Audit Committee

Present: Committee Members: Kurt Adams, Chair (at USM); Samuel Collins (at UMPI), and Marjorie Medd (at USM). Other Trustees: Norman Fournier and Karl Turner (by phone). System Staff: Tracy Bigney, Tracy Elliott (at USM), Darla Reynolds, and Rebecca Wyke. Other Staff: Ryan Low, James McClyner, and Ronald Mosley. Other Participants: Renee Bishop (BerryDunn at USM), Amanda Butterfield (BerryDunn), Emily Parker (BerryDunn at USM).

Committee Members Absent: Michelle Hood, Mark Gardner, and Gregory Johnson.

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

Annual Financial Report FY2014. The University of Maine System’s (UMS) fiscal year 2014 (FY14) draft Annual Financial Report was presented for the Committee’s review. The report will be presented to the Board of Trustees for approval at its November 17th meeting.

The Financials conform with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The independent auditors’ report provided an unmodified opinion on the financial statements.

Ms. Tracy Elliott, Director of Finance and Controller, provided an overview of the financial results. As shown on the Statements of Revenues, Expenses, and Changes in Net Position, on page 28 of the Annual Financial Report, the UMS ended FY14 with Income Before Other Changes in Net Position of $3 million; relatively flat with results for FY13, as restated. This net number includes both operating and nonoperating results with the following highlights.

Total Operating Revenues of $453 million decreased $10 million from the prior year. Changes in this category include Tuition and Fees which were down $1 million or 0.5%, while Residence and Dining Fees were up $2 million or 4%. Grant and Contract revenue and associated Recovery of Indirect Costs declined $5 million. UMS also saw a $2 million decline in revenues from Other Auxiliary Enterprises.

While FY14 Total Operating Revenues decreased $10 million from the prior year, FY14 Total Operating Expenses of $675 million increased nearly $2 million from the prior year. The result was a net Operating Loss of $222 million.

Net Nonoperating Revenues of $225 million increased $12 million from the prior year. Significant changes in this category of revenue include:

- An increase of $4 million in Noncapital State of Maine Appropriations,
- An increase of $3 million in Gifts Currently Expendable,
- An increase of $3 million in operating funds Investment Income, and
Other Changes in Net Position, which are capital contributions and additions to endowments, contributed another $24 million in revenue for the year, for a Change in Net Position for FY14 of $27 million.

As shown on page 26, Total Net Position at June 30, 2014 was $877 million increasing $27 million from FY13, as restated. This net increase includes:

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<th>Increase (Decrease)</th>
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<tr>
<td>Net Investment in Capital Assets</td>
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<td>Restricted Nonexpendable</td>
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<td>Restricted Expendable</td>
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<tr>
<td>Unrestricted</td>
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<td>Change in Total Net Position</td>
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The above change in Net Investment in Capital Assets includes $10 million in net additions to capital assets after annual depreciation and an $11 million decline in related debt. Growth in Restricted Nonexpendable primarily reflects gifts received, while the increase in Restricted Expendable reflects growth in endowments from positive financial market returns.

The $4 million decline in Unrestricted Net Position is the result of many factors including revenue pressures like enrollment declines, keeping undergraduate in-state tuition frozen to support affordable education, and reduced levels of support from the State. Expense pressures include rising costs in compensation, healthcare and other benefits, depreciation, and utilities.

As discussed in Note 1 and Note 16 to the financial statements, in 2014 the UMS adopted Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. The 2013 financial statements have been restated for the retroactive application of this new accounting guidance. Total Net Position at June 30, 2013 declined $3 million from the amount previously reported as a result of this change.

External Auditor Report Including Required Communications Letter and Executive Summary of Audit Results. Ms. Renee Bishop, Ms. Emily Parker and Ms. Amanda Butterfield from Berry, Dunn, McNeil and Parker, LLC reported on the results of the 2014 UMS financial statement audit. During the audit BerryDunn did not identify any deficiencies in internal controls that would be considered material weaknesses.

During FY2014, the University of Maine System adopted GASB 65 – Items Previously Reported as Assets and Liabilities. This pronouncement requires certain items that were previously treated as assets and liabilities to now be treated as deferred inflows and deferred outflows of resources. For UMS, this means that deferred amounts from bond refundings are now reported as deferred items; whereas, such amounts had typically been netted against bonds payable. In addition, GASB 65 requires some items previously treated as assets to be expensed in the period incurred. The primary change for UMS related to this requirement is that bond issuance costs are now expensed as incurred.

There are two new GASB pronouncements, which relate to pensions, that UMS will need to implement within the next two years: GASB 68 – Accounting and Financial Reporting for Pensions and GASB 71 – Pension Transition for Contributions Made Subsequent to the
Measurement Date (FY2015). The UMS will work with its actuaries and auditors to determine and mitigate impacts of these changes.

Berry Dunn also reported on emerging issues in GASB’s technical work plan. Depending on how such guidance evolves, the impacts on UMS financials could be significant. Areas to watch closely include guidance on accounting for Other Postemployment Benefits (OPEB) and the requirement to present fiduciary fund financial statements.

University of Maine Department of Athletics Agreed-Upon Procedures Report. O’Connor & Drew has completed the University of Maine Department of Athletics Agreed-Upon Procedure Report- pursuant to the Association of College and University Auditors National Collegiate Athletic Association Division I Compliance Audit Guide – for Academic Year 2012-2013. One finding was reported which related to the size of a manufacturer’s patch on a team’s jerseys. Management has taken corrective action.

Adjournment.

Tracy Elliott for
Tracy B. Bigney, Clerk of the Board