

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

October 29, 2015

**Audit Committee**

**Present: Committee Members:** Kurt Adams, Chair (at USM); Michelle Hood (by phone). **System Staff:** Lynda Dec, Tracy Elliott (at USM), Darla Reynolds, Janis Manning and Ryan Low (at USM). **Presidents** John Murphy (at UMFK). **Other Participants:** Renee Bishop (BerryDunn at USM), Emily Parker (BerryDunn), Claire Strickland, Lynn Coutts, Daniel Morrissey.

**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.

**Dependent Eligibility Audit – Status Report.** Ms. Lynda Dec, UMS Chief Human Resources Officer, provided a brief overview regarding recent dependent eligibility audit results

During last year's annual open enrollment, University of Maine System (UMS) employees were advised that a dependent eligibility audit would be conducted to verify that employee dependents on the UMS group medical, dental, and vision plans meet the eligibility guidelines to qualify for coverage(s). The UMS engaged the independent firm, HMS Employer Solutions (HMS), to conduct this audit which began in June 2015 and ended in August with internal staff continuing efforts thereafter. The audit resulted in a total of 131 dependents being removed from coverage. Using a savings of \$3,500 per dependent, the audit resulted in a minimum savings of almost \$500 thousand. UMS was able to negotiate with Cigna to pay for the audit. This resulted in no out-of-pocket cost to UMS for the audit.

**UM Department of Athletics Agreed-Upon Procedures Report.** Ms. Claire Strickland, Chief Business Officer at the University of Maine (UM), provided a brief overview regarding the Department of Athletics Agreed-Upon Procedures Report for Academic Year 2013-2014 which was performed by O'Connor & Drew. O'Connor & Drew reported one finding regarding maintaining final documentation of the declaration of the playing season for one sport and management has agreed to take appropriate corrective measures.

O'Conner & Drew also made several recommendations for the purpose of providing best practices. There were four general recommendations which address extra benefits related to boosters, student athletes and representatives that might have access to athletes. Management has addressed these recommendations and taken corrective measures.

O'Conner & Drew has provided a draft report for the 2014-2015 academic year to UM for review and response. The final report will be provided to the Committee for review at its Spring meeting.

**Annual Financial Report FY2015.** Ms. Tracy Elliott, Director of Finance and Controller, provided an overview of the results of the fiscal year 2015 (FY2015) **draft** Annual Financial Report. The

report will be presented to the Board of Trustees for approval at its November 16<sup>th</sup> meeting. The UMS expects an unmodified (i.e., clean) opinion from the auditors.

The UMS ended FY15 with an *Income (Loss) Before Other Changes in Net Position* of nearly (\$20 million). Total Other Changes in Net Position offset the loss with \$11 million, for a Change in Net Position for FY15 of (\$9 million).

The *Total Net Position* at June 30, 2015 was \$861 million decreasing \$9 million from FY14, as restated. 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>	\$9 million
• <i>Restricted Nonexpendable</i>	\$1 million
• <i>Restricted Expendable</i>	(\$3 million)
• <i>Unrestricted</i>	<u>(\$16 million)</u>
<b><i>Change in Net Position</i></b>	<b><u>(\$9 million)</u></b>

The UMS adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The UMS also adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Statements No. 68 and 73 were adopted retroactive to July 1, 2013 and the FY14 financial statements have been restated to reflect retroactive applications of these changes in accounting principles. Under Statements No. 68 and 73, the actuarially determined net pension liability is now reported in full as a liability in the *Statements of Net Position* and certain items that were previously reported as assets and liabilities are to be reported as outflows of resources or inflows of resources in the year incurred or received.

As a result of implementing GASB Statements No. 68 and 73, *Total Net Position* at June 30, 2014 declined \$8 million, in the *Unrestricted Net Position* category, from the amount previously reported.

**External Auditor's Report.** Berry, Dunn, McNeil & Parker, LLC representatives Renee Bishop and Emily Parker reported on the results of the 2015 UMS financial statement audit. The draft Required Communications Letter was discussed. The audit did not identify any deficiencies in internal control that would be considered to be material weaknesses.

Regarding the UMS Federal Funds Compliance Audit (i.e., A-133 Audit), Berry Dunn has completed fieldwork for UM, USM and UMF. The Student Financial Assistance Cluster and the TRIO Cluster were the major programs that were tested. The final audit report is expected to be issued in January.

**Significant GASB Pronouncements to be implemented in the next three years.**

***GASB Statement # 72 – Fair Value Measurement and Application***

GASB # 72 objectives include consistent and detailed use of appropriate valuation technique to measure the fair value of investments. Techniques include the market approach, cost approach or the income approach. These techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs, establishing a hierarchy with three levels:

- Level 1 – quoted, unadjusted prices in active markets

- Level 2 – inputs, other than quoted prices, that are observable directly or indirectly for the asset or liability
- Level 3 – unobservable inputs, such as assumptions made by management.

GASB # 72 will be effective for the fiscal year ended June 30, 2016.

**GASB Statement # 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.***

GASB # 75 objectives include improving financial reporting through enhanced note disclosures and required supplementary schedules for consistency, comparability and transparency of information. Transparency will be increased by providing information on net OPEB liability measurement and an explanation of how and why the liabilities change year to year.

- This GASB will impact the new Other Post Employment Benefits (OPEB) liability measurement as different discount rates will be used depending on the funded versus unfunded portions of the liability and UMS' funding strategy.
- Most significantly, the GASB will require the entire net OPEB liability (currently \$103 million) to be recognized in the *Statement of Net Position*.
- UMS staff will work with the actuaries to analyze the expected impacts of this new GASB and what steps need to be taken including developing a funding strategy.

GASB # 75 will be effective for the fiscal year ended June 30, 2018.

Adjournment.

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