

Massasoit Community College
Meeting of the Audit Committee
Wednesday, October 4, 2017
4:00 p.m.
President's Conference Room, Canton Campus
Approved November 8, 2017

Attendees: Thomas E. Carroll, vice-chair, Ann M. Sullivan, trustee, Valerie Sullivan, trustee, William Mitchell, interim president, Patricia Marcella, interim vice president for administration/CFO, William O'Neill, interim chief of staff/executive director of budget, finance and reporting, Jane Centrella, staff associate for administration and finance, Michael Cosgrove, principal, O'Connor & Drew, P.C., and Brian Sheehan, senior accountant, O'Connor & Drew, P.C.

Call to order

The meeting was called to order at 4 p.m.

Approval of the minutes of the September 9, 2017 Audit Committee Meeting. (vote needed)

A motion was made by Trustee A. Sullivan and by Trustee V. Sullivan to approve the minutes of the September 9, 2017 Audit Committee Meeting. The motion passed unanimously.

FY2017 Audit review by O'Connor and Drew, Independent Auditors for Massasoit Community College.

Mr. Cosgrove stated that the financial statements are due to the Commonwealth by October 13, 2017 and Massasoit is in line to meet the deadline. He advised that because Massasoit is a component unit of the State it is required to conduct the audit in accordance with auditing standards generally accepted in the United States and with the standards applicable to financial audits contained in Government Auditing Standards (GAAS) which also includes testing internal controls.

Mr. Cosgrove reviewed the required communications and explained that the auditors issued an unmodified opinion on the College's financial statements, no material weaknesses or significant deficiencies were noted within the report on internal control over financial reporting and on compliance and other matters. He noted that there were no changes in accounting policies and the only significant transactions/events was the change in leadership with the retirement of President Wall. He explained while this is noted in the report it is not an area of concern it is however something they need to disclose. There were no audit differences recorded and no uncorrected misstatements as a result of the audit that are required to be communicated to the Committee. Continuing the review of the required communications, Mr. Cosgrove discussed management judgments and accounting estimates, other communications, independence (noting that they were not aware of any relationships between O'Connor & Drew and the College that may reasonably impact their independence), he covered management advisory services/tax services (noting that no management advisory services were performed, a Single Audit was performed as required, and performed agreed-upon procedures enumerated in the "Massachusetts Office of Student Financial Assistance"). There were no pervasive financial statement fraud risks identified and the college specific risks were general economic factors affecting all entities not just Massasoit.

There was discussion about GASB 68 (net pension liability) and GASB 75 (post-employment benefits other than pensions) and how it will impact FY18. Interim President Mitchell advised that based on a conversation last June with the state comptroller he (the comptroller) expects the liability to be 150% of what we experienced with GASB 68 and the liability could be as high as \$9 million once the opening balances are restated. He noted that this situation will send every university and college into a negative net position.

Vice Chair Carroll asked about the number of Massachusetts community colleges that are upside-down financially. Mr. Cosgrove responded that more than half are in this position currently but expects that once the full impact of GASB is realized all community colleges in the commonwealth will be in a negative position. He noted that this is not just a Massachusetts issue, Rhode Island and Vermont are in similar situations as are many institutions of public higher education throughout the country.

Mr. Cosgrove noted that effective for periods beginning after December 15, 2019 GASB statement 87 will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows/outflows of resources. He explained that it provides for an election on

leases with the terms of less than twelve months to be excluded from this Statement. He said that while this does not impact these financial statements he wanted to make the Committee aware of future changes. Vice Chair Carroll asked about any significant exposures the College had regarding Leases. Interim CFO Marcella replied that there were not.

Vice Chair Carroll asked if it is a requirement for the financial statements to be made publicly available. Interim CFO Marcella said that with the change in the public records law it is required and available on the College's website once the Board approves the statements.

Mr. Cosgrove then gave a Financial Statement overview noting that the first two pages contain the unmodified independent auditors report. Pages three through 14 are prepared by management and provide the commentary and logic behind some of the decisions made in the report. Page 15 is the Statement of net Position noting a 12% increase in investments though no new money was invested. Capital Assets were higher due to the energy water performance contract and capital improvements for the Vet Tech facility. Other notable line items is the net pension liability which has been discussed earlier. Vice Chair Carroll requested a set of ratios to be provided in the future so the Committee can understand how Massasoit compares to the other community colleges in the commonwealth. Interim President Mitchell said that he is happy to provide the ratios and that O'Connor and Drew provided some ratios several years back and cautioned that they lacked consistent insight because of some institutions being in a negative position and with the impact of GASB 68 it further skewed the ratios. Additionally, because Massasoit is the lead institution on the TAACCT grant, our ratios look a bit worse.

Trustee A. Sullivan asked what constitutes the "restricted-expendable" line item on page 15. Mr. Cosgrove said that that item is the Massasoit Foundation. There was discussion about fundraising and that Massasoit ranks 15 out of 15 in that respect. Interim President Mitchell advised that we have set a vision and expectations of the Foundation moving forward.

Trustee A. Sullivan noted that the allowance for doubtful accounts seemed rather high. Mr. Cosgrove advised that it can easily look that way in a higher education environment as it relates almost entirely to the student accounts; Massasoit's figure is fairly average. Interim CFO Marcella advised that Massasoit does participate in the Intercept Program which helps us recover a portion of the debt.

Trustee V. Sullivan asked if a Request for Proposal would be going out for investment firms. Interim CFO Marcella said the RFP was sent and the next step is to bring the firms in for interviews and presentations. She would like the Audit Committee to be at those meetings and the Committee agreed.

Mr. Cosgrove reviewed the remainder of the report with the Committee. Vice Chair Carroll asked the Massasoit team to leave the room with the exception of the recording secretary for a discussion with the auditors. Vice Chair Carroll asked Mr. Cosgrove if there was anything they would like to report to the Committee. Mr. Cosgrove responded that the team is very happy working with Massasoit. The team is stronger than it has been in the past and one of the strongest in the community college system. There is a good culture and working environment with exceptional focus on internal controls. When Mr. Mitchell was CFO he placed a big focus on internal controls which has permeated through the staff. Overall, O'Connor & Drew are pleased with the level of work and cooperation. Vice Chair Carroll invited the Massasoit team back to the meeting and noted that the auditors were very complimentary and as Trustees, they appreciate the job the Massasoit team has done and is doing.

Review of the FY18 Spending Plan by Interim President Mitchell, Patricia Marcella, Interim Vice President of Finance and Administration/CFO, and William O'Neill, Interim Chief of Staff/Executive Director of Budgeting and Financial Reporting.

Interim President Mitchell reiterated that as previously discussed, FY18 would be a bridge year and that we are much better poised than we have been in the past because we are starting the budget planning process much earlier. He noted that the VPs have been extremely helpful and that we have a fantastic team that works together. The institution has had to make some difficult decisions but we are moving in the right direction.

Executive Director O'Neill said that there is a much more detailed report included in the package and this presentation is a high-level overview. Key themes for FY18 include a balanced budget request to the Board; strategic investments including a senior philanthropic officer and engineering lab; the early retirement incentive program; and mandatory expenses.

Executive Director O'Neill displayed a slide with the FY18 proposed budget by division (president's division, academic affairs, student services and enrollment management, administration and finance, and the Canton campus). He then displayed requisite expenses: \$49,852,474 in projected revenue, \$27,115,521 in FT Payroll, \$8,941,680 in PT Payroll, \$2,955,714 in Fringe Benefits; \$825,000 in Debt Service; and \$630,000 in Special Projects. This leaves \$9,384,559 for actual Operating Expenses. Additionally, he reviewed the revenues and expenses. He noted that the College had held several strategic resource allocation forums and displayed a slide that noted the status the ideas that were submitted during those meetings. He concluded with a slide displaying the FY19 and beyond planning process which demonstrated the ability to be much more proactive and strategic in the planning process moving forward.

The Committee thanked Executive Director O'Neill for the presentation and provided suggestions to the team on how to further clarify some points in the packet and slide deck for the presentation to the Board the following week.

Review of the proposed Audit and Finance Committee Charter and recommendation to submit to the Board of Trustees the proposal to change the current Audit Committee to the Audit and Finance Committee. (vote needed)

Trustee V. Sullivan requested additional time to review the proposed charter and to delay the vote until the next Audit Committee meeting. The Committee agreed to delay the vote until the next meeting.

A motion was made by Trustee V. Sullivan and seconded by Trustee A. Sullivan to adjourn the meeting. The motion passed unanimously.

Prepared by:



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President's Office



Thomas E. Carroll
Vice Chair, Board of Trustees