University of Maine System  
Board of Trustees  
at the University Maine System, Rudman Board Room  
October 31, 2013

Audit Committee

Present by Polycom: Committee Members: Kurt Adams, Chair; and Marjorie Medd.  
System Staff: Tracy Elliott.  
Other Trustees: Norman Fournier.  
Other Participants: Renee Bishop – BerryDunn, and Erin Timney - BerryDunn.

Present at UMS:  
System Staff: Tracy Bigney, Peggy Leonard, Janis Manning, Darla Reynolds, Miriam White, Kelley Wiltbank, and Rebecca Wyke.  
Guests: Janet Waldron - UM, Amanda Butterfield – BerryDunn, Ross Farrell – MEA and Ron Mosley - AFUM.

Committee Members Absent: Michelle Hood and Mark Gardner.

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

Annual Financial Report FY2013.  Ms. Tracy Elliott, Director of Finance and Controller, reviewed the fiscal year 2013 (FY2013) draft Annual Financial Report. The University of Maine System ended FY2013 with Income Before Other Changes in Net Position of $4 million. Other Changes in Net Position contributed an additional $24 million, for an increase to Total Net Position of $28 million (or a 3% increase) for the year. Total Net Position at June 30, 2013 was $853 million increasing $28 million from the prior year. This increase includes:

• An increase in Net Investment in Capital Assets of $13 million,  
• An increase in Restricted Net Position of $8 million, and  
• An increase in Unrestricted Net Position of $7 million.

Other significant highlights regarding the Annual Financial Report include:

• Operating and Net Non-operating Revenues totaled $673 million for FY2013, down $15 million from prior year. The most significant item contributing to the review decline was a $16 million decline in federal, state and private grant and contract revenue.  
• Major revenue sources include Net Student Fees Revenue (36%), State Appropriations (29%), and Grant and Contract Revenue with associated Indirect Cost Recovery at (24%).  
• Total tuition and fees were $269 million, increasing $3 million over the prior year.  
• Fall 2012 enrollments totaled 22,993 on a full-time equivalent basis (FTE) up 0.3% from the prior fall. Fall 2012 enrollments were 31,012 on a headcount basis down 0.3% from the prior year. 65% of the student population was enrolled full-time and 85% of students were Maine residents.  
• Noncapital State of Maine appropriations of $194.4 million decreased $3.2 million or 1.6% from the prior year.  
• The Managed Investment Pool (including Endowments) experienced a 12.7% net of fees return compared to -2.0% for FY2012. The pooled investments have a 5-year annualized net of fees return of 4.8%. The market value of pooled investments was $234 million at June 30, 2013 and included UMS and affiliates endowments of $133 million. $5 million in endowment returns was distributed for scholarship and other endowed spending in FY2013 and in FY2012.  
• The UMS Other Postemployment Benefits (OPEB) Trust was established in FY2009 and is invested in the Managed Investment Pool. The OPEB Trust held $73 million at June 30,
2013, up $20 million from the prior year balance. On October 1, 2013 the UMS sent $2.5 million to the OPEB Trust to fund the FY2013 year-end liability.

- UMS earned operating investment income of $9.6 million in FY2013 with a net of fees return of 3.6% compared with FY2012 income of $4.6 million and a 1.3% net of fees return. Operating investments have a 5-year annualized net of fees return of 2.7%.
- Compensation and benefits expense, at $433 million in FY2013, comprised 64% of all UMS operating and non-operating expenses [74% of the educational and general budget]. Compensation and benefits expense decreased $1 million from FY2012.
- The Statement of Net Position includes capital asset additions, net of retirements, of $36 million and $41 million at June 30, 2013 and 2012, respectively.
- Total bonds and notes payable were $177 million on June 30, 2013, declining a net $13 million from the prior year. During FY2013, the UMS competitively sold $65.2 million in 2013 Refunding Bonds realizing a total net present value savings of over $7.5 million and a reduction in debt service costs of over $600 thousand on average annually from 2014 to 2035.

**External Auditor Report Including Required Communication Letter, Management Representation Letter, Executive Summary of Audit Results, and Bain and Company Publication.** Ms. Renee Bishop, Ms. Erin Timney and Ms. Amanda Butterfield from Berry Dunn, McNeil & Parker, LLC reported on the results of the 2013 UMS financial statement audit.

The auditors prepared the following items:
- Required Communications Letter
- Management Representation Letter
- Executive Summary of Audit Results

The UMS adopted three new Governmental Accounting Standards Board (GASB) Pronouncements during FY2013. GASB 61 which modifies the requirements for component unit inclusion in the financial statement; therefore, only the University of Maine Foundation will be included. GASB 62 incorporates reporting guidance for outside sources into GASB and GASB 63 which changes financial statements to separately report deferred inflows and outflows of resources, and report Net Position rather than Net Assets.

The significant areas that were audited include the following:
- Cash and investments, including deposits with bond trustees
- Receivables and revenues
- Facilities and indebtedness
- Payroll and related accrued expenses
- Accounts payable and related expenses

There will be two new GASB pronouncements to be implemented in the next two years.
- GASB 65 – Items Previously Reported as Assets and Liabilities (effective in FY2014) requires changes in presentation; deferred inflows and outflows will be reported separately from assets and liabilities. In addition, certain items such as bond issuance costs will be expensed in the year incurred.
- GASB 68 – Accounting and Financial Reporting for Pensions (effective in FY2015) will most likely increase the liability for the defined benefit pension plans.
In addition, for the Committee's information, Berry Dunn provided the publication, *The Financially Sustainable University*, written by Jeff Denneen with Bain and Company and Tom Dretler with Sterling Partners. Trustee Adams asked that the publication be distributed to all Trustees.

**UMaine Athletics Vacation Time Reporting Follow-up.** Ms. Janet Waldron, Senior Vice President for Administration & Finance at UMaine, explained that during the May 17, 2013 Audit Committee meeting, the Committee asked for a follow-up regarding issues raised in the O’Connor & Drew 2012 Agreed-Upon Procedures report relating the UMaine Athletics vacation time reporting.

The resolution to the vacation accrual issue has been addressed in two ways. First is the continuation of the practice to update new coaching contracts to include the statement that any athletic department personnel who did not record at least 80 hours (two weeks) of vacation time would be charged for the use of two weeks. The second includes increased education, monitoring and tracking which began with a meeting of Senior Leaders in the Athletic Department to inform them that all salaried employees are expected to record vacation time and supervisors would be held accountable. Following that meeting, the staff in the Athletics Department collaborated with staff in the Human Resources Department to run lists of all salaried employees and to develop systems to monitor vacation time. These efforts resulted in 100% compliance as of June 28, 2013. This process will be repeated annually. Trustee Adams suggested some formal sampling of time entry earlier in the fiscal year to validate that progress is being made.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk of the Board