REPORT OF MINUTES

BOARD OF TRUSTEES
SPECIAL BOARD MEETING

BAY de NOC COMMUNITY COLLEGE
Catherine Bonifas Board Room (201D)
Escanaba, MI

November 8, 2016

The meeting was called to order at 11:31 p.m. ET by Board Chair, Philip Strom.

Roll call was taken by Assistant Board Secretary, Laura Johnson.

Board Members Present:	Eric Lundin, Joy Hopkins, Tom Butch, Bill Lake, Tom England, Jim Hermans, Philip Strom
Board Members Absent:	None
Administration:	Kevin Carlson, Laura Coleman, Lynn Martinson, Ann Valiquette
Guests:	Steve Peacock, Rehmann Robson, LLC Lisa VandeWeert, Rehmann Robson, LLC
Recorder:	Laura Johnson, Assistant Board Secretary

Philip Strom stated the meeting was called to receive the College audit reports for the Years Ended June 30, 2016 and 2015.

1) College Audit Reports
The meeting was turned over to Steve Peacock and Lisa VandeWeert from the audit firm, Rehmann Robson, LLC. They reviewed the following documents which are available in the President's Office or on the College website at http://www.baycollege.edu/About-Bay/MI-Transparency-Act.aspx. The College received an unmodified audit report which is the highest opinion possible.

Financial Statements

Lisa VandeWeert stated the College implemented the provisions of GASB 68, Accounting and Financial Reporting for Pensions, in the prior year noted in the Statements of Revenues, Expenses and Changes in Net Position.

Bill Lake left the meeting at 11:34 a.m. and returned at 11:35 a.m.

Statements of Net Position:

- Total assets increased to $41 million compared to $36.3 million the year prior. The increase in capital assets is attributed to construction in progress and completed.

- Current liabilities increased $800,000 from 2015 to 2016 due to construction costs in accounts payable.
- Current portion of long-term debt increased reflecting the initial bond and bond payments due in the next year.

Statements of Revenues, Expenses & Changes in Net Position:
- Results for the year reflected a decrease under $500,000 in net position compared to a decrease of $868,000 last year.
- Net tuition and fees decreased by $1.3 million due to the decrease in enrollment and changes in scholarship allowance.
- State and local grants increased due to the CCSTEP grant.
- Pell grants under non-operating revenues decreased because the enrollment decline impacted the number of students receiving Pell monies.
- Total operating expenses decreased by $1.7 million due to the decline in Pell and salary expenses in Student Services.
- Non-operating 1 million decreased due to Pell (eligibility and fewer students)

Statements of Cash Flows:
- Tuition and fees declined
- Grants and other contracts increased
- Payments to suppliers declined
- Pell grants decreased
- Capital and related financing of capital assets increased $204,000 due to the construction. This was offset by the issuance of bonds proceeds.

Financial position of the College Foundation is reported in the Statements of Financial Position. Total assets increased from $9.4 million to $10 million over last year. The Foundation is subject to a separate audit; however, the results are included in the College audit.

Jim Hermans asked for clarification on the decreased number of students not receiving scholarships or Pell grant. Lisa responded the decrease is due largely to the decrease in enrollment and this is typical of higher education at this time. Dr. Coleman added 20% of the population is dual enrollment and do not receive aid.

Notes to Financial Statements:
- Changes in long-term liabilities include bonds issued during 2016: one refunded and one new for facilities. There were three debt instruments at the end of the year.

- The College’s proportion of the net pension liability (MPSERS) was .06195% compared to .06505% the year before based on many schools participating in the fund. The discount rate used to measure the total pension liability for the Pension Plus plan was explained. A 1% change lower or higher can change the liability by $4 million either way.

> Lisa responded to a question from Tom Butch that the College's net pension liability, shown on the Statements of Net Position, increased $800,000. Most other colleges' liability has also gone up and can be based on contributions made, changes to their proportionate share, or most commonly, investment return.
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> The percentage of overall pension lability funded investment was 59.5% last year compared to 60.5% this year. The College must make contributions to the plan. By 2018, all participants in the retiree plan will have to record their portion of OPEB and the retirement liability. There may be more variation in reporting this in the future. Retiree benefits will continue to have liability.
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> The funded portion of MPSERS was 21% last year and is 27.5% this year. Contributions made by the College are recorded as pension or benefits. The rate stabilization amount helps to keep this liquid. The State determines where the money goes. It appears more went to the OPEB plan largely due to health insurance and it being underfunded compared to what the pensions were and the ambiguity of healthcare. GASB 75 will be effective in 2018. GASB 74 will go into effect next year for K-12 schools which will provide auditors a year to determine how it will be recorded.
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> Phil asked if other schools are creating pension liability funds for the long term. Lisa responded the State amended MPSERS so it should be fully funded in 25 years. She has not seen such a fund created to project for future years at other community colleges except for one.
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> Steve stated he is seeing stabilization funds for counties because they have an amortization schedule and can determine their fund balances. Schools are different because they are all lumped together. The State, not the College, will owe funds to the plan at the end of the 25 year schedule.

Phil asked if an increase in net position for west campus is expected. Kevin Carlson responded there is not necessarily a lot of overhead or state appropriations allocated specifically to West Campus. A fair allocation system has not been determined for west campus yet. A student by student allocation is not fair because a lot of what the Escanaba campus does drives the West Campus. Kevin is trying to develop a fair way to do this.

Letter to Management

Lisa reviewed the Letter to Management which is a report on governance and an overall summary of the audit reports. The internal controls of the College and compliance of federal programs are considered in the audit.

Rehmann does not issue an opinion on the College Foundation because they must review, not examine, the Foundation to determine whether sufficient controls are in place and if appropriate segregated duties are performed.

Attachment A – Comments & Recommendations
No material weaknesses were found this year. One significant deficiency was identified related to receipt of CCSTEP grant monies and the equipment appropriately capitalized. The recommendation to management was to ensure all capital asset purchases are accounted for based on the capitalization policy. An adjustment to the audit was made.

Tom England inquired whether the equipment received under the grant is tagged. Kevin responded all items are tagged. The College passed all requirements of the CCSTEP grant onsite audit necessary for reimbursement of the grant monies.

Attachment C summarizes uncorrected financial statement misstatements that are immaterial to the financial statements. During FY2016, the College was informed by ORS that the rate stabilization payments from the State during FY2015 should have been recognized as a contribution to the MPSERS OPEB plan. Instead of restating financial statements related to FY2015, the correction of $428,000 was recorded as of 6/30/16. All schools were notified of this error and auditors treated it in the same way.

Bill Lake asked where fund equity is represented and how the Board can determine changes in it from the operating status. Steve responded the total net position for each year represents this figure. The total net position for FY2016 is $9.8 million. The Combining Statement of Net Position breaks down the total net position by fund.

Single Audit Act Compliance

- Expenditures of federal awards were nearly $6.7 million with $5.6 million related to student financial aid.
- Forty student financial aid records were selected for testing; 24 received Pell; of those 24 students, one was over awarded Pell due to a change in enrollment status. This is not an uncommon finding.
- The College qualifies as a low risk auditee for student financial assistance which is a good attribute.

Dr. Coleman thanked Steve and Lisa for their professionalism during the onsite audit and being available to answer questions throughout the year. Trustees expressed appreciation for the audit explanations provided.

Tom England asked how the onset of athletics would affect future audits. Lisa responded they do not have to perform specific testing on those programs but could look at appropriate internal controls for procurement and scholarship awards. Limited testing could be arranged.

With no further questions, Philip Strom, asked for a motion to accept the audit report.

On a motion made by Bill Lake and seconded by Joy Hopkins:

"The College Audit Reports and Report to Management for the years ended June 30, 2016 and 2015, were accepted and placed on file."

Roll Call:

Ayes: Tom Butch, Jim Hermans, Bill Lake, Tom England, Joy Hopkins, Eric Lundin, Philip Strom
Nays: None
Abstaining: None

No further discussion. Motion carried unanimously.

Tom Butch asked how trustees could regard the letter to management if they received questions. Steve responded the unmodified opinion is the best that can be received. The audit was performed by a regional firm (Rehmann) with industry expertise, financial, and technical resources behind their opinion. They know how schools operate and how to recommend improvements. The tests they perform could uncover unusual accounting practices. Peer review, internal inspections, and oversite by partners is standard practice at Rehmann.

Eric Lundin left the meeting at 12:28 p.m.

Steve advised the College has one year remaining on the contract with Rehmann for audit services and requested the Board consider extending the contract based on a report by the AICPA that debates the old adage of mandatory rotation because it reduces the quality of an audit over time. He will send Dr. Coleman the report. Many schools have eliminated the timeframe in their audit policy. The Board should review the policy to determine the best decision.

There were no additional questions. Steve and Lisa thanked the Finance Office for their work and expressed appreciation for their ability and preparedness.

Steve and Lisa left the meeting at 12:37 p.m.

2) College Financial Ratios
Kevin Carlson reviewed the comparison of financial ratios from 2015 to 2016. The ratios are difficult to project until numbers are finalized and the Foundation is added during the audit. The ratios are attached to these minutes.

CFI: The Composite Financial Index (CFI) is the ratio reviewed each year by the Higher Learning Commission to maintain accreditation. The ratio requirement is 1.0 with the expectation the requirement will increase. The 2016 CFI is 1.67 compared to 1.03 for 2015 and includes the College Foundation. The College's goal is to have the CFI at 2.5.

Cash on Hand: Cash on Hand is down one day (71 to 70) because expenses are reduced throughout the fiscal year.

Tom Butch requested a copy of the HLC ratio requirements.

Trustees expressed they will look to the Finance staff to make a recommendation when they review the audit contract with Rehmann.

Ann Valiquette added Rehmann also provides professional development for the Finance staff and is great about answering their questions.

On a motion by Jim Hermans and seconded by Bill Lake:

"The meeting was adjourned." Motion carried unanimously. The meeting adjourned at 12.49 p.m. ET.

Laura L. Johnson — Completion Date — Approval Date
Assistant Board Secretary

Philip L. Strom — Approval Date
Board Chair

Bay College Financial Ratios		
	2016	**2015**
Composite Financial Index	1.67	1.03
Primary Reserve Ratio	0.391	0.276
Net Operating Revenue Ratio	(0.005)	(0.028)
Return on Net Assets Ratio	0.005	(0.018)
Viability Ratio	0.749	0.830
Equity Ratio	0.594	0.668
Days cash on hand	70	71