

**An Updated Analysis of the Financial Statements
of
Oakland University
Fiscal Years 2001-2008**

Prepared for AAUP

By

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Introduction

This report provides an update of the analysis of the financial status of Oakland University for the fiscal years 2006 through 2008. My original report covered the years 2001-2005. Wherever, possible the tables in this report will show the data from the original report (2001-2005) and the updated data (2006-2008). All of the graphs will show the data over the entire period from 2001-2008. The analysis contained in this report is based on information contained in the audited financial statements and other information that appears in the Annual Financial Reports of the University for the aforementioned years.

Most businesses have a goal of earning profit for stockholders. Thus, the financial statements of most businesses are designed to allow stockholders and others concerned with profitability a means to monitor the performance of the business in question.

Universities and other non-profit organizations ostensibly have an entirely different purpose. Universities, in particular, are institutions of higher learning established primarily to create and disseminate knowledge. Universities receive a significant portion of their funding from donors and governmental entities. These funds are often given with certain restrictions and conditions. Consequently, universities use a system of fund accounting. The primary purpose of fund accounting is to provide trustees, who are legally responsible for running universities, the information to monitor the funds that come into the institution and ensure that they are expended for their intended purpose.

Since the primary purpose of fund accounting systems is to ensure that funds are expended in the manner they were intended by donors or government entities, it is difficult for faculty to look at a university's financial statements and get a true picture of the university's financial health. In the past, financial statements for universities were broken down into various fund groups. In effect each fund group had its own financial statements and universities could move money between funds making it difficult to understand whether universities had revenues in excess of expenses or whether expenses exceeded revenues. In 2002 universities changed their financial statements so that they more closely resemble those in for profit businesses. One might argue that this new reporting format is a reflection of the growing corporatization of universities which are increasingly being run more and more like for profit enterprises. However, one of the benefits of the new reporting format is that it is now easier for faculty to understand the financial status of their institutions.

Historically, most universities have had some sort of a faculty budget oversight committee as part of faculty governance institutions. Many of the functions of these budget oversight committees have been taken over by collective bargaining agents at institutions where faculty members have opted to engage in collective bargaining. However, whether an institution has collective bargaining or a traditional budget oversight committee faculty at most institutions focus on the annual budget of the institution.

Often, faculty members are misled by looking only at a university's budget. Budgets are normally based only on the current fund and since universities have the ability to transfer money from one fund to another looking at the current fund does not give a true picture of a university's finances. In addition, a budget is just a financial plan. However, institutions have no legal obligation to spend money in accordance with their budget.

For example, a budget may show that money has been allocated for a certain number of faculty positions. However, in any given year a certain number of faculty members leave institutions either to take jobs elsewhere or to retire. Consequently in any given year a certain number of positions that are budgeted are vacant. Therefore what a university budgets for faculty salaries and benefits is not necessarily what they actually spend on salaries and benefits. Consequently, some percentage of budgeted positions either gets spent elsewhere or accumulates and becomes part of the university's net assets.

To get a true picture of a university's finances one must look at the actual financial statements, which represent the actual revenues and expenses of the university. Evaluating a university's finances by looking at its budget would be the equivalent of evaluating the performance of a for-profit company by looking at its business plan.

In a in a for-profit business, revenues come into the business through the sale of goods and services. In the process of producing goods and services firms incur costs. The difference between revenues and costs represents the firm's profit or loss. This profit or loss is one of the primary indicators of how the firm is performing. Non-profit organizations such as universities take in revenue in the form of tuition dollars, donations and governmental support. In the process of carrying out the mission of their institution universities incur expenses. The difference between the revenues that come into a university and its expenses is known as a change in net assets. If a university takes in more revenue than it expends there is a positive increase in net assets. Conversely, if the expenses exceed the revenues there is a decrease in net assets. Increase or decreases in net assets are one of the prime indicators of how a university is performing financially.

Beginning in 2002, universities were required to make some important changes in the way they reported on their financial status due to the implementation of GASB 34 & 35. For example, what had been referred to as a change in fund balances is now referred to as a change in net assets. The purpose of the change in financial reporting was to make college and university financial statement easier to understand and to provide management with better information to manage universities as business entities. Since the Oakland University restated its 2001 financial statements this report covers the period from 2001-2008 and all of the data used in this report is compatible with the new format.

Financial data is reported either as a stock or flow. A stock means measurement takes place in dollars without respect to time. For example the amount of money in your savings account is a stock. Flows are measurements that have a time dimension. For example income is a flow because it is measured as a certain number of dollars per year.

Universities have three main financial statements. First there is a balance sheet or a statement of net assets. Balance sheets have three main components: assets, liabilities and net assets. Assets are things of value owned by the university. Liabilities are claims against the university and net assets are the difference between assets and liabilities. Net assets represent the wealth of the institution. All of the items on a balance sheet deal with stock concepts and represent a snapshot of the university at a point in time. Thus, the first part of this report will provide an analysis of the University's balance sheet.

The second major financial statement is the statement of revenues, expenses and changes in net assets. This financial statement shows how the university's finances are changing over a period of time, namely a fiscal year which normally runs from July 1 to June 30 of the following year. Fiscal years are always associated with the calendar year in which the fiscal year ends. So for example, from July 1, 2007 to June 30, 2008 is known as fiscal year 2008. This statement deals with flows and measures how the university's revenues and expenses are changing over time.

There is a certain consistency or relationship between stocks and flows or between the balance sheet and the statement of revenues, expenses and changes in net assets. For example, if revenues are greater than expenses then there will be an increase in net assets. This means that if you take the net assets at the beginning of a year on the balance sheet and add the change in net assets from the statement of revenues, expenses and changes in net assets you will get the net assets at the end of the year which are shown on the balance sheet. The second part of this report will provide an analysis of the University's statement of revenues, expenses and changes in net assets.

The third financial statement is the statement of cash flows. Universities use a system of accrual accounting which means they book revenues when they earn them and book expenses when they are incurred. However, recognizing revenue is not always the same as collecting cash. For example a university may send a bill to a student for tuition but not immediately collect the money that is owed. This shows up on the universities balance sheet as an increase in accounts receivable and is booked on the statement of revenues, expenses and changes in net assets as revenue. While the university shows an increase in revenue it does not actually have more cash. Hence the role of the cash flow statement is to show the inflows and outflows of cash. The third section of this report will provide an analysis of the University's cash flow statement.

In providing an analysis of each of these financial statements it is important to look at trends such as the increase or decrease in net assets. In addition, this report will also calculate certain ratios, which are indicators of financial performance. These ratios can be used to look at the historical performance of the institution. In addition, these ratios can also be used to compare one institution to another institution, or to certain standards that have been established in the field of higher education. However, caution should be exercised when comparing one institution to another because of differences in reporting.

The purpose of this report is to help educate faculty of Oakland University about the financial status of their university. The information provided in this report is

provided solely for educational purposes. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements are purely unintentional and the author accepts no responsibilities for any damage that may result.

What is the Wealth of the University?

Assets and Liabilities

An asset is something that an institution owns that is expected to provide a benefit in the future. Assets can be divided into two classes: real assets such as classrooms, laboratories, computers, library books and journals etc., and financial assets such as cash that can be used to make student loans and finance current operations, and investments in financial instruments such as endowments which can be used to generate income to defray certain expenses or be liquidated during a period of a financial crisis. Liabilities are claims on an institution's resources. Figure 1 shows the total assets of Oakland University for the years 2001-2008 which are also shown in Table 1.

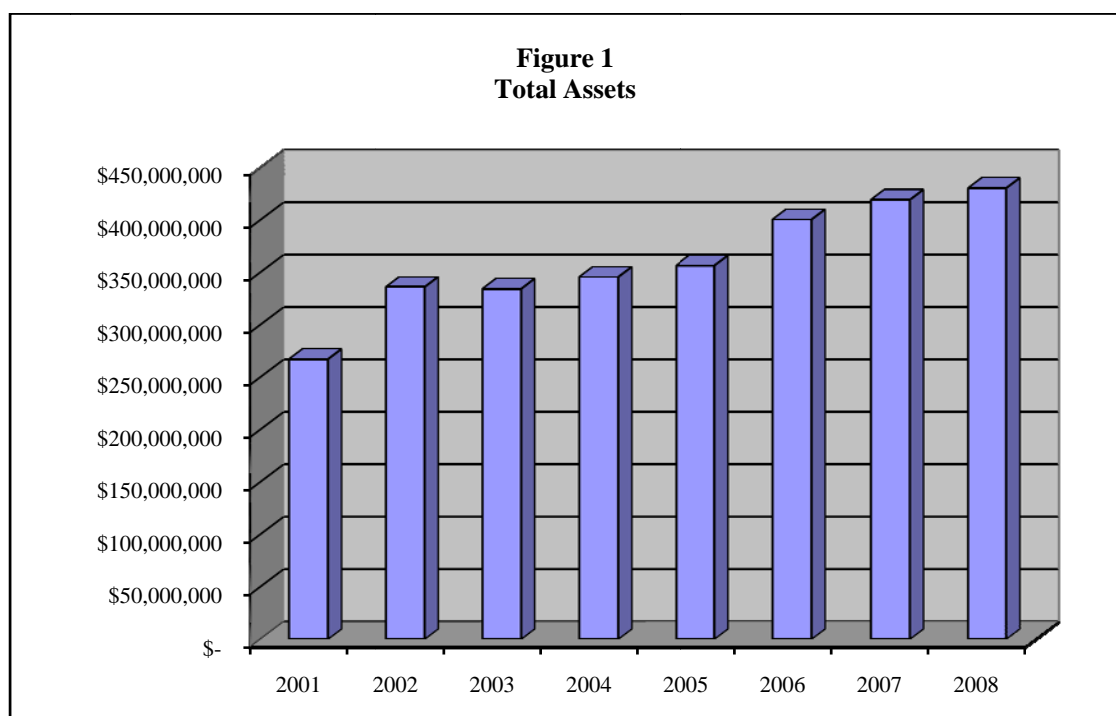


Figure 1 shows that the total assets of the University increased from 2001 to 2002. In 2003 there was a slight decline in assets followed by modest increases in 2004 and 2005. In 2006 there was a fairly substantial increase in total assets followed by smaller increases in 2007 and 2008. In 2001 Oakland University had total assets of \$267.3 million and the University's assets increased to \$430.6 million by 2008 an average annual increase of 7.0 percent.

The University's assets can be divided into current and non-current assets. Current assets consist of assets that will be used up during the course of a year. The major items that comprise current assets are cash and cash equivalents, accounts receivable, inventories, deposits and prepaid expenses. Non-current assets are tangible assets that will last longer than a year or financial assets that will be held more than a year. The major items in this category are investments, endowment and capital assets along with some receivables.

Table 1
Assets, Liabilities and Net Assets
For year ending June 30
Thousands of \$

	2001	2002	2003	2004	2005	2006	2007	2008
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$13,804	\$11,290	\$20,547	\$32,173	\$28,553	\$34,506	\$43,835	\$33,766
Restricted cash and cash equivalents	\$-	\$22,608	\$-	\$-	\$-	\$-	\$-	\$-
Accounts receivable, net	\$7,395	\$7,363	\$6,433	\$5,718	\$4,953	\$7,018	\$6,722	\$8,082
Appropriation receivable	\$9,374	\$14,170	\$10,374	\$8,379	\$7,902	\$9,415	\$3,734	\$9,442
Pledges receivable	\$-	\$-	\$-	\$2,844	\$5,216	\$3,643	\$1,510	\$975
Inventories	\$320	\$549	\$273	\$252	\$316	\$252	\$1,183	\$854
Deposits and prepaid expenses	\$1,387	\$2,069	\$1,606	\$186	\$358	\$608	\$732	\$667
Student loans receivable, net	\$285	\$299	\$356	\$372	\$414	\$517	\$473	\$263
Total current assets	\$32,564	\$58,347	\$38,150	\$49,922	\$47,712	\$55,960	\$58,190	\$54,050
NONCURRENT ASSETS:								
Restricted cash and cash equivalents	\$-	\$-	\$6,305	\$129	\$-	\$-	\$-	\$-
Endowment investments	\$17,921	\$16,010	\$15,559	\$17,665	\$18,756	\$32,299	\$43,037	\$50,450
Other long-term investments	\$29,439	\$30,489	\$32,299	\$33,909	\$54,359	\$74,015	\$68,307	\$77,889
Accounts receivable, net	\$1	\$662	\$326	\$4,362	\$1,459	\$432	\$455	\$1,036
Student loans receivable, net	\$1,822	\$1,695	\$1,547	\$1,741	\$1,655	\$1,830	\$1,872	\$1,876
Capital assets, net	\$185,571	\$228,986	\$238,844	\$236,611	\$231,536	\$234,205	\$245,576	\$243,384
Other assets	\$-	\$-	\$1,439	\$1,368	\$1,133	\$1,833	\$1,956	\$1,865
Total non-current assets	\$234,755	\$277,842	\$296,318	\$295,785	\$308,897	\$344,613	\$361,204	\$376,500
Total assets	\$267,319	\$336,189	\$334,468	\$345,708	\$356,609	\$400,573	\$419,393	\$430,550
LIABILITIES								
CURRENT LIABILITIES:								
Accounts payable and accrued expenses	\$4,848	\$11,353	\$5,598	\$3,778	\$4,403	\$5,311	\$8,670	\$6,730
Accrued payroll	\$7,294	\$5,421	\$6,039	\$6,733	\$7,823	\$8,403	\$10,133	\$8,018
Long-term liabilities-current portion	\$4,436	\$4,706	\$5,027	\$5,248	\$5,578	\$5,828	\$2,913	\$2,964
Deferred revenue and student fees	\$7,447	\$7,038	\$8,197	\$4,974	\$5,299	\$6,277	\$8,614	\$10,843
Deposits	\$1,500	\$897	\$480	\$1,268	\$1,443	\$2,078	\$2,251	\$1,323
Total current liabilities	\$25,525	\$29,415	\$25,341	\$22,001	\$24,547	\$27,897	\$32,580	\$29,879
NONCURRENT LIABILITIES:								
Deferred revenue	\$-	\$-	\$-	\$1,705	\$1,274	\$1,936	\$3,377	\$2,697
Long-term liabilities	\$50,370	\$95,890	\$93,970	\$91,048	\$87,956	\$108,115	\$108,169	\$106,890
Total non-current liabilities	\$50,370	\$95,890	\$93,970	\$92,754	\$89,231	\$110,051	\$111,546	\$111,026
Total liabilities	\$75,895	\$125,305	\$119,311	\$114,754	\$113,777	\$137,948	\$144,126	\$140,905
NET ASSETS								
Invested in capital assets, net of related debt	\$136,180	\$153,585	\$152,277	\$146,550	\$143,751	\$144,713	\$143,428	\$140,887
Restricted nonexpendable	\$4,797	\$4,998	\$5,076	\$5,166	\$5,288	\$11,637	\$12,478	\$14,921
Restricted expendable	\$15,462	\$14,991	\$15,361	\$24,544	\$26,030	\$27,466	\$30,492	\$31,505
Unrestricted	\$35,916	\$37,309	\$42,443	\$54,692	\$67,764	\$78,809	\$88,870	\$102,341
Total net assets	\$192,355	\$210,883	\$215,158	\$230,953	\$242,832	\$262,625	\$275,267	\$289,654

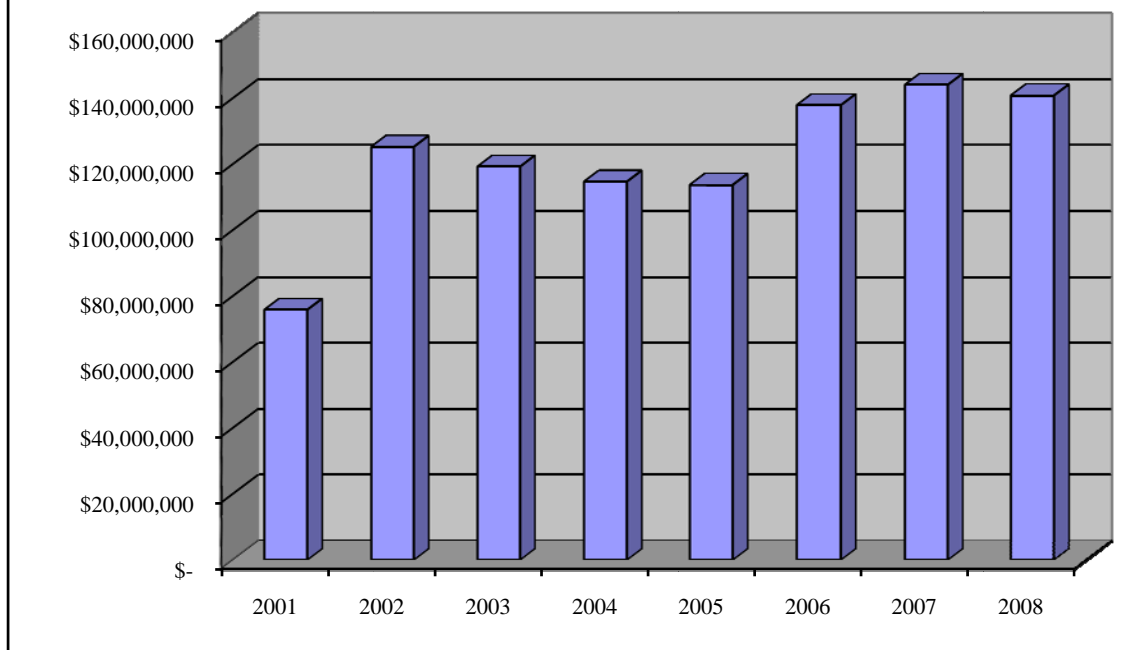
Current assets increased sharply in 2002 due largely to the reporting \$22.6 million in restricted cash and cash equivalents. In the 2003 Statement of Net Assets the University reported \$6.3 million in restricted cash and cash equivalents. In the 2004 of Statement of Net Assets the University restated the 2003 current assets moving the restricted cash and cash equivalents to the category of non-current assets. This change in reporting is reflected in Table 1. If the 2002 restricted cash and cash equivalents were moved to non-current assets then from 2001 through 2004 there would have been a moderate increase in current assets. In 2005, there was a slight decline in current assets followed by increases in 2006 and 2007. In 2008 there was a small decline in current assets. In general, the movement in current assets has been due to changes in holdings of cash and cash equivalents.

In contrast to current assets, non-current assets have been increasing. The three most important components of non-current assets are the University's endowment, other long-term investments and the value of its capital assets. Between 2001 and 2002 almost all of the increase in non-current assets was due to an increase in the value of capital assets. In 2003 there was another increase in the value of capital assets and an increase in cash holdings which had previously been reported as current assets. In 2004 there was a slight decline in non-current assets followed by a substantial increase in 2005. The increase in 2005 was largely due to an increase in other long-term investments. Between 2006 and 2008 non current investments increased by more than \$67 million with almost all of that growth being attributed to increases in endowment investments and other long term investments. Between 2001 through 2004 most of the increases in non-current assets were due to increases in the value of capital assets. In contrast, the increases in non-current assets between 2005 and 2008 were due primarily to increases in investments.

Figure 2 shows the total adjusted liabilities of the University. Table 1 also shows the liabilities for the University. Between 2001 and 2002 the liabilities of the University increased significantly from \$76 million to \$125 million. From 2002 through 2005 liabilities declined. In 2006 there was a substantial increase in liabilities followed by a smaller increase in 2007. In 2008 total liabilities declined.

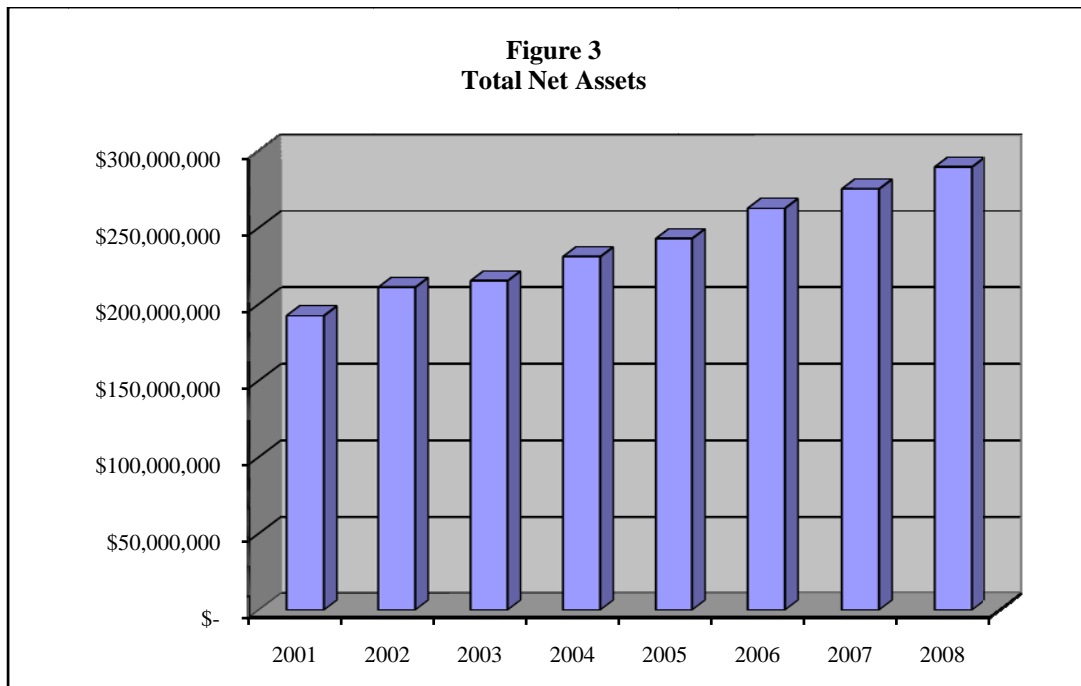
Liabilities can also be divided in current and non-current liabilities. Current liabilities consist of liabilities that are due within a year. The current liabilities for Oakland University have fluctuated but have not changed significantly over the last eight years. Therefore most of the change in overall liabilities is explained by movement in non-current liabilities. Between 2001 and 2002 the long term liabilities of the University nearly doubled, increasing from \$50.3 million to \$95.9 million due largely to increased borrowing. Over the next three years the long term liabilities of the University declined. In 2006, again the University increased its debt which explains the increase in non-current liabilities. In 2007, there was a small increase in non-current liabilities which appears to be due largely an increase in deferred revenue. Deferred revenue is revenue collected in a current fiscal year that was paid for activity that will take place in the following fiscal year. It is a liability in the current fiscal year because the University will have to count it as revenue in a subsequent fiscal year. In 2008, there was a small decrease in non-current liabilities.

**Figure 2
Total Liabilities**



Net assets are the difference between assets and liabilities and represent the wealth of the institution. Therefore, net assets are an important indicator of the financial health of an institution. In the past, these net assets were referred to as fund balances. The net assets of Oakland University have increased steadily from 2001 through 2008 from \$192.3 million to \$289.6 million, an average annual growth rate of 6.0 percent.

An increase in net assets means the University has increased its wealth and conversely and decrease in net assets implies that the University's wealth has decreased. However, wealth can be divided into two categories: financial wealth or tangible wealth. Tangible wealth consists of the physical assets of an institution net of the debt owed on those assets. In addition, universities often receive funds that are restricted either by donors or government to be used to purchase tangible assets including construction and renovation of buildings. These restricted funds cannot be used for operating i.e., paying for salaries and benefits. However, not all funds used for the purchase of tangible assets are restricted. In many cases, universities accumulate funds by running an operating surplus and then choose to use these funds to purchase tangible assets. These are unrestricted funds and they can be used to pay salary and benefits. Thus, it is important to distinguish between the various types of net assets.



If an increase in total net assets is exclusively due to increases in the value of land, buildings and equipment, the increase in wealth while real, does not give the university added flexibility with respect to operations. To the extent that a university uses funds it generates through operations to purchase land, building and equipment it can decide to reallocate these funds for alternative uses. However, to the extent that it uses capital funds from the state or from private sources for purchases of land, buildings and equipment it is limited and cannot reallocate that money for other purposes. Also once universities purchase land and put up buildings they are unlikely to sell these assets to generate funds, which could be used for other purposes. However, it should be noted that even when buildings are constructed using capital funds there are clear implications for operating budgets in the future. As universities increase their square footage they will be required to spend additional funds on maintenance and utilities thereby increasing their operating expenses.

Figure 4 shows several key ratios for the years 2001-2008. These key ratios are also reported in Table 2. First is the ratio of current assets to current liabilities. Current assets consist of unrestricted cash and cash equivalents, inventories, receivables and pledges due within a year, investments that mature within one year and other short term assets. Assets such as restricted cash and cash equivalents and restricted investments, unrestricted investments that mature in more than one year, receivables and pledges deemed collectable in more than one year and plant and equipment are non-current assets. Current liabilities are all liabilities payable within one year as well as deferred revenues which consist primarily of tuition collected in one fiscal year that pays for services offered in a subsequent fiscal year. Liabilities that are not due during the current year are non-current liabilities.

Table 2
Ratio of Assets to Liabilities
For year ending June 30

	2001	2002	2003	2004	2005	2006	2007	2008
Current ratio	1.28	1.98	1.51	2.27	1.94	2.01	1.79	1.81
Ratio of Fixed Assets to Long-Term Debt	3.39	2.28	2.41	2.46	2.48	2.06	2.21	2.22
Ratio of Total Assets to Total Liabilities	3.52	2.68	2.80	3.01	3.13	2.90	2.91	3.06

Perhaps with the exception of 2001 the current ratio for Oakland University has fluctuated in the normal range which is somewhere between 1.5 and 2.5. A current ratio of 1.81 implies that the University has current assets to cover 184 percent of its current liabilities. There is no exact target for a current ratio although clearly the number should be greater than one and not much greater than two. It should be noted that too large a current ratio may impose an opportunity cost on a university. Under normal circumstances a university can earn a higher rate of return on long term investments than it can earn by holding cash and cash equivalents.

Another indicator of financial health is the ratio of fixed assets to long-term debt, which is also shown in Figure 4. This ratio declined from 3.39 in 2001 to 2.28 in 2002 and then rose until 2005. In 2005 the ratio of fixed assets to long-term debt was 2.48. In 2006 the ratio declined to 2.06 large due to increased borrowing and then increased in both 2007 and 2008. In 2008 the ratio of fixed assets to long term debt was 2.22.

Finally, Figure 4 also shows the ratio of total assets to total liabilities. This ratio declined from 3.52 to 2.68 between 2001 and 2002. Between 2002 and 2005 the ratio increased reaching approximately 3.13 in 2005. Again in 2006 the ratio of assets to liabilities declined reaching 2.90 and then increased in 2007 and 2008 reaching 3.06 by the end of 2008.

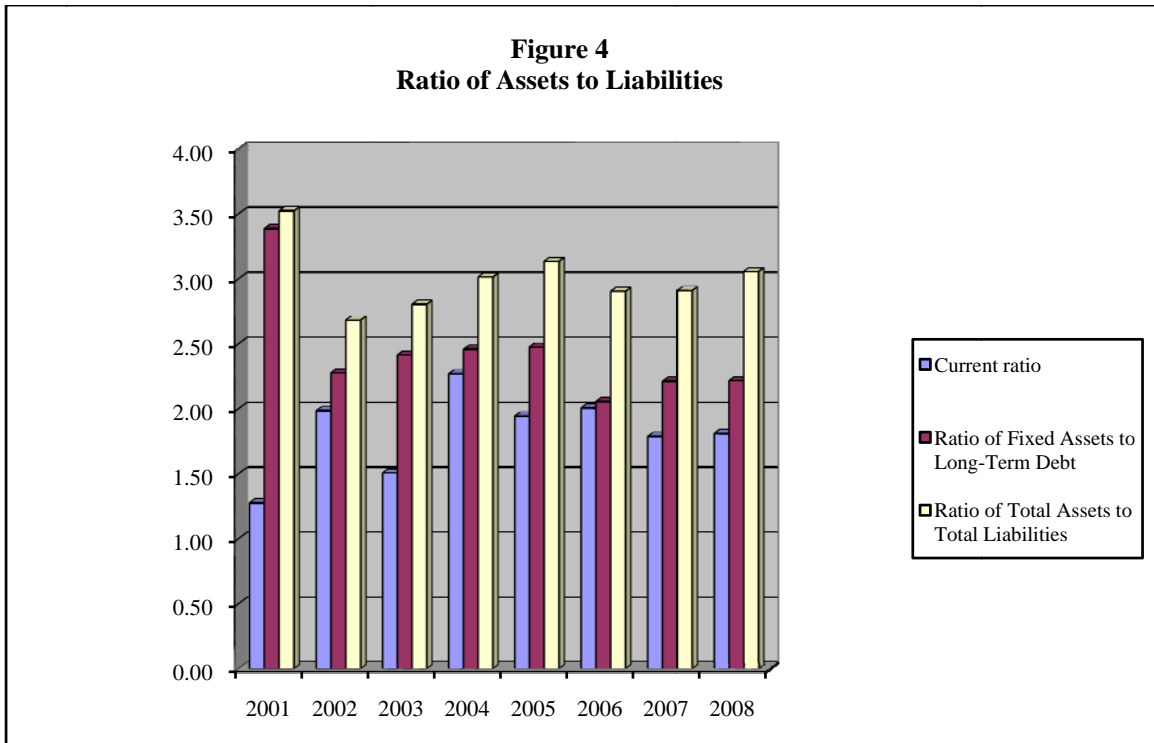


Figure 5 shows the investments for Oakland University. Investments include cash and cash equivalents, endowment and other long term investments. Except for a dip in 2003 the University's investments have been increasing. In 2001, the University had \$61.6 million in investments and by 2008 the value of investment reached \$162.1 million an average annual increase of 14.9 percent.

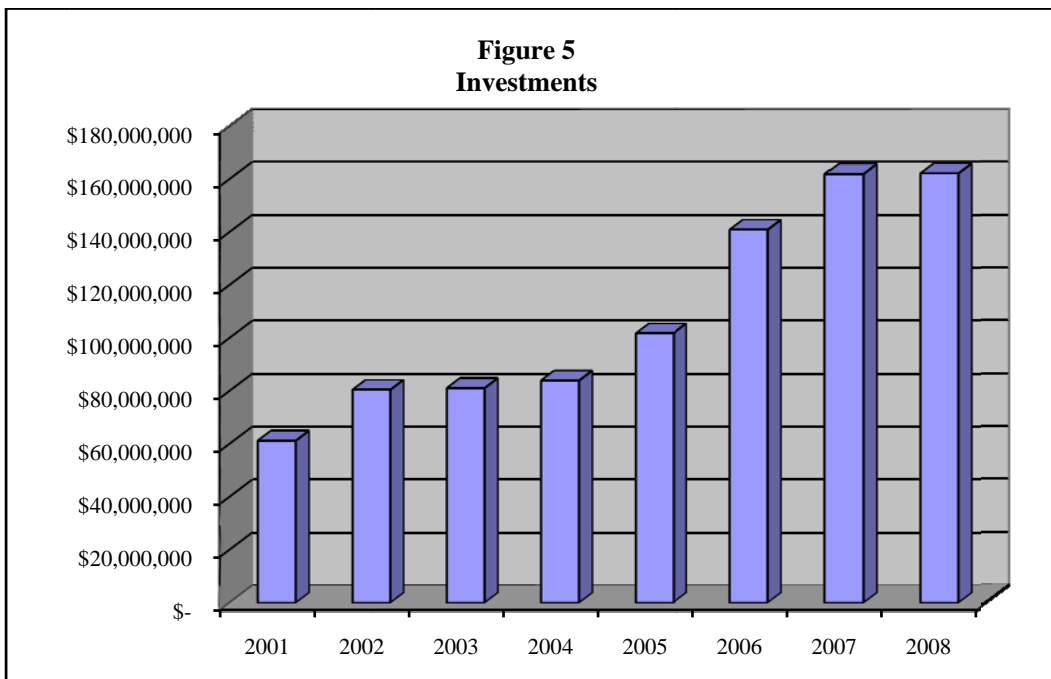
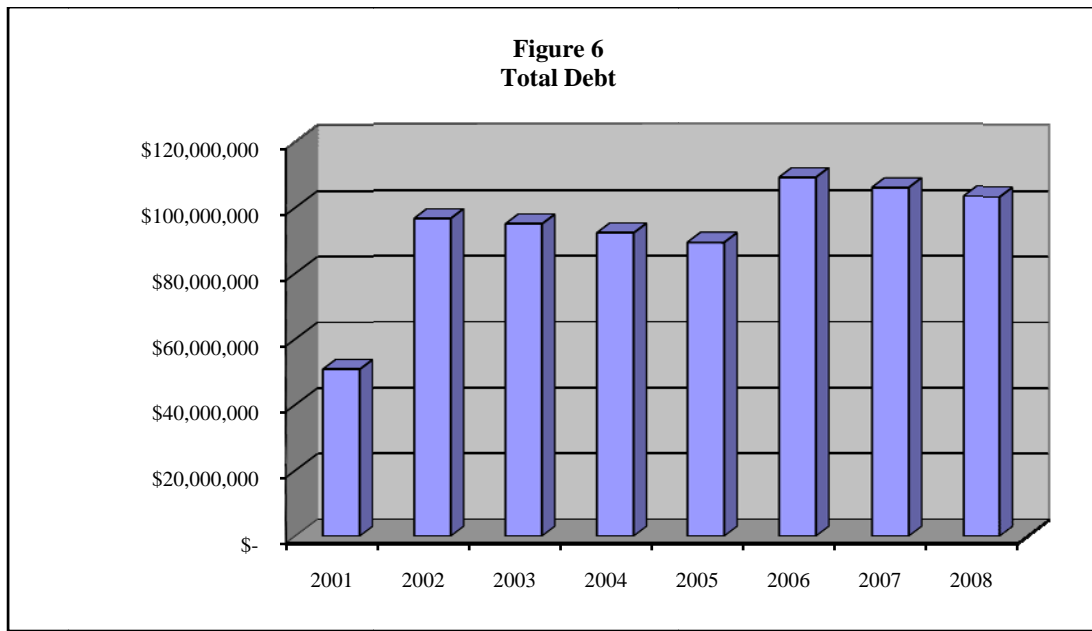


Table 3 shows the total debt of the University. The debt consists of bonds, notes and capital lease obligations. Table 3 also show interest and principal payments on the University's debt. The debt is slightly smaller than the long-term liabilities shown in Table 1 because long-term liabilities, while including debt, also include compensated absences and the Federal portion of the Perkins loan program. Clearly, the University increased its debt between 2001 and 2002. From 2002 through 2005 the debt of the University decreased. Then in 2006, the University's debt increased from \$89.1 million to \$108.9 million. Since 2006, the University's debt has been declining.

The data on interest payments show that interest payments increased between 2001 and 2008. For the most part, interest payments increased moderately between 2001 and 2003 and then remain relatively stable until 2008. In 2008, interest payment jumped from \$5.1 million to \$10.4 million. Figure 6 also shows the total debt of the University.

<i>Table 3 Debt and Debt Service for the year ending June 30 thousands of \$</i>								
	2001	2002	2003	2004	2005	2006	2007	2008
Total Debt	\$50,741	\$96,399	\$94,707	\$91,993	\$89,129	\$108,887	\$105,802	\$103,196
Principal Paid on capital debt	\$2,233	\$2,343	\$6,512	\$2,713	\$34,897	\$3,115	\$3,217	\$50,578
Interest Paid on capital debt	\$2,864	\$3,466	\$4,229	\$4,240	\$3,970	\$4,291	\$5,059	\$10,438

Table 4 shows future principal and interest payments on the notes and bonds of the University that are expected between 2009 and 2013. Interest payments are expected to decline slightly over the next five years from \$7.2 million to \$6.9 million between 2009 and 2013. Principal payments will remain flat until through 2013. It is worth noting that while the University expects interest payment to decline they are projected to be substantially higher than the projections made by the University in earlier years.



**Table 4
Future Obligations Related to Bonds, and Notes
for the year ending June 30
thousands of \$**

	2009	2010	2011	2012	2013
Principal on Notes & Bonds	\$2,890	\$3,084	\$3,014	\$3,176	\$3,328
Interest on Notes & Bonds	\$4,380	\$4,045	\$3,904	\$3,753	\$3,616
Total	\$7,270	\$7,129	\$6,917	\$6,928	\$6,944

Table 5 shows the University's investments in plant and equipment. The numbers in the table represent the original cost of assets as opposed to market value or replacement cost of assets. Looking at Table 5 one can see that in general the value of the University's plant and equipment has been increasing. It went from \$287.9 million in 2001 to \$409.6 million in 2008. Most of this increase has been for land improvement, infrastructure and buildings. Spending for library acquisitions has also been increasing but at about half the rate of spending on buildings infrastructure and land improvements. Over the eight year period the value of buildings on campus, before depreciation went up about 41 percent and the value of library holdings increased by approximately 29.2 percent. Over the eight year period, the value of equipment on campus before depreciation went up about only 5 percent.

Total Net Assets

In for profit businesses the difference between assets and liabilities is referred to as owner's equity. In theory, if a business were to sell off all of its assets and pay off all claims against the business, the amount remaining would be the owner's claims on the business's resources. In a non-profit organization, the difference between assets and liabilities has traditionally been referred to as a fund balance. However, after implementation of GASB 34 & 35 the difference between assets and liabilities is now referred to as net assets. Therefore, any changes either in the value of assets or liabilities will affect a university's net assets.

Net assets represent the net accumulation of a university's assets over a period of time. A large portion of these net assets consist of the value of land, buildings, books and journals and equipment owned by the college.

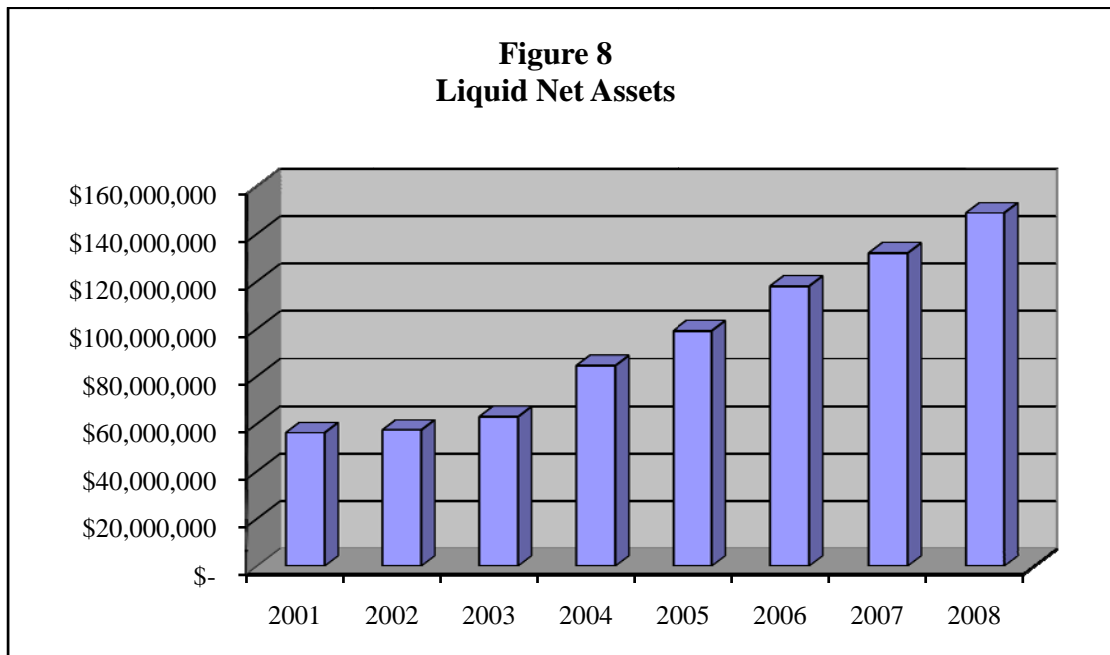
	2001	2002	2003	2004	2005	2006	2007	2008
Land	\$4,325	\$4,325	\$4,325	\$4,325	\$4,325	\$4,325	\$4,325	\$4,325
Land improvements & infrastructure	\$19,439	\$21,001	\$26,326	\$27,222	\$28,124	\$28,688	\$29,455	\$42,539
Buildings	\$196,565	\$200,783	\$257,687	\$269,595	\$270,943	\$274,255	\$274,793	\$277,749
Equipment	\$40,291	\$40,288	\$41,798	\$39,269	\$39,940	\$41,301	\$42,180	\$42,426
Library acquisitions	\$19,571	\$20,761	\$21,748	\$22,674	\$23,386	\$23,988	\$24,667	\$25,288
Construction in progress	\$7,753	\$52,569	\$7,054	\$658	\$1,603	\$8,858	\$26,883	\$17,276
Total	\$287,945	\$339,728	\$358,938	\$363,742	\$368,322	\$381,416	\$402,303	\$409,601
Accumulated depreciation:								
Land improvements & infrastructure	\$(5,335)	\$(6,212)	\$(7,530)	\$(8,475)	\$(9,709)	\$(11,027)	\$(12,310)	\$(14,291)
Buildings	\$(56,048)	\$(60,754)	\$(66,197)	\$(72,485)	\$(78,923)	\$(85,356)	\$(91,755)	\$(98,084)
Equipment	\$(27,087)	\$(28,828)	\$(30,606)	\$(29,092)	\$(30,014)	\$(31,803)	\$(32,679)	\$(33,058)
Library acquisitions	\$(13,904)	\$(14,949)	\$(16,031)	\$(17,080)	\$(18,139)	\$(19,025)	\$(19,982)	\$(20,785)
Total accumulated depreciation	\$(102,374)	\$(110,742)	\$(120,364)	\$(127,131)	\$(136,786)	\$(147,211)	\$(156,727)	\$(166,217)
Total capital assets, net	\$185,571	\$228,986	\$238,574	\$236,611	\$231,536	\$234,205	\$245,576	\$243,384

Depreciation is an expense and therefore it reduces the net assets of the University. Whether this diminution of net assets represents a real decline in the wealth of an institution is questionable. For private companies depreciation represents the cost of "using up" plant and equipment. However, in universities most of the buildings and a significant part of the equipment is paid for by governmental appropriations or private gifts. Thus, universities have a source of financing replacement of worn out buildings and equipment that is not available to private business.

In addition, to these real assets, universities also own financial assets such as stocks and bonds, CDs and mutual funds. Finally, universities also generally hold small amounts of cash and money in checking and savings accounts.

Once a university invests money in its physical plant it is unusual for it to sell that asset. Thus, if a university changes its priorities and accordingly wishes to change its asset allocation it would most likely reallocate its non-plant assets. For that reason Figure 8 shows the University's net assets excluding investment in plant i.e., liquid net assets.

In 2001 Oakland University had liquid net assets of \$56.2 million. Liquid net assets increased slightly in 2002 and 2003 and then increased more rapidly in through 2008. By the end of 2008 Oakland University had liquid net assets of \$148.8 million. Between 2005 and 2008 liquid net asset increased by nearly \$49.7 million.



Restricted and Unrestricted Net Assets

Restricted net assets are assets net of related liabilities held by a university that are designated for specific purposes by external entities, either government agencies or private donors. Unrestricted net assets are assets net of related liabilities that can be spent at the discretion of the institution. Clearly, unrestricted net assets give universities more flexibility than restricted net assets. However, one should not assume that just because an asset is restricted that it cannot be used for reallocation. For example, a university may be spending a significant amount of unrestricted funds on scholarships and then replaces those funding with endowed scholarships. In this case, there would be no change in unrestricted funds but there would be an increase in restricted funds. However, the

unrestricted funds that were being used for scholarships have now been freed up and are available for reallocation. In addition, universities may receive restricted funds to start a Ph.D. program with those funds being used to pay for the salaries and benefits of tenured or tenure track faculty.

Table 6 shows the net assets divided into restricted and unrestricted funds. From 2001 to 2005 unrestricted net assets increased from \$35.9 million to \$67.8 million, an increase of 89 percent. Then between 2005 and 2008, unrestricted net assets increased \$34.6 million, reaching a total of \$102.3 million, an increase of 51 percent. Restricted net assets were essentially flat between 2001 and 2003 at approximately \$20 million and then increased from \$29.77 million in 2004 and ended up at \$31.3 million in 2005. Between 2005 and 2008 restricted net assets continued rising, reaching \$46.4 million in 2008. Figure 9 shows the changes in the unrestricted and restricted assets.

<p style="text-align: center;"><i>Table 6</i> <i>Unrestricted and Restricted Net Assets</i> <i>for the year ending June 30</i> <i>thousands of \$</i></p>								
	2001	2002	2003	2004	2005	2006	2007	2008
Unrestricted	\$35,916	\$37,309	\$42,443	\$54,692	\$67,764	\$78,809	\$88,870	\$102,341
Restricted	\$20,259	\$19,989	\$20,437	\$29,710	\$31,317	\$39,103	\$42,970	\$46,426
Investment in Plant and Equipment	\$136,180	\$153,585	\$152,277	\$146,550	\$143,751	\$144,713	\$143,428	\$140,887
Total Net Assets	\$192,355	\$210,883	\$215,158	\$230,953	\$242,832	\$262,625	\$275,267	\$289,654

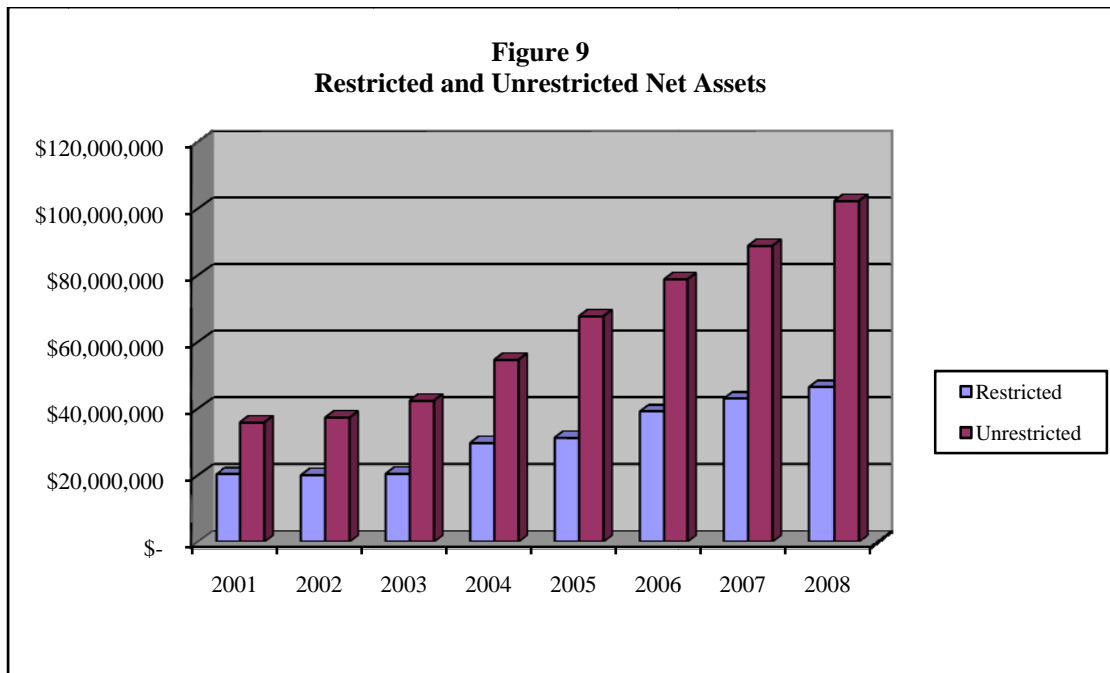
Unrestricted assets can be used by the institution for any lawful purpose. Many universities, including Oakland University, report that most unrestricted net assets have been designated by the Board of Trustees or management for specific purposes. Some of these designations may result from funds being collected by special fees. Designating funds is a management decision which can be changed. For example funds may be designated for department use. However, if management changes its priorities or faces a budget crisis it can take these funds and use them for other purposes. Table 6 shows board designated unrestricted funds.

Table 7
Designated Unrestricted Net Assets
for the year ending June 30
thousands of \$

	2001	2002	2003	2004	2005	2006	2007	2008
Auxiliary Enterprises	\$1,770	\$1,677	\$1,457	\$2,142	\$3,513	\$2,843	\$2,120	\$4,474
Capital projects & repair reserves	\$7,462	\$6,976	\$10,528	\$16,062	\$18,744	\$17,455	\$15,315	\$25,956
Funds designated for departmental use	\$7,330	\$8,568	\$9,850	\$9,965	\$13,493	\$18,777	\$18,731	\$20,773
Funds functioning as endowment	\$7,395	\$6,610	\$6,017	\$6,823	\$7,207	\$10,925	\$17,937	\$24,471
Institutional reserves	\$8,074	\$8,304	\$8,532	\$11,566	\$16,469	\$17,840	\$22,411	\$23,022
Retirement and insurance reserves	\$2,762	\$3,443	\$4,378	\$4,943	\$5,230	\$6,631	\$8,250	\$446
Other unrestricted	\$1,123	\$1,731	\$1,682	\$3,191	\$3,108	\$4,338	\$4,105	\$3,199
Total unrestricted	\$35,916	\$37,309	\$42,444	\$54,692	\$67,764	\$78,809	\$88,869	\$102,341

The single largest designation for unrestricted net assets is for capital projects and repair reserves. Between 2001 and 2008, unrestricted net assets, with this designation, have increased from \$7.4 million to \$25.9 million, an average annual increase of 19.4 percent. The next largest category is funds functioning as endowment which increased from \$7.3 million to 24.4 million between 2001 and 2008, an average annual increase of 18.6 percent. Over the same time period, funds designated for department increased from \$7.3 million to \$20.7 million, an average annual increase of 16 percent and institutional reserves increased from \$8.1 million to \$23 million, an average annual increase of 16.1 percent.

There is nothing inherently wrong with designating unrestricted funds; however, faculty may believe that designating fewer funds for a given purpose may be a better use of resources. The point that faculty need to understand is that current policies with respect to unrestricted net assets reflect the priorities of the governing board and/or management and may not reflect the priorities of faculty. While faculty cannot collectively bargain over the specific designation of unrestricted net assets collective bargaining can cause the governing board or management to change its priorities resulting in the reallocation of these funds



Expendable Net Assets:

In addition to dividing net assets between restricted and unrestricted, net assets can also be categorized as expendable or non-expendable. Expendable net assets consist of assets that legally could be used for operations or plant expenditures. Non-expendable net assets are funds that would not be spent for operations, for example the endowment fund. Before GASB 34 & 35 universities, including Oakland University, presented their balance sheets by fund group. Universities generally have five fund groups: current funds, loan funds, endowment and similar funds, plant funds and agency funds. Endowment funds generally have three categories: endowment, quasi-endowments and term endowments, life income and annuity funds. Plant funds are generally divided into four categories unexpended plant funds, funds for renewal and replacement, funds for the retirement of indebtedness and investment in plant net of debt. Given these categories expendable balances are normally calculated by taking the sum of current funds, quasi-endowments, unexpended plant funds, funds for renewal and replacement, and funds for the retirement of indebtedness.

Quasi-endowments are funds that the Board of Trustees set aside to be used in the form of an endowment. These funds along with unrestricted plant funds are generally accumulated by transferring funds from current funds. As mentioned previously, these funds are available for a university to spend for any lawful purpose which means that a university is not obligated to treat funds in a quasi-endowment as if they were an endowment nor are they obligated to spend designated plant funds on capital projects. Table 7 shows the University’s quasi-endowment listed under the category of “Funds functioning as endowment.”

When it comes to endowment, Oakland University like many state universities had its endowment split. Some of the endowment was held by the University and some

was held in a private not-for-profit foundation. In 2006, the Foundation transferred nearly all of its assets and liabilities, about \$8.7 to the University, so that the entire endowment is now held by the University. This accounts for some of the increase in investments held by the University in 2006.

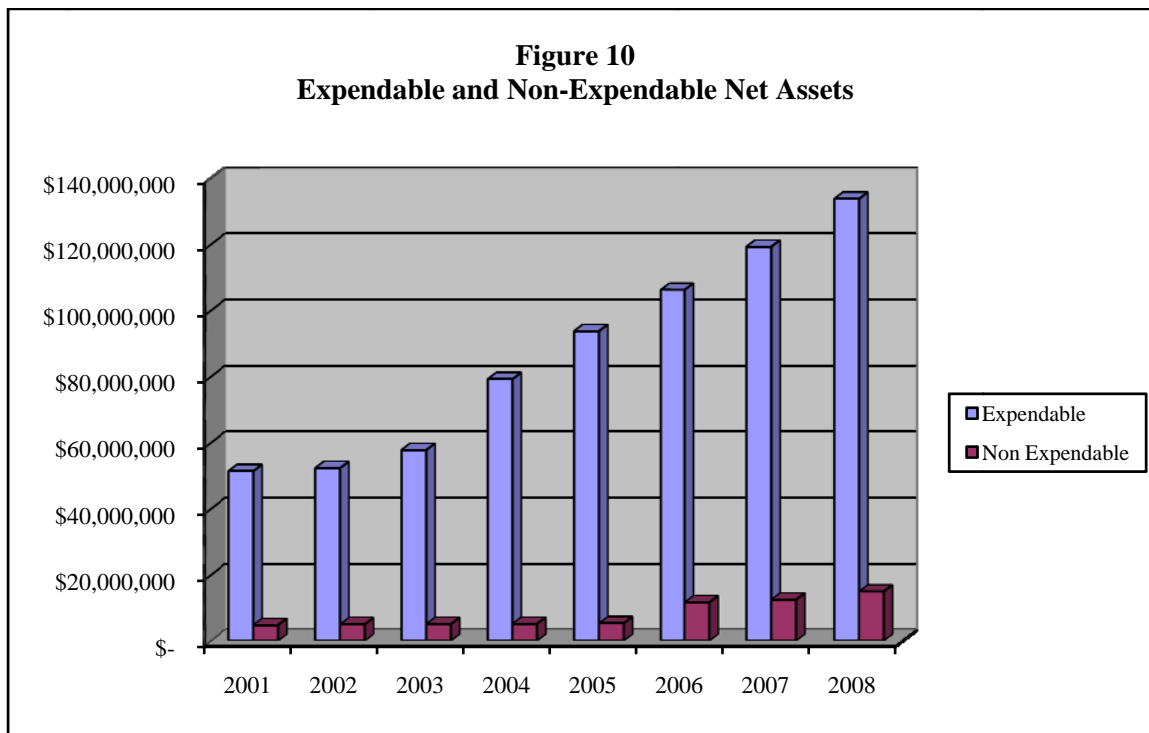


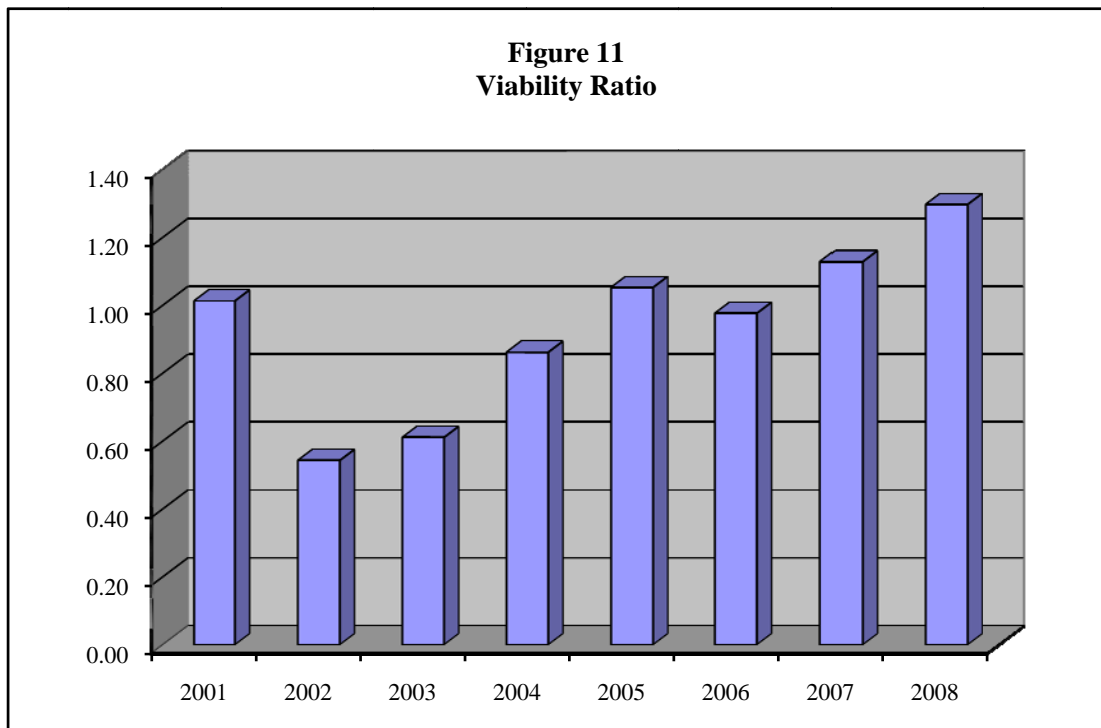
Table 8 shows expendable and non-expendable net assets. Both expendable and non-expendable net assets at the University have generally trended upward over the period from 2001 to 2008. Figure 10 also shows expendable and non-expendable net assets. The jump in non-expendable net assets in 2006 was due to the transfer of funds from the University’s foundation to the University. Non-expendable net assets, which were flat before 2006, increased \$3.2 million between 2006 and 2008. Expendable net assets have increased from \$51.4 million to \$133.8 million.

Table 8 also shows two ratios, which are commonly calculated as indicators of financial health. The first is known as the viability ratio, which is the ratio of expendable net assets to long-term debt. After declining sharply between 2001 and 2002, the viability ratio rose between 2002 and 2005. The viability ratio declined by a moderate amount in 2006 and then rose in 2007 and 2008. In 2008 the viability ratio was 1.30 which means the University had sufficient expendable net assets to pay 130 percent of its debt. This is an extremely high viability ratio due primarily to the relatively low level of debt held by the University. The changes in Oakland University’s viability ratio can also be seen in Figure 11.

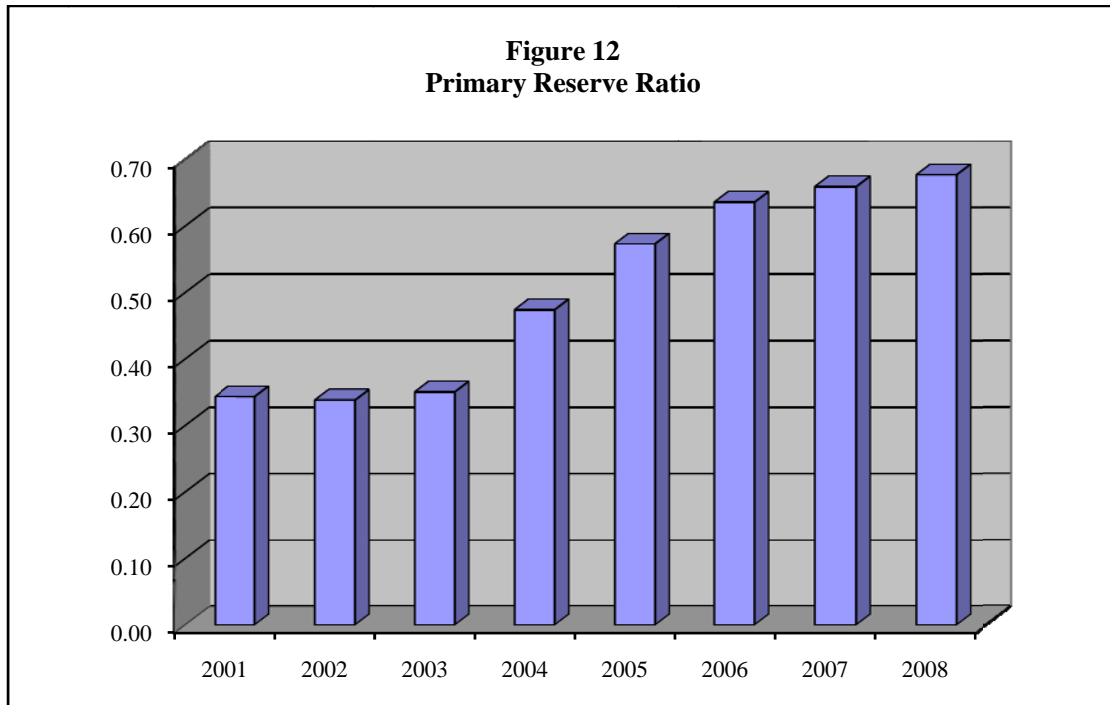
Table 8
Expendable and Non-Expendable Net Assets
for the year ending June 30
thousands of \$

	2001	2002	2003	2004	2005	2006	2007	2008
Expendable Net Assets	\$51,377	\$52,300	\$57,804	\$79,236	\$93,793	\$106,275	\$119,362	\$133,846
Non-Expendable Net Assets	\$4,797	\$4,998	\$5,076	\$5,166	\$5,288	\$11,637	\$12,478	\$14,921
Liquid Net Assets	\$56,175	\$57,298	\$62,880	\$84,403	\$99,081	\$117,912	\$131,839	\$148,767
Debt	\$50,741	\$96,399	\$94,707	\$91,993	\$89,129	\$108,887	\$105,802	\$103,196
Operating Expenses & Interest Payments	\$149,753	\$154,809	\$165,039	\$167,200	\$163,689	\$167,200	\$181,155	\$197,739
Viability Ratio	1.01	0.54	0.61	0.86	1.05	0.98	1.13	1.30
Primary Reserve Ratio	0.34	0.34	0.35	0.47	0.57	0.64	0.66	0.68

Figure 11
Viability Ratio



The second ratio presented in Table 8 is the primary reserve ratio, which measures the ratio of expendable net assets to operating expenses. The primary reserve ratio is calculated by dividing expendable net assets by the sum of operating expenses and interest payments by long term debt. The primary reserve ratio was flat between 2001 and 2003 and then rose sharply in 2004, 2005 and 2006. In 2007 and 2008 the primary reserve ratio continued rising albeit at a slower rate. A primary reserve ratio of 0.68 implies that the University has enough expendable net assets to meet 68 percent of its operating expenses or enough reserves to operate for about 8 months. Figure 12 shows the changes in the primary reserve ratio.



In summary, in 2003 Oakland University had total net assets of \$289.7 million with \$148.8 million in liquid assets. These liquid assets were divided between \$133.8 million in expendable funds and \$14.9 million in non-expendable funds. In general, an analysis of the University's Statement of Net Assets suggests that between 2006 and 2008 the University's financial flexibility has improved significantly.

What is the income and expenditures of the University?

Total Operations

Revenues and expenses for the University are listed on the statement of Changes in Net Assets. In effect this is the University's income statement or its profit and loss statement.

Revenue is the inflow of resources to a university for the services it provides. Revenues are divided into “operating revenues” and “non-operating” revenues. Operating revenues come primarily from student tuition and fees. Other sources of operating revenues are grants and contracts, sales, and auxiliaries. Sales occur when a university provides some sort of a service to the community and charges for offering that service. Auxiliaries are operations that generate revenue that are unrelated to the core mission of a university such as parking, food service or running a bookstore. Non-operating revenues include state appropriations and investment income.

Expenses for the most part represent an outflow of resources from a university. There are operating and non-operating expenses. Operating expenses include instructional expenses, expenses for public service, administrative services such as academic support and institutional support, plant operations and maintenance, scholarships and fellowships, expenses for auxiliary operations and depreciation. Operating expenses can be listed by functional categories such as those discussed above or they can be listed as natural categories such as wages and benefits or purchases of goods and services. Non-operating expenses consist primarily of interest paid on debt.

The difference between operating revenues and operating expenses is known as the operating loss. In publicly funded or assisted universities the difference between operating revenues and operating expenses will always be negative. This is because public institutions of higher education rely heavily on state appropriations which are not counted as part of operating revenue. This is simply an accounting quirk. If an administrator claims that a university is running an operating loss faculty members should be aware of the fact that all public institutions run operating losses and these losses in and of themselves are meaningless.

The difference between non-operating revenues and non-operating expenses is known as net non-operating revenues. The sum of operating losses and net non-operating revenues is can be referred to as “net income.” Net income can be an important indicator of how well a university is performing financially.

However, there are two other major sources of revenue for the University. These are capital appropriations and capital grants and gifts. These sources of revenue are earmarked specifically for capital projects and as such cannot be used to support salary and benefits directly. Nevertheless, when universities receive capital appropriations and gifts it frees up funds generated through operations which otherwise would have to be used to support capital projects. Therefore funding for capital projects, whether by state appropriation or by gift, is an important source of revenue. Unfortunately, capital appropriations and gifts tend to be lumpy and so it may be difficult to count on them as part of a regular revenue stream. However, most universities have a fairly good idea of a certain minimum level of capital appropriations and gifts and can factor these revenues into their spending plans.

Net income plus capital appropriations and gifts are equal to the increase or decrease in net assets. The change in net assets is in effect the bottom line for a university in a given year. If there is an increase in net assets the flow of revenue into the university

has been greater than expenses and if there is a decrease in net assets the university has experienced a loss.

A final issue that demands our attention in trying to understand revenues and expenses is the treatment of depreciation. Historically universities did not account for depreciation of fixed assets. Therefore, at the end of a fiscal year if revenues exceeded expenditures universities experienced an increase in “fund balances.” An increase in fund balances was the equivalent to an increase in net assets except that net assets also account for depreciation.

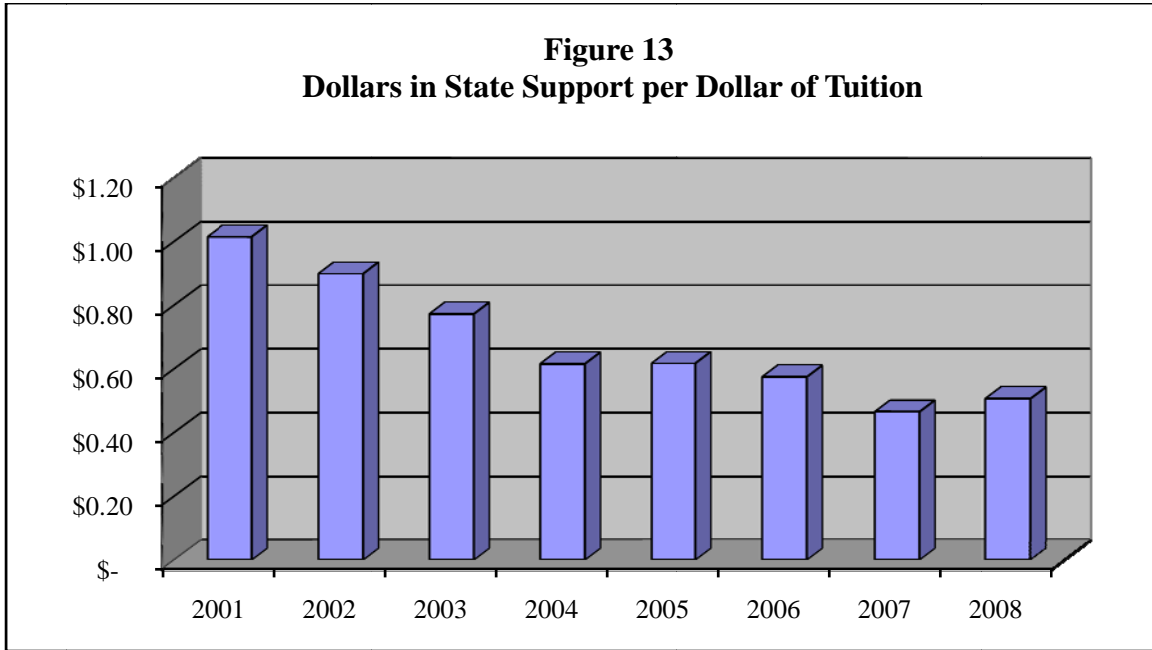
Depreciation is an expense but it is a non-cash expense. Depreciation is a way of allocating the cost of fixed capital over the useful life of an asset. In theory the cost related to the use of a fixed asset in a given year depends on the wear and tear on fixed assets. It is important for any business to take into account the cost of producing a good or service so that it can charge a price for the good or service that at a minimum covers the cost of production. However, unlike other expenses, depreciation does not involve making a cash payment to some entity external to a college. When a college has an expense for wages or utilities it has to write a check to cover that expense which reduces a university’s cash holdings. When a college claims depreciation as an expense, it reduces its net income or the change in net assets on paper but there is no actual outflow of cash.

One question that should be raised is whether depreciation in universities is a legitimate cost. Unlike private for profit businesses universities receive capital appropriations and gifts to fund renewal and replacement of assets. If the cost of a building is covered entirely by capital appropriations and gifts then there is no cost incurred by the university and so there is nothing to allocate. In contrast, for profit business, at least in theory, are supposed to fund renewal and replacement of assets without the assistance of government or private donors. Therefore in looking at the net income of universities one should probably discount depreciation as an expense.

Revenues and expenses for Oakland University are shown in Table 9. In 2001 total operating revenues were \$91.7 million and in 2008 they were \$151.3 million, an average annual increase of 7.4 percent. The most important source of operating revenue is tuition and fees. The tuition and fees shown in Table 9 are net of scholarships. In 2001 tuition was \$52.1 million and by 2008 it had risen to \$111.9, an average annual increase of 11.5 percent.

Under GASB 34 & 35 state appropriations are not treated as operating revenue although clearly they are one of the most important sources of revenue to fund the operations of the University. In 2001 state appropriations were just slightly larger than tuition and fees at \$52.9 million. However, by 2004 state appropriations had declined to \$46.6 million. In 2005 and 2006 there were increases in state appropriations, but in 2007, state appropriations fell to \$46.6 million. Then in 2008, state appropriations increased by more than \$10 million surpassing the 2001 level of state appropriations for the first time. In 2001, for every dollar in tuition and fees collected the University it received \$1.01 in

state subsidy. By 2008, state appropriations were no longer the largest source of revenue and for every dollar collected in tuition and fees the University only received \$0.51. Figure 13 shows the decline in state support.



Another important source of revenue for the University is Federal grants and contracts which increased from \$10.2 million in 2001 to \$13.3 million in 2006. Then in 2007 Federal grants and contracts decline to \$7.4 million before rebounding slightly in 2008 to \$8.1 million. Another important source of revenue was revenue from auxiliary operations. However, revenue from auxiliary operations remained essentially flat throughout the eight year period from 2001 through 2008.

Operating expenses are also shown in Table 9. Overall, operating expenses increased from \$146.9 million in 2001 to \$204 million in 2008. The largest single operating expense is for instruction. Spending for instruction increased from \$57.9 million to \$83.7 million, an average annual increase of about 5.4 percent. Spending on academic support increased at an average annual rate of 4.7 percent from \$9.6 million to \$9.9 million. Spending on institutional support increased at an average annual rate of 6.4 percent, going from \$16 million in 2001 to \$24.8 million in 2008. There was also a substantial increase in spending on operation and maintenance of plant which rose from \$10.3 million to \$15.2 million, an average annual increase of 5.7 percent. Spending on student aid has increased at an average annual rate of 12.2 percent going from \$3.5 million to \$7.8 million. Finally, auxiliary expenses actually decreased from 2001 through 2005 going from \$20.9 million to \$18.9 million but then rose from 2005 through 2008 reaching \$22.9 million.

Table 9
Revenues, Expenses and Changes in Net Assets
for the year ending June 30
thousands of \$

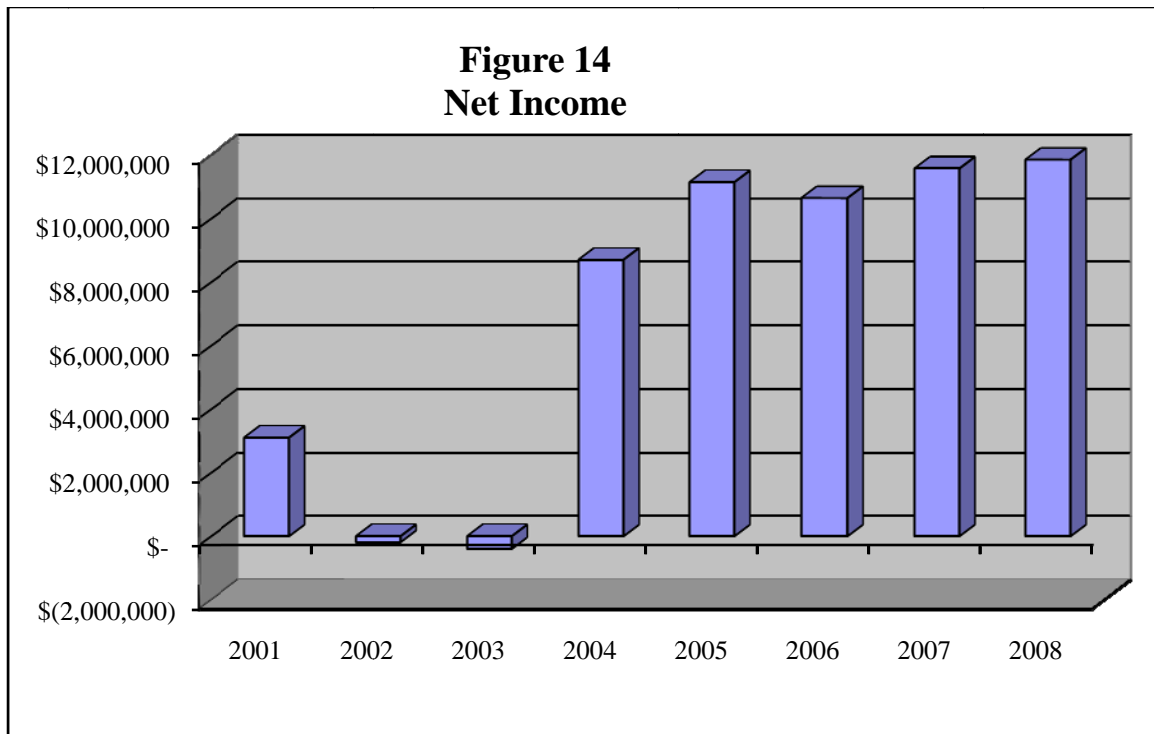
	2001	2002	2003	2004	2005	2006	2007	2008
Operating Revenue								
Tuition and fees	\$52,152	\$58,263	\$65,412	\$75,682	\$78,897	\$89,641	\$100,171	\$111,941
Federal grants and contracts	\$10,240	\$11,053	\$10,847	\$13,328	\$13,151	\$13,256	\$7,376	\$8,143
State, local and private grants and contracts	\$4,275	\$4,651	\$4,368	\$2,821	\$1,831	\$1,697	\$3,625	\$4,924
Departmental activities	\$4,259	\$4,487	\$5,315	\$5,556	\$6,583	\$6,751	\$7,873	\$5,846
Auxiliary activities	\$19,676	\$19,769	\$20,944	\$19,191	\$19,439	\$18,833	\$19,115	\$20,071
Other operating revenues	\$1,140	\$284	\$385	\$338	\$365	\$458	\$481	\$430
Total operating revenues	\$91,743	\$98,508	\$107,270	\$116,916	\$120,265	\$130,637	\$138,641	\$151,355
Operating expenses								
Instruction	\$57,869	\$60,213	\$65,394	\$64,280	\$66,921	\$72,161	\$78,503	\$83,704
Research	\$7,203	\$7,804	\$6,148	\$6,587	\$6,738	\$6,743	\$6,622	\$7,113
Public service	\$563	\$580	\$761	\$926	\$1,192	\$1,542	\$2,189	\$2,217
Academic support	\$9,557	\$9,528	\$9,613	\$9,911	\$10,623	\$11,619	\$12,983	\$13,221
Student services	\$10,260	\$10,941	\$11,681	\$11,134	\$11,417	\$12,650	\$13,985	\$15,078
Institutional support	\$16,038	\$16,649	\$18,485	\$18,494	\$19,251	\$20,422	\$23,344	\$24,775
Operation and maintenance of plant	\$10,334	\$10,468	\$11,651	\$12,269	\$11,624	\$13,327	\$14,977	\$15,217
Depreciation	\$10,634	\$10,466	\$11,248	\$11,986	\$11,994	\$11,773	\$11,505	\$12,025
Student aid	\$3,484	\$3,485	\$4,172	\$4,908	\$4,806	\$6,539	\$6,259	\$7,794
Auxiliary activities	\$20,852	\$21,005	\$21,554	\$18,889	\$18,390	\$19,852	\$22,290	\$22,887
Other expenditures	\$103	\$164	\$114	\$5	\$23	\$36	\$43	\$6
Total operating expenses	\$146,897	\$151,303	\$160,821	\$159,389	\$162,978	\$176,665	\$192,701	\$204,034
OPERATING LOSS	\$(55,155)	\$(52,795)	\$(53,551)	\$(42,473)	\$(42,713)	\$(46,028)	\$(54,060)	\$(52,679)

Table 9 Continued
Revenues, Expenses and Changes in Net Assets
for the year ending June 30
thousands of \$

	2001	2002	2003	2004	2005	2006	2007	2008
Non-operating revenues (expenses)								
State appropriations	\$52,950	\$52,385	\$50,551	\$46,634	\$48,734	\$51,531	\$46,614	\$56,697
Gifts	\$5,301	\$3,515	\$3,976	\$3,875	\$4,745	\$4,253	\$4,126	\$4,474
Investment income (net of investment expense)	\$2,858	\$216	\$2,844	\$4,962	\$4,589	\$5,410	\$14,485	\$2,523
Distributions to annuity and life income fund beneficiaries	\$-	\$-	\$-	\$-	\$-	\$(39)	\$(91)	\$(92)
Interest on capital asset related debt	\$(2,856)	\$(3,506)	\$(4,218)	\$(4,300)	\$(4,222)	\$(4,491)	\$(5,038)	\$(5,681)
Pell grants	\$-	\$-	\$-	\$-	\$-	\$-	\$5,403	\$6,597
Other	\$-	\$-	\$-	\$-	\$-	\$-	\$125	\$2
Net non-operating revenues	\$58,254	\$52,609	\$53,153	\$51,171	\$53,846	\$56,703	\$60,187	\$58,013
Net Income	\$3,099	\$(186)	\$(398)	\$8,698	\$11,134	\$10,636	\$11,564	\$11,842
Capital appropriations	\$4,402	\$18,593	\$4,476	\$697	\$318	\$-	\$-	\$-
Capital grants and gifts	\$4,956	\$52	\$88	\$6,415	\$358	\$334	\$178	\$34
Additions to permanent endowments	\$128	\$70	\$108	\$41	\$69	\$170	\$840	\$2,497
Transfer to Meadow Brook Theatre Ensemble	\$-	\$-	\$-	\$(55)	\$-	\$-	\$-	\$-
Transfer of net assets from the Oakland University Foundation	\$-	\$-	\$-	\$-	\$-	\$8,654	\$60	\$14
Total other revenues	\$9,487	\$18,715	\$4,672	\$7,098	\$745	\$9,158	\$1,078	\$2,545
Increase in net assets	\$12,586	\$18,529	\$4,274	\$15,796	\$11,878	\$19,794	\$12,642	\$14,387
NET ASSETS, beginning of year - restated	\$179,769	\$192,355	\$210,883	\$215,158	\$230,953	\$242,832	\$262,625	\$275,267
NET ASSETS, end of year	\$192,355	\$210,883	\$215,158	\$230,953	\$242,832	\$262,625	\$275,267	\$289,654

The operating losses shown in Table 9 are purely artifacts of the GASB 34 & 35 reporting format. Virtually all state universities and colleges show an operating loss because state appropriations are not included with operating revenues. A better indicator of how a university is doing is its net income. Net income is the difference between revenues and expenses excluding the revenues a university receives for capital equipment and buildings. In the Statement of Revenues, Expenses and Changes in Net Assets, net income is referred to as “Income before other revenue.” Figure 14 shows the net income of the University.

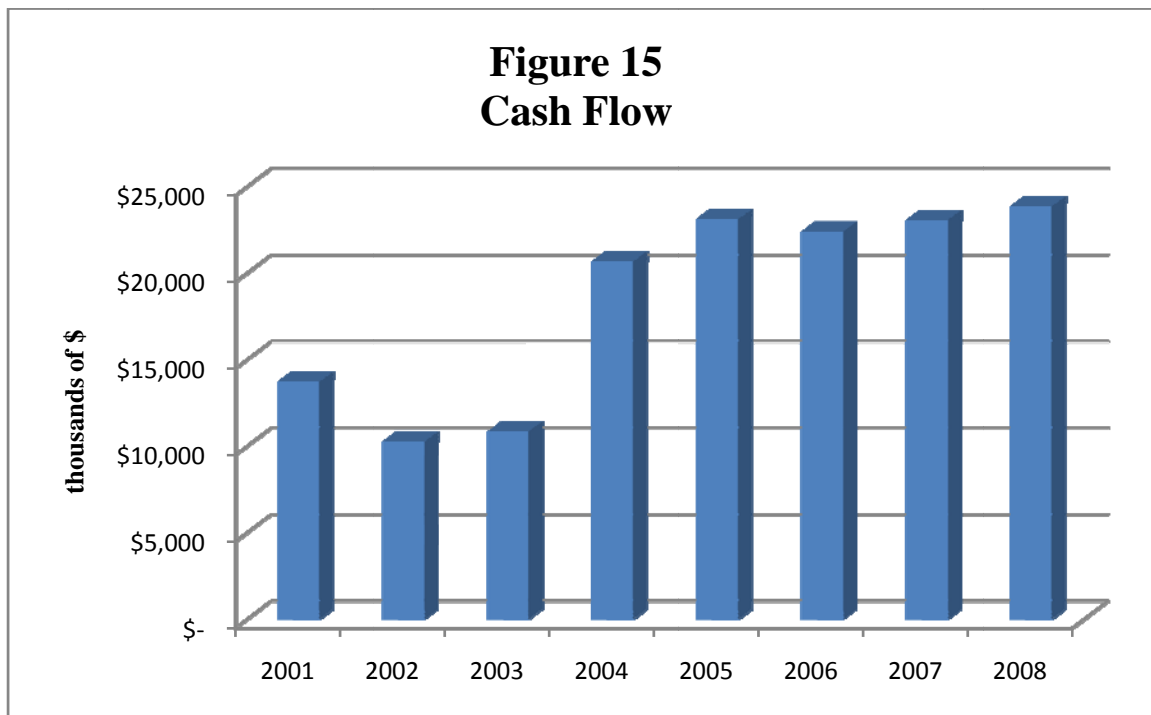
In 2001 the University’s net income was \$3.1 million. In each of the next two years the University had losses of (\$186,775) and (\$398,852). In 2004 the University’s net income was \$11.1 million and in 2005 it was \$8.6 million. It appears as if the losses in 2002 and 2003 were caused by declines in investment income and declines in state support. The rebound in net income in 2004 and 2005 was due primarily to faster growth in revenue combined with slower growth in operating expenses which substantially reduced the operating loss. Increased investment earnings in 2004 and 2005 also helped increase net income. Net income in 2006 was slightly lower than 2005 at \$10.7 million. Net income rose in both 2007 and 2008 reaching \$11.8 million in 2008.



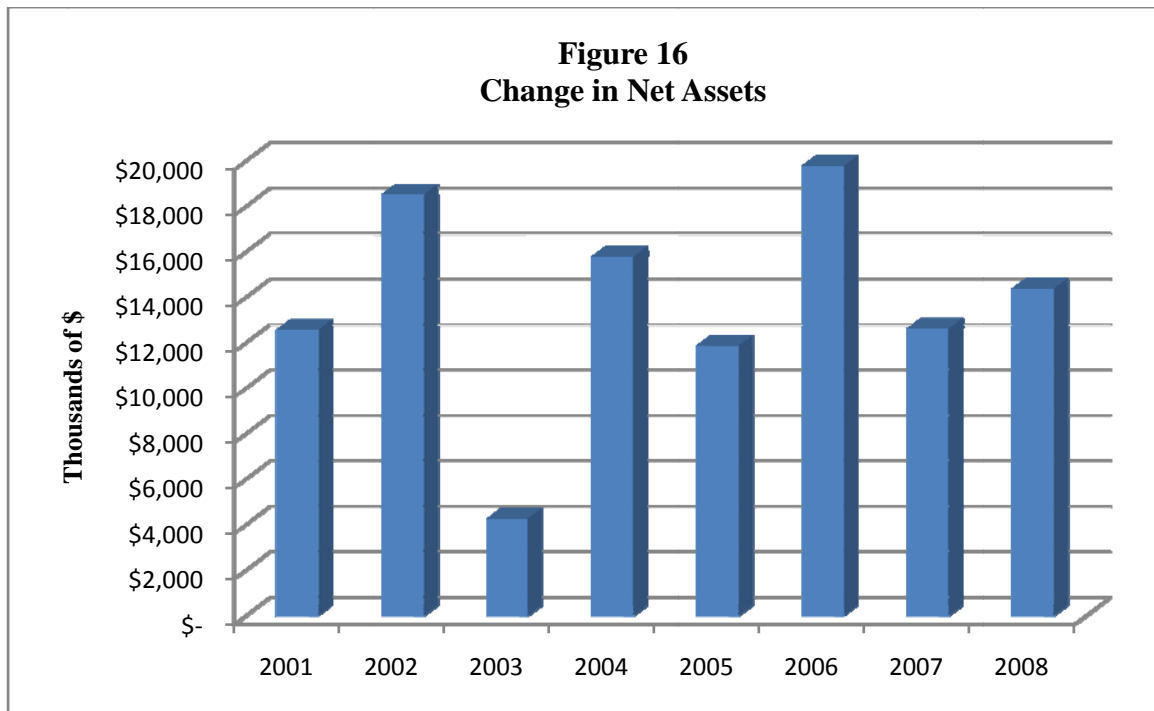
To some extent the net income gives a somewhat distorted view of the University’s earnings because it counts depreciation as an expense. The issue of whether or not depreciation should be counted as an expense was discussed earlier in this report. The important thing to remember is that depreciation is a non-cash expense. Normally when the University has an expense it must cover that expense by writing a check. This

results in an outflow of cash from the University. In the case of depreciation no cash flows out of the University. In other words, it is an expense only on paper. Perhaps the best measure of operating performance then is to look at “cash flow” which is net income plus depreciation. Figure 15 shows the cash flow for the University.

Clearly, the “cash flow” is quite different than the net income and it shows that the University has been taking in more in revenue than its actual cash expenses. From 2001 to 2002 the University’s “cash flow” declined from \$13.7 million to \$10.2 million. In 2003 the University’s cash flow remained essentially flat at \$10.9 million and then increased to \$23.1 million by 2005. In 2006 there was a very modest decline in cash flow followed by modest increases in both 2007 and 2008. Essentially over the past three years the University has had a very stable cash flow ranging from a low of \$22.4 million in 2006 to a high of \$24 million in 2008. This cash flow is, in essence, income that the University has available on a regular basis and therefore it can be used to finance ongoing expenses.



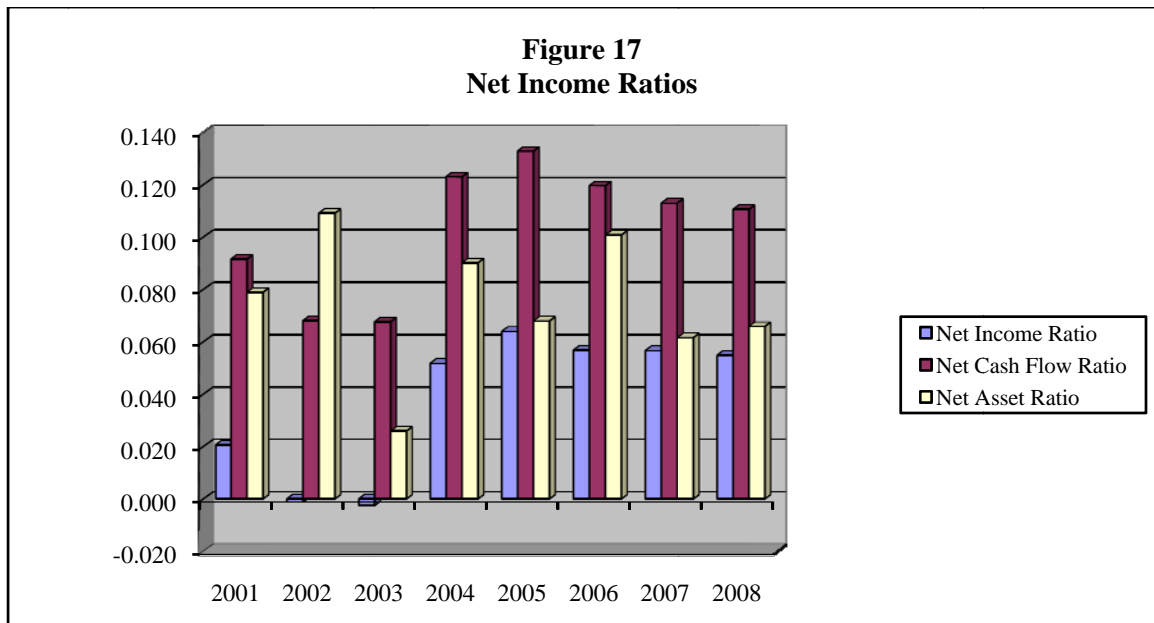
Finally, we look at the change in net assets which is the University’s bottom line. The change in net assets takes into account not only regular sources of revenue but also capital gifts, capital appropriations and transfers. Capital gifts and appropriations are important sources of revenue and to the extent that money can be raised to finance capital expansion it frees up funds in the operating budget for other uses. Transfers, particularly the transfer of the Foundation’s resources to the University are shown as revenue but cannot be considered a regular source of revenue to the University. Figure 16 shows the change in net assets for the University.



In looking at the data on changes in net assets one can see that changes were positive each year. In 2001, the University had a \$12.6 million increase in net assets. This was followed an increase in net assets of \$18.5 million in 2002. In 2002, the main reason for the large increase in net assets was an \$18.6 million capital appropriation from the state. In 2003, the University had a \$4.3 million increase in net assets following by increases of \$11.9 and \$15.8 in 2004 and 2005 respectively. In 2006, the sharp increase in the change in net assets was driven by the transfer of funds from the University's Foundation to the University. In 2007 and 2008 the change in net assets was largely driven by net income since there were no substantial transfers and the University has not received a capital appropriation since 2005.

Total Operations Ratios

Figure 17 shows several income ratios for the University from 2001 to 2005. The net income ratio is the ratio of net income to operating revenue and non-operating revenue. The second ratio is the net asset ratio which is the ratio of net assets to total revenue from all sources. The final ratio is the cash flow ratio which is the ratio of cash flow to operating revenue and non-operating revenue.



The rates of return for the most part mirror the actual levels of income in their patterns. All three ratios follow the same pattern with the exceptions of the net asset ratios in 2002 and 2006 which increased while the other two ratios decreased. These anomalies were caused by the \$18 million capital appropriation which the University received in 2002 and the \$8.7 million transfer from the University's Foundation to the University in 2006.

The Cash Flow Statement

Another picture of the flows of resources into and out of the University can be seen by looking at the Statement of Cash Flows for the University for the years 2001-2008. Table 10 shows the cash flow statements.

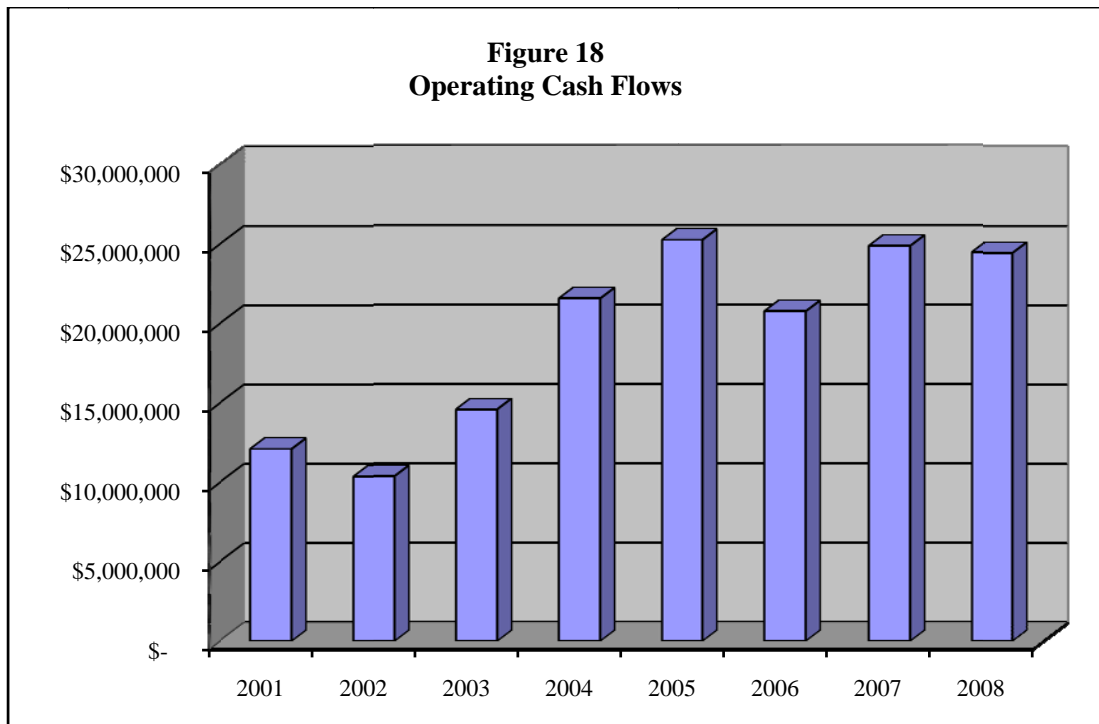
The Statement of Cash Flows has four major components. First, cash flows from operations, which includes inflows in the form of tuition and fees, grants and contracts, sales and services and outflows in the form of payments to employees, suppliers and students. Second are cash flows from non-capital financing activities the largest of which is state appropriations. Third are cash flows from capital and related financing activities which include inflows in the form of capital appropriations and capital grants and outflows in the form of purchases of capital assets as well as outflows for principal and interest payments. Finally there are cash flows from investing activities such as the purchase and sale of investments and interest received on investments. Figure 18 shows the net increase (decrease) in operating cash flow for Oakland University from 2001 to 2008.

*Table 10
Cash Flow
for year ending June 30
thousands of \$*

	2001	2002	2003	2004	2005	2006	2007	2008
Cash flows from operating activities								
Tuition and fees	\$51,489	\$58,386	\$66,744	\$75,021	\$79,217	\$88,082	\$101,984	\$112,410
Grants and contracts	\$15,292	\$15,698	\$14,877	\$15,562	\$15,692	\$15,402	\$11,731	\$13,033
Payments to suppliers	\$(36,596)	\$(34,800)	\$(36,137)	\$(30,338)	\$(32,290)	\$(38,133)	\$(45,564)	\$(44,904)
Payments to employees	\$(95,845)	\$(105,112)	\$(108,748)	\$(110,598)	\$(112,539)	\$(119,121)	\$(128,391)	\$(137,487)
Payments for scholarships and fellowships	\$(3,125)	\$(3,363)	\$(4,172)	\$(4,908)	\$(4,806)	\$(6,539)	\$(6,259)	\$(7,794)
Loans issued to students and employees	\$(488)	\$(493)	\$(447)	\$(661)	\$(475)	\$(829)	\$(585)	\$(124)
Collection of loans from students and employees	\$551	\$594	\$548	\$463	\$526	\$531	\$582	\$352
Auxiliary enterprise charges	\$19,155	\$19,505	\$20,929	\$19,294	\$19,045	\$18,699	\$20,390	\$20,029
Other receipts	\$4,920	\$3,866	\$5,445	\$6,206	\$6,947	\$8,446	\$8,614	\$5,172
Net cash used by operating activities	\$(44,645)	\$(45,719)	\$(40,961)	\$(29,959)	\$(28,682)	\$(33,462)	\$(37,497)	\$(39,312)
Cash flows from non-capital financing activities								
State appropriations	\$52,165	\$52,230	\$51,074	\$47,324	\$49,144	\$50,017	\$52,295	\$50,988
Federal direct lending receipts	\$17,913	\$20,298	\$29,932	\$34,321	\$39,300	\$43,700	\$49,722	\$57,422
Federal direct lending disbursements	\$(17,913)	\$(20,298)	\$(29,932)	\$(34,321)	\$(39,300)	\$(43,700)	\$(49,722)	\$(57,422)
Gifts and grants for other than capital purposes	\$4,454	\$3,784	\$4,347	\$4,181	\$4,684	\$3,940	\$9,197	\$10,280
Endowment gifts	\$128	\$70	\$108	\$41	\$69	\$170	\$840	\$2,497
Transfer to Meadow Brook Theater Ensemble	\$-	\$-	\$-	\$(55)	\$-	\$-	\$-	\$-
Transfer from Oakland University Foundation					\$-	\$59	\$3	\$-
Net cash provided by noncapital financing activities	\$56,747	\$56,084	\$55,529	\$51,491	\$53,897	\$54,187	\$62,335	\$63,765

Table 10 (Continued)
Cash Flow
for year ending June 30
thousands of \$

	2001	2002	2003	2004	2005	2006	2007	2008
Cash flows from capital financing activities:								
Proceeds from capital debt	\$-	\$48,000	\$4,820	\$-	\$32,192	\$18,254	\$107	\$53,280
Capital appropriations	\$7,803	\$13,951	\$7,749	\$2,002	\$385	\$-	\$-	\$-
Capital grants and gifts received	\$296	\$52	\$866	\$35	\$660	\$3,580	\$2,688	\$796
Purchases of capital assets	\$(13,755)	\$(47,542)	\$(25,793)	\$(12,410)	\$(6,383)	\$(13,833)	\$(19,409)	\$(13,244)
Principal paid on capital debt and leases	\$(2,233)	\$(2,343)	\$(6,512)	\$(2,713)	\$(34,897)	\$(3,115)	\$(3,217)	\$(50,578)
Interest paid on capital debt and leases	\$(2,864)	\$(3,466)	\$(4,229)	\$(4,240)	\$(3,970)	\$(4,291)	\$(5,059)	\$(10,438)
Net cash provided (used) by capital financing activities	\$(10,752)	\$8,652	\$(23,099)	\$(17,327)	\$(12,013)	\$595	\$(24,889)	\$(20,183)
Cash flows from investing activities								
Proceeds from sales and maturities of investments	\$23,535	\$30,048	\$31,629	\$24,686	\$11,478	\$36,933	\$33,602	\$89,278
Investment income	\$3,082	\$2,605	\$1,894	\$1,648	\$2,156	\$3,876	\$5,404	\$16,854
Purchases of investments	\$(19,488)	\$(31,576)	\$(32,036)	\$(25,089)	\$(30,586)	\$(56,175)	\$(29,626)	\$(120,470)
Net cash provided by investing activities	\$7,130	\$1,077	\$1,486	\$1,245	\$(16,952)	\$(15,366)	\$9,380	\$(14,338)
Net Increase in Cash and Cash Equivalents	\$8,480	\$20,094	\$(7,045)	\$5,450	\$(3,749)	\$5,953	\$9,329	\$(10,069)
Cash & cash equivalents, beginning of year	\$5,323	\$13,804	\$33,898	\$26,852	\$32,302	\$28,553	\$34,506	\$43,835
Cash and cash equivalents, end of year	\$13,804	\$34	\$26,852	\$32,302	\$28,553	\$34,506	\$43,835	\$33,766



The operating cash flow in Figure 18 consists of net cash provided by operations plus net cash from non-capital financing activities. Again this shows a slight decline in operating cash flows from \$12.1 million in 2001 to \$10.4 million in 2002. In 2003, 2004 and 2005 operating cash flows increased reaching \$25.2 million in 2005. In 2006, there was a modest decline in operating cash flow followed by an increase in 2007. In 2008, the operating cash flow for the University was \$24.5 million.

Sources of Revenue:

The Income ratios in Figures 19 and 20 show the major sources of revenue for the University for 2001 and 2008. Clearly one of the major changes is the jump in tuition and fees which went from 34 percent in 2001 to 54 percent in 2008. At the same time, state appropriations declined from 34 percent to 27 percent. Revenue from auxiliary activities also declined as a percentage of revenue from 14 percent to 10 percent. While the University still has a diversified base of revenue, it has become less diversified over time and is now much more heavily dependent on tuition.

Figure 19
Sources of Revenue, 2001

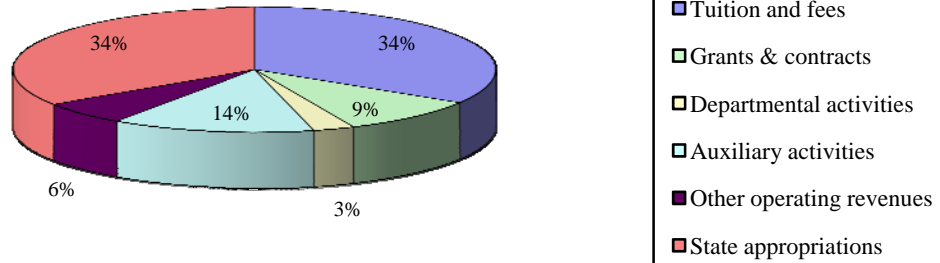
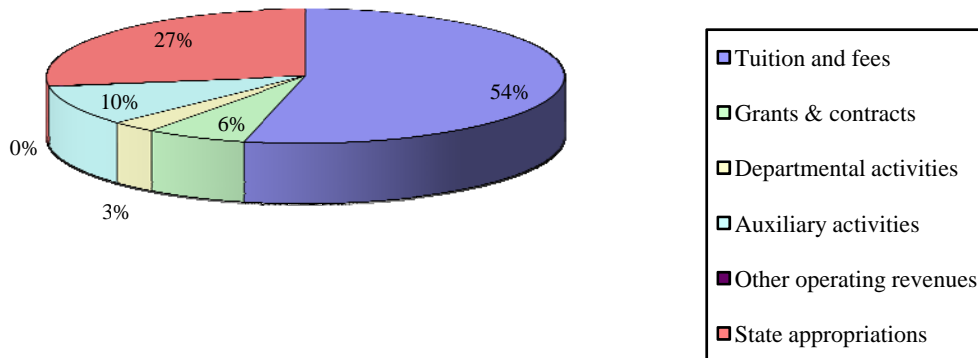


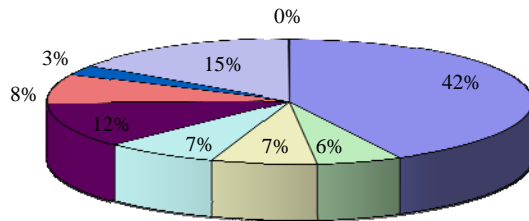
Figure 20
Sources of Revenue, 2008



Allocation of Expenses

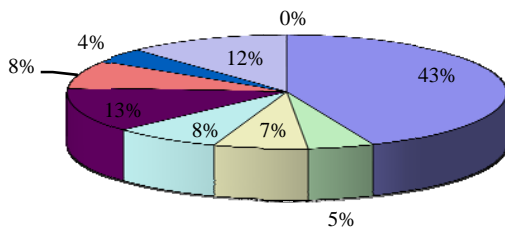
Figures 21 and 22 show how expenses are allocated at Oakland University for both 2001 and 2005. The largest single expense in both years is for instruction accounting for 42 percent in 2001 and 43 percent in 2008. The next largest expense is for auxiliary enterprises accounting for 15 percent in 2001 and 12 percent in 2008. Institutional support increased from 12 percent in 2001 to 13 percent in 2008.

Figure 21
Allocation of Resources, 2001



- Instruction
- Research & Public Service
- Academic support
- Student services
- Institutional support
- Operation and maintenance of plant
- Student aid
- Auxiliary activities
- Other expenditures

Figure 22
Allocation of Resources, 2008



- Instruction
- Research & Public Service
- Academic support
- Student services
- Institutional support
- Operation and maintenance of plant
- Student aid
- Auxiliary activities
- Other expenditures

Depreciation was excluded from this analysis on the allocation of resources because, as was mentioned before, it is a non-cash expense.

Conclusion

In my last report I concluded that the financial condition of Oakland University had improved over the period from 2001-2005. Looking at the University's financial condition in this update from 2006-2008 I conclude that the financial condition of the University has continued to improve. The University's financial condition can be summarized by looking at three key ratios. These ratios are often used by bond rating agencies to assess the credit worthiness of an institution. The Ohio Board of Regents has developed a methodology to assign scores these three and then use a weighted average of those scores to create a composite index indicating the financial health of an institution (<http://www.regents.state.oh.us/financial/sb6.html#Methodology>).

The first is the ratio is known as the viability ratio, which is the ratio of expendable net assets to long-term debt. The second ratio is the primary reserve ratio, which measures the ratio of expendable net assets to expenses. The net asset ratio is the change in net assets divided by total revenues (operating and non-operating).

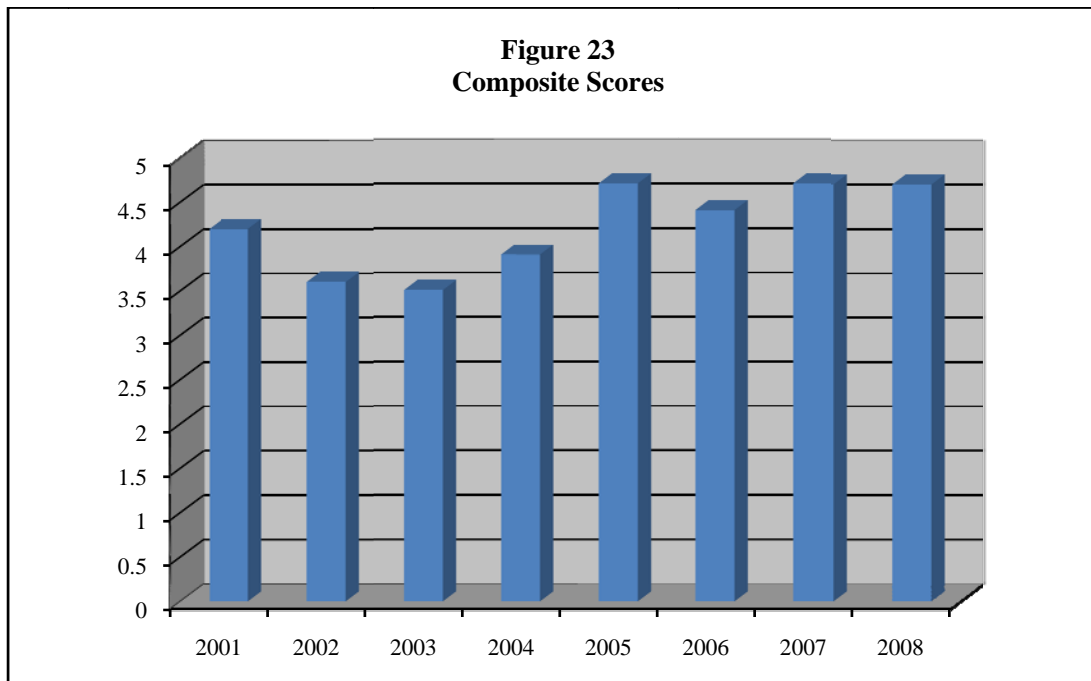
Scores for each of the three ratios are whole numbers from 0 to 5 with 5 being the highest score. A weighted average of these scores is then used to calculate a composite index that reflects the bond rating that would be given to an institution. These bond ratings reflect the overall financial health of the institution.

<i>Table 11 Composite Scores for the year ending June 30</i>								
	2001	2002	2003	2004	2005	2006	2007	2008
Viability Score	4	2	3	3	4	3	4	4
Primary Reserve Score	4	4	4	4	5	5	5	5
Net Asset Score	5	5	3	5	5	5	5	5
Composite Score	4.2	3.6	3.5	3.9	4.7	4.4	4.7	4.7

Table 11 shows the individual scores for each ratio and composite scores for Oakland University from 2001 to 2008. The scores for the viability ratio declined between 2001 and 2002, increased in 2003, remained constant in 2004 and then increased again in 2005. The main factor behind the decline in the viability score in 2002 was the increase in debt. There was a temporary drop in the viability score in 2006 due to increased borrowing but it returned to the 2005 level of 4 in 2007 and remained there in 2008. To reach a score of 5 the University would have to have a viability ratio of 2.5 and while it is far from achieving this ratio its viability scores have generally been trending up.

The primary reserve score remained constant from 2001 through 2004 and then increased in 2005. The factor behind the increase in the primary reserve score in 2005 was the continuing increase in expendable net assets and a decline in operating expenses. Since that time the growth in expendable net assets has outpace the growth of operating expenses so that the primary reserve ratio for the University has continued to rise. However, this improvement is not reflected in the primary reserve score because the University reached the maximum primary reserve score in 2005.

The net asset score has been fair stable throughout the entire eight year period. Figure 23 provides a graphical view of the composite scores for the period 2001-2008. The overall composite score for 2007 and 2008 comes close to being a perfect score.



In conclusion, since my last report which covered the years 2001-2005, the University has improved its financial condition. The composite scores, along with all of the other data analyzed in this report, indicate that Oakland University remains in excellent financial condition.