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

Executive Session
On a motion by Trustee Medd, which was seconded by Trustee Johnson, the Audit Committee agreed to go into Executive Session under provision of 1 MRSA Section 405-6-A to discuss the evaluation of personnel and the consideration and discussion of appointments, evaluations, employment and duties.

On a motion by Trustee Johnson, which was seconded Trustee Medd, the Audit Committee concluded the Executive Session.

Ms. Renee Bishop and Ms. Amanda Butterfield from Berry Dunn, McNeil & Parker, LLC presented the highlights for the OMB Circular A-133 audit of the University of Maine System for fiscal year ended June 30, 2013. There were no material weaknesses noted, no instances of noncompliance, no findings identified and no questioned costs were identified.

University of Maine System Federal expenditures were $294 million for fiscal year 2013, of which $210 million was for Student Financial Assistance. The total Federal expenditures decreased $23 million from the prior fiscal year. The two year decrease from FY2011 to FY2013 is $42 million. The $23 million decrease from FY2012 to FY2013 is primarily the result of the following:
  
  o $6 million decline in ARRA funds
  o $6.7 million decline in Student Financial Assistance funds largely due to the decline in federal direct lending
  o $2.6 million decline in USDA SNAP funds passed through the State of Maine
  o $1.6 million decline in reductions of foster care passed through funds

Auditor Communications and FY2014 Audit Planning Summary.
Ms. Bishop and Ms. Butterfield from Berry Dunn, McNeil & Parker, LLC provided an overview of the Auditor Communications and the 2014 Audit Planning Summary. The on-site A-133 fieldwork at USM,
UMA and UM will be scheduled in July through October with the A-133 reports finalized by February 15, 2015. BerryDunn has initially assessed the following as significant areas of focus for the 2014 financial statement audit:

- Cash
- Investments, including deposits with bond trustees
- Accounts receivable and revenue (primarily related to collectability and revenue recognition)
- Grants receivable and related revenue
- Capital assets (primarily related to capital projects started or finished in 2014)
- Accounts payable and accrued expenses
- Payroll expense and related accrued liabilities, including pension and other retirement benefit obligations
- Indebtedness
- 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 500 hours for the A-133 audit.

**New Accounting or Auditing Standards**

**GASB Statement No. 65 (GASB 65) – Items Previously Reported as Assets and Liabilities**, is effective for the System’s 2014 fiscal year and will be applied on a retroactive basis. It provides guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows of resources or deferred inflows of resources. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities (such as assets and liabilities from refunding of debt) as deferred outflows of resources and deferred inflows of resources. In addition, GASB 65 will require that certain items currently being reported as assets and liabilities (such as debt issuance costs) be instead expensed in the period incurred. This will result in a restatement to opening net position in the June 30, 2014 financial statements primarily as a result of expensing prior debt issuance costs that prior to GASB 65 were capitalized and amortized.

**GASB Statement No. 68 (GASB 68) – Accounting and Financial Reporting for Pensions**, mandates new measurement and reporting requirements for governmental employers that provide defined benefit pension plans to their employees. Calculation of the total pension obligations involves three essential steps:

1. projecting future benefit payments for current and former employees or their beneficiaries,
2. discounting the projected future benefit payments to their present value, and
3. allocating the present value to past and future years during which the employees have worked or are expected to work.

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 of the following:

- The long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent the pension plan’s fiduciary net
position is projected to be sufficient to make projected benefit payments and pension plan assets are expected to be invested using a strategy to achieve that return.

- A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that those conditions are not met.

Current standards require the discount rate to only reflect the long-term investment expected rate of return. Because pension investments generally yield greater returns than long-term borrowing rates, the discounted net present value of pension obligations will be larger under GASB 68 to the extent the projected fiduciary net position will not be sufficient to cover all the projected benefit payments.

Trustee Adams asked about the expected impacts of GASB 68 for the UMS. Ms. Tracy Elliott, Director of Finance and Controller, replied that the actuary performs a valuation every other year with the last valuation being July 1, 2013. At that time, the market value of the fund was $40 million, with a funded ratio of nearly 85%. The UMS is significantly funded compared with other institutions. The UMS, working with its actuary, has also developed a plan to annually contribute to the fund, such that if the assets return the NEPC approved discount rate, the fund would never be depleted. As such, the UMS will be able to continue to use the NEPC supported discount rate to calculate its obligation rather than using the lower 20-year, tax-exempt rate for the unfunded portion as further described in GASB 68. Ms. Bishop stated her support for this approach. For these reasons, the impact of GASB 68 is expected to be relatively immaterial.

**GASB Statement No. 71 (GASB 71) – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68**, amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB 71 is effective for periods beginning after June 15, 2014 (the System’s 2015 year-end – in conjunction with the implementation of GASB 68).

**GASB Concepts Statement No. 6 (Statement 6) - Measurement of Elements of Financial Statements**, was issued in April 2014. Concepts statements provide a conceptual framework of interrelated objectives and fundamental principles that are used as a basis for establishing consistent accounting and financial reporting standards. These statements are foundational but do not prescribe standards that might apply to a particular transaction or situation. Statement 6 establishes two new approaches to measuring assets and liabilities in financial statements:

1. Initial transaction date measurement, which represents the transaction price or amount assigned when an asset is acquired or a liability is incurred.
2. Measurement as of the financial statement date, which represents the amount assigned to an asset or liability when the elements(s) are re-measured for reporting in the financial statements.

Statement 6 also establishes the following four measurement attributes: historical cost, fair value, replacement cost, and settlement amount.

**UMaine Department of Athletics Agreed-Upon Procedures Update.** Ms. Judy Ryan, University of Maine Associate Vice President for Human Resources and Administration, provided a brief overview regarding the University of Maine Department of Athletics reports:
- Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Bylaw 3.2.4.16.1 for the year ended June 30, 2013 performed by O’Connor & Drew.


Trustee Adams thanked UMaine for their efforts in improving procedures in response to prior audit recommendations related to the Department of Athletics. He commented that this report was a significant improvement over the past two years.

**Information Security Review.** Mr. John Forker, Chief Information Security Officer, presented an information security overview that includes a review performed by Presidio.

In 2013, the Information Security Office and information technology (IT) leadership began discussions about the information security technology and processes in the data center. Collaboratively, these stakeholders through a competitive bid process commissioned Presidio, Inc. to perform a data center security review to provide a strategy to improve the security posture. This request was predicated on the concept of an IT network “architectural” review that was recommended in 2011 as part of a plan to develop the Information Security function in conjunction with the upgrade of the physical infrastructure of the data centers in Orono and Portland. Upon completion of the data center project and the establishment of a core Information Security foundation, the next step was to examine the data center information security.

Presidio completed its data center review in December 2013. Their report included 27 findings and recommendations which they grouped in five areas of risk: Configuration Management, Account Management, Data Center On-Boarding, Secure Network Engineering and Boundary Controls, and Centralized Log Management. Some of these recommendations are primarily process oriented while others require investment in technology solutions such as firewalls.

To address the findings and recommendations, a team of IT and Information Security staff have developed a three-year plan of action for the issues presented. This UMS response includes nine separate initiatives. These initiatives are lined up over three years based on potential funding availability, ability to execute, and dependencies that the initiatives have on one another. Some of the initiatives require a substantial time investment to evaluate alternative solutions, to conduct a competitive procurement process, or to implement. The cost of the recommendations include initial, one-time costs for equipment of $670 thousand and recurring maintenance costs of $162 thousand. Because these new functions require configuring, managing and maintaining new equipment it is estimated three new full-time equivalent positions in infrastructure and operations would be required. The estimated annual salary and benefits for these new positions is $270 thousand.

Although Presidio recommends future actions for the data centers beyond the core findings and recommendations, it is likely that the result of these nine initiatives will prove that the data centers are reasonably secure. However, the scope of this activity was limited and following these actions, the UMS should focus attention on other parts of the IT infrastructure. Additionally the dangers to information security continue to evolve as do compliance requirements, so the UMS will need to conduct periodic reviews and make future investments to remain secure.
Adjournment.

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