

**REAPPOINTMENT OF AN INDEPENDENT  
PUBLIC ACCOUNTING FIRM**

1. **Division and Department:** Finance and Administration, Controller's Office
  
2. **Introduction:** The *Charter of the Audit Committee of the Oakland University Board of Trustees* (Audit Committee) provides that the Audit Committee is advisory to the Board of Trustees (Board) with the following duties and responsibilities in connection with the University's Independent Auditors. The Audit Committee shall:
  - A. Recommend to the Board of Trustees the appointment, compensation, retention, oversight and termination of all independent auditors.
  
  - B. Recommend to the Board of Trustees all terms of and fees for audit services, audit-related services, tax services, and other services to be performed for the University by any independent auditors.
  
  - C. Ensure that the independent auditors prepare and deliver with each engagement letter a written statement representing to the Audit Committee that the auditor is independent in regards to the University and any related parties.
  
  - D. Be provided annually with a copy of the auditor's peer review report and related letter of comments and recommendations.
  
  - E. Ensure that the independent auditors of the University-wide financial statements shall submit to the University, annually, a formal written statement of the fees billed for each of the following categories of services rendered by the independent auditors: (i) audit services; (ii) tax services; and (iii) all other services rendered by the independent auditors for the most recent fiscal year, in the aggregate and by each category of service.
  
  - F. Review the independent auditors' University-wide, written audit plan prior to the commencement of the audit and discuss audit scope, staffing, locations, and reliance upon Management, internal audit and general audit approach with the Audit Committee.

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- G. Review and evaluate the qualifications, performance, and independence of the independent auditors, including an evaluation of the lead partner of the independent auditors and an evaluation of whether the independent auditors' quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the auditors' independence. The Audit Committee's evaluation of the independence of the independent auditors shall be made with respect to standards of independence set forth in any applicable accounting and financial standards, laws and regulations. The Audit Committee shall consider the opinions of Management and internal auditors in its evaluation.
- H. Ensure the appropriate rotation of the lead audit partner having primary responsibility for the audit and audit partner responsible for reviewing the audit. The Board of Trustees require a rotation of the lead partner after five years with an introduction to the new lead partner during the fifth year of the current lead partner. In the case of extenuating circumstances (change in leadership, systems, processes, etc.), the Audit Committee can choose to extend the current lead partner for a period not to exceed two additional years.
- I. Consider, whether, in order to assure continuing auditor independence, there should be a change in the audit firm itself. Audit services shall be competitively bid every six years. In the case of extenuating circumstances (change in leadership, systems, processes etc.), the Audit Committee can recommend that the current audit contract be extended for a period not to exceed two additional years. Assessment of the audit firms responding will be based on both quantitative and qualitative factors as determined by the Audit Committee.
- J. Receive and act upon any report from the independent auditors regarding any internal control deficiencies and the response from Management thereto.
- K. Recommend approval of any non-audit services by any independent auditors.

Andrews Hooper Pavlik, P.L.C. (AHP) was appointed by the Board as its independent public accountants for FY2014.

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3. **Previous Board Action:** As a result of a competitive bid process, in March 2007, AHP was appointed as the University's independent public accounting firm for FY2007. In January 2008, October 2008, and April 2010 AHP was reappointed for FY2008, FY2009, and FY2010, respectively. As a result of a competitive bid process, in March 2011 and March 2012 AHP was reappointed for FY2011 and FY2012, respectively. In February 2013, AHP was reappointed for FY2013 and the lead partner's engagement was extended through FY2014. In February 2014, AHP was reappointed for FY2014.
4. **Budget Implications:** Based on the proposed engagement letter, the audit engagement cost for FY2015 is \$80,745.
5. **Educational Implications:** None.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** This recommendation was formulated by the Controller's Office and reviewed by the Vice President for Finance and Administration, and President.
8. **Board Action to be Requested:** Upon approval of the Audit Committee, at the next Formal Session of the Board, the Audit Committee will: express its satisfaction with the performance of AHP in its role as the Board's independent public accounting firm; recommend to the Board that AHP be appointed as the Board's independent public accounting firm for FY2015 at a cost of \$80,745; recommend that Randy Morse continue as AHP's lead partner on the engagement through FY2016; recommend that AHP report the results of its annual examination of Oakland University's financial statements in draft form to the Audit Committee and in final form to the Board; and recommend that the engagement letter, that has been reviewed and approved by the Office of the Vice President for Legal Affairs and General Counsel, and is in compliance with the law and University policies and regulations, and conforms to legal standards and policies of the Vice President for Legal Affairs and General Counsel, be approved for signature by the Chair of the Audit Committee, and the Vice President for Finance and Administration.

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9. Attachments:

- A. Engagement Letter
- B. Audit Scope Letter

Submitted by Vice President for Finance and Administration  
and Treasurer John W. Beaghan:

  
(Please initial)

Reviewed by Secretary Victor A. Zambardi:

  
(Please initial)

Reviewed by President George W. Hynd:

  
(Please initial)

March 6, 2015

Audit Committee of the Board of Trustees and  
Mr. John W. Beaghan, Vice President for  
Finance & Administration & Treasurer to the Board  
Oakland University  
Rochester, Michigan

We are pleased to confirm our understanding of the public accounting services performed by Andrews Hooper Pavlik PLC (AHP) as your CPA, which we are to provide for Oakland University for the year ended June 30, 2015. In order to better understand each party's obligations, the terms "we," "us," and "our" will identify the firm of AHP. The terms "entity," "you," "your," and "client" will apply to management and those charged with governance of Oakland University. This engagement letter and addendum embody the entire agreement regarding the services to be rendered by our firm to Oakland University. We understand and acknowledge that our responsibilities and obligations are to the Oakland University Board of Trustees, and we will advise both the Chairperson of the Audit Committee directly on all matters, and the entire Board of Trustees, when appropriate.

We will audit the financial statements of Oakland University as of and for the year ended June 30, 2015. We will also perform an audit of Oakland University's expenditures of federal awards in accordance with OMB Circular A-133. We will perform the required agreed-upon procedures for the NCAA Financial Audit. We will also perform the required procedures relative to the inclusion of Oakland University's financial statements in the State of Michigan CAFR (report and subsequent events). Services will be performed in accordance with the Professional Standards promulgated by the American Institute of Certified Public Accountants.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by accounting principles generally accepted in the United States of America and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis

Other supplementary information also accompanies the financial statements. We will subject the following other supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and will provide an opinion on it in relation to the financial statements as a whole:

- Schedule of Expenditures of Federal Awards and related Notes (SEFA)
- Crosswalks for the State of Michigan Comprehensive Annual Financial Report

### **Objectives and Audit Scope**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and to report on the fairness of the supplementary information referred to above when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The OMB Circular A-133 report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the Board of Trustees of Oakland University.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinion on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

### **Audit Procedures – General**

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts. These procedures may, for example, include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected students, federal agencies, creditors, legal counsel, and financial institutions. Since we may determine such procedures are not appropriate under the circumstances, alternative procedures may be required. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (a) errors, (b) fraudulent financial reporting, (c) misappropriation of assets, or (d) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will include such matters in the reports required for a Single Audit.

We have advised you of the limitations of our audit regarding the detection of fraud and the possible effect on the financial statements (including misappropriation of cash or other assets). At this time, you have not engaged us to perform extended procedures specifically designed to detect fraud.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

#### **Audit Procedures – Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

#### **Audit Procedures – Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Oakland University's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of Oakland University's major programs. The purpose of these procedures will be to express an opinion on Oakland University's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.



## **Use of Internal Audit**

We anticipate being able to use some of the work of your internal audit function to assist us in obtaining audit evidence. As part of our external audit procedures, we will test a sample of the internal audit work performed and perform other procedures we deem necessary.

## **Financial Statement Materiality**

In an audit of financial statements, the auditor's judgment as to matters that are material to users of financial statements is based on consideration of the needs of users as a group; the auditor does not consider the possible effect of misstatements on specific individual users, whose needs may vary widely. Misstatements, whether resulting from errors or irregularities, are considered to be material only if their magnitude, individually or in aggregate with others, are such that a user group relying on the presentation of your financial statements would be influenced by their inclusion or omission. Judgments about materiality are made in light of surrounding circumstances, and involve both qualitative and quantitative consideration. Materiality is applied on an annual basis. Materiality is a concept that applies to the engagement and client overall.

## **Management Responsibilities**

We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information.

Management is responsible for the financial statements, schedule of expenditures of federal awards (SEFA), and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal awards received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (a) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of the audit, and (c) unrestricted access to persons within the client from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is responsible for adjusting the financial statements to correct material misstatements and confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the company involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the client received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings, if applicable, and a corrective action plan. The summary schedule of prior audit findings should be available for our review by August 2015.

You are responsible for preparation of the SEFA (including notes and noncash assistance received) in conformity with OMB Circular A-133. You agree to include our report on the SEFA in any document that contains and indicates that we have reported on the SEFA. You also agree to make the audited financial statements readily available to intended users of the SEFA no later than the date the SEFA is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that: (a) you are responsible for presentation of the SEFA in accordance with OMB Circular A-133; (b) that you believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the SEFA.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that: (a) you are responsible for presentation of the supplementary information in accordance with GAAP; (b) that you believe the

supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Objectives and Audit Scope section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

Your staff will prepare and complete the financial statements and supply all supporting documentation to the financial statements. Your supporting documentation will include all items on the coordination schedule and any other schedules we deem necessary. These records remain your property and will be returned to you at the completion of our engagement. It is your responsibility to maintain and preserve these records. Your records are provided to us only as needed to complete our engagement. We understand that your employees will type all confirmations we request and will locate any documents selected by us for testing.

#### **AHP Responsibilities**

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with U.S. GAAP.

Randy Morse and Jill Catterfeld will lead the team assigned to service your account and will serve as the primary contact with the University for our services. We will provide services as requested by the Board of Trustees and its authorized committee, the Audit Committee. The Board of Trustees authorizes us to accept information from John W. Beaghan, Vice President for Finance and Administration, and to rely upon the information we receive as being the instruction of the client. Customer satisfaction is an important aspect of our service. If, during the course of the engagement, you would like to discuss our service with us or wish to change or expand the services we have agreed to perform, you agree to contact Randy Morse, who is the firm's executive in charge of your engagement.

### Timing of Fieldwork

We expect to begin fieldwork for this engagement at client offices on or about August 3, 2015. Our scheduling is based on your completion of the year-end closing and/or adjusting process prior to our arrival to begin the fieldwork. Efficient use of our staff benefits both Oakland University and our firm, allowing for timely completion of our work. Delays in rendering services may occur due to staff availability or if your closing and adjusting process is delayed. We will work with you to coordinate completion of our work, realizing that any such delays may also delay completion of our work and the delivery of our work product. Our services will be concluded upon delivery to you of our report on your financial statements for the year ending June 30, 2015 and the other procedures relative to the OMB Circular A-133 audit, the NCAA agreed upon procedures, the State "crosswalk", and review of Form 990T.

### Accounting (Nonattest) Services

As you are aware, we have been engaged to review Form 990T and have not been engaged to prepare any tax returns.

To ensure compliance with requirements imposed by the IRS, this engagement does not contemplate, nor intend that, any written federal tax advice provided to you by AHP is to be used, and cannot be used, for the purpose of avoiding penalties imposed by a taxing authority nor may the user/recipient of written materials obtained under this engagement use it for that purpose, nor may it be used for promoting, marketing, or recommending to another party any transaction or matter addressed by AHP.

We will advise you with regard to tax positions taken in the preparation of the tax returns, but the responsibility for the tax returns remains with you.

### Fee Summary

Our fees for professional services, including expenses, for the year ended June 30, 2015 will be as follows:

Audit of financial statements	\$59,670
Audit of expenditures of federal award programs (1)	14,585
NCAA agreed-upon procedures	2,905
Comprehensive Annual Financial Report	2,755
Review of 990T	830
	<hr/>
	\$80,745

*(1) Our fees are based on a consistent number (three) and complexity of major programs. If the major programs change, we will discuss modification of procedures and associated fees with you.*

We propose that our fees would be billed on the following schedule, which corresponds with the dates the procedures are expected to be performed:

	<u>Amount</u>
April 30, 2015	\$20,000
August 15, 2015	40,000
Balance upon completion	

Our fees are based upon our preliminary understanding of the University. If matters beyond our reasonable control arise which require us to expend additional time beyond that which is contemplated, we will meet with you to discuss the necessary fee and schedule adjustments prior to performing such services.

Fees for client assistance and any additional services will be based upon hours worked by the various levels of personnel, at our standard rates applicable to each. Our standard rate schedule is attached hereto. These services will be billed monthly plus out-of-pocket expenses, and are payable within thirty days of the invoice date.

Many financial institutions are outsourcing the confirmation process to a third-party service provider. These service providers are charging to respond to these confirmation requests; therefore, all costs incurred related to these confirmation requests will be billed in addition to the above fees.

The above fees do not include any taxes or charges that could be assessed on the fees by a governmental agency. If at any time, a sales tax or similar charge is assessed on the above fees, we will add those to our fees and you will be responsible for the payment of those taxes or charges.

In the event that payment is not received when due, you will be assessed service charges of 1¼% per month on the unpaid balance. We reserve the right to suspend or terminate our work due to nonpayment. In the event that our work is suspended or terminated as a result of nonpayment, you agree that we will not be responsible for your failure to meet government and other filing deadlines, or for penalties or interest that may be assessed against you resulting from your failure to meet said deadlines. If we elect to terminate our services for nonpayment, you will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenses through the date of termination.

### **Peer Review Report**

AHP undergoes a peer review every three years. The results of the most recent peer review accompanies this letter.

\* \* \*

This agreement is effective as of the date of this letter. This letter includes the terms in the addendum to engagement letter. If you agree with the terms of our engagement as described in this letter, please sign the letter and return it to us. You should also keep a copy for your records. If one or more of the provisions in this agreement shall be determined to be illegal, invalid, or unenforceable, such provision shall be modified to the extent necessary to be legal, valid, and enforceable, or if not capable of being modified, shall be severed while the remaining provisions will continue in full force and effect.

We appreciate the opportunity to be of service to Oakland University and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Sincerely,

*Andrew Hooper Pavlik PLC*

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Acknowledged:

Oakland University

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Ronald E. Robinson, Chair  
Oakland University  
Audit Committee

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John W. Beaghan, Vice President for Finance and  
Administration and Treasurer to the Board

## **Addendum to Engagement Letter**

### **General Provisions**

#### Ownership of Records

At the conclusion of this engagement, we will return, at no charge, all client-provided records you supplied to us. These are your records provided to us by you to perform our services. These records are the primary records for your operations and comprise the backup and support for your financial reports and tax returns. It is your responsibility to retain and protect your records for possible future use, including potential examination by any governmental or regulatory agency.

AHP-prepared records are accounting or other records that we were not specifically engaged to prepare, that are not in your books and records or available to you, which result in your financial information being incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents proposed by us as part of our engagements. AHP-prepared records relating to a completed and issued work product will be provided to you at your request provided the fees associated with preparing these records have been paid in full. If these fees have not been paid in full, we can hold these records until the fees are fully paid, regardless of the due dates of such items.

AHP's work products are deliverables as set forth in the terms of this engagement letter, such as tax returns or reports. We will provide our work product to you at your request, except it may be withheld for the following:

- Fees have not been paid in full related to the work product;
- The work product is incomplete;
- For purposes of complying with professional standards; and/or
- There is threatened or outstanding litigation concerning the engagement of our work.

Until the above requirements are met, we can hold on to the work product and not provide it to you.

AHP workpapers include, but are not limited to, audit programs, analytical review schedules, statistical sampling results, analyses, schedules prepared by the client at our request, and any other schedules not meeting the definition of client-provided records, AHP-prepared records, or AHP's work product discussed above. These are our records and we are under no obligation to provide these records to you.

We reserve the right to charge a reasonable fee for the time and expense incurred to retrieve and copy any of the above records or work product and require that this fee be paid in advance. We may provide these records or work product in any format usable by you, and make and retain copies of any records or work product retained by or provided to you. We are not required to convert records to an electronic format or a different type of electronic format. However, we will provide these records in the format you requested if they are available in such format and within our custody and control.

All the records discussed above and held by us are not a substitute for your own records. Our firm destroys the records discussed above in accordance with the firm's record retention policy, generally four to seven years. Audit documentation will be retained for seven years after the conclusion of the audit. After this time these items will no longer be available. Catastrophic events or physical deterioration may result in our firm's records being unavailable.

### Hiring of AHP Employees

During the course of the performance of our services, AHP employees will be present at your place of business to provide on-site services and will become familiar with your business, operations, and personnel. You acknowledge that AHP employees are highly trained, constitute a valuable asset to AHP, and play an important role in AHP's ongoing business. Therefore, during the term of this Agreement and for a period of one (1) year after the latter of (a) the termination of this Agreement or (b) the date when the last AHP employee has stopped performing services for you, you agree to pay to AHP the sum of 25% of the employee's total annual compensation anticipated in their first year of employment with you, if you directly or indirectly, for yourself or on behalf of any other related entity, employ any employee of AHP (as an employee or an independent contractor). Total annual compensation includes base salary, car allowance, bonuses, signing bonuses, commissions, and any guaranteed annual incentive. The payment representing 25% of total annual compensation is due and payable on the employee's first day of employment with you.

### Suspension or Termination of Services

As noted within this engagement letter, AHP has the right to suspend or terminate services. We recognize the right of Oakland University to suspend or terminate the services of AHP should matters arise related to the performance of our services that are not in accordance with this agreement.

### Indemnifications

The University releases Auditor and Auditor's Personnel from any Consequential Damages to the University that result from the audit services, audit reports and other related reports prepared by Auditor, except such Consequential Damages that result from the willful misconduct or fraudulent behavior of Auditor's Personnel.

The University releases, indemnifies and holds Auditor and Auditor's Personnel harmless from any Direct Damages and Consequential Damages that result from a material misstatement of the University's financial statements, when the cause of the material misstatement was the willful misconduct or fraudulent behavior of University Personnel. However, nothing in this engagement letter is intended to or may be deemed to create a waiver of governmental immunity by the University.

Auditor releases, indemnifies and holds the University and University Personnel harmless from any Direct Damages and Consequential Damages that result from or arise out of sickness, bodily injury or death of any person, or damage to or loss or destruction of any real or tangible or intangible personal property, when the cause of the personal or property loss was the willful or negligent act or omission of Auditor's Personnel.

"Direct Damages" mean those liabilities, losses, costs and expenses, including reasonable attorney and expert witness fees that follow immediately and directly from an act or omission. "Consequential Damages" mean those indirect, lost profits, punitive, or other special damages, including reasonable attorney and expert witness fees that follow remotely from some of the consequences or effects of an act or omission. Direct Damages and Consequential Damages are those amounts determined judicially, by verdict, by settlement or by mutually agreed upon alternate dispute resolution, in legal claims, demands, actions or suits in tort, contract or otherwise. "Personnel" means a board member, officers, employees, agents, representatives, and their successors and assigns.



### Reproduction of Our Report and Electronic Dissemination of Audited Financial Statements

You are also responsible to notify us in advance of your intent to print our report, in whole or in part, and to give us the opportunity to review such printed matter before the issuance.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

### Nonreliance on Oral Audit, Accounting, or Tax Advice

Oral responses to your questions are intended to provide informal guidance. Should the matter be important to you and you desire to rely upon it, you agree to request that we issue written advice on the matter.

### Waiver of Privilege

You should be aware that certain communications involving tax advice between you and members of our firm who are authorized tax practitioners or their agents may be privileged from disclosure to the IRS. The privilege may be waived; however, by voluntarily disclosing the contents of those communications to the third party. The privileged information might be used by you in preparing your financial statements and, consequently, disclosed to us in auditing those statements. In addition, professional standards require us to discuss matters that affect the audit with our firm personnel responsible for tax services, who may disclose the privileged information to us. We hereby inform you that the IRS might take the position that such communication results in a waiver of privilege.

### Conflicts of Interest

If during the course of the engagement a conflict of interest or potential breach of professional standards presents itself, we will inform you of the problem and attempt to resolve it to allow us to complete the engagement. If, in our opinion, we cannot properly resolve such problems, we may be compelled to withdraw from the engagement and will not render a report or provide you with a completed work product. Additionally, we reserve the right to withdraw from the engagement and terminate our services should we encounter circumstances that conflict with the ethical standards of our firm. If this occurs, we will not render a report or provide you with a completed work product.

### Use of Internet E-mail

Client acknowledges that: (a) AHP, client, and others participating in this engagement may correspond or convey documentation via Internet e-mail unless client expressly requests otherwise; (b) no party has control over the performance, reliability, availability, or security of Internet e-mail; and (c) AHP shall not be liable for any loss, damage, expense, harm, or inconvenience resulting from the loss, delay, interception, corruption, or alteration of any Internet e-mail due to any reason beyond the reasonable control of AHP.

### Consent to Use in Promotional/Proposal Materials

Unless we are informed in writing not to, the client consents to Andrews Hooper Pavlik PLC's use of client's name and a factual description of the services performed by AHP under this agreement in AHP's advertising, proposals, and other promotional materials.

### Use of Third-Party Service Providers

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

### Additional Services

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we issue a separate engagement letter to reflect the obligation of both parties. In the absence of any other written communications from us documenting such additional services, our services will be governed by the terms of this engagement letter.

Our fees for other accounting, tax, consulting, and planning services will be based on the standard hourly rates for each of our professionals (varying with their experience) extended by the number of hours incurred. These services, plus out-of-pocket expenses, will be billed monthly as incurred.

### Use of Our Services

You hereby inform us that our professional accounting services are intended solely for your use. If you have a primary intent that our professional accounting services are to be used to benefit or influence others, you will so inform us in writing.

### Access to Workpapers

We may receive requests for information in our possession arising out of this engagement. The requests may come from governmental agencies, courts, or other tribunals. If permitted, we will notify you of any request for information prior to responding. In certain proceedings an accountant-client privilege may exist. You agree that we are not under any obligation to assert any privilege to protect the release of information. You may, prior to our response to any request, initiate legal action to prevent or limit our response. Unless you promptly initiate such action after we notify you at your last known address as reflected in our files, we will release the information requested.

If our workpapers are allowed or required to be reviewed by others, we reserve the right to bill you for our time incurred related to the review of our workpapers. This includes the time incurred to get our workpapers ready for review, answer questions, make copies, and any other time related to this service, including expenses. In some circumstances we may require payment prior to allowing our workpapers to be reviewed.

### Peer Review

AHP, as well as other major accounting firms, participates in a "peer review" program covering our audit and accounting practices. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for the entity may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If management objects to having the work we do for the entity reviewed by our peer reviewer, please notify us in writing.

### Accounting (Nonattest) Services

Related to the accounting services referred to in this letter and any subsequent engagement letter addendum, you are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the accounting services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them. We will not perform management functions or make management decisions. Also, we will not perform any services that we deem would impair our independence with respect to the attest services provided by AHP.

### **Billing Rates**

<b>AHP Staff Levels</b>	<b>Standard Billing Rate Per Hour</b>
Partner	\$260
Senior Manager	219
Manager	173
Senior Accountant	138
Staff Accountant	112
Administrative Support	46



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North America

## SYSTEM REVIEW REPORT

June 5, 2013

To the Members  
Andrews Hooper Pavlik PLC  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Andrews Hooper Pavlik PLC (the firm) applicable to non-SEC issuers in effect for the year ended December 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (Service Organizations Control (SOC 1) engagements).

In our opinion, the system of quality control for the accounting and auditing practice of Andrews Hooper Pavlik PLC applicable to non-SEC issuers in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Andrews Hooper Pavlik PLC has received a peer review rating of *pass*.

*Kelley, Galloway & Company, PSC*

Kelley, Galloway & Company, PSC

March 6, 2015

Audit Committee  
and Board of Trustees  
Oakland University  
Rochester, Michigan

This letter sets forth the planned scope of our audit of the financial statements of Oakland University (University) for the year ending June 30, 2015. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and OMB Circular A-133**

As stated in our engagement letter dated March 6, 2015, the financial statements of Oakland University are the responsibility of the University's management. This responsibility includes the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) under the oversight of the Audit Committee. Our responsibility is to express an opinion on those financial statements based on our audit. The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

In planning and performing our audit, we will consider Oakland University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

As part of obtaining reasonable assurance about whether Oakland University's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about Oakland University's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on Oakland University's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on Oakland University's compliance with those requirements.

## Supplementary Information

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole and does not extend beyond the other supplementary information identified in our report.

### **Planned Scope and Timing of the Audit**

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In an audit of financial statements, the auditor's judgment as to matters that are material to users of financial statements is based on consideration of the needs of users as a group; the auditor does not consider the possible effect of misstatements on specific individual users, whose needs may vary widely. Misstatements, whether resulting from errors or irregularities, are considered to be material only if their magnitude, individually or in aggregate with others, are such that a user group relying on the presentation of your financial statements would be influenced by their inclusion or omission. Judgments about materiality are made in light of surrounding circumstances, and involve both qualitative and quantitative consideration. Materiality is applied on an annual basis. Materiality is a concept that applies to the engagement and client overall.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our risk assessment procedures for the June 30, 2015 audit will include a study and evaluation of the University and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards and other significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

We will address the risk assessment related to fraud by making inquiries of the Audit Committee, management, and others within the University; evaluating fraud programs and controls; completing comprehensive checklists; and gathering other information (financial and other) to help us develop fraud risk factors that will be referenced during our fieldwork and wrap-up procedures.

Our planned scope for the June 30, 2015 audit is based on our understanding of the University developed during prior audits, pre-engagement planning, and our experience as auditors of other similar institutions. We recognize that all institutions are unique and each year presents new challenges, new accounting and auditing issues, and new reporting requirements that must be considered. Accordingly, our current year audit plan will address these issues in order to meet the needs of Oakland University.

We will begin performing pre-engagement planning and our interim procedures the week of April 20, 2015. Year-end procedures are scheduled to begin the week of August 3, 2015.

## **Summary of Significant Accounting and Auditing Issues**

### Internal Controls

As part of our audit, we will obtain an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of further audit procedures to be performed and not to provide an opinion on internal control. An audit is not designed to provide assurance on internal control or to identify significant deficiencies in the design or operation of internal control. However, during the audit, if we become aware of such significant deficiencies or other significant matters related to the financial statements, we will communicate them in a separate letter.

### Audited Financial Statements in Other Documents

Our responsibility for other information included in documents containing the University's audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We also have no responsibility for determining whether such other information contained in these documents is properly stated.

### Use of Internal Audit

We anticipate being able to use some of the work of your internal audit function to assist us in obtaining audit evidence. As part of our external audit procedures, we will test a sample of the internal audit work performed and perform other procedures we deem necessary.

### OMB Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Title 2 of the CFR, Subtitle A, Chapter II, Part 200)

As part of an effort to reform and strengthen Federal grant making, the Office of Management and Budget (OMB) published new guidance on December 26, 2013 for the Federal award programs. This guidance is also known as the "Uniform Grant Guidance", "Super Circular", or "Omni Circular". It supersedes and streamlines the requirements of eight current OMB Circulars. The new guidance is a key component of a larger Federal effort to more effectively focus Federal grant resources on improving performance and outcomes, while ensuring the financial integrity of taxpayer dollars. By streamlining eight Federal regulations into a single, comprehensive policy guide, the government can better administer grants and other types of financial assistance by decreasing the administrative burden for recipients and reducing the risk of waste, fraud, and abuse.

The Uniform Grant Guidance (Guidance) contains several Subparts and Appendices which establish uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. The new Guidance is required to be implemented for all new Federal awards made after December 26, 2014, and to additional funding to existing awards made after that date (except the procurement requirements, which have a required implementation date of December 26, 2015). Additionally, Subpart F of the Guidance, *Audit Requirements*, is effective for fiscal years beginning on or after December 26, 2014 (the University's June 30, 2016 fiscal year). Subpart F replaces the Single Audit requirements as currently contained in OMB Circular A-133.

For the June 30, 2015 fiscal year, the University's compliance requirements and our compliance testing will be affected by adoption of the Guidance; however, the audit requirements will not be affected and we will follow OMB Circular A-133 Single Audit requirements. Our compliance testing will be adjusted based on whether the award is subject to the new or old Guidance.

#### Other Matters

We would be pleased to discuss any matters you believe would be significant to the audit or that we should be aware of. These matters may include, but not be limited to the following:

- Governance related matters
- Communications from regulatory bodies
- Internal control matters
- Fraud risks
- Recent legal, regulatory, or accounting related matters

#### New Accounting Pronouncements

We will review all new accounting pronouncements and any future accounting pronouncements that may have an effect on the University. It is management's responsibility to ensure the University applies all accounting pronouncements correctly in the financial statements. We will assist management with the adoption of accounting pronouncements and keep them informed of those that may apply to the University. A list of pronouncements is included in this letter.

#### **Other Services Provided**

In addition to our audit of the financial statements of Oakland University for the year ended June 30, 2015, we will also perform the following services:

- An audit of major federal program grants or awards in accordance with OMB Circular A-133.
- Procedures required by the State of Michigan related to inclusion of Oakland University's financial information in the State's comprehensive annual financial report. Additional limited procedures will be required by the State to be performed later in the year, updating our subsequent events procedures through that date.
- An agreed-upon procedures report as required by the NCAA Financial Audit Guidelines to assist the University in complying with NCAA Bylaw 3.2.4.16.



- Procedures related to the review of the Form 990T.
- Various consultations with the University.

### **Independence**

We have reviewed our relationship with Oakland University and the services we perform. We confirm that we are independent with respect to Oakland University and related entities.

### **Staffing**

Services provided by AHP to Oakland University will be performed by the following team of professionals:

Randy Morse – Engagement Partner responsible for overall services to Oakland University

Roger Hitchcock – Independent Review Partner

Laura Ebel – Tax Partner

Jill Catterfeld – Audit Senior Manager

Gary Robb – Audit Senior in charge of day-to-day fieldwork

Additional Staff

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

We look forward to serving the auditing needs of Oakland University and would be pleased to discuss our approach to the audit and respond to any questions you may have.

Sincerely,

*Andrews Hooper Pavlik PLC*

## Recently Issued Accounting Pronouncements

### **GASB Statement No. 69, Government Combinations and Disposals of Government Operations**

Issued in January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

This Statement requires specific accounting and disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (June 30, 2015 financial statements), and should be applied on a prospective basis. Earlier application is encouraged.

### **GASB Current Technical Agenda:**

#### **Postemployment Benefit Accounting and Financial Reporting: Other Postemployment Benefit Accounting and Financial Reporting:**

GASB issued an Exposure Draft in May 2014, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This proposed Statement would replace the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This proposed Statement would establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this proposed Statement identifies the methods and assumptions that would be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Exposure Draft, when issued as a final Statement, is expected to have a significant impact on the University's financial statements.

As disclosed in the University's financial statements, the unfunded actuarial accrued liability for the University's OPEB plan approximated \$34.3 million at June 30, 2014. The University has recorded approximately a \$9.4 million liability for the OPEB at June 30, 2014. Implementation of this Standard would require the University to record an additional \$24.9 million liability for the OPEB. The final Statement is expected to be issued in the 2<sup>nd</sup> quarter of 2015. The date of adoption noted in the exposure draft would be for the June 30, 2017 fiscal year, with earlier application encouraged.

### Fair Value Measurement and Application

GASB issued an exposure draft in May 2014, *Fair Value Measurement and Application*. This proposed statement addresses accounting and financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes, as well as provides application guidance for certain investments and related disclosures. Entities would be required to use one of the following valuation techniques: the market approach, the cost approach, or the income approach. The proposed statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy would be three levels: Level 1 – quoted prices in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 – being unobservable inputs.

This proposed statement would generally require investments to be measured at fair value. For purposes of this statement, an investment would be defined as a security or other asset (a) that a government holds primarily for the purpose of income or profit and (b) with a present service capacity that is based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value would continue to include: money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

The statement would also require measurement at acquisition value (measurement at that initial transaction date using the replacement cost measurement attribute) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. In certain circumstances the government would be permitted to determine the fair value by using the net asset value per share (or its equivalent) of the investment.

This statement would also require certain disclosures to be made about fair value measurements, valuation techniques, and inputs.

This statement, when issued, is expected to increase the disclosure requirements in the University's financial statements. The University will have to work closely with its investment advisors to obtain pricing information for all items subject to this proposed Standard in order to place investments in the appropriate hierarchy level.

This proposed statement would be effective for periods beginning after June 15, 2015 (June 30, 2016 year-end), with earlier application encouraged.