

**Minutes of the Meeting  
of the  
Oakland University Board of Trustees  
Audit Committee Meeting  
October 4, 2018**

**Present:** Chair Melissa Stolicker; Trustees Marianne Fey and Ronald E. Robinson

**Also Present:** Trustee W. David Tull

**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; Athletics Director Steven C. Waterfield; Vice President for University Advancement Michael J. Westfall; Vice President for Legal Affairs, General Counsel and Secretary to the Board of Trustees Victor A. Zambardi

**Also Present:** External Auditors Dana Coomes and Steve Bondar, Plante Moran; and Director of Internal Audit David Vartanian

**A. Call to Order**

Chair Melissa Stolicker called the meeting to order at 11:00 a.m. in the Banquet Room A of the Oakland Center.

**B. New Items for Consideration**

**1. Approval of Minutes of the Audit Committee Meeting of April 24, 2018**

Trustee Fey seconded by Trustee Robinson moved approval of the Minutes of the Audit Committee Meeting of April 24, 2018 and the motion was unanimously approved by those present.

**2. Draft Financial Statements, June 30, 2018 and 2017**

Mr. Beaghan preceded the audit findings by sharing his review of the Financial Statements and began by noting that this is Oakland University's second year of engagement with Plante Moran for the Board's external auditor. Plante Moran has completed and are presenting to the Committee the annual Financial Statements and the Schedule of Expenditures of Federal Awards. 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 990T Exempt Organization Business Income Tax return. The Financial Statements are prepared by and are the responsibility of Oakland University management. Plante Moran's responsibility is to audit management's Financial Statements.

As to the Financial Statements, as of June 30, 2018, the University's endowment was valued at nearly \$102 million. For perspective, last year's endowment value was \$92 million and 13 years ago in 2005, the endowment value was \$31 million. During FY 2018, \$2.6 million was expended from the endowment on scholarships and other endowed purposes according to the wishes of the donors. Total investment income for the year was \$14 million with endowment returns at 9.9% net of fees and working capital returns at 2.7% net of fees.

In June 2016, the University issued \$134 million of tax-exempt bonds to fund Hillcrest Hall, the Oakland Center Expansion and other capital projects. Through June 30, 2018, over \$101 million of the bond proceeds were expended on these projects. The expenditures are reflected in the audited Financial Statements and also included in the Construction Report as part of the Treasurer's Report. In 2018, the University implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

GASB 75 requires the entire other postemployment benefits liability be recorded on the balance sheet. Under prior GASB standards, only a portion of the liability was recorded each year and the rest was noted in the footnotes to the Financial Statements. As of June 2017, the University had a recorded liability of \$15.5 million for OPEB with the remaining \$24.4 million disclosed in the footnotes for a total OPEB liability in 2017 of \$39.9 million. The 2018 liability is \$34 million recognizing a \$5.9 million reduction in the OPEB liability, primarily due to a change in the expected participation rate for future retirees based on historical data, medical cost trends and other actuarial assumptions, which were favorable relative to the liability calculation.

Oakland University has designated assets to meet future obligations through the creation of a Board-approved quasi-endowment valued at approximately \$26.6 million, which is included in the \$101 million endowment total figure. Earnings from this quasi-endowment will be used to offset annual OPEB contributions in the future. The University's unrestricted net position decreased by \$10 million in FY2018, primarily due to the implementation of GASB 75. GASB 75 needed a funding source to book those liabilities on the balance sheet and the funding source was unrestricted net position. Thus, the \$10 million reduction was primarily due to the GASB 75 implementation, an increase in scholarship allowances offset by gains in investment income gifts and additions to permanent endowments.

### **3. Draft Schedule of Expenditures of Federal Awards for Year Ended June 30, 2018**

As to the Schedule Expenditures of Federal Awards, the federal grants and financial aid totaling \$140 million were accounted for in FY2018, with financial aid including PELL Grants, college work-study and direct student loans accounting for over \$133 million.

Ms. Coomes, Plante Moran's engagement partner on the Oakland University audit this year and Mr. Bondar, the engagement manager, presented to the Committee the results of the audit, opinions on the Financial Statements, and an end of audit letter.

For the Financial Statements, this year as in past years, Oakland received a clean unmodified opinion, which is the best opinion one can receive from external auditors. There is an Emphasis of Matter paragraph this year in the Financial Statements related to the two new accounting pronouncements that were implemented due to GASB 75 for the OPEB liability.

As to the Federal Awards Statements, student financial aid is \$133 million out of a total of \$140 million of federal awards. There are extensive audit procedures set up by the federal government and the DOE and they did not identify any audit findings this year.

Mr. Bondar continued regarding the end of audit letter. The first part of the letter is mostly standard language that describes Plante Moran's responsibility under the audit standards. The audit considers internal controls for risk assessment purposes, but they do not provide any assurance or an opinion on the effectiveness on internal controls. If they were to identify anything that they would consider to be a deficiency in internal control, it would be communicated to the Committee as part of the report, but there were no such findings this year.

There are a few items to note in the significant audit findings section. One item is the implementation of the new accounting standards this year; GASB 75, which resulted in the recording of the full OPEB liability on the University's balance sheet and GASB 81, related to the recording of split interest agreements. Page 2 of the letter describes the most significant management estimates that affect the Financial Statements, such as alternative investments, the OPEB liability, and the fair value of derivative instruments, the allowance for uncollectable accounts and the scholarship allowance. The auditors evaluate key factors and assumptions that are used to develop the accounting estimates and determine that they are reasonable in relation to the Financial Statements taken as a whole. Finally, the main part of the audit letter concludes with some additional standard language. This is the section that, should they find any misstatements, any difficulties or any unusual circumstances, they would communicate those items to the Committee, but this year there were no such difficulties and no such unusual items.

In response to a question from Trustee Robinson, Ms. Coomes noted that the difference between the \$19 million and the \$26 million is an actuarial required contribution caused by a change in accounting principle and, thus, every Michigan university will have this on their financial statements this year. The new item, deferred outflows, is Oakland's liability related to OPEB is based on the measurement date of June 30, 2017.

In response to Trustee Stolicker's question regarding the \$15.5 million net OPEB obligation, Ms. Coomes stated that this represents the actuarial required contribution under the old standard. The Board has set aside quasi-endowment to help with this contribution and Ms. Coomes agreed that best practices would be to have 80% funded.

Trustee Fey seconded by Trustee Robinson moved approval to accept the Financial Statements and Schedule of Expenditures of Federal Award Programs and the motion was unanimously approved by those present.

The meeting adjourned into closed session at 11:26 a.m.

Respectfully submitted,



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

Approved,

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Melissa Stolicker  
Chair  
Audit Committee of the  
Board of Trustees