

**Minutes of the Meeting
of the
Oakland University Board of Trustees
Audit Committee Meeting
October 11, 2017**

Present: Chair Ronald E. Robinson; Trustee Melissa Stolicker

Absent: Trustee Mark E. Schlussel

Also Present: President Ora Hirsch Pescovitz; Vice President for Finance and Administration and Treasurer to the Board of Trustees John W. Beaghan; Vice President for Student Affairs and Chief Diversity Officer, Glenn McIntosh; Vice President for Legal Affairs, General Counsel and Secretary to the Board of Trustees Victor A. Zambardi; and Student Liaisons Maddy Clark and Sean M. Foe

Also Present: External Auditors Paul Edwards and Dana Coomes, Plante Moran

A. Call to Order

Chair Ronald E. Robinson called the meeting to order at 9:00 a.m. in the Oakland Room of the Oakland Center.

B. New Items for Consideration

1. Approval of Minutes of the Audit Committee Meeting of April 26, 2017

Trustee Robinson seconded by Trustee Stolicker moved approval of the Minutes of the Audit Committee Meeting of April 26, 2017 and the motion was unanimously approved by those present.

2. Draft Financial Statements, June 30, 2017 and 2016

Mr. Beaghan began with a description of the scope of the audit conducted by Plante Moran. They have completed the audit and will present the annual Financial Statements and the annual Schedule of Expenditures of Federal Awards to the Audit Committee. Additional scope that is either in progress or yet to be started includes review of the crosswalks to the State of Michigan's Financial Statements, NCAA agreed upon procedures, and review of the IRS Form 990-T, the Exempt Organization Business Income Tax return.

Mr. Beaghan then highlighted a few items of interest in the Financial Statements. As of June 30, the University's endowment was valued at nearly \$92M. During FY2017, \$3M of that was expended from the endowment on scholarships and other

endowed purposes according to the wishes and direction of the donors. This week the endowment value reached \$97M. For perspective, 12 years ago in 2005, the endowment value was \$31M. Investment income this year totaled \$17.3M, a 12½% increase over the prior year due to exceptional markets. In June 2016, the University issued \$134M in tax-exempt bonds to fund South Housing, the Oakland Center Expansion and the Anibal/Fitzgerald Renovation. In FY2017, over \$40M of the bond proceeds were expended on those projects. Expenditures are reflected in the audited Financial Statements and are included in the construction report as part of the Treasurer's Report to the Board. The operation and maintenance of plant expenditures decreased in FY2017 by \$1.7M, a major cost savings, primarily due to the completion of the public/private partnership, co-generation system project that was first presented to the Board in 2013 and became fully operational in 2016. The University's unrestricted net position increased by \$8.4M in FY2017, primarily from a combination of working capital investment income and quasi-endowment returns. From the Schedule of Expenditures of Federal Awards, note that federal grants and financial aid totaling \$144M were accounted for in FY2017, with financial aid including Pell Grants, college work study and direct loans accounting for over \$136M of the total.

Mr. Paul Edwards and Ms. Dana Coomes of Plante Moran presented the results of the audit to the Committee. Plante Moran's opinion is an unmodified opinion, which is the highest level of assurance that they can provide on the Financial Statements. This was a clean audit on the general purpose Financial Statements. No significant internal control findings needed to be communicated to the Audit Committee or management.

Ms. Coomes presented a letter to the Board of Trustees, which is their end of audit required communication letter, that includes some of the key items that they identified in the audit and communications that they are required to report to the Audit Committee. The first portion mentions that as auditors, they do not prepare the Financial Statements as that is the responsibility of management but they do provide an opinion on those and in this case, it was an unmodified opinion. It also notes that they provide an opinion on the Federal Awards and it is considered a compliance audit with determining whether or not it is within compliance of Oakland's Federal awards and grants. The last paragraph mentions Planned Scope and Timing, which did not change from what was initially communicated in April. The second page goes over significant items that they identify in the audit. One is that the footnote disclosures include a lot of Oakland's accounting policies. Those did not change throughout the year so those are consistent year over year. They also note that there are a number of different estimates that are included in the University's Financial Statements. One being that there are alternative investments hedge funds, for example which can be difficult to value and so that is considered an estimate. Plante Moran agreed with how management estimated them by using their investment managers' reports. The other item is the University's health care plan for retirees, OPEB. That item is considered an estimate because it is actuarial determined, but there is a third party valuation that

is performed. The last one is allowances for uncollectible accounts looking at how the University determines what student accounts are collectible, and they agreed with that valuation. They did not have any disagreement with management or significant findings. The remaining portion of their letter includes upcoming accounting pronouncements as well as other recommendations. The first one is accounting for the OPEB. There is a new pronouncement next year that the University will be required not to just record the annual required contribution, which it currently does, but also has to include the total unfunded liability, which is estimated to decrease the University's net pension about \$24M next year and increase the recorded pension liability on the Financial Statements.

In response to questions from Trustees Stolicker and Robinson, Mr. Edwards indicated that from 2015 to 2017, liability has grown from \$35M to \$39.9M, and the University had \$15.5M recorded as the liability on the balance sheet because the GASB did not require the entire actuarial determined liability to be recorded. Now it is required to be recorded, so that \$24M difference is really the difference between the \$15M and \$39M, with the number still likely to grow based on actuarial assumptions.

Ms. Coomes noted an additional accounting pronouncement that will impact the University next year related to split-interest agreements. The University currently has a split-interest agreement currently handled by Morgan Stanley and not recorded as a net asset on the University's books. Next year that will be recorded as a net asset on the University's books, so that agreement is expected to increase the University's net asset by \$3.5M.

A motion by Trustee Robinson to accept the Financial Statements as presented by Plante Moran, as seconded by Trustee Stolicker, was unanimously approved.

3. Draft Schedule of Expenditures of Federal Awards for Year Ended June 30, 2017

Ms. Coomes presented the report on Federal Awards and noted one finding for student financial aid. A test for student status changes that Oakland is required to report to the federal government under a certain timeline, identified approximately five students in the Winter Term who were not reported within the federal regulations of 60 days. Management did report them within 62 days, and Ms. Coomes noted that there was no materiality to this finding, and a plan is in place and there is no questioned costs.

Trustee Robinson concluded by indicating that it is the Committee's responsibility is to make certain that the Financial Statements are in conformity with generally accepted accounting principles and that they are fairly presented. The Board itself is responsible for reading the Financial Statements, asking any questions and having an understanding of them.

A motion by Robinson to accept the Schedule of Expenditures of Federal Award Programs as presented by Plante Moran, as seconded by Trustee Stolicker, was unanimously approved.

The meeting adjourned into closed session at 9:27 a.m.

Respectfully submitted,

Approved,



Victor A. Zambardi
Vice President for Legal Affairs,
General Counsel and
Secretary to the Board of Trustees

Ronald E. Robinson
Chair
Audit Committee of the
Board of Trustees