

University of Maine System
Board of Trustees
at the University Maine System, Rudman Board Room

May 21, 2015

Audit Committee

Present: Committee Members: Kurt Adams, Chair (at USM); Michelle Hood (by phone).
System Staff: Tracy Bigney, Lynda Dec, Tracy Elliott (at USM), John Forker, Darla Reynolds, and Rebecca Wyke (at UMA). **Other Staff:** Ryan Low. **Other Participants:** Renee Bishop (BerryDunn at USM), Amanda Butterfield (BerryDunn), and Emily Parker (BerryDunn).

Committee Members Absent: Samuel Collins, Mark Gardner, Gregory Johnson and Marjorie Medd

Trustee Adams called the meeting to order and thanked everyone for participating. There was not a quorum present. However, all agenda items were information items, so the presence of a quorum was not required.

OMB Circular A-133 Audit – Fiscal Year 2014. Ms. Amanda Butterfield, Senior Manager, with Berry Dunn McNeil and Parker LLC presented highlights of the OMB Circular A-133 audit of the University of Maine System for fiscal year ended June 30, 2014. BDMP issued a favorable (unmodified opinion.) There were no material weaknesses identified; however, one compliance finding was identified with no questioned costs. The finding was noted at UM as they did not submit required reporting for first-tier subawards under the Federal Funding Accountability and Transparency Act (FFATA). Since the audit, UM has performed the required reporting for new prime sub-awards and is also back-registering other sub-awards.

The UMS federal expenditures were \$287 million for FY2014, of which \$204 million was for student financial assistance. The total federal expenditures decreased \$6 million from the prior fiscal year. The \$6 million decrease from FY2013 to FY2014 is primarily the result of the following:

- \$5.2 million decline in student financial assistance funds of which \$4.6 million was in the direct loan category
- \$2.1 million decline in Department of Health and Human Services funds (over \$1 million passed through State of Colorado)
- The above reductions were partly offset by the following increases:
 - USDA funding increase of \$1.9 million – while SNAP funds continued to decline over \$1.2 million, offset by \$2.5 million in funding for the Fort Kent biomass project
 - Department of Energy increase of \$1.3 million – related to Aqua Ventus.

BDMP – Auditor Communications & 2015 Audit Planning. Berry, Dunn, McNeil & Parker, LLC representative Emily Parker provided an overview of the Auditor Communications and the 2015 Audit Planning Summary. The on-site A-133 fieldwork at USM, UMF and UM will be performed in July and August with the A-133 reports finalized by February 15, 2016. BerryDunn has initially assessed the following as significant areas of focus for the 2015 financial statement audit:

- Cash and investments, including deposits with bond trustees
- Accounts and grants receivable and related revenue (*primarily related to collectability and revenue recognition*)
- Capital assets (*primarily related to capital projects started or finished in 2015*)

- Accounts payable/accrued liabilities and related expenses
- Payroll expense and related accrued liabilities, including pension and other retirement benefit obligations (*particularly due to the implementation of the new pension accounting standard, GASB 68*)
- Indebtedness (*with emphasis on new bond issuance*)
- Federal financial assistance programs (*OMB Circular A-133*)

It is anticipated that the time needed to complete the audit will be approximately 950 hours for the financial statement audit and 370 hours for the A-133 audit.

New Accounting or Audit Standards. Ms. Renee Bishop, Principal, Berry, Dunn, McNeil and Parker, LLC, presented an overview of new accounting and audit standards.

GASB Statement No. 68 (GASB 68) – Accounting and Financial Reporting for Pensions, and GASB Statement No. 71 (GASB 71) – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

GASB 68 and 71 are effective for the UMS 2015 fiscal year. These statements mandate measurement and reporting requirements for governmental employers that provide defined benefit pension plans to their employees.

GASB 68 is designed to recognize pension liabilities that reflect the entire unfunded portion of pension obligations regardless of when the government intends to fund the obligations. In addition, GASB 68 requires future pension obligations to be discounted to present value using a single discount rate that reflects both:

- The long-term expected rate of return on pension plan investments. Tracy Elliott stated that UMS investment consultants currently support a long-term return assumption of 6.75% for this portfolio of investments.
- A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher to the extent plan investments aren't expected to be available to finance the payment of benefits.

UMS anticipates being able to use the long-term expected rate of return for the defined benefit plan as the UMS adopted a funding strategy in FY14. Ms. Elliott commented that the UMS made an annual contribution to the Plan of \$550,000 in FY14 and in FY15. The dollar amount will be periodically re-determined by UMS actuaries using a long-term contribution schedule such that the plan's assets will not be depleted.

UMS' other defined benefit plan, called the Incentive Retirement Plan, is not funded and had an unfunded actuarial accrued liability on June 30, 2014 of \$29 million. Because there are no plan assets for this liability, the municipal bond rate will be used to calculate this pension obligation under GASB 68.

The deferred outflow that UMS expects to recognize from the implementation of GASB 68 is not yet known; however, the order of magnitude is expected to be more than \$10 million.

GASB Statement No. 72 (GASB 72) – Fair Value Measurement and Application

GASB 72 addresses how fair value should be defined and measured, which assets should be measured at fair value, and the types of information about fair value that should be disclosed in the notes to the financial statements. GASB 72 is effective for periods beginning after June 15, 2015 (FY16 for UMS).

Exposure Draft – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

An exposure draft has been issued that addresses measurement and financial reporting by governmental employers for other postemployment benefits (OPEB). This exposure draft proposes that OPEB be accounted for and reported based on essentially the same approach and methods as required for pension benefits under GASB 68.

This exposure draft proposes significant changes to how a government would calculate and report its annual expense and long-term liability for the defined benefit OPEB. For governments that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specific criteria, the liability would be the net OPEB liability, which is the difference between the total OPEB liability and the net position accumulated in the trust.

The Audit Committee discussed the potential impacts to UMS of this accounting change. As of June 30, 2014, UMS disclosed in the notes to its financial statements an actuarial accrued liability for its OPEB of \$164 million and an actuarial value of assets of \$73 million, for a net unfunded actuarial accrued liability of \$91 million. Therefore, the resulting impact of this exposure draft promises to be significant when the net OPEB liability is recognized on the UMS Statement of Net Position.

It is expected that GASB will issue a final statement in June 2015. The proposed effective date is for periods beginning after December 15, 2015 (FY17 for UMS).

Other GASB Projects include Irrevocable Charitable Trusts, Fiduciary Responsibilities, and Leases.

Amanda Butterfield discussed changes to OMB Uniform Guidance Administrative Requirements. There are significant changes to the rules governing how organizations are to spend and administer federal grant funds with the most comprehensive changes occurring in the procurement standards.

University of Maine Department of Athletics Agreed-Upon Procedures Report. Mr. Ryan Low, University of Maine Vice President for Administration and Finance, provided a brief overview regarding the University of Maine Department of Athletics report on the Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Bylaw 3.2.4.16.1 for the year ended June 30, 2014 performed by O'Connor & Drew. This report showed improvement over years past with only one recommendation related to sales tax. Mr. Low credited Carlton Creech and Susan Randall with excellent work in this area.

Health Plan Eligibility Audit. Ms. Lynda Dec, Chief Human Resources Officer, briefly described the dependent eligibility audit being conducted for the UMS health plan. Employees will need to provide evidence of eligibility for each covered dependent. The audit will be completed this summer. Dependents for whom there is no evidence submitted will be dropped from coverage. The vendor is guaranteeing a return on UMS costs of this audit. Results will be presented to the Audit Committee.

Adjournment.

Tracy B. Bigney
Clerk of the Board