

University of Maine System
Board of Trustees
Rudman Conference Room, 253 Estabrooke Hall, Orono
May 4, 2018

Audit Committee

Present: Committee Members: Michelle Hood, Chair, James Donnelly (by phone), Lisa Eames (at UMA), Norman Fournier (at UMFK), Mark Gardner (by phone), Kelly Martin (at UMFK) and Karl Turner (at USM). **Other Trustees:** Trevor Hustus (at UMA). **System Staff:** Ellen Doughty (at UMA), Tracy Elliott, David Demers, Dan Demeritt (at UMA), Ryan Low (at UMA), and Darla Reynolds. **Other Participants:** Renee Bishop-Berry Dunn, Emily Parker-Berry Dunn, Matt Curtis and Claire Strickland.

Committee Members Absent: James Erwin.

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

Uniform Guidance Audit – Fiscal Year 2017 BerryDunn – Audit Committee Presentation.

Ms. Renee Bishop, Principal, and Ms. Emily Parker, Senior Manager, with Berry Dunn McNeil and Parker LLC presented highlights of the Uniform Guidance audit of the University of Maine System for fiscal year ended June 30, 2017. The UMS Federal expenditures were \$247 million for fiscal year 2017, of which \$178 million was for Student Financial Assistance, and \$42 million was for Research and Development. Total expenditures decreased by \$10.3 million from the prior fiscal year. The decrease from FY2016 to FY2017 is primarily the result of a \$7.3 million decline in Student Financial Assistance funds, a \$5.5 million decline in Department of Health and Human Services grants, and a \$1.0 million decrease in National Science Foundation funding. These reductions were offset by increases in Department of Defense funding of approximately \$3.5 million and Department of Agriculture funding of approximately \$600 thousand.

BerryDunn tested the UMS compliance in regards to laws, regulations and contracts, and grant agreements for federal funding received. They issued favorable (unmodified) opinion on compliance in accordance with federal guidelines under The Office of Management and Budget's (OMB) Uniform Guidance. The two major programs tested were the Student Financial Assistance Cluster and the Research and Development Cluster. Internal Controls testing showed no material weakness, however BerryDunn noted two deficiencies that they considered to be significant. These two findings were in the area of student financial aid - one in enrollment reporting, and the other in return of Title IV aid.

BerryDunn – Audit Committee Presentation. Ms. Emily Parker and Ms. Renee Bishop presented information to the Committee about significant audit areas for the University of Maine System FY2018 financial statement and Uniform Guidance audits, timelines, new accounting pronouncements, and emerging issues. The significant audit areas are cash & investments, federal financial assistance programs, accounts & grants receivable with any related revenues, payroll & related liabilities, accounts payable, and bond financing & plant related expenditure. The time line for the audit starts with interim field work in June and year end field work in September, draft reports ready in early October, an Audit Committee presentation in late October, a final financial statement audit report by November 1st and a final Uniform Guidance report in February 2019.

The auditors and UMS staff noted that the State is now requiring that final Board approved financials be delivered to them by November 1st. This new deadline has required that the audit schedule be shifted with earlier due dates. Ms. Elliott has also relayed this change to the UM Foundation, which is a Component Unit of the UMS, asking for their financial information earlier than in the past.

New pronouncements expected to have an impact on UMS that are effective this year are GASB 75 and GASB 81. GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* will have a cumulative restatement reducing net position at July 1, 2016 by \$101,659,000. Anticipated changes for FY2017 include restating the liability on the Statement of Net Position to \$76,600,000, increasing deferred inflows by \$17,700,000, and increasing deferred outflows by \$5,200,000, and increasing the FY2017 change in net position by \$12,000,000. GASB 81 – Irrevocable Split-Interest Agreements will have a cumulative restatement increasing net position as of July 1, 2016 which is anticipated to be between \$3 to \$4 million. Some emerging issues are the General Data Protection Regulation (GDPR) becoming effective May 25, 2018, the Perkins Loan Program wind down, and the Higher Education Reauthorization.

Impact of GASB #75 – Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions. Vice President of Finance and Controller, Ms. Tracy Elliott, and Director of Accounting, Ms. Darla Reynolds presented information to the Committee about the impacts of GASB 75 on FY2017 financial statements and ratios.

With comparative statements, UMS will be retroactively adopting this standard as of the beginning of FY2017. Total assets and deferred outflows will increase nearly \$5 million. Total liabilities will increase by nearly \$77 million and deferred inflows will increase by nearly \$18 million. The FY2017 beginning of year net position will be reduced by nearly \$102 million with the FY2017 Other Post-Employment Benefits (OPEB) expense being reduced by \$12 million. The net effect is a \$90 million decrease in net position for the end of FY2017.

The Accounting Department recalculated the impact of GASB 75 on the UMS FY2017 financial ratios. The restated FY2017 Composite Financial Index (CFI) of 2.5 is not significantly different from the original calculation of 2.8. The \$90 million reduction in Unrestricted Net Position greatly impacts the Primary Reserve and Viability ratios, pushing them below industry benchmarks. These ratios will remain below the industry benchmarks until the UMS rebuilds its Expendable Net Position. Restatement of FY2017 financial data has a positive impact on the previously calculated Net Operating Revenues and Return on Net Position ratios as OPEB expense decreased \$12 million. Moving forward the University of Maine System is identifying options and working through the implications of each to determine the best approach to recover the \$90 million of lost Unrestricted Net Position.

UM Department of Athletics Agreed-Upon Procedures Update. UM Chief Business Officer, Ms. Claire Strickland, provided a brief overview regarding the report on the Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Bylaw performed by Certified Public Accountants O'Connor & Drew P.C. This report addresses the evaluation of the Statement of Revenues and Expenditures of the UM Department of Athletics for compliance with specific NCAA Bylaw requirements. The report covers 44 procedures related to program revenues and expenditures. It is based on the Statement for the year ending June 30, 2017, as prepared by the University of Maine's management. O'Connor & Drew made two recommendations - one

Audit Committee Meeting
May 4, 2018

related to ticket sales reconciliations and the other regarding payroll discrepancies – both of which management agreed with and has corrected.

Additional information on the meeting can be found on the Board of Trustees website:
<http://staticweb.maine.edu/wp-content/uploads/2018/05/meeting-materials-revised-050318.pdf?ca0c38>

Adjournment.

Heather A. Massey for
Ellen N. Doughty, Clerk