

East Central University Foundation, Inc.

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



EAST CENTRAL UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
East Central University Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Central University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
October 2, 2013

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Cash and cash equivalents	\$ 860,668	1,880,578
Pledges receivable	326,321	721,818
Interest receivable	37,832	93,405
Investments, at fair value	21,762,784	23,456,666
Real estate held as investments	105,000	105,000
Furniture and equipment, net	22,362	22,713
Other assets	<u>95,306</u>	<u>93,188</u>
 Total assets	 <u>\$ 23,210,273</u>	 <u>26,373,368</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	<u>2,140</u>	<u>11,449</u>
Total liabilities	<u>2,140</u>	<u>11,449</u>
Net assets:		
Unrestricted	1,452,229	1,097,777
Temporarily restricted	6,438,142	10,218,856
Permanently restricted	<u>15,317,762</u>	<u>15,045,286</u>
Total net assets	<u>23,208,133</u>	<u>26,361,919</u>
 Total liabilities and net assets	 <u>\$ 23,210,273</u>	 <u>26,373,368</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions:				
Private gifts and grants	\$ 2,125	1,588,538	142,255	1,732,918
Total contributions	<u>2,125</u>	<u>1,588,538</u>	<u>142,255</u>	<u>1,732,918</u>
Investment income:				
Interest and dividends	172,812	489,562	-	662,374
Net investment gains	382,887	1,148,662	-	1,531,549
Total investment income	<u>555,699</u>	<u>1,638,224</u>	<u>-</u>	<u>2,193,923</u>
Other revenues	<u>9,262</u>	<u>15,011</u>	<u>-</u>	<u>24,273</u>
Net assets released from restrictions	<u>6,858,819</u>	<u>(6,858,819)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,425,905</u>	<u>(3,617,046)</u>	<u>142,255</u>	<u>3,951,114</u>
Expenses:				
<u>Programs for the University</u>				
Scholarship awards	360,149	-	-	360,149
General university educational assistance	1,309,949	-	-	1,309,949
Salary supplements	172,059	-	-	172,059
School of Business/Conference Center	4,979,403	-	-	4,979,403
<u>Management and Operating</u>				
Operating expenses	276,720	-	-	276,720
Depreciation	6,620	-	-	6,620
Total expenses	<u>7,104,900</u>	<u>-</u>	<u>-</u>	<u>7,104,900</u>
Transfer from (to) other net assets	<u>33,447</u>	<u>(163,668)</u>	<u>130,221</u>	<u>-</u>
Increase (decrease) in net assets	354,452	(3,780,714)	272,476	(3,153,786)
Net assets at beginning of year	<u>1,097,777</u>	<u>10,218,856</u>	<u>15,045,286</u>	<u>26,361,919</u>
Net assets at end of year	<u>\$ 1,452,229</u>	<u>6,438,142</u>	<u>15,317,762</u>	<u>23,208,133</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions:				
Private gifts and grants	\$ 50,881	9,091,244	298,881	9,441,006
Total contributions	<u>50,881</u>	<u>9,091,244</u>	<u>298,881</u>	<u>9,441,006</u>
Investment income:				
Interest and dividends	294,705	328,350	-	623,055
Net investment gains	<u>234,756</u>	<u>757,900</u>	<u>-</u>	<u>992,656</u>
Total investment income	<u>529,461</u>	<u>1,086,250</u>	<u>-</u>	<u>1,615,711</u>
Other revenues	<u>306</u>	<u>30,460</u>	<u>-</u>	<u>30,766</u>
Net assets released from restrictions	<u>5,069,306</u>	<u>(5,069,306)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>5,649,954</u>	<u>5,138,648</u>	<u>298,881</u>	<u>11,087,483</u>
Expenses:				
<u>Programs for the University</u>				
Scholarship awards	358,476	-	-	358,476
General university educational assistance	500,201	-	-	500,201
Salary supplements	146,168	-	-	146,168
School of Business/Conference Center	4,077,653	-	-	4,077,653
<u>Management and Operating</u>				
Operating expenses	295,509	-	-	295,509
Depreciation	<u>3,781</u>	<u>-</u>	<u>-</u>	<u>3,781</u>
Total expenses	<u>5,381,788</u>	<u>-</u>	<u>-</u>	<u>5,381,788</u>
Transfer from (to) other net assets	<u>25,000</u>	<u>(211,406)</u>	<u>186,406</u>	<u>-</u>
Increase in net assets	293,166	4,927,242	485,287	5,705,695
Net assets at beginning of year	<u>804,611</u>	<u>5,291,614</u>	<u>14,559,999</u>	<u>20,656,224</u>
Net assets at end of year	<u>\$ 1,097,777</u>	<u>10,218,856</u>	<u>15,045,286</u>	<u>26,361,919</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Cash flows from operating activities:		
Cash received from contributions	\$ 2,128,415	4,544,402
Cash received from interest and other income	742,220	676,870
Cash disbursed for program and faculty expenses	(6,461,411)	(4,724,022)
Cash disbursed for scholarship expenses	(360,149)	(358,476)
Cash disbursed for general support	(288,147)	(348,528)
Net cash used in operating activities	<u>(4,239,072)</u>	<u>(209,754)</u>
Cash flows from investing activities:		
Net sales of investments	3,225,431	1,358,546
Purchase of equipment	(6,269)	(19,747)
Net cash provided by investing activities	<u>3,219,162</u>	<u>1,338,799</u>
Net (decrease) increase in cash and cash equivalents	(1,019,910)	1,129,045
Cash and cash equivalents at beginning of year	<u>1,880,578</u>	<u>751,533</u>
Cash and cash equivalents at end of year	<u>\$ 860,668</u>	<u>1,880,578</u>
Reconciliation of (decrease) increase in net assets to net cash used in operating activities:		
(Decrease) increase in net assets	\$ (3,153,786)	5,705,695
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation	6,620	3,781
Net unrealized and realized gains on investments	(1,531,549)	(992,656)
Decrease (increase) in pledges receivable	395,497	(626,330)
Decrease in interest receivable	55,573	23,049
(Increase) decrease in other assets	(2,118)	10,200
Decrease in deferred revenue	-	(4,270,274)
Decrease in accounts payable	(9,309)	(63,219)
Net cash used in operating activities	<u>\$ (4,239,072)</u>	<u>(209,754)</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) NATURE OF THE ENTITY

East Central University Foundation, Inc. (the “Foundation”) is a nonprofit corporation formed in 1970. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of East Central University (the “University”) in Ada, Oklahoma, its faculty, its student body, and its programs. The Foundation may also serve as trustee of charitable lead trusts, charitable remainder trusts, and other private trusts of which the Foundation and/or the University are beneficiaries, notwithstanding the facts that the donors of such trusts retain a beneficial interest therein or that other charitable organizations are designated as beneficiaries of such trusts.

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees (the “Board”). The purposes for which the Foundation is organized are exclusively for the benefit of the University, its faculty, its student body, and its programs. As such, the University and the Foundation are considered financially interrelated as defined by accounting principles generally accepted in the United States.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Foundation follows the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). The ASC is the single source of authoritative guidance for accounting principles generally accepted in the United States. The statements have been prepared on the accrual basis of accounting. Under accounting principles generally accepted in the United States, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets—Consist of gifts received by the Foundation without stipulation and accumulated earnings which the Foundation uses for its operations.

Temporarily restricted net assets—Primarily consist of gifts received by the Foundation which have been restricted by the donor for a particular project or activity and accumulated earnings from endowment funds. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets—This category represents gifts received by the Foundation with donor restrictions which require the principal to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donor in the year received unless restricted to future fiscal periods.

See Independent Auditors’ Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As of June 30, 2013 and 2012, no allowance was considered necessary.

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment or applicable law require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

Generally, losses on investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets. During the year ended June 30, 2012, \$132,338 of investment gains, unrealized and realized, were reclassified from individual accounts of temporarily restricted net assets to unrestricted net assets to offset previous losses from declines in the market which occurred in 2008. At June 30, 2013, all prior deficiencies due to such market losses had been recouped.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments with an original maturity of 3 months or less when purchased to be cash equivalents.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pledges

The Foundation generally records pledges as income in the period in which a written agreement to contribute cash investments or other assets is received.

Investments

The Foundation maintains the majority of its endowment assets in a pooled investment fund. Additional investments are maintained separately in accordance with the donor's instructions. Investments are presented in the financial statements of the Foundation at fair value. Investment securities with readily determinable market value information are adjusted to market value, with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statements of activities. Investments included in the pool are certificates of deposit, common stock, corporate bonds, mutual funds, and U.S. government securities. The Foundation's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets to be maintained in the investment pool. Investments are made in accordance with the investment policies of the Foundation.

Earnings from investments are distributed quarterly from the pooled investment fund and are received by the separately maintained funds. Marketable and nonmarketable investments are marked to market in accordance with ASC Topic 958-320, "Investments—Debt and Equity Securities."

Real Estate Held as Investments

Real estate held as investments consists primarily of real property and forms of real property interests donated to and/or purchased by the Foundation and are carried at the lower of cost or market. The Foundation holds these assets until such time as they are transferred to the University or sold. No attempt is made by management to revalue other property investments at subsequent dates prior to transfer or sale due to the prohibitive cost of obtaining periodic appraisals; however, the Foundation's management is of the opinion that any subsequent revaluation would not have a significant impact on the Foundation's statements of financial position or changes in net assets. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of determination. No property investment impairments were recorded in 2013 or 2012.

Insurance Assets

Included in other assets was approximately \$95,000 and \$92,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2013 and 2012, respectively.

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Conditional Gifts

The Foundation receives contributions with terms that require returns of the contributions to the donors on the occurrence of specified future and uncertain events. The Foundation reports such contributions as liabilities until the likelihood of not meeting the condition is remote. Conditional promises to give are not recorded as revenue until the conditions are substantially met and the gift becomes unconditional.

Investment Income

Investment earnings are allocated to the individual sub-funds of the Foundation on a quarterly basis. These earnings are allocated based upon the individual sub-fund's percentage of participation in the investment pool. Realized and unrealized gains and losses are determined using the specific identification method; however, these transactions are included in the pool's income for allocation purposes.

A portion of investment earnings is allocated to support the operations of the Foundation. The Foundation historically has allocated 25% of investment earnings to operations. The amounts allocated are recorded in the unrestricted net asset classification in the accompanying statements of activities. Amounts so transferred in excess of the current operations requirements remain in the unrestricted net asset classification for future use as deemed necessary by the Foundation's management and executive committee and to support the Foundation's scholarship program.

Furniture and Equipment

Furniture and equipment are recorded at cost if purchased or at appraised value if received by donation. Furniture and equipment are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 10 years. The Foundation records impairments of its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over the estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of the determination. No property or equipment impairments were recorded in 2013 or 2012.

Income Tax

The income earned by the Foundation has been determined to be exempt from income taxes by the Internal Revenue Service in accordance with I.R.C. Section 501(c)(3). However, unrelated business income earned by the Foundation is subject to tax. Additionally, the Foundation has been determined not to be a private foundation within the meaning of I.R.C. Section 509(a).

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Income Tax, Continued

The Foundation evaluates and accounts for its uncertain tax positions, if any, in accordance with ASC Topic 740, "Income Taxes," including the Foundation's tax position as a tax-exempt, not-for-profit entity. Through the Foundation's evaluation of its uncertain tax positions, management has determined no uncertain tax positions existed as of June 30, 2013 or 2012, which would require the Foundation to record a liability for the uncertain tax positions in its financial statements. Interest and penalties, if any, resulting from any uncertain tax position required to be recorded by the Foundation would be presented in operating expenses in the statements of activities. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. Federal, State, or local tax authorities for years ended on or before June 30, 2010.

Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepting in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of marketable and nonmarketable investments and contributions receivable. The Foundation's various investment instruments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially. Management's estimates of investments, contributions receivable, and the evaluation for allowance are based on consideration of all relevant available information and an analysis of the collectibility of individual contributions, which arise primarily from pledges at the financial statement date.

Reclassifications

The Foundation reclassifies net assets from one net asset category to another as follows:

- a. Net asset reclassifications which result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.
- b. Net asset reclassifications which occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted net assets, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Concentrations of Credit Risk

The Foundation had certain concentrations of credit risk with financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed, and management believes that credit risk related to the balances is minimal.

Scholarship Awards

Scholarships are accrued when the disbursements are made to the students, which is when all of the conditions would have been met and the scholarship would have been effectively earned by the student.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Recent Accounting Pronouncements

In May 2011, FASB issued Accounting Standards Update No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (ASU 2011-04), which amends ASC Topic 820, “Fair Value Measurements and Disclosures” (ASC 820). ASU 2011-04 is an update to explain how to measure fair value. The update does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU 2011-04 was issued in order to describe many of the requirements in accounting principles generally accepted in the United States for measuring fair value and for disclosing information about fair value measurements consistent with International Financial Reporting Standards. The Foundation adopted ASU 2011-04 on July 1, 2012, which was applied prospectively. Adoption of ASU 2011-04 did not have a significant effect on the Foundation’s financial statements.

In October 2012, FASB issued ASU No. 2012-04, “Technical Corrections and Improvements” (ASU 2012-04). ASU 2012-04 covers a wide range of ASC topics and is presented in two sections—Technical Corrections and Improvements and Conforming Amendments Related to Fair Value Measurements. Technical Corrections and Improvements include source literature amendments, guidance clarification and reference corrections, and relocated guidance. Fair Value Measurements are intended to conform terminology and clarify certain guidance in various ASC topics to fully reflect the fair value measurement and disclosure requirements of ASC 820. The amendments are not introducing any new fair value measurements. The amendments in ASU 2012-04 that do not have transition guidance were adopted by the Foundation in 2012. The amendments in ASU 2012-04 that are subject to transition guidance will be effective for fiscal periods beginning after December 15, 2013. ASU 2012-04 did not and is not expected to have a significant effect on the Foundation’s financial statements.

See Independent Auditors’ Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 2, 2013, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

(3) CASH AND CASH EQUIVALENTS

A summary of the cash and cash equivalents at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Cash in bank	\$ 206,373	349,465
Money market account held at TIAA-CREF investors	654,295	-
Money market account held at Smith Barney Citigroup investors	-	1,531,113
	<u>\$ 860,668</u>	<u>1,880,578</u>

Custodial Credit Risk—Deposits

The Foundation had the following depository accounts as of June 30, 2013 and 2012. All deposits are carried at cost.

<u>Depository Account</u>	<u>2013</u>		<u>2012</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Insured	\$ 206,373	274,686	349,465	263,507
Uninsured and uncollateralized	654,295	654,280	1,531,113	1,542,776
	<u>\$ 860,668</u>	<u>928,966</u>	<u>1,880,578</u>	<u>1,806,283</u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. While the Foundation's investment policies do not address bank balances (other than money markets) that are uninsured or uncollateralized, deposits are generally required to be insured or collateralized.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

As of June 30, 2013, the Foundation's target allocation and allocation range for assets was as follows:

Asset Class	Target Asset Allocation	Allocation Range
Cash equivalents	<u>1%</u>	1%–4%
Core fixed income	24%	
Treasury inflation protected securities (TIPS)	8%	
High yield fixed income	6%	
International fixed income	<u>6%</u>	
Total fixed income	<u>44%</u>	35%–55%
U.S. large cap equity	23%	
U.S. mid cap equity	7%	
U.S. small cap equity	4%	
International large/mid cap equity	12%	
International small cap equity	3%	
Emerging markets equity	3%	
Real estate (REIT)	<u>3%</u>	
Total equity	<u>55%</u>	45%–65%
Total	<u>100%</u>	

The investment policy also has certain specific prohibitions, such as no more than a 25% concentration of investments in one industry, nor more than a 5% ownership of any one company or more than 5% ownership of securities of a single issuer, other than the U.S. government.

The policy requires evaluation and reallocation as needed.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

(5) INVESTMENTS, CONTINUED

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, as quoted on major stock exchanges or over-the-counter markets.

	2013		
	<u>Cost</u>	<u>Fair Value</u>	<u>Excess (Deficit) of Fair Value Over Cost</u>
U.S. government securities	\$ 2,848,889	2,786,958	(61,931)
Corporate bonds	1,750,317	1,687,198	(63,119)
Mutual funds	15,666,728	16,664,303	997,575
Certificates of deposit	<u>620,000</u>	<u>624,325</u>	<u>4,325</u>
	<u>\$ 20,885,934</u>	<u>21,762,784</u>	<u>876,850</u>
2012			
	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
U.S. government securities	\$ 5,158,629	5,361,316	202,687
Corporate bonds	5,453,048	5,755,839	302,791
Common stock	8,128,044	10,057,473	1,929,429
Certificates of deposit	<u>2,264,254</u>	<u>2,282,038</u>	<u>17,784</u>
	<u>\$ 21,003,975</u>	<u>23,456,666</u>	<u>2,452,691</u>

The Foundation recognized \$3,107,391 and \$895,268 during 2013 and 2012, respectively, from net gains on the sale of investments. These gains have been combined with unrealized gains and losses and allocated throughout the year through the consolidated investment pool.

Operating expenses in the statements of activities included investment consulting, management, and custodial fees of approximately \$48,000 and \$86,000 for the years ended June 30, 2013 and 2012, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The Foundation's investment policy states that the average maturity of the bond portfolio will be determined by the Investment Committee of the Board and can be changed as market conditions dictate.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

The following tables provide information as of June 30 concerning the fair value and maturity of investments:

Type of Investment	2013						Total Fair Value	Cost
	6 Months or Less	More Than 6 Months to 1 Year	More Than 1 Year to 3 Years	More Than 3 Years to 5 Years	More Than 5 Years			
U.S. government securities	\$ -	-	1,559,930	513,773	713,255	2,786,958	2,848,889	
Corporate bonds	-	-	164,374	1,079,862	442,962	1,687,198	1,750,317	
Mutual funds (no maturity)	-	-	-	-	-	16,664,303	15,666,728	
Certificates of deposit	26,039	79,498	518,788	-	-	624,325	620,000	
	<u>\$ 26,039</u>	<u>79,498</u>	<u>2,243,092</u>	<u>1,593,635</u>	<u>1,156,217</u>	<u>21,762,784</u>	<u>20,885,934</u>	

Type of Investment	2012						Total Fair Value	Cost
	6 Months or Less	More Than 6 Months to 1 Year	More Than 1 Year to 3 Years	More Than 3 Years to 5 Years	More Than 5 Years			
U.S. government securities	\$ 80,565	88,330	1,573,949	760,948	2,857,524	5,361,316	5,158,629	
Corporate bonds	231,017	244,403	1,092,712	1,156,053	3,031,654	5,755,839	5,453,048	
Common stock (no maturity)	-	-	-	-	-	10,057,473	8,128,044	
Certificates of deposit	385,661	644,064	1,252,313	-	-	2,282,038	2,264,254	
	<u>\$ 697,243</u>	<u>976,797</u>	<u>3,918,974</u>	<u>1,917,001</u>	<u>5,889,178</u>	<u>23,456,666</u>	<u>21,003,975</u>	

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The following tables provide information concerning credit risk as of June 30:

	<u>Moody's Rating</u>	2013		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AA1		\$ 74,856	72,022	0.331%
AA2		164,881	161,104	0.740%
AA3		79,399	74,890	0.344%
A1		409,246	398,466	1.832%
A2		129,067	118,464	0.544%
A3		259,378	249,902	1.148%
BAA1*		249,472	240,318	1.104%
BAA2*		244,647	237,232	1.090%
BAA3		139,371	134,799	0.619%
Not rated:				
U.S. government securities:				
	Federal Home Loan Mortgage Corp.	591,217	579,213	2.662%
	Federal Home Loan Bank Consolidated	304,557	303,379	1.394%
	Federal National Mortgage Association	197,095	190,265	0.874%
	U.S. Treasury notes	1,756,020	1,714,102	7.877%
	Mutual funds	15,666,728	16,664,303	76.572%
	Certificates of deposit	<u>620,000</u>	<u>624,325</u>	<u>2.869%</u>
		<u>\$ 20,885,934</u>	<u>21,762,784</u>	<u>100.000%</u>

*Individual investments had a Standard & Poor's (S&P) rating of AA- or A- at June 30, 2013.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Credit Risk, Continued

	<u>Moody's Rating</u>	2012		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AAA		\$ 127,792	146,703	0.625%
AA1		150,401	149,161	0.636%
AA2		292,201	307,178	1.310%
AA3		694,387	722,010	3.078%
A1		1,160,413	1,230,670	5.247%
A2		2,024,291	2,160,122	9.209%
A3		662,915	691,013	2.946%
BAA1		314,874	325,642	1.388%
BAA3		25,774	23,340	0.100%
Not rated:				
U.S. government securities:				
	Federal Home Loan Mortgage Corp.	374,857	394,155	1.680%
	Federal Home Loan Bank Consolidated	997,243	1,071,866	4.570%
	Federal National Mortgage Association	499,385	526,324	2.244%
	Federal Farm Credit Bank Consolidated	1,481,087	1,540,340	6.566%
	U.S. Treasury notes	1,688,215	1,706,123	7.274%
	Other	117,842	122,508	0.522%
	Common stock	8,128,044	10,057,473	42.876%
	Certificates of deposit	2,264,254	2,282,038	9.729%
		<u>\$ 21,003,975</u>	<u>23,456,666</u>	<u>100.000%</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Credit Risk, Continued

The following securities as of June 30 did not meet the criteria of having an "A" rating in either Moody's or S&P as defined by the investment policy:

Corporate Bonds with Ratings Lower than "A" Rating	2013		
	<u>Fair Value</u>	<u>Moody's / S&P Ratings</u>	<u>Maturity Date</u>
Ford Motor Credit	\$ 134,799	BAA3/BB+	1/16/2018

Corporate Bonds with Ratings Lower than "A" Rating	2012		
	<u>Fair Value</u>	<u>Moody's / S&P Ratings</u>	<u>Maturity Date</u>
FPL Group Capital, Inc.	\$ 102,740	BAA1/BBB+	9/1/2015
Kellogg Co.	110,656	BAA1/BBB+	5/30/2016
Compass Bank	23,340	BAA3/BBB-	10/1/2017

Custodial Risk

For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

(6) REAL ESTATE HELD AS INVESTMENTS

The Foundation owns:

- 35 acres located south of Ada in the vicinity of the Robert S. Kerr Environmental Research Center, described as follows: SW/4 NE/4 Section 15-T3N-R6E, less an Indian Cemetery 85' x 94' in the NW corner, Pontotoc County.
- A lot located at the corner of Arlington and Mississippi in Ada, Oklahoma, for the purpose of establishing the William Chapman Accounting Scholarship.
- Lots 17 and 18, block 1, Section 3 of Arrowhead Estates, Pittsburg County, Oklahoma.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) REAL ESTATE HELD AS INVESTMENTS, CONTINUED

A summary of real estate held as investments at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Land:		
35 acres south of Ada, Oklahoma	\$ 87,500	87,500
Lot, Arlington and Mississippi, Ada, Oklahoma	12,500	12,500
Lots 17 and 18 in Arrowhead Estates, Pittsburg County, Oklahoma	<u>5,000</u>	<u>5,000</u>
	<u>\$ 105,000</u>	<u>105,000</u>

The properties have been recorded at their appraised value at the date the gift was given.

(7) FURNITURE AND EQUIPMENT

As of June 30, furniture and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 31,970	30,760
Less accumulated depreciation	<u>(9,608)</u>	<u>(8,047)</u>
Net furniture and equipment	<u>\$ 22,362</u>	<u>22,713</u>

Depreciation expense was \$6,620 and \$3,781 for 2013 and 2012, respectively.

(8) DEFERRED REVENUE

During the year ended June 30, 2012, a signed contract was finalized and construction began on the School of Business/Conference Center (the "Center"). The Center was completed by August 2013, and classes are expected to be held beginning in the fall semester of 2013. As of June 30, 2012, \$4,270,274 that had been deferred from prior year was recognized. As of June 30, 2013 and 2012, \$4,979,403 and \$4,077,653, respectively, was expended for the Center through transfers of cash from the Foundation to the University.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) DEPOSITS HELD FOR OTHERS

The Foundation may on occasion receive money on behalf of other entities and acts as a custodian of the funds. There were no such deposits held for others as of June 30, 2013 or 2012.

(10) RESTRICTED NET ASSET COMPOSITION

Temporarily and permanently restricted net assets are predominantly restricted for scholarships.

(11) RETIREMENT PLANS

The Foundation had two employees who participated in the retirement plans and benefit programs of the University. The plans available include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single-employer defined benefit pension plan available to employees hired prior to July 1, 1987. During the years ended June 30, 2013 and 2012, the Foundation paid approximately \$5,400 and \$4,200, respectively, to the OTRS.

(12) RELATED-PARTY TRANSACTIONS

The Foundation occupies, without charge, certain premises located on the campus of the University.

The Foundation benefits from voluntary services donated by individuals and businesses which have not been reflected in the financial statements due to their immateriality.

During 2013 and 2012, the Foundation had a Board member who also serves as president of a bank where the Foundation has a certificate of deposit. As of June 30, 2013 and 2012, the certificate of deposit had a book balance of \$83,807 and \$82,158, respectively. In addition, at June 30, 2013, the Foundation had \$82,110 on deposit at a local bank, for which an officer of the Foundation also serves as an officer for the bank.

(13) GENERAL UNIVERSITY EDUCATIONAL ASSISTANCE

General university educational assistance consists of general expenses for various University organizations and programs.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) COMMITMENTS AND CONTINGENCIES

East Central University Fine Arts Building

During each of the years ended June 30, 2013 and 2012, \$15,000 was paid from unrestricted funds of the Foundation as part of its \$500,000 commitment for the East Central University Fine Arts Building. As of June 30, 2013, approximately \$470,000 (\$350,000 was paid in a lump sum in 2005) had been paid by the Foundation, and the balance of \$30,000 will be paid over the remaining 2 years of the original 10-year commitment.

East Central University School of Business/Conference Center

During the year ended June 30, 2012, \$100,000, was paid from unrestricted funds of the Foundation as part of a \$250,000 commitment for the Center for naming rights to the actual conference center. This commitment was fully satisfied in 2012.

(15) ENDOWMENTS

The Foundation's endowments consist of 244 individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net assets that are under the control of the Foundation.

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation classifies as permanently restricted net assets 1) the original value of endowed gifts, 2) any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) ENDOWMENTS, CONTINUED

Spending Policy

The Foundation has established a spending policy whereby the total amount available to be disbursed (i.e., the “Distributable Cash Income”) from the Foundation’s endowment fund and operating fund is determined annually.

The Distributable Cash Income is determined using the most recent 5-year average return on investments (ROI). The purpose of the spending policy is to establish an overall spending limit for the amount of money that can be disbursed from the Foundation’s endowment fund and operating fund each fiscal year. The spending policy limit is determined by March 31 of each year and is used for budgeting purposes for the following fiscal year that starts on July 1.

The primary goal of the spending policy is to position the endowment fund and the unrestricted fund so that there is a balance between long-term growth and accumulation versus annual distributions.

The spending policy utilizes the most recent 5-year average ROI percentage, which allows for long-term ROI trends to be built into the spending policy. The spending policy calculation will have an annual floor and ceiling which will enable the Foundation to spend a base amount from the endowment fund in low ROI periods and have extra savings in high ROI periods.

Funds with Deficit Balances

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. No deficit balances of this nature were reported in unrestricted net assets at June 30, 2013 or 2012.

See Independent Auditors’ Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) ENDOWMENTS, CONTINUED

Net Asset Composition of Endowments

The net asset composition of endowments by type of fund as of June 30 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2013</u>				
Donor-restricted endowment funds	\$ <u>-</u>	<u>-</u>	<u>15,317,762</u>	<u>15,317,762</u>
<u>2012</u>				
Donor-restricted endowment funds	\$ <u>-</u>	<u>-</u>	<u>15,045,286</u>	<u>15,045,286</u>

As can be seen, all of the Foundation's endowments are classified as permanently restricted.

Changes in Net Assets of Endowments

Changes in the net assets of endowments for the years ended June 30 were as follows:

	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
Net assets, beginning of year		\$ 15,045,286	14,559,999
Contributions and revenues		142,254	298,881
Transfer from other net assets		<u>130,222</u>	<u>186,406</u>
Net assets, end of year		<u>\$ 15,317,762</u>	<u>15,045,286</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(16) FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In estimating fair value, the Foundation utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset. Fair values may not represent actual values of assets that could have been realized on the measurement date or that will be realized in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Foundation's financial instruments at June 30 were as follows:

		Estimated Fair Value and <u>Carrying Amount</u>	
		<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$	860,668	1,880,578
Investments		21,762,784	23,456,666

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and Cash Equivalents and Certificates of Deposit

The carrying amounts approximate fair value.

Investments

The fair value of common stock is based on quoted prices. The fair values of U.S. government securities, mutual funds, and corporate bonds for the most part, are obtained from independent pricing services utilizing Level 2 inputs. The fair value measurements considered to be observable inputs may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things.

Real Estate Held as Investments

The fair values of real estate held as investments are based on management's estimated fair values using unobservable Level 3 inputs. At June 30, 2013 and 2012, the fair market values remained the same.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(16) FAIR VALUE MEASUREMENTS, CONTINUED

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. Real estate held as investments would be valued using Level 3 inputs.

The Foundation uses appropriate valuation methods based on the available inputs to measure the fair value of its assets and liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(16) FAIR VALUE MEASUREMENTS, CONTINUED

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	Measured at <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<u>2013</u>				
U.S. government securities	\$ 2,786,958	-	2,786,958	-
Corporate bonds	1,687,198	-	1,687,198	-
Mutual funds	16,664,303	16,664,303	-	-
Certificates of deposit	<u>624,325</u>	<u>-</u>	<u>624,325</u>	<u>-</u>
	<u>\$ 21,762,784</u>	<u>16,664,303</u>	<u>5,098,481</u>	<u>-</u>
<u>2012</u>				
U.S. government securities	\$ 5,361,316	-	5,361,316	-
Corporate bonds	5,755,839	-	5,755,839	-
Common stock	10,057,473	10,057,473	-	-
Certificates of deposit	<u>2,282,038</u>	<u>-</u>	<u>2,282,038</u>	<u>-</u>
	<u>\$ 23,456,666</u>	<u>10,057,473</u>	<u>13,399,193</u>	<u>-</u>

The Foundation had real estate held as investments carried at fair value on a nonrecurring basis at June 30, 2013 and 2012. The fair market values of these investments remained the same at June 30, 2013 and 2012.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
East Central University Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Central University Foundation (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 2, 2013

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2013

Finding 2012-01 (From the June 30, 2012 Audit)

Financial Statement Preparation

Comment

During the audit, several accounts had to be reconciled and adjusted to complete the preparation of the financial statements. These accounts included:

- Net asset balance (beginning balance adjustment),
- Pledges receivable,
- Deferred revenue, and
- Investments.

Information was readily available and provided to adjust the accounts. Presently, the Foundation does not have sufficient accounting staff to assist the Executive Director in the monthly and annual closing of the records to prepare financial statements and to assist with nonroutine entries that arise. In prior years, additional accounting assistance and support was provided.

For management to facilitate more accurate preparation of monthly and year-end financial statements, we recommend that management be provided additional accounting support. The use of a qualified accountant or accounting firm to assist management in performing monthly accounting is strongly recommended. We also recommend that formal accounting policies and procedures be developed to also assist management in monthly and year-end financial statement preparation and reconciliations of accounts.

Management Response

We understand and agree with the comment. Due to a unique set of circumstances that occurred during this fiscal year, the Foundation did not have the necessary resources available to complete certain month-end and year-end adjustments that would have allowed a more timely preparation of monthly reports and the annual external financial statements. The Foundation is attempting to add an experienced, part-time accounting assistant to rectify this situation.

2013 Follow-Up

During the fiscal year ended June 30, 2013, a Certified Public Accountant was hired to reconcile investments and timely record account activity. As a result, no material differences in account balances were noted during the 2013 audit.