MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Tuesday, September 25, 2012– 9:00 A.M.

Present: Mr. Richard Downs, presiding; Ms. Dorothy Sumners Rush, Mr. Gil Wetzel, Mr. Jeremiah White, Ms. Varsovia Fernandez, Dr. Stephen M. Curtis, Dr. Thomas R. Hawk, Ms. Elaine Kosieracki, Mr. Todd Murphy, Mr. James P. Spiewak, and representing KPMG: Ms. Chris Chepel and Mr. Arthur M. Ayres, Jr.

AGENDA – PUBLIC SESSION

(1) 2011-12 Final Budget Results (Information Item):

Staff provided an overview of the College's budget results for fiscal year 2011-12. The results were favorable. The originally approved budget for the 2011-12 fiscal year had a projected use of $2.4 million of carry-over funds. Based upon the combination of very tight management of the College's budget throughout the fiscal year and key savings in certain budget areas, the College was able to end the year with a budget surplus of $600,000. A transfer of $500,000 was made to the plant fund for campus expansion projects and, as a result, the net operating budget surplus is $100,000.

Credit enrollments were 2.0 percent (321 FTEs) lower than was budgeted for the 2011-12 year. Non-credit FTEs were 177 or 18 percent lower than budgeted. Mr. Spiewak noted that the lower non-credit FTEs was not a financial issue. Most of the non-credit programs are adult literacy programs that the College offers at a net cost to the College.

Revenues were down in the tuition and fee categories by approximately 2 percent due to the lower enrollment level. City funds used for operating purposes were $144 thousand lower than budgeted due to an unplanned capital expense associated with a mechanical contractor at the Pavilion Building for which City dollars were used. Investment income was $342 thousand higher than budgeted as a result of gains in the longer-term TIAA-CREF investment portfolio.

Operating expenses for the year were $3.7 million less than budgeted. Several key steps were taken during the course of the year to reduce the expenditure level. The College spent less on full-time administrative and classified salaries than budgeted due to the mid-year hiring freeze that was put into place. This contributed to an overall reduction in salary expenditures of $958,000. Medical self-insurance costs were $1.6 million less than budgeted. The actuarial estimates for projected healthcare expenses made by the College's healthcare consultant at the beginning of the fiscal year were higher than the College's actual expenses. Unused vacation expense was $296,000 less than budgeted. Compared to prior years, fewer employees kept their vacation banks at the maximum allowed.

Facilities expenses were $587,000 less than budgeted as a result of the reduced costs of the College's night-time cleaning contract and significant reductions in the College's electrical and natural gas costs.

Insurance costs were $282,000 greater than budgeted. This was the result of prior-year slip and fall awards which required the College to pay deductible amounts not covered by the College's liability insurance. The incidents causing the expense occurred three and four years ago. As of now, there are no significant claims for this year. Mr. Spiewak noted that the College faces about five to ten claims a year, where an individual will engage an attorney. Legal costs were $66 thousand greater than budgeted. This increase was primarily related to legal expenses associated with collective bargaining, the current construction projects, and costs incurred with resolving Educator Legal Liability claims.

All other operating expenditures were $1.25 million less than budgeted. This occurred as a result of comprehensive strategies that were pursued throughout the year to reduce levels of expenditure in discretionary areas. Overall, expenditures were $4.7 million less than originally budgeted.

Mr. Downs asked about the increase in the tuition write-off amount. Mr. Spiewak explained that there would be an expected normal increase due to the increase in tuition and fees. In addition, there was growth in the programs like the City Employee and Opportunity Now programs where the College provides free or discounted tuition. Dr. Hawk explained that tuition payment default rates are tracked on a monthly basis and no significant increase in the default rate had occurred. The College maintains an aggressive write off policy, where uncollected student balances are written off completely by the end of the third year. However, the College does continue active collection efforts after the receivables are written off. One of the problems that many community colleges face is recording large amounts of student receivables and not writing them off. This creates large receivables assets that cannot be collected and, as a result, misrepresent their financial condition in financial reporting. The College decided many years ago not to permit this situation and, as a result, developed the short-period write-off policy.

(2) <u>2011-12 Fiscal Year KPMG Audit Report (Action Item)</u>:

Ms. Chepel and Mr. Ayres reviewed the results of the 2012 audit using the presentation provided in **Attachment A**. They began with the required communications between KPMG, Management and the Audit Committee. Mr. Ayres explained that no significant or unusual transactions were found and that accounting policies have been consistently applied. Management's judgments and estimates that are significant are listed in the attached presentation. There was a long discussion regarding the GASB 45 Standard OPEB (Other Post Employment Benefit) liability and how this value for post-retirement healthcare benefits is calculated. Several of the assumptions made when the actuarial assessment is undertaken create significant debate about the validity of the accrual amount. Ms. Chepel reminded the Committee that the GASB (Governmental Accounting Standards Board) is considering a new standard that would require the entire amount of the OPEB liability to be placed on the balance sheet and discontinue the amortization over 30 years. However, it is likely that the amount of expense will not be as great as presently reported due to the emergence of the "deferred outflow of resources" reporting concept. This concept means that the liability is not intended to be paid out within the current assets. KPMG anticipates the new standard will be effective by 2015.

Mr. Downs asked if it is logical to have such a large liability based on so many assumptions on the balance sheet. Specifically, he asked if KPMG is comfortable with the value recorded. Ms. Chepel stated that KPMG believes the underlying assumptions are reasonable and meet the GASB standard. Ms. Chepel recommended that for the 2013 fiscal year that KPMG and management review all the assumptions and see if there are any adjustments that should be made.

Mr. Downs asked that, as a result of GASB 45, if there was any risks in having negative net assets reported at some point in the future. Dr. Hawk explained that Moody's rating agency was not currently concerned and had reaffirmed the College's A1 bond rating in Spring 2012. The most important potential budget issue for the College with reporting negative net assets in the future could be to increase the cost of borrowing.

Mr. Ayres reviewed the audit process and explained there were no audit adjustments, no uncorrected misstatements, and no disagreements with management in this year's audit. Ms. Chepel noted that the KPMG actuary feels that the discount rate used to calculate the OPEB liability should be 4 percent instead of 5. Historically, the College has received a 5 percent rate on return for its longer term investments. However, changes have occurred in actuary standards that require looking at future as well as past returns. Current financial market conditions lead KPMG to feel that 4 percent is more appropriate. This change would have an effect on the actual expense the College recorded for the year. However, since the net change is *de minimus* and not material, KPMG will pass on the adjustment of having the College record the change in expense for the 2012 year.

Mr. Ayres reminded the Committee that as part of the audit process, KPMG will issue a representation and management letter that will outline any observations and recommendations. The College had no audit findings, no material weaknesses and no significant deficiencies in this year's audit. Ms. Chepel explained, once the financial statement audit is complete and the financial statements are issued to the City by September 30, KPMG will begin focusing on the State Agreed Upon Procedures Enrollment Audit and the OMB Circular A-133 audit.

Ms. Chepel reviewed the major program selections for the Federal Single OMB A-133 audit and explained they were able to reduce the number of programs selected down from seven because of positive College performance in past audits. There are only four Federal programs that will need to be audited this year. Pathways out of Poverty Grant, Predominantly Black Institutions Formula Grant, Trade Adjustment Assistance Community College and Career Training Grant (TAACCCT), and the Student Financial Aid Cluster. The student Federal Financial Aid program will always be audited due to its size.

Mr. Murphy reviewed a handout reporting key changes in assets, liabilities and net assets that are reported in the 2011-12 Financial Statements, and explained the factors that resulted in the larger year-to-year changes in the College's financial accounts. **Attachment B** contains the handout used in making the presentation. Reasons for changes in accounts are provided in the attachment.

Action: Mr. Downs asked for a motion to recommend acceptance of the 2011-2012 Financial Statements and KPMG Audit Report to the Board **(Attachment C)**. Mr. Gil Wetzel made the motion. Ms. Sumners Rush seconded the motion. The motion passed unanimously.

(3) Audit Committee Self-Evaluation (Information Item):

Mr. Downs briefly discussed the Committee's self-evaluation questionnaire results provided with the agenda. He noted that the responses were favorable and reminded the Committee of the role of the Audit Charter which is to be used as a guide to the Committee's mission statement on an ongoing basis. Ms. Chepel noted that the question pertaining to the use of outside experts refers to the Audit Committee hiring an outside expert. This usually occurs only when a forensic expert is needed. Ms. Chepel noted that the question was focused on the Committee's empowerment to hire an expert if necessary. The survey results indicate that the Committee feels empowered to act on any issues that need to be investigated. A second issue raised by the survey dealt with executive sessions being conducted in an effective manner. Mr. Downs requested that all future agendas contain an Executive Session. It was agreed that participation in these sessions will alternate among management, the internal auditor, and the outside auditor. The final question of concern dealt with professional development of Committee members. Ms. Chepel indicated that she can provide members with any information on seminars or webinars that KPMG produces that might be of interest. She will email members information on opportunities to the Committee as they become available.

(4) Internal Audit Plan Update (Information Item):

Ms. Kosieracki reported that Dr. Curtis requested her to review the College's Clery Act reporting. The Clery Act is also known as the Disclosure of Campus Security Policy and Campus Crime Statistics Act. Specifically, she will confirm that all part I crimes are reported to the national database. Her review will cover compliance for 2010, 2011 and 2012. Dr. Curtis explained that he had requested that Ms. Jill Weitz, College General Counsel, review the Penn State Freeh report to see if there are best practices or recommendations that the College could implement to strengthen its compliance. Ms. Weitz made two recommendations. The first was using the internal auditor for monitoring Clery Act compliance. The second was developing a formal Child Abuse Policy. Dr. Curtis explained that he planned to review the General Counsel's recommendations with the full Board of Trustees. He also noted that he is also asking the Internal Auditor to look at other areas of College compliance such as Title IX. The goal is to ensure that the College is consistently meetings its legal and moral obligations.

Ms. Kosieracki noted that she had followed up on her earlier Culinary Arts Program audit. Originally there was an issue with budget control in the old instructional facility. However, with the move to the new facility, they have been able to reduce inventory levels as a result of better storage options. They have also streamlined ordering by developing menus prior to the start of the semester. There is, however, still a need to document policies and procedures and resolve some issues with space security.

Ms. Kosieracki reported that the she did some preliminary audit work on the TAACCCT Grant and reviewed the practices set up by the grant accountants for the 14 community colleges. She reviewed the file structure and stated it complies with grant requirements. Ms. Kosieracki noted that there was a Veteran Benefits external audit recently completed. She is still waiting for the report from the outside agency and will report back on any issues raised once the report is received. After the external review results are received, she will determine if any additional internal audit effort will need to be completed.

The next area under review will be the Center on Disability Audit. This will start after the move to their new space is completed. Finally, the construction invoice audit is ongoing. There were no issues or concerns identified.

Mr. White asked if the Internal Auditor could monitor the impacts associated with recent large financial commitments to leases and purchases of computer equipment and software. Aspects to review could include cost reductions achieved, enhanced student outcomes, and/or improvements in administrative operations.

(5) February 2013 Meeting Date (Action Item):

The next Audit Committee meeting was scheduled for February 26, 2013 at 12:00 noon in the College's Isadore A. Shrager Boardroom, M2-1. The agenda will include a discussion of the results of the 2011-2012 A-133 Single Audit.

(6) Executive Session

An executive session was held with Board members and KPMG staff present.

Attachments

ATTACHMENT A

KPMG'S 2011-2012 PRELIMINARY REPORT

TO THE AUDIT COMMITTEE

SEPTEMBER 25, 2012

ATTACHMENT B

2011-2012

KEY CHANGES IN ASSETS, LIABILITIES AND NET ASSETS

Community College of Philadelphia
Statement of Net Assets for the Year Ended June 30, 2012
Key Variances in General Ledger Accounts

	6/30/2012	6/30/2011	Variance	
ASSETS:				
Cash and cash Equivalents	11,562,871	13,671,678	(2,108,807)	
Short Term Investments	12,253,159	9,116,339	3,136,820	
Sub-Total	**23,816,030**	**22,788,017**	**1,028,013**	**2011 Funds were temporarily withdrawn from the Intermediate fund due to timing of receipt of State and City Appropriations.**
Long Term Investments	15,782,209	15,080,777	701,432	**Unit value increase from TIAA-CREF & Bond Fund Investments.**
Capital Assets	179,484,523	166,988,454	12,496,069	**Pavilion Construction Completion.**
Accounts Receivable				
Tuition and Fee Receivable	4,692,876	4,314,942	377,934	**Reflects tuition increase.**
Grants Receivable	6,441	135,275	(128,834)	**Decrease in Grants receivable. 9 Grants versus 6 in 2012.**
Other Receivable	1,530,606	1,705,870	(175,264)	**Decrease in vendor receivables. Barnes & Noble, Park It, American Federation of Teachers & Bond reimbursements.**
Receivable from Foundation	191,938	157,978	33,960	
Sub-Total	**6,421,861**	**6,314,065**	**107,796**	
Allowance for Doubtful Accounts	(2,441,993)	(1,826,279)	(615,714)	
Total	**3,979,868**	**4,487,786**	**(507,918)**	
Receivable from Government Agencies				
State Grants and Special Projects	341,683	348,232	(6,549)	
Pheaa Grants	6,209	1,441	4,768	
City of Philadelphia - School Dist.	423,235	678,295	(255,060)	**Reduction in Receivable from the Philadelphia School district (Gateway & Parent University)**
Federal Financial Aid	226,064	33,491	192,573	**Increase in receivable from Financial Aid Programs. (SEOG, Direct Loan, Work Study & Job Corp.)**
Federal Grants and Special Projects	1,611,329	969,932	641,397	**Increase in receivable from Federal Grants. Mainly due to timing of draw down from the TAACCCT Grant.**
Total	**2,608,520**	**2,031,391**	**577,129**	

LIABILITIES:				
Accounts payable & Accrued Liabilities				
Vendors and Others	6,163,431	6,809,869	(646,438)	**Accounts payable accruals decreased. Less dollars owed to vendors at June 30th.**
Accrued Salaries	2,876,364	3,044,490	(168,126)	**Payroll accrual decreased from prior year. More payroll was expensed in 2012 which decreased the Salary Accrual. Mainly due to timing of the last pay date in the fiscal year.**
Accrued Benefits	2,198,328	1,950,202	248,126	**Increased Employee Benefit Claims.**
Compensated Absences	3,174,843	3,245,381	(70,538)	**Value of Accrued Vacation Time. Leave time usage increased.**
Retirement Incentive Payments	566,178	643,994	(77,816)	**Fewer college retirees due incentive payments.**
Payroll Withholding Taxes	118,315	-	118,315	**Payroll taxes accrued on June 30th for part-time employees.**
Accrued Interest Expense	373,253	404,207	(30,954)	**Debt Service Interest Expense decreased.**
Total	**15,470,712**	**16,098,143**	**(627,431)**	
Payable to Government Agencies				
Commonwealth of Pennsylvania	79,599	80,891	(1,292)	**Due to State for excess lease payments.**
(Due to the State)				
State Grants and Special Projects		-	-	
PHEAA Grants	2,338,993	731,722	1,607,271	**Fewer PHEAA dollars were awarded than anticipated.**
Perkins Loans	-	29,675	(29,675)	**All Loans assigned to Department of Education as of June 30th.**
Federal Perkins Loans	-	267,075	(267,075)	**All Loans assigned to Department of Education as of June 30th.**
Federal Financial Aid	131	2,167	(2,036)	**Prior year Pell adjustment.**
Total	**2,418,723**	**1,111,530**	**1,307,193**	
Capital Lease Obligation	7,179,616	5,679,277	1,500,339	**Increase in this years Capital Leases due to upgraded CISCO Equipment.**
Long Term Debt	90,220,973	97,023,020	(6,802,047)	**Reduction of Long Term Debt.**
Other Post-Employment Benefits GASB 45	30,225,327	22,614,325	7,611,002	**Actuarial Calculation Completed Every 2 yrs. Post Retirement Benefit Expense for 2012.**

Fund Balances				
Unrestricted	100,502	7,609,166	(7,508,664)	**Decrease due to GASB 45 expense and $500K excess surplus moved to the Plant Fund for future landscape expenses.**
Quasi Endowment	1,914,234	1,743,728	170,506	**Revenue greater than Student Activity Expenditures for the year.**
Plant Fund:				
Net Invested in Capital Assets	86,330,902	80,136,789	6,194,113	**Increase due to the Main campus Pavilion Construction and Capital Leases.**
Restricted Net Assets	1,364,726	730,624	634,102	**Increase due to 2/3 City Garage Proceeds transferred to the Plant Fund for garage renovations. $500K excess surplus moved to the Plant Fund for future landscape expenses.**
				Note: Restricted Net Assets includes
				Remaining Proceeds of 1809 Spring Garden Street.
				Remaining Proceeds from the 2007 Refinancing of the 98 & 01 Bonds.
				Accumulated Interest earned on Bond proceeds.
Unrestricted	(6,567,991)	(4,317,168)	(2,250,823)	**Purchase of 430-440 N. 15th Street ($5.8 million purchase) and unfunded depreciation operational expense.**
Sub-Total	81,127,637	76,550,245	4,577,392	
Total Net Assets	**83,142,373**	**85,903,139**	**(2,760,766)**	**Net change for the Fiscal Year which Includes GASB 45.**

ATTACHMENT C

2011-2012

DRAFT FINANCIAL STATEMENTS