East Central University Foundation, Inc.

Financial Statements

June 30, 2014 and 2013
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014 and 2013, 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)

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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, 2014 and 2013, 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 10, 2014, 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.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 10, 2014

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30,	*2014*	*2013*
Assets		
Cash and cash equivalents	$ 1,199,409	860,668
Pledges receivable	170,600	326,321
Interest receivable	42,082	37,832
Investments, at fair value	24,341,541	21,762,784
Real estate held as investments	105,000	105,000
Art	305,491	-
Furniture and equipment, net	16,961	22,362
Other assets	97,031	95,306
Total assets	$ 26,278,115	23,210,273
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ -	2,140
Total liabilities	-	2,140
Net assets:		
Unrestricted	2,337,525	1,452,229
Temporarily restricted	8,115,207	6,438,142
Permanently restricted	15,825,383	15,317,762
Total net assets	26,278,115	23,208,133
Total liabilities and net assets	$ 26,278,115	23,210,273

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

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions:				
Private gifts and grants	$ 314,423	1,016,971	428,517	1,759,911
Total contributions	314,423	1,016,971	428,517	1,759,911
Investment income:				
Interest and dividends	137,586	381,982	-	519,568
Net investment gains	684,305	2,052,915	-	2,737,220
Total investment income	821,891	2,434,897	-	3,256,788
Other revenues	-	3,248	26,725	29,973
Provisions for uncollectible pledges	-	-	(26,000)	(26,000)
Net assets released from restrictions	1,676,323	(1,676,323)	-	-
Total revenues	2,812,637	1,778,793	429,242	5,020,672
Expenses:				
Programs for the University				
Scholarship awards	469,291	-	-	469,291
General university educational assistance	934,221	-	-	934,221
Salary supplements	218,600	-	-	218,600
Management and Operating				
Operating expenses	322,600	-	-	322,600
Depreciation	5,978	-	-	5,978
Total expenses	1,950,690	-	-	1,950,690
Transfer from (to) other net assets	23,349	(101,728)	78,379	-
Increase in net assets	885,296	1,677,065	507,621	3,069,982
Net assets at beginning of year	1,452,229	6,438,142	15,317,762	23,208,133
Net assets at end of year	$ 2,337,525	8,115,207	15,825,383	26,278,115

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

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions:				
Private gifts and grants	$ 2,125	1,588,538	142,255	1,732,918
Total contributions	2,125	1,588,538	142,255	1,732,918
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	555,699	1,638,224	-	2,193,923
Other revenues	9,262	15,011	-	24,273
Net assets released from restrictions	6,858,819	(6,858,819)	-	-
Total revenues	7,425,905	(3,617,046)	142,255	3,951,114
Expenses:				
Programs for the University				
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
Management and Operating				
Operating expenses	276,720	-	-	276,720
Depreciation	6,620	-	-	6,620
Total expenses	7,104,900	-	-	7,104,900
Transfer from (to) other net assets	33,447	(163,668)	130,221	-
Increase (decrease) in net assets	354,452	(3,780,714)	272,476	(3,153,786)
Net assets at beginning of year	1,097,777	10,218,856	15,045,286	26,361,919
Net assets at end of year	$ 1,452,229	6,438,142	15,317,762	23,208,133

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

Years Ended June 30,	*2014*	*2013*
Cash flows from operating activities:		
Cash received from contributions	$ 1,610,141	2,128,415
Cash received from interest and other income	545,292	742,220
Cash disbursed for program and faculty expenses	(1,152,821)	(6,461,411)
Cash disbursed for scholarship expenses	(469,291)	(360,149)
Cash disbursed for general support	(352,466)	(288,147)
Net cash provided by (used in) operating activities	180,855	(4,239,072)
Cash flows from investing activities:		
Net sales of investments	158,463	3,225,431
Purchase of equipment	(577)	(6,269)
Net cash provided by investing activities	157,886	3,219,162
Net increase (decrease) in cash and cash equivalents	338,741	(1,019,910)
Cash and cash equivalents at beginning of year	860,668	1,880,578
Cash and cash equivalents at end of year	$ 1,199,409	860,668
Reconciliation of increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Increase (decrease) in net assets	$ 3,069,982	(3,153,786)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,978	6,620
Art donation	(305,491)	-
Net unrealized and realized gains on investments	(2,737,220)	(1,531,549)
Decrease in pledges receivable	155,721	395,497
(Increase) decrease in interest receivable	(4,250)	55,573
Increase in other assets	(1,725)	(2,118)
Decrease in accounts payable	(2,140)	(9,309)
Net cash provided by (used in) operating activities	$ 180,855	(4,239,072)
Significant non-cash transactions:		
Donated art items	$ 305,491	-

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

(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.

(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, 2014 and 2013, 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.

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.

(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 2014 or 2013.

Insurance Assets

Included in other assets was approximately $97,000 and $95,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2014 and 2013, respectively.

(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 2014 or 2013.

Art

Art is recorded at the appraised value at the time of donation.

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).

(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, 2014 or 2013, 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, 2011.

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 October 2012, FASB issued Accounting Standards Update 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 Topic 820, “Fair Value Measurement” (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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In October 2012, FASB issued ASU No. 2012-05, "Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows," which is effective prospectively for fiscal years beginning after June 15, 2013. This ASU requires a not-for-profit (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes in which case, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. Retrospective application is permitted but not required, and early implementation is also permitted. Upon implementation, the Foundation expects the ASU to impact its statement of cash flow presentation.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 10, 2014, 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:

	2014	2013
Cash in bank	$ 441,429	206,373
Money market account held at TIAA-CREF investors	757,980	654,295
	$ 1,199,409	860,668

See Independent Auditors' Report.

(3) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial Credit Risk—Deposits

The Foundation had the following depository accounts as of June 30, 2014 and 2013. All deposits are carried at cost.

	2014		2013	
Depository Account	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Insured	$ 374,103	374,390	206,373	274,686
Uninsured and uncollateralized	825,306	1,055,083	654,295	654,280
	$ 1,199,409	1,429,473	860,668	928,966

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.

(4) PLEDGES RECEIVABLE

Pledges receivable represent commitments by donors to contribute to the Foundation. The scheduled amounts to be received as of June 30 were as follows:

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Amounts due in:			
1 to 5 years	$ 146,500	24,100	170,600

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Amounts due in:			
1 to 5 years	$ 253,000	72,421	325,421
6 to 8 years	-	900	900
	$ 253,000	73,321	326,321

See Independent Auditors' Report.

(4) PLEDGES RECEIVABLE, CONTINUED

Pledges receivable that are expected to be collected in less than one year are recorded at net realizable value. Pledges receivable in subsequent years have not been discounted to net realizable value, the effect of which is considered to be insignificant to the financial statements. The commitments are to be paid as specified by the individual pledge agreements and, accordingly, are presented as unrestricted, temporarily restricted, or permanently restricted net assets in the accompanying financial statements.

An allowance for possible uncollectible pledge receivables is not considered necessary by management.

(5) INVESTMENTS

The Foundation primarily uses an investment manager to manage the investments, which includes purchasing and sales. As of June 30, 2014 and 2013, the investment manager was TIAA-CREF.

As of June 30, 2014, the Foundation's target allocation and allocation range for assets was as follows:

Asset Class	Target Asset Allocation	Allocation Range
Cash equivalents	**1%**	1%–4%
Core fixed income	24%	
Treasury inflation protected securities (TIPS)	8%	
High yield fixed income	6%	
International fixed income	6%	
Total fixed income	**44%**	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)	3%	
Total equity	**55%**	45%–65%
Total	**100%**	

See Independent Auditors' Report.

(5) INVESTMENTS, CONTINUED

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.

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.

	2014		
	Cost	Fair Value	Excess (Deficit) of Fair Value Over Cost
U.S. government securities	$ 3,176,218	3,147,083	(29,135)
Corporate bonds	1,856,625	1,875,281	18,656
Mutual funds	15,594,656	18,802,561	3,207,905
Certificates of deposit	515,000	516,616	1,616
	$ 21,142,499	24,341,541	3,199,042

	2013		
	Cost	Fair Value	Excess (Deficit) of Fair Value Over Cost
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	620,000	624,325	4,325
	$ 20,885,934	21,762,784	876,850

(5) INVESTMENTS, CONTINUED

The Foundation recognized $415,029 and $3,107,391 during 2014 and 2013, 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 $68,000 and $48,000 for the years ended June 30, 2014 and 2013, 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.

(5) INVESTMENTS, CONTINUED

Interest Rate Risk, Continued

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

	2014						
Type of Investment	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	Total Fair Value	Cost
U.S. government securities	$ -	-	2,364,628	574,329	208,126	3,147,083	3,176,218
Corporate bonds	-	-	550,478	775,632	549,171	1,875,281	1,856,625
Mutual funds (no maturity)	-	-	-	-	-	18,802,561	15,594,656
Certificates of deposit	180,331	200,926	135,359	-	-	516,616	515,000
	$ 180,331	200,926	3,050,465	1,349,961	757,297	24,341,541	21,142,499

	2013						
Type of Investment	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	Total Fair Value	Cost
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
	$ 26,039	79,498	2,243,092	1,593,635	1,156,217	21,762,784	20,885,934

See Independent Auditors' Report.

(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:

	2014		
Moody's Rating	Cost	Fair Value (FV)	FV as a % of Total FV
A1	$ 399,507	400,427	1.645%
A2	369,106	373,713	1.535%
A3	139,219	144,169	0.592%
BAA1*	314,721	319,312	1.312%
BAA2*	114,968	116,564	0.479%
BAA3	199,242	200,970	0.826%
Not rated:			
U.S. government securities:			
Federal Home Loan Mortgage Corp.	204,670	205,343	0.844%
Federal Home Loan Bank Consolidated	169,672	170,006	0.698%
Federal National Mortgage Association	496,596	499,331	2.051%
U.S. Treasury notes	2,305,280	2,272,403	9.335%
Mutual funds	15,594,656	18,802,561	77.245%
Corporate bonds	319,862	320,126	1.315%
Certificates of deposit	515,000	516,616	2.123%
	$ 21,142,499	24,341,541	100.000%

*Individual investments had a Standard & Poor's (S&P) rating of A- at June 30, 2014.

(5) INVESTMENTS, CONTINUED

Credit Risk, Continued

	2013		
Moody's Rating	Cost	Fair Value (FV)	FV as a % of Total FV
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	620,000	624,325	2.869%
	$ 20,885,934	21,762,784	100.000%

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

See Independent Auditors' Report.

(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:

	2014		
Corporate Bonds with Ratings Lower than "A" Rating	Fair Value	Moody's / S&P Ratings	Maturity Date
Hewlett Packard Co.	$ 92,282	BAA1/BBB+	01/14/19
Verizon Communications Inc.	109,964	BAA1/BBB+	06/09/17
Ford Motor Credit	200,970	BAA3/BBB-	03/12/19

	2013		
Corporate Bonds with Ratings Lower than "A" Rating	Fair Value	Moody's / S&P Ratings	Maturity Date
Ford Motor Credit	$ 134,799	BAA3/BB+	01/16/18

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.

(6) REAL ESTATE HELD AS INVESTMENTS, CONTINUED

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

	2014	2013
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	5,000	5,000
	$ 105,000	105,000

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

(7) ART

During 2014, the Foundation received a donation of various pieces of art. The art is not being held as an investment. Each item is cataloged for educational, research, scientific, or curatorial purposes, and activities verifying the existence and assessing the condition of the items are performed continuously. The art was recorded at appraised value at the date the gift was given. There will be no planned depreciation of the art as it will be reviewed periodically for impairment. As of June 30, 2014, the art had a value of approximately $305,000.

(8) FURNITURE AND EQUIPMENT

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

	2014	2013
Furniture and equipment	$ 32,547	31,970
Less accumulated depreciation	(15,586)	(9,608)
Net furniture and equipment	$ 16,961	22,362

Depreciation expense was $5,978 and $6,620 for 2014 and 2013, respectively.

See Independent Auditors' Report.

(9) 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 were 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, $4,979,403 was expended for the Center through transfers of cash from the Foundation to the University.

(10) 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, 2014 or 2013.

(11) RESTRICTED NET ASSET COMPOSITION

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

(12) 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, 2014 and 2013, the Foundation paid approximately $7,300 and $5,400, respectively, to the OTRS.

(13) 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 related individuals and businesses which have not been reflected in the financial statements due to their immateriality.

During 2014 and 2013, 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, 2014 and 2013, the certificate of deposit had a book balance of $83,807. At June 30, 2014 and 2013, the Foundation also had $36,576 and $36,445, respectively, on deposit at a local bank, for which a trustee of the Foundation also serves as an officer for the bank. In addition, at June 30, 2014 and 2013, the Foundation had $317,326 and $82,110, respectively, on deposit at a local bank, for which an officer of the Foundation also serves as an officer for the bank.

(14) GENERAL UNIVERSITY EDUCATIONAL ASSISTANCE

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

(15) COMMITMENTS AND CONTINGENCIES

East Central University Fine Arts Building

During the each of the years ended June 30, 2014 and 2013, $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, 2014, approximately $485,000 ($350,000 was paid in a lump sum in 2005) had been paid by the Foundation and the balance of $15,000 will be paid over the remaining year of the original 10-year commitment.

(16) ENDOWMENTS

The Foundation's endowments consist of 261 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.

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.

(16) ENDOWMENTS, CONTINUED

Spending Policy, Continued

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 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, 2014 or 2013.

Net Asset Composition of Endowments

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2014				
Donor-restricted endowment funds	$ -	-	15,825,383	15,825,383
2013				
Donor-restricted endowment funds	$ -	-	15,317,762	15,317,762

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

See Independent Auditors' Report.

(16) ENDOWMENTS, CONTINUED

Changes in Net Assets of Endowments

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

Permanently Restricted	2014	2013
Net assets, beginning of year	$ 15,317,762	15,045,286
Contributions and revenues	429,242	142,254
Transfer from other net assets	78,379	130,222
Net assets, end of year	$ 15,825,383	15,317,762

(17) 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 Carrying Amount	
	2014	2013
Cash and cash equivalents	$ 1,199,409	860,668
Investments	24,341,541	21,762,784

See Independent Auditors' Report.

(17) FAIR VALUE MEASUREMENTS, CONTINUED

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.

Cash and Cash Equivalents and Certificates of Deposit

The carrying amounts approximate fair value.

Investments

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, 2014 and 2013, the fair market values remained the same.

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.

See Independent Auditors' Report.

(17) 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:

		Fair Value Measurements at Reporting Date Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
U.S. government securities	$ 3,147,083	-	3,147,083	-
Corporate bonds	1,875,281	-	1,875,281	-
Mutual funds	18,802,561	18,802,561	-	-
Certificates of deposit	516,616	-	516,616	-
	$ 24,341,541	18,802,561	5,538,980	-
2013				
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	624,325	-	624,325	-
	$ 21,762,784	16,664,303	5,098,481	-

The Foundation had real estate held as investments carried at fair value on a nonrecurring basis at June 30, 2014 and 2013. The fair market values of these investments remained the same at June 30, 2014 and 2013.

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, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of June 30, 2014, 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 10, 2014.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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)

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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 10, 2014