PE) strategies in the Endowment portfolio are divided into five fund types, with varying investment objectives. A Fund of Funds approach is utilized by one of the managers that provide the University access to numerous PE investment deals in multiple industries. This strategy provides built in diversification within this sector and helps mitigate downside exposure to the overall PE asset class. The investment strategy for the remaining PE investments is to provide additional layers of diversity to the pool. Specifically, these investments span markets or industries that cover the aviation industry, technology and healthcare, and distressed debt opportunities.

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

Investments measured at the net asset value (NAV)

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Tuition	\$ 9,822,766	\$ 14,207,536
Auxiliary enterprises	2,164,266	1,339,027
Contracts and grants	1,889,442	2,757,438
Other receivables	3,805,164	1,694,885
Total accounts receivable	<u>17,681,638</u>	<u>19,998,886</u>
Less: Allowance for doubtful accounts	<u>(7,228,746)</u>	<u>(9,036,227)</u>
Total accounts receivable, net	<u>\$ 10,452,892</u>	<u>\$ 10,962,659</u>

4. Appropriations Receivable

The annual State operating appropriation paid to the University is made in 11 monthly installments from October through August. Consistent with State of Michigan legislation, the University has accrued, as of the end of its fiscal year, the payments to be received in July and August. As of June 30, 2018 and 2017, the accrual of the July and August State operating appropriation payments created an appropriation receivable of \$9,315,616 and \$9,076,494, respectively.

5. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Pledges outstanding		
Unrestricted	\$ 39,263	\$ 45,721
Restricted expendable	1,582,787	3,680,702
Total pledges outstanding	<u>1,622,050</u>	<u>3,726,423</u>
Less:		
Allowance for doubtful pledges	(132,205)	(142,640)
Present value discount	(150,005)	(182,897)
Total pledges outstanding, net	<u>1,339,840</u>	<u>3,400,886</u>
Less: Current portion, net	<u>(753,737)</u>	<u>(2,770,161)</u>
Noncurrent portion, net	<u>\$ 586,103</u>	<u>\$ 630,725</u>

Pledges receivable from donors are recorded at net present value less allowances for doubtful accounts. As of June 30, 2018 and 2017, the interest rate used to discount pledges to present value was 5%. The aggregate allowance for doubtful accounts was 9% and 4% net of discount at June 30, 2018 and 2017, respectively.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

5. Pledges Receivable (continued)

Payments on pledges receivable as of June 30, 2018 are expected to be received in the following years:

Past due	\$ 163,010
Due in one year	641,125
Due in two-five years	617,915
Thereafter	200,000
Total	<u><u>\$ 1,622,050</u></u>

Bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. As of June 30, 2018 and 2017, the University had \$17,666,266 and \$17,188,474, respectively, in conditional pledge commitments receivable not included in the accompanying financial statements.

6. Student Loans Receivable

Student loans receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Student loans		
Federal loan programs	\$ 1,256,543	\$ 1,559,185
University loan funds	219,514	218,316
	<u>1,476,057</u>	<u>1,777,501</u>
Less: Allowance for doubtful loans	(1,000)	(1,000)
Total student loans, net	<u>1,475,057</u>	<u>1,776,501</u>
Less: Current portion, net	(428,317)	(426,940)
Noncurrent portion, net	<u><u>\$ 1,046,740</u></u>	<u><u>\$ 1,349,561</u></u>

In addition, the University distributed \$107,988,852 and \$112,688,367 for the years ended June 30, 2018 and 2017, respectively, for student loans through the U.S. Department of Education Federal Direct Loan program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements, but are reflected in the University's Statements of Cash Flows.

7. Hedging Derivative Instruments

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

Investment Derivative Instrument:

2007 Constant Maturity Swap Agreement

In June 2007, the University executed a Constant Maturity Swap (CMS) in an initial notional amount of \$34,370,000 effective October 1, 2007, the purpose of which was to reduce interest costs. Under the CMS, the University pays the counterparty the SIFMA Municipal Swap Index and receives 90.39% of the ten-year SIFMA Swap Rate until March 1, 2031. No amounts were paid or received when the CMS was initiated.

The estimated fair value of the CMS as of June 30, 2018 and 2017 was \$258,811 and \$710,653, respectively. These fair values are reported as Derivative Instruments – swap asset in the Statements of Net Position with the change in fair value of (\$451,842) and (\$461,757) for fiscal years ended June 30, 2018 and 2017, respectively, included in Investment income in the Statements of Revenues, Expenses, and Changes in Net Position. The fair value represents the estimated amount that the University would receive to terminate the CMS, taking into account current interest rates and creditworthiness of the underlying counterparty.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. As of June 30, 2018, the counterparty's credit rating from Moody's Investors Service was Aa3. The CMS includes collateral requirements intended to mitigate credit risk. As of June 30, 2018, there is no collateral posting requirement by either the counterparty or the University. Under this agreement, the University is exposed to an interest rate risk which arises when short-term rates exceed the ten-year rates.

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

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

7. Hedging Derivative Instruments (continued)

2008 Interest Rate Swap Agreement

In connection with the 2008 Bonds, the University entered into an interest rate hedging swap agreement (2008 Swap) with Dexia Credit Local, New York Branch in an initial notional amount of \$53,280,000 effective June 13, 2008, the purpose of which is to synthetically fix interest rates on the 2008 Bonds. The agreement swaps the University's variable rate for a fixed rate of 3.37% and is based on 67% of U.S. Dollar LIBOR. The notional amount declines over time and terminates March 1, 2031. The notional amount as of June 30, 2018 was \$43,160,000. Under the 2008 Swap agreement, the University pays a synthetic fixed rate of 3.37%. No amounts were paid or received when the 2008 Swap was initiated.

The University is currently making payments under the 2008 Swap agreement. The estimated fair value of the 2008 Swap as of June 30, 2018 and 2017 was (\$4,632,330) and (\$6,822,139), respectively. These fair values are reflected as Derivative Instruments – swap liability on the Statements of Net Position. The fair value of the hedging derivative instrument classified as Level 2 (significant other observable inputs) at June 2018 and 2017 was valued based on 67% of U.S. Dollar LIBOR and represents the estimated amount that the University would pay to terminate the 2008 Swap (termination risk), taking into account current interest rates and creditworthiness of the underlying counterparty. In accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the 2008 Swap is treated as an Effective Hedging Derivative Instrument. The accumulated change in fair value is recorded as a deferred outflow of resources.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. The 2008 Swap includes collateral requirements intended to mitigate credit risk. As of June 30, 2018, there is no collateral posting requirement by either the counterparty or the University. As of June 30, 2018, the counterparty's credit rating from Moody's Investors Service was Baa3.

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

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

8. Capital Assets

The following tables present the changes in the various capital asset categories for the University for fiscal years 2018 and 2017:

Asset Classification	Balance June 30, 2017	Additions	Reductions/ Transfers	Balance June 30, 2018
Land	\$ 4,624,914	\$ -	\$ -	\$ 4,624,914
Land improvements and infrastructure	81,089,098	7,971,471	-	89,060,569
Buildings	588,875,088	12,278,599	249,273	600,904,414
Equipment	58,302,249	5,008,492	1,113,286	62,197,455
Library acquisitions	26,520,407	256,178	260,672	26,515,913
Construction in progress	53,950,672	87,683,833	21,698,366	119,936,139
Total	<u>813,362,428</u>	<u>113,198,573</u>	<u>23,321,597</u>	<u>903,239,404</u>
Accumulated depreciation				
Land improvements and infrastructure	(38,916,194)	(3,836,136)	-	(42,752,330)
Buildings	(176,472,800)	(13,896,090)	(37,493)	(190,331,397)
Equipment	(36,518,086)	(5,707,203)	(983,921)	(41,241,368)
Library acquisitions	(22,518,000)	(219,087)	(260,671)	(22,476,416)
Total	<u>(274,425,080)</u>	<u>(23,658,516)</u>	<u>(1,282,085)</u>	<u>(296,801,511)</u>
Total capital assets, net	<u>\$ 538,937,348</u>	<u>\$ 89,540,057</u>	<u>\$ 22,039,512</u>	<u>\$ 606,437,893</u>

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

9. State Building Authority

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

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

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

10. Cash Surrender Value of Life Insurance Policies

Included in other assets are the cash surrender value of life insurance policies in the amount of \$467,141 and \$424,479 for 2018 and 2017, respectively. The face value of these life insurance policies totaled \$8,033,072 in 2018 and 2017.

11. Deferred Outflows of Resources

The University accounts for deferred outflows of resources in accordance with authoritative guidance. The University recorded deferred outflows of \$10,678,994 as of June 30, 2018, which includes \$4,454,512 from an early extinguishment of general revenue bonds, 2014 Bonds, 2013B Bonds, and 2008 Bonds, a deferral of swap termination costs for the 2001 Bonds, \$4,632,330 the accumulated change in fair value of the 2008 Swap, and an obligation for postemployment benefits discussed in Note 13. As of June 30, 2017, the University recorded deferred outflows of \$11,636,920, which includes \$4,814,781 from an early extinguishment of general revenue bonds, 2014 Bonds, 2013B Bonds, and 2008 Bonds, and a deferral of swap termination costs for the 2001 Bonds, and \$6,822,139 estimated negative fair value of the 2008 Swap.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

12. Long-Term Liabilities

Long-term liabilities consist of the following as of June 30, 2018 and 2017:

	Balance June 30, 2017	Additions/ Transfers	Reductions	Balance June 30, 2018	Current Portion
Note and installment purchase agreements payable	\$ 11,308,647	\$ -	\$ 913,766	\$ 10,394,881	\$ 939,285
General revenue bonds:					
Series 2016 bonds	113,130,000	-	-	113,130,000	1,810,000
Unamortized premium	19,587,939	-	1,163,551	18,424,388	1,170,459
Series 2014 bonds	25,910,000	-	680,000	25,230,000	705,000
Unamortized premium	3,471,303	-	319,093	3,152,210	304,326
Series 2013A bonds	55,750,000	-	1,130,000	54,620,000	1,175,000
Unamortized premium	5,275,890	-	421,398	4,854,492	399,867
Series 2013B bonds	17,705,000	-	1,770,000	15,935,000	1,805,000
Series 2012 bonds	41,640,000	-	895,000	40,745,000	935,000
Unamortized premium	3,517,081	-	278,406	3,238,675	266,886
Series 2008 bonds	44,790,000	-	1,630,000	43,160,000	1,695,000
Series 1998 variable rate demand bonds	4,600,000	-	-	4,600,000	-
2014 Certificates of participation	14,035,000	-	285,000	13,750,000	385,000
Unamortized premium	1,423,215	-	118,002	1,305,213	120,292
Total note, installment agreement, and bonds payable	<u>362,144,075</u>	<u>-</u>	<u>9,604,216</u>	<u>352,539,859</u>	<u>11,711,115</u>
Other liabilities:					
Compensated absences	5,924,407	1,074,265	969,849	6,028,823	424,921
Annuities payable and other	3,193,447	35,353	300,592	2,928,208	531,125
Federal portion of Perkins loan program	1,559,185	-	302,642	1,256,543	-
Total other liabilities	<u>10,677,039</u>	<u>1,109,618</u>	<u>1,573,083</u>	<u>10,213,574</u>	<u>956,046</u>
Total long-term liabilities	<u>\$ 372,821,114</u>	<u>\$ 1,109,618</u>	<u>\$ 11,177,299</u>	<u>\$ 362,753,433</u>	<u>\$ 12,667,161</u>
Total long-term liabilities	\$ 372,821,114			\$ 362,753,433	
Current portion	10,505,963			12,667,161	
Noncurrent portion	<u>\$ 362,315,151</u>			<u>\$ 350,086,272</u>	

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

12. Long-Term Liabilities (continued)

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

Note and Installment Purchase Agreements Payable

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

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

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

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

12. Long-Term Liabilities (continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 939,285	\$ 377,207	\$ 1,316,492
2020	961,357	341,331	1,302,688
2021	998,382	304,305	1,302,687
2022	1,036,833	265,854	1,302,687
2023	1,076,766	225,922	1,302,688
2024-2028	5,382,258	479,835	5,862,093
Total	<u>\$ 10,394,881</u>	<u>\$ 1,994,454</u>	<u>\$ 12,389,335</u>

General Revenue Bonds Payable

In June 2016, the University issued \$113,130,000 of general revenue bonds (2016 Bonds), with an average coupon rate of 5.00% and a net original issue premium of \$20,773,191. The proceeds are being utilized to fund the construction of a new 750 bed student residence complex (Hillcrest Hall), expansion of the Oakland Center, and other capital projects. The 2016 Bonds were issued with a final maturity of March 1, 2047. The pricing resulted in a 3.66% true interest cost.

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

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

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

12. Long-Term Liabilities (continued)

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

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

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

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

In September 1998, on behalf of the Oakland University Foundation (Foundation), the Economic Development Corporation of the County of Oakland issued limited-obligation revenue variable-rate demand bonds in the amount of \$4,600,000 to finance the R&S Sharf golf course project. These bonds bear interest at a variable or fixed rate, as determined from time to time in accordance with the indenture (the variable rates as of June 30, 2018 and 2017 were 1.52% and 0.92%, respectively; the maximum variable rate is 12%). The bonds mature on September 1, 2023 subject to optional early redemption. Within this bond offering, the Foundation executed a Loan Agreement, which obligated it to make all payments in connection with this bond financing including interest, principal, remarketing fees, and letter of credit fees. On February 1, 2006, the University Board and the Foundation Board of Directors agreed to transfer Foundation assets and liabilities to the University. As a result, this Foundation loan was transferred to the University in the amount of \$4,600,000.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

12. Long-Term Liabilities (continued)

The following table summarizes debt service requirements for the outstanding bonds and certificates payable as of June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2019	\$ 8,510,000	\$ 13,328,343	\$ 1,001,408	\$ 22,839,751
2020	8,960,000	13,035,212	961,010	22,956,222
2021	9,420,000	12,720,517	918,928	23,059,445
2022	9,905,000	12,386,681	875,081	23,166,762
2023	10,440,000	12,017,266	829,433	23,286,699
2024-2028	65,195,000	53,283,764	3,285,875	121,764,639
2029-2033	63,770,000	41,019,416	682,339	105,471,755
2034-2038	52,680,000	28,730,000	-	81,410,000
2039-2043	55,790,000	14,788,000	-	70,578,000
2044-2047	26,500,000	3,393,000	-	29,893,000
	<u>311,170,000</u>	<u>\$ 204,702,199</u>	<u>\$ 8,554,074</u>	<u>\$ 524,426,273</u>
Unamortized premium	30,974,978			
	<u>\$ 342,144,978</u>			

Other Liabilities

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

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

In September 2013, the University received a charitable gift annuity (CGA) totaling \$7.0 million as a result of realizing a donor's bequest. Based on the life expectancy of the annuitant at the time the CGA was received, the University's obligation, or present value liability, of the annuity payments approximated \$3.7 million. The annuity payable was approximately \$2.5 million and \$2.8 million as of June 30, 2018 and 2017 respectively.

13. Postemployment Benefits Other than Pensions

Plan Description

In addition to the employee benefits discussed in Note 14, the University provides postemployment healthcare benefits to eligible University retirees and their spouses as part of a single-employer defined benefit plan. The plan is administered by the University. Substantially all University employees may become eligible for coverage if they meet retirement eligibility requirements. 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. At June 30, 2018, the University had 1,797 active employees in the plan and 254 retirees currently receiving postemployment healthcare benefits. Certain employees hired after July 1, 2005, depending on the employee group, may be eligible for participation in the University's postemployment health care benefits as "access only" for retirees and spouses, at retiree rates, paid in full by the retiree.

Contributions

The contribution requirements of plan members and the University are established in accordance with various labor agreements or within the provisions of University policy. For the year ended June 30, 2018, the University and plan members receiving benefits contributed \$1.8 million and \$1.1 million, respectively, to the plan. Approximately 64% of total premiums were paid by the University with the remaining 36% paid by plan members. Required contributions for plan members ranged from \$28 to \$1,313 per month for retiree-only coverage, and from \$66 to \$3,151 per month for retiree and spouse coverage.

For the year ended June 30, 2017, the University and plan members receiving benefits contributed \$1.8 million and \$1.1 million, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from \$27 to \$1,129 per month for retiree-only coverage, and from \$64 to \$2,710 per month for retiree and spouse coverage.

Funded Status and Funding Progress

GASB Statement No. 75 requires the measurement of OPEB expense as it is incurred, rather than as it is funded. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$26.6 million, which will be used to offset annual postemployment contributions. Other postemployment health care benefits are financed on a pay-as-you-go basis.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

13. Postemployment Benefits Other than Pensions (continued)

OPEB Liability and Actuarial Assumptions

As of June 30, 2018, the University reported a liability for OPEB totaling \$34.0 million. The liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017, which used updated procedures to roll forward the liability to June 30, 2018.

The liability was calculated based on the following actuarial assumptions:

Discount rate/investment rate of return	3.58%	20 Year Tax-Exempt Municipal Bond Yield
Salary increases	3.00%	Including wage inflation
Mortality basis		RP-2014 Mortality Table projected back to 2006 base year using Projection Scale MP-2014 with generational projection using Projection Scale MP-2017
Actuarial Cost Method		Entry Age Normal
Health Care Trend Rate		5.8% - 7.5% over 60 years

The discount rate increased from 2.85% at July 1, 2017 to 3.58% at June 30, 2018. The plan has not had a formal actuarial experience study performed.

Schedule of Changes in Total OPEB Liability and Related Ratios

	2018
	<i>In thousands</i>
Total OPEB Liability	
Service Cost	\$ 940
Interest on total OPEB liability	1,050
Changes of benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumption changes or inputs	(2,973)
Benefit payments	(1,831)
Net Change in total OPEB liability	(2,814)
Total OPEB Liability, beginning	36,811
Total OPEB Liability, ending	\$ 33,997
Covered Payroll	\$ 125,045
Total OPEB liability as a % of covered payroll	27.19%

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

13. Postemployment Benefits Other than Pensions (continued)

OPEB Expense, Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2018 the University recognized OPEB expense of \$1.5 million.

At June 30, 2018, the University reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Contributions made after measurement date	\$ 1,592,152	\$ -
Changes in assumptions	\$ -	\$ 2,515,808

Amounts currently reported as deferred inflows of resources related to OPEB will be recognized in the University's OPEB expense as follows:

<u>Year ending June 30, 2018</u>	
2019	(\$456,590)
2020	(456,590)
2021	(456,590)
2022	(456,590)
2023	(456,590)
Thereafter	(232,858)

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability of the University, calculated using the current discount rate. The following also reflects what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

<u>Year ending June 30, 2018</u>		
<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
\$38,168,918	\$33,997,371	\$30,481,538

Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the OPEB liability of the University, calculated using the current healthcare cost trend rate. The following also reflects what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

<u>Year ending June 30, 2018</u>		
<u>1% Decrease (4.80%)</u>	<u>Health Care Rate (5.80%)</u>	<u>1% Increase (6.80%)</u>
\$33,337,991	\$33,997,371	\$34,739,415

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

13. Postemployment Benefits Other than Pensions (continued)

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.

Funding Policy

For the year ended June 30, 2017, the University and plan members receiving benefits contributed \$1.8 million and \$1.1 million, respectively, to the plan. Approximately 63% of total premiums were paid by the University with the remaining 37% paid by plan members. Required contributions for plan members ranged from \$27 to \$1,129 per month for retiree-only coverage, and from \$64 to \$2,710 per month for retiree and spouse coverage. The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

13. Postemployment Benefits Other than Pensions (continued)

Funded Status and Funding Progress

Other postemployment health care benefits are not advance-funded on an actuarially determined basis but are financed on a pay-as-you-go basis. The University has decided that future benefits will not be prefunded; however, the University has designated assets to meet future obligations through the creation of a Board-approved, quasi-endowment valued at approximately \$22.8 million, earnings from which will be used to offset annual postemployment contributions. The University's contribution to the plan for the year ended June 30, 2017 and the two preceding years were \$1.8 million, \$1.7 million, and \$1.6 million, respectively. The funded status of the plan as of the most recent actuarial valuation date is as follows:

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

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

Actuarial Methods and Assumptions

For funding purposes 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.

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

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

14. Employee Benefits

The University has contributory, defined-contribution retirement plans for all qualified employees. The plans consist of employee-owned retirement contracts funded on a current basis by employer contributions. Participants may elect to contribute additional amounts to the plan within specified limits. The plans are 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, 2018 and 2017 were \$17,662,770 and \$17,018,060, respectively.

The University also maintains a noncontributory, defined-benefit retirement plan, which is not open to new participants. The plan is administered by TIAA-CREF. At January 1, 2017, the date of the most recent actuarial valuation, the plan had a total liability of approximately \$53,000 and was over funded by approximately \$75,000.

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

The University is self-insured for workers' compensation and unemployment compensation. Liabilities for claims incurred but not reported under these self-insurance programs have been established. Changes in the self-insured employee benefit liabilities during 2018, 2017, and 2016 were considered current and are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 297,615	\$ 316,862	\$ 580,628
Claims incurred and changes in estimates	400,862	262,156	6,432
Claim payments	(326,094)	(281,403)	(270,198)
Balance, end of year	<u>\$ 372,383</u>	<u>\$ 297,615</u>	<u>\$ 316,862</u>

15. Deferred Inflows of Resources

The University accounts for deferred inflows of resources in accordance with authoritative guidance. The University recorded deferred inflows of \$8,705,419 as of June 30, 2018. This amount is comprised of \$2,515,808 from changes in OPEB assumptions, an irrevocable split-interest agreement where the University acts as the trustee in the amount of \$2,776,761, an additional irrevocable split-interest agreement held by a third party in which the University has \$3,412,850 beneficial interest in assets held by others. The University's beneficial interest in this charitable remainder trust is held by Morgan Stanley and also recognized as an asset at fair value. Beneficial interest in assets held by others are classified in Level 3 of the fair value hierarchy, is not traded on an open market, and is valued using an approach that utilize the present value of annuity payments based on the life expectancy of the annuitant.

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

16. Liability and Property Insurance

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

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

17. Contingencies and Commitments

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

The University is the guarantor on certain faculty and staff residence mortgages. As of June 30, 2018, the amount subject to guarantee by the University was \$2,166,433.

The estimated costs to complete construction projects in progress is \$26.6 million as of June 30, 2018, due in large part to the ongoing construction costs of the Hillcrest Hall in the amount of \$6.1 million, expansion of the Oakland Center for \$13.0 million, conversion of Wilson Hall for \$0.8 million, and the RAC Energy Saving project for \$0.7 million. Hillcrest Hall and the Oakland Center expansion will be funded from the 2016 Bonds. The various other campus enhancements are funded from University resources.

18. Expenditures by Natural Classification

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Employee compensation and benefits	\$ 226,067,368	\$ 220,527,307
Supplies and other services	71,835,084	72,802,240
Student aid	9,371,571	10,421,060
Depreciation	23,658,516	22,869,006
Total	<u>\$ 330,932,539</u>	<u>\$ 326,619,613</u>

Oakland University
Notes to Financial Statements
June 30, 2018 and 2017

19. Cash Flow Statement

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

	<u>2018</u>	<u>2017</u>
Operating loss	\$ (68,751,035)	\$ (63,167,230)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	23,658,516	22,869,006
Changes in assets and liabilities:		
Accounts receivable, net	509,767	1,192,052
Inventories	108,845	(15,567)
Deposits and prepaid expense	(158,604)	(5,115)
Student loans receivable	301,444	40,258
Accounts payable and accrued expenses	(5,561,347)	2,384,320
Accrued payroll	432,452	1,094,312
Compensated absences	104,417	347,427
Unearned revenue	(422,118)	1,801,972
Deposits	123,653	391,239
Federal portion of student loan program	(302,642)	112,893
OPEB liability	(982,832)	2,192,584
Deferred outflow of resources	(1,592,152)	-
Deferred inflow of resources	2,515,808	-
Net cash used by operating activities	<u><u>\$ (50,015,828)</u></u>	<u><u>\$ (30,761,849)</u></u>

20. Related-Party Transactions

The Oakland University Foundation (Foundation) is a related party of the University. Foundation had net assets of \$210,836 and \$199,279 as of June 30, 2018 and 2017 respectively, consisting of three endowment funds. The University's financial statements do not include the Foundation's assets or activity.

Required Supplemental Information

Oakland University
Required Supplemental Information
June 30, 2018

Schedule of Changes in Total OPEB Liability and Related Ratios

	2018
	<i>In thousands</i>
Total OPEB Liability	
Service Cost	\$ 940
Interest on total OPEB liability	1,050
Changes of benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumption changes or inputs	(2,973)
Benefit payments	(1,831)
Net Change in total OPEB liability	(2,814)
Total OPEB Liability, beginning	36,811
Total OPEB Liability, ending	\$ 33,997
Covered Payroll	\$ 125,045
Total OPEB liability as a % of covered payroll	27.19%

There were no changes in the benefit terms and the discount rate increased from 2.85% at July 1, 2017 to 3.58% at June 30, 2018.

Note: GASB 75 was implemented in fiscal year 2018. These schedules are being built prospectively. Ultimately 10 years of data will be presented.

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