

UNIVERSITY OF MAINE SYSTEM
Board of Trustees Meeting

at the University of Maine System
November 4, 2011

Audit & Finance/Facilities Joint Session

Present by Polycom in Portland:

Committee Members: Kurt Adams, Chair of the Audit Committee; Eleanor Baker, Marjorie Medd, Victoria Murphy, and Karl Turner.

Other Attendees: Renee Bourget-Place – KPMG, Lauren DiPrizio – KPMG, and Scott Warnetski – KPMG. **System Staff:** Rebecca Wyke.

Present in Bangor, UMFK and by Phone:

Committee Members: Norman Fournier, Chair of the Finance/Facilities Committee; Samuel Collins, Benjamin Goodman, Gregory Johnson (by phone), and Paul Mitchell. **Faculty Representatives:** Ray Albert (Polycom at UMFK) and Robert Rice. **Student Representatives:** Katie Foster and Brianna Hughes.

Other Attendees: Chancellor: Richard Pattenau. **Campus Staff:** Sheri Stevens – UMA, Janet Waldron – UM, and Elaine Clark - UM. **System Staff:** James Breece, Tracy Elliott, Michael Sauda, Richard Thompson, Darla Reynolds, Miriam White, and Kelley Wiltbank.

Committee Members Absent: Michelle Hood.

AUDIT COMMITTEE

Trustee Adams, Chair, called the Audit Committee component of the meeting to order and welcomed everyone.

Annual Finance Report FY2011. Ms. Tracy Elliott, Director of Finance and Controller reviewed the Annual Financial Report for FY2011. The auditors issued an unqualified, clean opinion. For FY2011 the total Operating Revenues were \$484 million which is an increase of \$14 million or 3% over the prior year due to increased tuition and fee revenue and growth in grant revenue, including Pell Grant revenue. The FY2011 total Operating Expenses were \$667 million which is an increase of \$19 million or 3% over the prior year. Compensation and Benefits expenses for FY2011 were \$427 million, which was an increase of \$3 million or nearly 1%. For FY2011 the UMS had an Operating Loss of \$183 million, increasing 2.5% over the prior year; however, after taking into consideration Nonoperating Revenues of \$220 million, UMS ended the year with Income Before Other Changes in Net Assets of \$37 million, up \$417 thousand from the prior year.

Nonoperating Revenues included State Appropriations of \$195 million in FY2011, increasing 5 million over FY2010; however, Appropriations remain below FY2008 levels of \$201 million. In FY2011 the UMS also received Nonoperating Revenues of \$6.5 million from State Fiscal Stabilization Funding. FY2011 is essentially the last year these funds will be received and the campus budgets have been reduced to reflect this loss of revenue

Finally, Other Changes in Net Assets totaled \$43 million resulting in a Net Asset increase for FY2011 of \$80 million or an increase of 11.3% over the prior year. As of June 30, 2011 the UMS had total net assets of \$787 million, of which \$166 million was unrestricted.

KPMG Report. Ms. Renee Bourget-Place, Mr. Scott Warnetski, and Ms. Lauren DiPrizio, from KPMG reviewed the FY2011 Audit. The opinion on the Financial Statements is unqualified, which means the financial statements are free of material misstatements and are presented in accordance with the US Generally Accepted Accounting Principles. The Audit resulted in no material weakness involving internal controls over the financial report and no instances of non-compliance or other matters that are required to be reported under the Government Auditing Standards.

The areas of emphasis for the audit included education, research and other activities; human resources; facilities; and investments. The A-133 Audit included five major programs in 2011 which included student financial aid, research and development cluster, State Fiscal Stabilization Fund, Childcare Development Fund, and Supplemental Nutritional Assistance Program.

The Committee had a general discussion on potential areas of risk for internal audit considerations which included issues of fraud, procurement, payroll, executive compensation, travel, and the E-Procurement System. The Audit Committee will prioritize the internal audit assessments that will be scheduled for the next year.

External Audit Services RFP Update. Trustee Adams explained the Audit Committee, at the February 10, 2011 meeting, extended the contract with KPMG through the FY2011 audit. The estimated fee for the audit totaled \$362,500. During FY2012, the UMS will conduct a Request for Proposal (RFP) process for external audit services for the five year period FY2012 through FY2016. It is expected that the RFP will be issued in November 2011 with interviews anticipated at next Audit Committee meeting.

Internal Audit Reports Issued.

University of Maine Department of Athletics

Ms. Janet Waldron, Vice President for Finance & Administration at UMaine, reviewed the Department of Athletics compliance report completed by O'Conner & Drew, Certified Public Accountants. Several areas of risk were noted with the most notable being the need for a written compliance manual which UMaine is committed to addressing. Management agrees with the issues raised in the audit and are taking corrective actions.

Purchasing Cards Internal Audit

Ms. Renee Bishop and Ms. Amanda Butterfield from Berry, Dunn, McNeil & Parker, Certified Public Accountants, provided an overview of the Purchasing Card (P-Card) Audits from UMA, UMFK and UMM. Ms. Bishop and Ms. Butterfield stated that they received excellent cooperation from everyone at the System Office and the campuses. Several areas required immediate attention but the highest risk involved the timely posting of transactions to the general ledger. Training, policies and monitoring are underway to address the reported issues.

Ms. Elliott stated the UMS Administrative Practice Letter (APL) involving P-Card use has been updated, additional communications have been distributed to the campuses and more training has been offered to them. Ms. Paula Taylor, Procurement Administrator, commented that the

Procurement Department has already seen significant improvements from UMFK, UMM and UMA and the campuses appreciated the feedback from the audits. Ms. Wyke stated that now that the E-Procurement System is fully implemented the P-Card transactions have declined, which was expected.

Future Audits

There were several areas for future internal audit improvements and as previously approved the next planned audit is for the E-Procurement System.

FINANCE/FACILITIES COMMITTEE

Trustee Fournier, Chair, called to order the Finance/Facilities Committee component of the meeting.

Revenue Bond Financing Discussion. Ms. Wyke provided an overview of the Revenue Bond Financing. As discussed at the September 19, 2011 Board of Trustees meeting, the UMS proposed to issue revenue bonds to refinance \$30 million of debt which comes due on March 1, 2012. This principal payment relates to the 2002 UMS revenue bonds that were issued for 10 years rather than thirty to take advantage of low interest rates on the short end of the yield curve resulting in reduced debt service costs.

As part of the current bond financing, the UMS also proposes to borrow \$7 million in new money to partially finance construction and renovation at the UMaine Field House & Memorial Gym Complex. The debt service related to this portion of the bonds will be funded by the State of Maine as committed to by the 124th Legislature.

UMS revenue bonds currently outstanding total \$186.8 million. The refinancing portion of the proposed 2012 issuance does not increase outstanding debt. The statutory ceiling for UMS debt is \$220 million. UMS currently pays off bond principal at the rate of approximately \$9 million each year. During this financing process, UMS will also consider the cost effectiveness of any other refinancing opportunities. This would not increase overall debt but rather achieve interest savings. The proposed revenue bond issuance will also finance the costs associated with the issuance.

Renovations to Field House and Memorial Gym Complex, UMaine. Trustee Fournier explained the renovations to the Field House and Memorial Gym complex at UMaine. The University will be requesting the Committee's approval of a \$14 million project for improvements to the Field House and Memorial Gym at the November 13, 2011 Board of Trustees meeting.

The Field House was built in 1926 and the Gymnasium was added in 1933. Wings were also added to the Gymnasium in 1969 and 1988. The Field House and Memorial Gym have not benefitted from substantial infrastructure renewal or modernization since construction. The renovation will address hazardous building material abatement, ADA accessibility issues, and updating of the ventilation systems, as well as general aesthetic improvements to the facilities.

Funding for the project includes:

- \$4.5 million from New Balance with associated naming rights as approved by the Board in May, 2011;
- \$2 million gift from the Harold Alfond Foundation;
- \$500,000 to be raised by the UMaine; and
- \$7 million in University System revenue bonds for which the debt service will be supported by State appropriation.

Ms. Waldron provided an overview of the renovation project underscoring that the Field House and Memorial Gym complex is an historic and highly visible building.

On a motion by Trustee Mitchell, which was seconded by Trustee Murphy, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for the November 14, 2011 Board of Trustees meeting.

Leasing of Chapel at UMA Bangor. Trustee Fournier explained the request for the leasing of the Chapel at UMA Bangor. Dow Chapel is one of the former military buildings deeded to the University System in 2001 on the Bangor UMA campus. Pursuant to a deed restriction, Dow Chapel must be used for religious purposes. The building has been rented to the Neighborhood Church for the past ten years on a month-to-month basis.

The University has no present or future plans for the facility. The University proposes to enter a 25-year lease with the current tenant with the option to renew for an additional 25-year term.

UMA's current annual operating costs for the facility are approximately \$36,000. Under the terms of the lease, the tenant would pay the University \$1 per year and would become responsible for the cost of building operation as well as any improvements to the facility.

After a lengthy discussion the Committee agreed to have UMA conduct additional research and explore other options for this building.

Expansion and Upgrade of UMS Distance Learning Technology. Trustee Fournier explained the expansion and upgrade of the UMS Distance Learning Technology. This proposal seeks to expand the System's videoconferencing technology and distance education network to 13 additional sites across the System on all seven campuses. The estimated project cost is \$534,666, including a US Department of Agriculture Rural Utilities Service Distance Learning Technologies grant in the amount of \$284,666. The remaining funding for the project will be from System reserves which have been set aside for this purpose. Mr. Richard Thompson, Chief Information Officer, explained in addition to adding 13 sites to the network, the project will upgrade the existing technology, which is aging and at capacity, from 96 concurrent events to 160 concurrent events.

On a motion by Trustee Murphy, which was seconded by Trustee Medd, the Finance/Facilities Committee approved the recommendation.

Deferred Maintenance. Trustee Fournier requested the Board review an inventory of buildings that are not being utilized. Ms. Wyke commented that at the January 2011 Board meeting the Trustees received the Capital Facilities Renewal Analysis report from Sightlines, LLC and the report is currently being updated which will provide a beginning inventory. She indicated that

she will work with the campuses to also compile an inventory of buildings that are not occupied and include this data for the January Board meeting. Trustee Murphy commented that the UMS needs to reduce its footprint and liability and a logical starting point would be assessing the buildings that are in disrepair.

Funding Formula. Trustee Fournier reviewed the history of the funding formula which is 40 + years old. The purpose for the discussion by the Committee is to determine the need for a model review. The New Challenges, New Directions Task force addressed this issue by recommending a revised formula for new money; however UMS currently does not expect new money. Governor LePage's letter to Trustee Hood dated September 19, 2011 also raised this issue as a concern. The Committee asked for national best practices, performance measures, additional data regarding different funding formula models, and research consultants who specialize in this type of work.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk