

Oakland University

Board of Trustees Meeting

November 6, 2002



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Oakland University

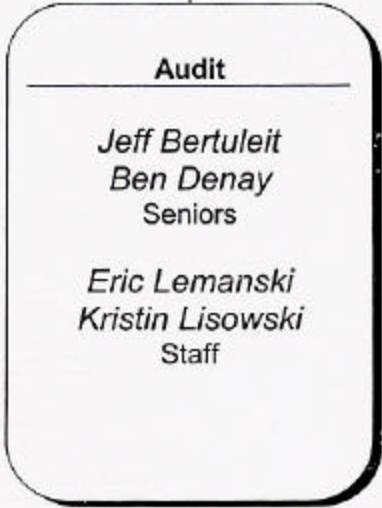
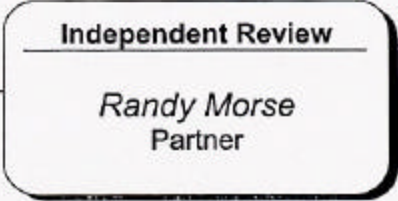
Andrews Hooper & Pavlik Presentation Agenda  
for the Board of Trustees Meeting

November 6, 2002

- ◆ Introduction and Organization Chart of Audit Team
  
- ◆ Board of Trustees Letter
  - Services Provided and Reports Issued or in Process
  - Results of 2002 Audit and Review of Significant Accounting Matters
  - Required Communications with the Board of Trustees
  - No Material Weaknesses Letter
  
- ◆ Financial Highlights
  
- ◆ Other Questions or Comments



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November 6, 2002

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 2002 are summarized below:

- An audit of the basic financial statements of the University for the year ended June 30, 2002. 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, 2002.
- 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 January of 2002 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, 2002.
- Accounting research assistance, tax consultation and various other audit-related services at the request of management.

## Results of 2002 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.

The scope of our 2002 audit did not vary significantly from our planned scope. Our scope was based on an assessment of the likelihood that errors or irregularities may be present which are material to the financial statements. 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:

### Basic Financial Statements

During the previous year, the University adopted the following Governmental Accounting Standards Board (GASB) Statements:

#### *Accounting and Financial Reporting for Nonexchange Transactions*

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* – This Statement establishes accounting and financial reporting standards for nonexchange transactions. Nonexchange transactions include revenues such as gifts and grants. In these types of transactions, the University receives revenue from the donor or grantor without directly giving equal value (goods or services) in return. In most cases, this statement requires that the gifts and grants be recognized at the later of the date pledged or when the eligibility requirements of the gifts and grants are met.

#### *College and University Reporting Model*

GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* – This Statement requires the following components of the University's financial statements:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows
- Notes to the basic financial statements

The State of Michigan chose to adopt this statement for their fiscal year ended September 30, 2001. The University is a component unit of the State of Michigan (primary government) and therefore adopted this statement for their fiscal year ended June 30, 2001 to provide the financial information required for the primary government's basic financial statements.

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 anticipates adopting GASB Statement No. 39 for fiscal year 2004.

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, 2002.

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, 2002.

Budget Process and Projected Financial Results

We noted management has implemented an improved budget monitoring process for the general fund. We also noted that further improvements for projecting financial results for other activities are in process.

## 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 is disclosed in the notes to the financial statements of the University.

### 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 July 8, 2002.

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 September 26, 2002 for the June 30, 2002 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, 2002 other than the restatement discussed in Note 1 to the financial statements for the Perkins loans.
- 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 2002 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 to summer school was deferred to the next fiscal year. Payroll was not accrued related to partial days in the bi-weekly payroll that overlapped the fiscal years and for one other payroll accrual. Payments from the State of Michigan for the charter schools and the related University administrative fee was recorded as received. The recording of depreciation for software in construction in progress that should have been transferred out of construction by year end. The net effect of these items would have resulted in a decrease in net assets of approximately \$37,000.
- 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--During the year ended June 30, 2002, we assisted management with insurance general ledger account reconciliations and tax matters. Our total fees for nonaudit services during the year ended June 30, 2002 approximated \$15,800.

#### No Material Weaknesses 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 noted no matters involving the internal controls and its operation that we would consider to be material weaknesses and we have issued the standard "no material weaknesses" letter.

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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 2002. 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.

Very truly yours,

*Andrews Hooper & Pavlik P.L.C.*



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Board of Trustees  
Oakland University  
Rochester, Michigan

We have audited the basic financial statements of Oakland University as of and for the year ended June 30, 2002, and have issued our report thereon dated September 26, 2002.

In planning and performing our audit of the basic financial statements of Oakland University for the year ended June 30, 2002, we considered its internal controls to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal controls. Our consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control components and their operation that we consider to be material weaknesses as defined above.

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.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
September 26, 2002