

University of Maine System  
Board of Trustees  
at the University Maine System, Rudman Conference Room  
253 Estabrooke Hall, 15 Estabrooke Drive, Orono

November 2, 2016

## **Joint Session with Audit Committee and Finance/Facilities/Technology Committee**

**Present: Audit Committee Members:** Michelle Hood, Chair, Norman Fournier, Mark Gardner (at USM), Gregory Johnson (at USM). **Other Trustees:** Jason Coombs (at UMA) and Karl Turner. **Chancellor:** James Pages. **System Staff:** Tracy Bigney, Tracy Elliott, Chip Gavin, Janis Manning, Darla Reynolds, Dick Thompson, Ryan Low (at UMA), Miriam White (at UMA) and Rebecca Wyke. **Presidents:** Kate Foster (at UMF), Sue Huseman (at UMM), James Connelly (at UMA), Glenn Cummings (at USM), Ray Rice (at UMPI), and John Short (at UMFK). **Other Participants:** Ben Shaw (at UMPI), Renee Bishop (BerryDunn), Emily Parker (BerryDunn), Dan Morrissey, Tim Brokaw (at UMA), and Claire Strickland.

**Committee Members Absent:** Samuel Collins.

Trustee Hood called the meeting to order and thanked everyone for participating.

**UM Department of Athletics Agreed-Upon Procedures Update.** Ms. Claire Strickland, Chief Business Officer at the University of Maine, provided a brief overview regarding the Department of Athletics Agreed-Upon Procedures performed by O'Connor & Drew. This attestation engagement was conducted pursuant to the Association of College and University Auditors National Collegiate Athletic Association Division I Compliance Audit Guide for the Academic Year 2015-2016

The five areas that were reviewed for compliance were:

- Academic Performance
- Camps and Clinics
- Rules Education
- Amateurism
- Coaching Staff Limits and Contracts

O'Connor & Drew made recommendations related to one finding and four general best practice observations as outlined below:

### **Finding (F16-01):**

*Academic Performance*

Bylaw 3.2.4.4 states:

*Each active member is responsible for annually submitting documentation demonstrating its compliance with the academic performance program, including the submission of data for the academic progress rate (APR), the academic performance census (APC) and the graduation success rate (GSR). The specific requirements of the academic performance program are set forth in Bylaw 14.8. (Adopted: 4/29/04)*

O'Connor & Drew reviewed the APR data submitted to the NCAA for a sample of twenty student-athletes and noted one instance in which the data for the student-athlete was not submitted to the NCAA. O'Connor & Drew recommended that the University review its policies

and procedures to ensure that data required to be submitted to the NCAA is sent in prior to the deadline date.

Subsequent to the engagement, management reviewed the 2014-15 APR data and confirmed that a technical error occurred when generating the report provided to O'Connor & Drew. In a more detailed review of the APR database, management confirmed that there are no student-athletes missing from the 2014-15 APR cohort. The NCAA has since updated the APR database/software such that similar issues should not occur in the future. UM provided supporting documentation to O'Connor & Drew to show that the data in question was submitted to the NCAA. However, the supporting documentation lacked a timestamp to ensure that the data was submitted prior to the NCAA deadline.

O'Connor & Drew also provided four general recommendations to promote best practices and strengthen controls related to NCAA compliance. Recommendations were made in the areas of academic performance, camps and clinics, and amateurism. Management agreed to implement the recommended improvements which included:

- Modifying a certification form related to credits taken by student-athletes to avoid confusion between the Office of Student Records and Academic Services and Compliance.
- Expanding the *Outside Income Report* to include acknowledgement by the coach that he/she was not employed by a camp or clinic that provides recruiting or scouting services concerning prospects.
- Requiring all student-athletes employed at camps and clinics to complete the employment registration form to help ensure that the student-athlete's employment is approved by the compliance department and within NCAA guidelines.
- Requiring all coaches to sign and approve the completeness of the international student-athlete form which is used to verify the student-athlete's amateurism. This validation will help to ensure that all international student-athletes are eligible prior to their first competition.

**Annual Financial Report FY2016.** Ms. Tracy Elliott, UMS Director of Finance and Controller, provided an overview of the results of the University of Maine System's (UMS) fiscal year 2016 (FY2016) **draft** Annual Financial Report. These financial statements include activity from all revenue sources and uses including Educational and General, Auxiliary, Endowments, Restricted Gifts, Grants and Contracts, Loan and Plant activity. The report will be presented to the Board of Trustees for approval at its November 14<sup>th</sup> meeting.

In FY16, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. For the UMS, the impact of GASB 72 was limited to financial statement disclosures related to fair value measurements of investments. UMS' investments are primarily at quoted prices in active markets which is considered to be level 1 and a low risk from a valuation perspective. This level 1 classification applies to 86% of operating investments and 92% of the Managed Investment Pool.

The UMS ended FY2016 with a *Loss Before Other Changes in Net Position* of \$1 million. *Total Other Changes in Net Position* offset the loss with \$7 million, for a *Change in Net Position* for FY2016 of \$6 million.

The *Total Net Position* at June 30, 2016 was \$867 million increasing \$6 million from FY2015. Changes in each *Net Position* category were:

<b>Net Position Category:</b>	<b><u>Increase (Decrease)</u></b>
<i>Net Investment in Capital Assets</i>	\$4 million
<i>Restricted Nonexpendable</i>	--
<i>Restricted Expendable</i>	\$1 million
<i>Unrestricted</i>	<u>\$1 million</u>
<b><i>Change in Net Position</i></b>	<b><u>\$6 million</u></b>

Ms. Elliott highlighted that UMS' Unrestricted Net Position at June 30, 2016 was nearly \$157 million and that note 10 to the financials includes a breakdown of the purposes for which these funds are earmarked at year-end. Ms. Elliott also noted that the auditor's presentation includes a review of GASB 75 related to Postemployment Benefits Other than Pensions (known as OPEB), which will be implemented in FY2018, and promises significant impacts to the financials, including an adjustment to Unrestricted Net Position.

**External Auditor's Report.** Berry, Dunn, McNeil & Parker, LLC (BDMP) representatives, Ms. Renee Bishop and Ms. Emily Parker, reported on the results of the FY2016 UMS financial statement audit and on emerging accounting issues, particularly GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*.

The significant areas for the audit included:

- Cash
- Investments
- Program service fees (tuition, room and board, etc.) and related receivables
- Payroll and related liabilities
- Accounts payable, other liabilities and related expenses
- Capital assets and expenditures
- Grants and similar programs

In addition, the following surprise procedures were conducted in four areas:

- Procurement test for large projects with a focus on capital projects.
- Test of travel card controls where the auditors noted that all items in the test sample were approved but not all travel was approved in advance as required by administration policies. As memo to management will be prepared for this item.
- Tested methodology for scholarship allowance calculation
- Tested payroll paid to source documents and observed areas where documentation could be improved. The memo to management will also include recommended improvements in the area.

**GASB 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* – effective for FY2018.

Increased uniformity required by GASB 75 will improve financial statement comparability, consistency and transparency across entities with a better measure of resources to make good on commitments to employees. It will also improve decision-usefulness of information for stakeholders. GASB 75 will significantly increase the liability that UMS recognizes in the Statement of Net

Position for OPEB and will also decrease Unrestricted Net Position. Further, it will result in changes to expense, increase the volatility of the liability and expense, require additional disclosures, and impact ratios which could affect borrowing.

With regard to potential impacts on borrowing, Ms. Elliott pointed out that the UMS should be viewed favorably relative to its peers as it has been annually funding a trust equal to the Annual Required Contribution resulting in a funded ratio of 47.9% (as measured during the most recent actuarial valuation on July 1, 2015). The actuaries have stated that UMS is in the minority as most institutions have not funded their OPEB obligations at a significant level. UMS will continue to work with the actuaries to understand the expected impacts of this new GASB and what steps need to be taken including developing an appropriate funding strategy.

Ms. Bishop went on to explain further the impacts of this upcoming GASB. If GASB 75 were effective for the June 30, 2015 financial statements and no other changes were required, except for full recognition of the OPEB liability, the impact would have been an increase in the liability recognized of \$101 million with a corresponding decrease to Unrestricted Net Position of \$101 million.

#### GASB 81 – Irrevocable Split-Interest Agreements – effective for FY2018

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which the UMS is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of the UMS and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires the UMS to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires the UMS to recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party. This Statement requires recognizing revenue when the resources become applicable to the reporting period. This Statement will be effective June 2018.

Other GASB projects that are being developed which may impact the UMS in the future include: accounting for leases, asset retirement obligations, fiduciary activities, certain debt extinguishment issues, and the financial reporting model. Additionally, another emerging issue is in the Perkins Loan Program. The Federal Perkins Loan Program Extension Act of 2015 (the Extension Act) extended the Perkins Loan Program through September 2017. The Extension Act established new eligibility requirements for undergraduate and graduate students receiving Perkins Loans, effective December 18, 2015. The Extension Act prohibits any further extensions of the Federal Perkins Loan Program. Schools may not make Perkins Loans to any students on or after October 1, 2017.

The Department of Education (ED) has provided an assignment and liquidation guide, detailing the process to end participation in the loan program for those that choose to liquidate. No guidance has yet been issued saying Perkins loans have to be liquidated, although there is a new section in the compliance supplement about Perkins loan liquidation. As part of this process, loans are assigned to

the ED, an Independent Perkins Closeout Audit is required to be performed and the Federal Share (as calculated by a prescribed formula) of the Perkins cash asset is remitted to the ED. BDMP recommends management evaluate the Perkins Loan portfolio and determine what steps should be taken to ensure readiness to liquidate should ED require that to occur.

**Berry Dunn McNeil and Parker LLC, External Audit Services Proposal for FY2017.** UMS' contract for audit services with BDMP commenced with the audits for FY2012 and will expire with the FY2016 audit unless extended by approval of the Audit Committee of the UMS Board of Trustees. Such extension would be based on the terms of the UMS Request for Proposal (RFP) issued on December 12, 2011 and based on the pricing provided by BDMP in its response letter dated January 18, 2012. The quoted fees for the FY2017 audits assume no significant changes in scope, requests from management or federal regulatory changes requiring significant auditing or reporting requirements and total \$269,000 as detailed below:

Financial Statement audit	\$184,200
Uniform Guidance (formerly A-133) audit	<u>84,800</u>
Total	<u>\$269,000</u>

The fees for the Uniform Guidance audit assume the major programs to be tested for compliance in FY2017 will be the Student Financial Aid Cluster, Research & Development Cluster, and one other program (depending on thresholds or other criteria). The fee will be adjusted if the additional program is not required to be audited or if additional programs must be audited. The estimated fee adjustment for each program would be calculated as originally quoted at approximately \$7,500 for FY2012 with inflation of 2-3% a year thereafter. If the auditor determines that an additional program(s) will need to be audited, such determination will be communicated to management in advance of commencing work, along with a set additional fee for the work to be performed.

On a motion by Trustee Fournier, which was seconded by Trustee Gardner, the Audit Committee agreed to extend Berry Dunn McNeil and Parker, LLC's appointment as the University of Maine System's external auditors for fiscal year 2017.

Adjournment.

Ellen Doughty for  
Tracy B. Bigney, Clerk of the Board