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Oakland University
Board of Trustees Meeting
September 10, 2003

Oakland University

Andrews Hooper & Pavlik Presentation Agenda for the Board of Trustees Meeting

September 10, 2003

- ◆ Introduction and Organization Chart of Audit Team

- ◆ Board of Trustees Letter
 - Services Provided and Reports Issued or in Process
 - Results of 2003 Audit and Review of Significant Accounting Matters
 - Required Communications with the Board of Trustees
 - Management Letter

- ◆ Financial Highlights

- ◆ Other Questions or Comments

September 10, 2003

Board of Trustees
Oakland University
Rochester, Michigan

We are pleased to submit this report which summarizes the results of our audit of Oakland University (University) and other matters, which we believe would be of interest to you.

Services Provided and Reports Issued or in Process

Our primary services to the University for 2003 are summarized below:

- An audit of the basic financial statements of the University for the year ended June 30, 2003. Our audit included all procedures considered necessary by us to perform the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and to issue our opinion thereon.
- An audit in accordance with OMB Circular A-133 and *Government Auditing Standards*. Our audit included procedures for testing requirements related to major federal award programs (i.e. Student Financial Assistance Programs, Research & Development, and TRIO Program) for the year ended June 30, 2003.
- An agreed-upon procedures report as required by the NCAA Financial Audit Guidelines to assist the University in complying with NCAA Bylaw 6.2.3.1.
- Procedures as required by the State of Michigan related to the inclusion of the University's audited basic financial statements in the State's comprehensive annual financial report. Additional limited procedures will be required by the State to be performed in December of 2003 updating our subsequent events procedures through that date.
- Several audits of various Michigan Economic Development Corporation programs.
- An audit of the basic financial statements of the Oakland University Foundation for the year ended June 30, 2003.

- Accounting research assistance, tax consultation and various other audit-related services at the request of management.

Results of 2003 Audit and Review of Significant Accounting Matters

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the basic financial statements.

In addition, SAS No. 99, Consideration of Fraud in a financial statement audit, sets forth the responsibilities of the auditor to plan and perform the audit to obtain reasonable assurance that financial statements are not materially misstated due to errors or fraud. We have addressed the risk related to fraud by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors.

The scope of our 2003 audit did not vary significantly from our planned scope. Our scope was based on our overall risk evaluation of the University's operations and controls as well as the 2003 audit results, discussions with management, and other matters, which came to our attention. Our assessment, or "risk analysis", directed proportionally more audit effort to those areas where the risk of material error was believed to be higher.

The following summarizes various matters of interest:

Construction in Progress

We audited significant transactions related to the construction and believe that such activity is appropriately recorded and disclosed in the basic financial statements based on information through June 30, 2003.

Allowance for Doubtful Accounts

We reviewed management's detailed analysis of the accounts receivable and student loan receivables. The University determined the allowance for uncollectible student accounts and student loan accounts was adequate. Based on our testing and review of assumptions made by management, we believe the allowance for doubtful accounts is appropriate at June 30, 2003.

Oakland University Foundation

The Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. The total net assets of the Foundation are disclosed in the notes to the financial statements of the University.

Recently Issued Accounting and Auditing Standards

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an Amendment of GASB Statement No. 14

In May 2002, the *Governmental Accounting Standards Board* issued Statement No. 39 that requires certain organizations to be included as component units if the nature and significance of their relationship with the primary government (such as the University), including their ongoing financial support of the primary government are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. The new standard requires that a legally separate, tax-exempt organization should be discretely presented as a component unit of the reporting entity if all of the following three criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Based on these criteria, the University's Foundation would be considered a component unit of the University. The new standard is effective for financial statements for periods beginning on or after June 15, 2003 with earlier application encouraged. The University will adopt GASB Statement No. 39 for fiscal year 2004.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and Amendment of GASB Statement No. 3

In March 2003, the *Governmental Accounting Standards Board* issued Statement No. 40. This pronouncement addresses additional risks to which governments are exposed. It requires state and local governments to communicate key information about deposit and investment risks, frequently one of the largest assets on a government's balance sheet. Required disclosures are as follows:

1. Investment credit risk disclosures, including credit quality information issued by rating agencies;
2. Interest rate disclosures that include investment maturity information, such as weighted average maturities or specific identification of the securities;
3. Interest rate sensitivity for investments that are highly sensitive to changes in interest rates (for example, inverse floaters, enhanced variable-rate investments and certain asset-backed securities);
4. Foreign exchange exposures that would indicate that foreign investment's denomination.

The provisions of Statement 40 are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged. As of the date of this report, no communication has been received from the State regarding early implementation of this new standard.

GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*

This Technical Bulletin clarifies guidance on disclosures for derivatives that are not reported at fair value on the statement of net assets. Since the University has a derivative, the University was required to adopt the provisions of this Technical Bulletin for the year ended June 30, 2003. Appropriate disclosures are included in Notes to the Financial Statements.

Proposed Statement of the GASB, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*

This proposed statement would establish standards for the measurement, recognition and display of OPEB expense and related liabilities, and note disclosures. The statement will be effective for the fiscal year ending June 30, 2007.

Proposed Statement of the GASB, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

This proposed statement would provide criteria for identifying an asset impairment and measurements for recognizing impairments in the financial statements.

Required Communications with the Board of Trustees

Government Auditing Standards require that we communicate information to you regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. We made these communications to the University in our scope letter dated May 9, 2003.

This section discusses our responsibilities under Statement on Auditing Standards (SAS) No. 61, *Communication With Audit Committees*. The following excerpts from SAS No. 61 describe the specific matters required to be communicated to the Board of Trustees and our responses thereto:

- Accountant's Responsibility Under Auditing Standards Generally Accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133 (the report of Independent Accountants and other matters outlined below)

The accountant's standard report emphasizes that an audit conducted in accordance with auditing standards generally accepted in the United States of America is designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. Our report dated August 28, 2003 for the June 30, 2003 year end audit follows this format.

Because of the concepts of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

Our audit also consisted of our obtaining an understanding of the University's internal controls, which enabled us to plan the audit and determine the nature, timing and extent of the tests to be performed and to report on the system of internal controls in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the University's compliance with certain provisions of laws, regulations, contracts, and grants. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the University's compliance with requirements applicable to major federal award programs for the purpose of expressing an opinion on the University's compliance with those requirements.

- Significant Accounting Policies--SAS No. 61 requires that we discuss with you the initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no changes in significant accounting policies during the year ended June 30, 2003.
- Management Judgments and Accounting Estimates--The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive because of their significance to the financial statements and the possibility that actual future events affecting them may differ significantly from management's current expectations. During our 2003 audit, we reviewed the reasonableness of judgments and accounting estimates made by management, which could have a material impact on the basic financial statements. Based on our review, we determined that management's judgments and estimates on financial accounting matters are reasonable.
- Significant Audit Adjustments--For purposes of SAS No. 61, an audit adjustment, whether or not recorded by the University, is a proposed correction of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed. There were no significant audit adjustments identified as a result of our audit.
- Uncorrected Misstatement--For purposes of SAS No. 61, we are required to inform you about uncorrected misstatements whose effects management believes are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Below is a listing of those items for the current year:

Tuition related summer school was deferred to the next fiscal year (a portion of this relates to the current fiscal year). Payments from the State of Michigan for the charter schools and the related University administrative fee were recorded as received. Correction of an error in the calculation of one employee's accrued vacation. A portion

of the University's MUSIC reserves should be recorded as a liability. The net effect of these items after the turn around effect of prior year's items would have resulted in an increase in net assets of approximately \$102,000.

- Disagreements with Management--We have had no disagreements with management.
- Consultation with Other Accountants--We are not aware of any consultation about significant financial reporting matters by the University with other independent accountants.
- Major Issues Discussed with Management Prior to Retention--There were no major issues, including the application of accounting principles and auditing standards, that were discussed with management in connection with our retention as the University's accountants.
- Difficulties Encountered in Performing the Audit--We did not encounter any difficulties in performing the audit.
- Communication of Fees for Non-Audit Services--No significant non-audit services were rendered on behalf of Oakland University during the year ended June 30, 2003.

Management Letter

We considered the University's internal controls during the course of the audit, and we remained alert for areas where procedures and controls could be improved. We have issued a separate letter dated August 28, 2003, which documents our suggestions to assist in improving procedures and controls.

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This report is intended solely for the information and use of the Board of Trustees and management of Oakland University and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to respond to any comments or questions you may have concerning this letter or any other aspects of our services to Oakland University.

It has been a pleasure to serve Oakland University during 2003. We would like to express our appreciation for the cooperation and courtesy extended to us by the Board of Trustees and the management and employees of the University and look forward to continuing our association in the future.

Sincerely,

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the basic financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated August 28, 2003.

In planning and performing our audit of the basic financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2003 and 2002, we considered its internal controls to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements for Oakland University and not to provide assurance on internal controls.

The attached suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the suggestion or respond to any questions at your convenience.

Saginaw, Michigan
August 28, 2003

Teller Reconciliations

During our testing of teller reconciliations in the Cashier's Office we noted that nine out of our sample size of twenty-two did not have a signature of approval on the individual teller reconciliations, but approval was noted on the daily summary reconciliation. Another three of our sample did not have any approval on either the individual teller reconciliations or the daily summary reconciliation. We suggest that the supervisor sign off on all teller reconciliations (individual and summary) to note that they were properly approved.

Time and Effort Reports

The Grants Department has just fully implemented their process (August 2003) to collect required time and effort reports for employee's time spent working on grants that have been awarded to the University. We encourage management to monitor, maintain, and review these reports on a quarterly basis to ensure that proper support is maintained and recorded for the salary expenditures charged to the grants.