

# **NORTHWOOD UNIVERSITY**

**Financial Statements for the  
Year Ended August 31, 2008, and  
Independent Auditors' Report**

## Independent Auditor's Report

To the Board of Trustees  
Northwood University

We have audited the accompanying balance sheet of Northwood University (a not-for-profit corporation) as of August 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwood University at August 31, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008 on our consideration of Northwood 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

October 20, 2008

**NORTHWOOD UNIVERSITY**

**BALANCE SHEET  
YEAR ENDED AUGUST 31, 2008**

**ASSETS**

Cash and cash equivalents	\$13,001,768
Accounts receivable (net of allowance for uncollectible accounts of \$563,000)	1,306,934
Notes receivable - Net (Note 3)	34,000
Contributions receivable - Net (Note 2)	12,311,074
Investments (Note 4)	65,954,784
Investments held in trust by others	2,086,387
Inventories	317,158
Prepaid expenses	1,278,969
Land, buildings and equipment - Net (Note 5)	64,156,226
Other	78,799
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TOTAL ASSETS	<u>\$160,526,099</u>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued expenses	\$6,901,507
Deferred tuition and fees	7,590,649
Other deferred revenues	2,300,570
Long-term debt (Note 6)	1,238,182
Accrued post-retirement benefits (Notes 7 and 8)	3,661,112
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Total liabilities	21,692,020
NET ASSETS:	
Unrestricted	76,566,371
Temporarily restricted	33,023,701
Permanently restricted	29,244,007
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Total net assets	<u>138,834,079</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$160,526,099</u>

See notes to financial statements.

**NORTHWOOD UNIVERSITY****STATEMENT OF ACTIVITIES  
YEAR ENDED AUGUST 31, 2008**

## UNRESTRICTED NET ASSETS:

## Revenue:

Tuition and fees - Net	\$54,978,073
Auxiliary enterprises	10,797,880
Contributions	1,804,159
Fees from special seminars and programs	892,188
Investment income	2,556,173
Other income	595,047
Gain on sale of land	254,557
Total revenue	<u>71,878,077</u>

## Net assets released from restrictions -

Release of time restrictions and satisfaction of fixed asset acquisition restrictions	2,312,233
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## Expenses:

## Educational program services:

Instructional programs	28,065,719
Student services	21,256,402

## Support services:

Management and general	9,150,198
Auxiliary enterprises	9,835,080

## Fundraising services:

Fund raising programs	2,530,753
University Relations	2,914,103

Total expenses	<u>73,752,255</u>
Operational increase in net assets	438,055

Realized and unrealized losses on investments	(8,009,158)
Loss on disposal of assets	<u>(884,463)</u>
Decrease in unrestricted net assets	(8,455,566)

## TEMPORARILY RESTRICTED NET ASSETS:

Contributions	10,177,404
Investment income	271,071
Changes in value of annuity obligations	(181,304)
Net assets released from restrictions	<u>(2,312,233)</u>
Increase in temporarily restricted net assets	7,954,938

## PERMANENTLY RESTRICTED NET ASSETS:

Contributions	243,070
Investment income	107,470
Changes in value of annuity obligations	(1,356)
Decrease in value of perpetual trust	<u>(169,271)</u>
Increase in permanently restricted net assets	<u>179,913</u>

DECREASE IN NET ASSETS	(320,715)
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NET ASSETS AT BEGINNING OF YEAR	<u>139,154,794</u>
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NET ASSETS AT END OF YEAR	<u><u>\$138,834,079</u></u>
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See notes to financial statements.

**NORTHWOOD UNIVERSITY****STATEMENT OF CASH FLOWS  
YEAR ENDED AUGUST 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	\$ (320,715)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Realized/unrealized losses on investments	8,009,158
Loss on disposal of fixed assets	884,463
Gain on sale of land	(254,557)
Depreciation	4,984,436
Amortization	17,944
Investment earnings restricted for long-term use	(107,470)
Contributions restricted for long-term use	(10,420,474)
Change in value of annuity agreement	177,830
Change in value of funds held by third-party trustee	196,438
Gift of assets	(206,311)
Changes in assets and liabilities that provided (used) operating cash:	
Decrease in accounts receivable	951,951
Decrease in inventories	28,523
Decrease in prepaid expenses	289,961
Increase in other assets	(7,475)
Decrease in accounts payable and accrued expenses	(25,746)
Increase in deferred revenues	2,051,599
Increase in deferred employment expenses	270,983
Net cash provided by operating activities	<u>6,520,538</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments	26,331,301
Purchases of investments	(25,313,908)
Purchases of land, buildings and equipment	(8,858,377)
Sale of land, buildings and equipment	343,948
Net cash used for investing activities	<u>(7,497,036)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Restricted contributions received	3,189,238
Restricted investment income received	107,470
Payment on long-term debt and annuities	(189,863)
Net cash provided by financing activities	<u>3,106,845</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,130,347
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,871,421</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$13,001,768</u></u>

See notes to financial statements.

# NORTHWOOD UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2008

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Educational Facilities** - Northwood University (“Northwood” or “the University”) has campuses at Midland, Michigan; Cedar Hill, Texas; and West Palm Beach, Florida. The educational system also includes the Margaret Chase Smith Library in Skowhegan, Maine, and various extension centers.

**Basis of Accounting** - The University maintains its accounting records using the accrual basis.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Fair Value of Financial Instruments** - Financial instruments consist of cash equivalents, accounts receivable, accounts payable and debt. The carrying amount of all significant financial instruments approximates fair value due to either the short maturity or the existence of variable interest rates that approximate prevailing market rates.

**Fair Value of Financial Instruments** - The carrying value of financial instruments approximates fair market value.

**Cash and Cash Equivalents** generally include demand and time deposits (including certificates of deposit) with maturities of three months or less when purchased.

**Accounts Receivable** consists primarily of student obligations. Northwood maintains a reserve on student accounts receivable based upon historical experience and the age of the receivable balance. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

**Inventories** consist primarily of books and supplies. Inventories are stated at lower of cost or market. Cost was determined using the first-in, first-out method.

**Investments** in marketable equity securities and bonds are stated at fair values (see Note 4). Other investments consist principally of undeveloped land and rental properties. These investments were received as gifts and/or acquired in bargain purchases and are carried at the lower of cost (market value at date of a gift, or as soon thereafter as such value is determinable) or estimated realizable value. Hedge funds and limited partnerships may have uncertain liquidity and restrictions with respect to rights of withdrawals. Investment partnerships, including investments in private equity funds, limited partnerships and real estate partnerships without readily determinable fair values, are valued based upon judgments by the fund or partnership managers and respective valuation committees that include original costs, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transaction. In management's opinion, the stated values approximate fair value as determined by the respective managers. Due to the inherent uncertainty of valuation, the estimated fair values may differ significantly from values that would have been used had a readily available market value for the investments existed, and the differences could be material.

**Funds Held in Trust by Others** represents permanently restricted funds that are held and administered by an outside trustee. The administration of endowment funds held in trust is at the direction of the donor; the income from these funds inures to the benefit of the University. At least annually, the Trust will distribute a portion of investment income to the University, with any undistributed amounts added to the permanent trust.

**Land, Buildings and Equipment** - Northwood capitalizes major additions to plant assets. Recorded amounts for investments in plant construction and improvements are stated at cost, or appraised value at date of a gift for donated properties, less accumulated depreciation (see Note 5). Depreciation, with the exception of the art collection, is provided for all fixed assets using the straight-line method over the following asset lives:

Land improvements	7 years
Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 -10 years

**Allowance for Uncollectible Accounts** - Northwood maintains a reserve on student accounts receivables based on estimates computed by management. No allowance for uncollectible pledges is recorded as management expects all amounts to be collected.

**Post-Retirement Health Care Benefits** - Post-retirement health care benefits are recorded on the accrual basis over the service period in which the benefits are earned.

**Tuition and Fee Revenue** are shown net of all foregone revenue awarded by the University in the form of financial assistance to students and any restricted gifts or endowment income designated for awards to students. For the current year these amounts totaled \$19,149,261.

**Contribution Revenue** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions without donor-imposed restrictions and contributions with donor imposed time restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

**Deferred Revenue** - Revenue that is received prior to year end that is related to future fiscal periods is recorded as deferred revenue. Tuition revenue received in advance of the fall term that begins in September, has been recorded as unearned revenue as of August 31, 2008.

**Advertising Costs** – The University expenses advertising costs as incurred. The University incurred approximately \$1,507,000 of advertising costs during the year ended August 31, 2008.

**Income Tax Status** - The University is organized as a not-for-profit corporation and is exempt from federal income taxes.

**Annuity Agreements** - The University is a beneficiary of various annuity agreements. Donors receive interest payments at specified amounts during their lifetimes. The present value of the estimated future payments to the donors using a discount rate of 5% is recorded as a liability by the University.

**Net Asset Restrictions** - The University's net assets are segregated between unrestricted, temporarily restricted and permanently restricted in accordance with donor stipulated limits as to use. Temporarily restricted net assets and income from permanently restricted net assets are predominately intended for fixed asset and scholarship expenditures.

The University accounts for contributions restricted to acquisition or construction of long-lived property received subsequent to August 31, 1999 as released from restriction over the estimated useful lives of the long-lived assets. All other donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

## 2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at August 31, 2008 relate to donor promises for capital and operating purposes. Contributions receivable consist of approximately \$1,433,000 which is restricted for building activities. Contributions are expected to be received as follows:

Year ending August 31	
2009	\$ 3,702,380
2010	3,694,047
2011	2,635,714
2012	2,435,714
2013	1,150,000
Thereafter	<u>100,000</u>
Total	13,717,855
Discounted to net present value at 5%	<u>1,406,781</u>
Contributions receivable, net	<u>\$12,311,074</u>

## 3. NOTES RECEIVABLE

Notes receivable consist of the following at August 31, 2008:

Student Loans (formerly Federal Perkins loans)	\$ 117,981
Note Receivable – Dow, Howell, Gilmore	34,000
Less allowance for uncollectible loans	<u>(117,981)</u>
Net	<u>\$ 34,000</u>

## 4. INVESTMENTS

Investments consist of the following at August 31, 2008:

	Market Value
Corporate Stocks	\$ 43,245,409
United States Treasury Securities	2,275,001
Corporate Bonds	3,597,022
Hedge Funds	15,876,925
Limited Partnerships	139,664
Other	<u>820,763</u>
Total	<u>\$ 65,954,784</u>

5. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at August 31, 2008:

Land	\$ 13,951,462
Buildings and improvement	73,424,948
Construction in progress	524,224
Equipment	19,371,339
Collections	<u>1,184,005</u>
Total	108,455,978
Less accumulated depreciation	<u>44,299,752</u>
Net	<u>\$ 64,156,226</u>

6. LONG-TERM DEBT

Long-term debt consists of the following at August 31, 2008:

Annuity contracts payable, due in various amounts annually, discounted at 5% per annum.	\$ 1,238,182
Less current portion	<u>189,863</u>
Noncurrent portion	<u>\$ 1,048,319</u>

The following schedule details scheduled future maturities on notes payable and long-term debt as of August 31, 2008:

Fiscal Year Ending August 31	
2009	\$ 189,863
2010	189,863
2011	188,718
2012	187,286
2013	186,258
Thereafter	<u>569,190</u>
subtotal	\$ 1,511,178
Net present value discount at 5%	<u>(272,996)</u>
Total	<u>\$ 1,238,182</u>

7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Participation in the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) is available to all eligible Northwood employees. Northwood makes a matching contribution of up to 8% of the employees' annual salary. Northwood contributions are funded as accrued and aggregated \$1,942,217 for the year ended August 31, 2008.

The spouse of a deceased former officer of Northwood is covered by an unfunded defined benefit pension plan. The annual retirement benefits are adjusted by increases in the Consumer Price Index not to exceed 4%. The discount rate used in determining the actuarial present value of the projected benefit obligation was 5%. Deferred employment obligations of \$385,449 represent the present value of the unfunded projected benefit obligation. The projected benefit obligation is fully vested.

8. POST-RETIREMENT HEALTH CARE BENEFITS

The University provides certain health care benefits for eligible retired employees. For employees who are covered by the University's major medical plan at the time of retirement and who meet other eligibility requirements, the University will continue to carry the major medical coverage on behalf of the employee and, under certain circumstances, the employee's spouse as long as they live. The University's policy has been and continues to be to fund such benefits as incurred.

The computed unfunded accumulated post-retirement benefit obligation is \$2,207,658 and is recorded in accrued post-retirement benefits in the accompanying balance sheet. The measurement date is September 1, 2007.

Net periodic post-retirement benefits expense included the following components for the year ended August 31, 2008:

Benefits attributed to service during the period	\$ 22,003
Interest cost on accumulated post-retirement benefit obligation	<u>114,906</u>
Net periodic post retirement benefits expense	\$ 136,909

The benefits paid under the plan were \$227,376, of which the participants paid for \$97,200 and the University paid for \$130,176.

The assumed discount rate used to measure the post-retirement benefit obligations was 5% at August 31, 2008. The health care trend rates assumed in the above estimates include an assumed level rate of 5.5% each year.

The estimated projected plan benefits including University and participant contributions are:

	University Contributions	Participant Contributions	Total Estimated Plan Benefits
2009	\$ 105,981	\$ 70,654	\$ 176,635
2010	115,539	77,026	192,565
2011	125,825	83,883	209,708
2012	134,820	89,880	224,700
2013	146,610	97,740	244,350
2014 – 2018	775,351	516,901	1,292,252

Retired officers of Northwood may qualify for a special health care benefit at retirement. The amount of the expected liability is \$1,068,005.

#### 9. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The University has an obligation related to the removal of asbestos within its buildings upon reconstruction, demolition or abandonment. The University has recorded a liability of \$393,405 related to the potential costs associated with the asbestos abatement. Associated capital assets have been recorded in the amount of \$393,405 and the university estimates the average remaining lives of the buildings affected to be 19 years.

#### 10. NEW ACCOUNTING PRONOUNCEMENT

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the fiscal year beginning after November 15, 2007. The University is currently evaluating the impact, if any, of the provisions of SFAS 157 on their financial statements.

#### 11. CONTINGENCIES

In the normal course of business, there are various unresolved legal actions. As of August 31, 2008, the outcome of these legal actions was not determinable. Management believes the resolution of these lawsuits will not have a material effect on the financial statements; therefore, a provision for a loss was not included in the financial statements.

## 12. SUBSEQUENT EVENT

Subsequent to year end, the University's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of the losses that will be recognized in subsequent periods, if any, cannot be determined.