Trustee Donnelly, Chair, called the meeting to order and thanked everyone for participating.

**UM Department of Athletics Agreed-Upon Procedures Report.** UM Director of Athletics, Mr. Ken Ralph provided a brief overview regarding the report on the Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association (NCAA) performed by Certified Public Accountants O’Connor & Drew P.C. The report is based on the 2018-2019 Academic Year and addressed the evaluation of the Statement of Revenues and Expenditures of the UM Department of Athletics for compliance with six specific NCAA Bylaw requirements. Mr. Ralph highlighted several of the observations and recommendations that accountants made in the report. A few of the highlighted issues included findings on two unregistered student-athlete vehicles and an excess of unused complimentary athletic event tickets. Additionally, Mr. Ralph explained how the UM Athletic Management Team intends to rectify the issues noted in the recommendations.

**Annual Financial Report FY2019.** UMS Director of Accounting, Ms. Darla Reynolds and UMS Vice President of Finance and Controller, Ms. Tracy Elliott provided the following overview of the FY2019 Annual Financial Report to the Audit Committee. This year UMS contracted a new Auditing firm, CliftonLarsonAllen, LLP, who expressed an unmodified clean opinion of the UMS FY2019 annual financial statements.

FY2019 Operating Revenues totaled $470 million, up nearly $12 million or 3% from the prior year. The primary drivers for this increase were an $8 million increase in net student fees, along with a combined total increase of $3 million in grants and contracts revenue and the related recovery of indirect costs. FY2019 Operating Expenses totaled $724 million, up $32 million or 5% from the prior year. The largest increase in Operating Expenses from FY2018 to FY2019, was due to Institutional Support which increased 16% or $10.3 million. The System’s centrally managed benefit pool was the primary driver behind this increase, accounting for $9.6 million or 93% of the Institutional Support increase. Of the $724 million in FY2019 Operating Expenses, compensation the System’s largest operating expense, was $322 million, and saw an increase of 4% or $12 million compared to the prior year. Additionally, benefits at $139 million, increased
12% or $15 million compared to FY2018. FY2019 Operating Loss, which is the amount by which Operating Expenses exceeded Operating Revenues, totaled $254 million. This Loss is $20 million or 9% more than the prior year loss. FY2019 Nonoperating Revenues totaled $242 million, up nearly $9 million or 4% from the prior year. Two notable reasons for this increase are a $5 million increase in Operating Investment income and a $2.5 million increase in revenue from Gifts. As of June 30, 2019 the UMS investment portfolios had a combined total of $628 million. The Operating Fund held $257 million, the Managed Investment Pool (MIP) held $345 million and the Defined Benefit Plan Trust for classified staff closed at $26 million. The overall result of the Operating and Nonoperating activity is called Loss Before Other Changes in Net Position and that loss totaled $11.9 million compared to the loss of $588 thousand for FY2018. FY2019 Other Changes in Net Position totaled $16.4 million and offset the $11.9 million loss, which enabled the System to experience an overall increase in net position of $4.5 million. Total Other Changes in Net Position was flat with the prior year, remaining at $16 million. Three notable reasons for this change include a $2 million decrease in State of Maine Capital appropriations, a $7.2 million increase in endowment gifts, and a $5 million decrease in endowment return.

The System has good liquidity with $262.9 million in cash & operating investments at June 30, 2019 and total Current Assets of $324.8 million, which increased $18 million dollars or 6% from the prior year. FY2019 Noncurrent Assets totaled $895.8 million, down almost $16 million or 2% from the prior year. FY2019 Liabilities totaled $380 million, a decrease of $15.5 million from the prior year. In FY2018 with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75 for other postemployment benefits (OPEB), the System recognized its full unfunded liability and restated the beginning of FY2017 downward by $102 million. The FY2019 Statement of Net Position has been greatly affected by the implementation of OPEB. Of the nearly $115 million in Noncurrent Accrued Liabilities, $63 million relates to the Net OPEB Liability. Of the nearly $23 million reported as Deferred Outflows, $15.706 million or 69% are related to OPEB. Of the nearly $45 million in Deferred Inflows of Resources, $36 million of that total relates to OPEB. The 2 deferrals together, will net a Deferred Inflow of $20 million, which will have a net positive impact on future year’s expense. The System’s OPEB expense for FY2019 was $8.371 million, decreasing $1.5 million or 15% from the prior year. The University of Maine System’s Total Net Position on June 30, 2019 was $818.2 million, which increased $4.5 million or 1% from FY2018.

On a motion by Trustee Martin, which was seconded by Trustee Erwin, the Audit Committee approved this item to be forwarded to the October 30, 2019 Special Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2019 Annual Financial Report as presented.

Auditor Communications to the Audit Committee - CliftonLarsonAllen LLP (CLA).
CLA representatives Michael Johns, Principal, and Daniel Persaud, Manager, presented information on the 2019 UMS financial statement audit and emerging accounting issues. CLA stated that no changes in the scope of the audit have occurred since the planning meeting in May 2019. CLA had no material audit adjustments and found no financial reporting deficiencies in the UMS annual financial statements. They expressed an unmodified opinion of the annual financial statements in the UMS FY2019 Annual Financial Report. CLA provided a brief overview of the significant audit findings, misstatements, and evaluation information in the Required Governance
Communication that was provided to the Audit Committee prior to the meeting. UMS changed accounting policies by adopting Statement of GASB No 83, Certain Asset Retirement Obligations and No. 88, Certain Disclosures Related to Debt, in 2019. Adoption of GASB Nos. 83 and 88 did not have a material impact on the financial statements. Going forward, UMS will have to implement two new accounting standards, GASB No. 90 related to Major Equity Interest and GASB No. 84 related to Fiduciary Activities by June 30, 2020. Additionally, GASB No. 87 related to Leases will need to be implemented by UMS by June 30, 2021. CLA provided information on these future accounting standards and explained what impact, if any, they would have to the UMS.

Enterprise Risk Management Update.
UMS Chief General Services Officer, Mr. Chip Gavin, and UMS Risk Manager, Ms. Gretchen Catlin, provided an update regarding the implementation of the Enterprise Risk Management (ERM) reporting initiative. Ms. Catlin also provided a brief overview of the program and the implementation timeline, along with information on the feedback collected after the initial meetings with each of the Board Committees that are assigned management of certain risk categories. In addition to the implementation of ERM, Ms. Catlin provided an overview of the FY2019 Risk Management Annual Summary & Report.


Adjournment.

Heather A. Massey for
Ellen N. Doughty, Clerk