KPMG

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Community College of Philadelphia

Preliminary Report to the Audit Committee

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AUDIT

2012 Audit Results
Audit responsibility

- KPMG's Responsibility
  - We have a responsibility to conduct our audit in accordance with the auditing standards generally accepted in the United States of America.
  - In carrying out this responsibility, we plan and perform the audit to obtain reasonable – not absolute – Assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud.
  - We have no responsibility to obtain reasonable assurance that misstatements that are not material are detected.
  - We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Management's Responsibility
  - Design and maintenance of an adequate internal control system, which includes financial statement disclosure controls.
  - Development of prudent judgments and estimates supported with sufficient competent evidential matter.
  - Preparation of timely and accurate consolidated financial statements and footnotes, in accordance with U.S. generally accepted accounting principles
- Audit Committee's Responsibility
  - Provide oversight and establish proper tone/culture/ethics.
  - Promote continuous improvement.
  - Support effective two-way communication between KPMG and the Committee.

2012 Audit Results
Required communications

Required Communications	Responses *
▪ The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America is to Communicate responsibility assumed for the internal control structure, material errors, irregularities and illegal acts, etc.	▪ Our audit was designed in accordance with generally accepted auditing standards and government auditing standards to provide reasonable assurance that the financial statements are free of material misstatement. ▪ We have the responsibility to obtain sufficient understanding of internal control to plan our audits and determine the nature, timing and extent of procedures to be performed and not to opine on the system of internal control. ▪ We noted no material errors, illegal acts or fraud. ▪ We plan to issue unqualified opinions on the College's and component unit Foundation's financial statements.

* Our responses are as of the date of this presentation; we will communicate any changes to the Committee in writing should they occur between the date of this presentation and the issuance of the financial statements.

2012 Audit Results
Required communications (continued)

Required Communications	Responses *
■ **Significant Accounting Policies.** The Committee should be informed about the initial selection of and changes in significant accounting policies.	■ See note 1 of financial statements' footnote disclosures for description of policies. ■ No new accounting standards were adopted during 2012.
■ **Significant or Unusual Transactions.** The Committee should be informed about the methods used to account for significant or unusual transactions.	■ We noted no significant or unusual transactions.
■ **Quality of Accounting Principles.** We discuss our judgments about the quality, not just the acceptability, of accounting principles as applied in financial reporting, including matters on consistency, understandability, completeness, and related disclosures.	■ Accounting policies have been consistently applied and material disclosures are included in the financial statements.

2012 Audit Results
Required communications (continued)

Required Communications	Responses *
■ **Management Judgments and Accounting Estimates.** The Committee should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.	The following are significant management estimates: ■ Other post-employment benefits liability– $30.2 million at June 30, 2012. ■ Unfunded actuarial accrued liability (UAAL) – disclosed in Note 10(c) - $103.8 million at June 30, 2012. ■ Allowance for Doubtful Accounts – $2.4 million at June 30, 2012. ■ Self Insurance Reserve – $868K at June 30, 2012. ■ Fair value of Commonfund and TIAA-CREF investments - $21.2 million (College) and $6.4 million (Foundation) at June 30, 2012. ■ Discount for contributions receivable and allowance for doubtful contributions receivable of the Foundation – $277K and $136K respectively, at June 30, 2012.

2012 Audit Results
Required communications (continued)

Required Communications	Responses *
■ **Audit Adjustments.** All significant audit adjustments arising from the audit should be communicated to the Committee.	■ There were no adjustments arising from the audit.
■ **Uncorrected Misstatements.** Any passed adjustments proposed by the auditor, but not recorded by the client, should be communicated to the Committee.	■ There were no uncorrected misstatements.
■ **Disagreements with Management.** Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the financial statements or the auditors' report should be communicated to the Committee.	■ There were no disagreements with management.

2012 Audit Results
Required communications (continued)

Required Communications	Responses *
■ **Consultation with Other Accountants.** Any knowledge of communications with other independent accountants are required to be brought to the attention of the Committee.	■ To best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants.
■ **Major Issues Discussed with Management Prior to Retention.** Any discussions with management where our response is a condition of retention as independent auditors should be communicated to the Committee.	■ We generally discuss a variety of matters with management prior to our retention, however, these discussions are not a condition of our retention.
■ **Difficulties Encountered in Performing the Audit.** Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Committee.	■ No difficulties were encountered.
■ **Material Written Communications.** We disclosed the nature of significant communications with management.	■ Our significant written communications will consist of the representations requested from management, a copy of which will be provided to the Committee when finalized. We also expect to issue a management letter, which will be provided to the Committee when issued.

2012 Audit Results
Required communications (continued)

Required Communications	Responses *
■ **Independence.** We communicate to the Committee all independence-related relationships between our firm and the College.	■ We hereby confirm that KPMG is independent of the College under all relevant professional and regulatory standards.

2012 Audit Results
Audit findings and recommendations

Material Weaknesses

- None identified.

Significant Deficiencies

- None identified.

Definitions:

- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

2012 Audit Results
Audit findings and recommendations (continued)

Other Observations

- We recommend that the College strengthen its process for determining whether a lease is capital or operating, considering all required criteria. Generally, a lease is considered a capital lease if it meets one or more of the following four criteria:
  - transfer of ownership of the property to the lessee by the end of the lease term;
  - lease contains a bargain-purchase option;
  - lease term is equal to 75% or more of the estimated economic life of th leased property; or
  - the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the excess of the fair value of the leased property.

- We recommend that the College enhance its documentation of the methods and assumptions used in developing the discount rate for its other post-employment benefit liability, in consideration of:
  - The current changing interest rate environment; and
  - GASB's upcoming issuance of a new standard regarding post-employment benefits which is expected to require additional disclosure regarding the assumptions used in determining the discount rate, including how the expectation was developed and the significant methods and assumptions used in that process. The discount rate is typically based on the expected rate of return on assets to be used to pay post-employment benefits . Generally, the historical rate of return on such assets will not be considered sufficient to reasonably predict future performance.

2012 Audit Results
Status of 2012 audits

Deliverable	Status
Financial Statement Audit	Pending receipt of Commonfund audited June 30 financial statements, finalization of KPMG's tie-out and review process including our engagement quality review, and execution of management representation letter. Anticipate issuing audit on or about September 28.
Enrollment Agreed-Upon Procedures	Fieldwork starting in October Due December 31, 2012
OMB Circular A-133 Audit (Federal Awards)	Fieldwork starting in October Due March 31, 2012

2012 Audit Results
A-133 audit plan

Major Program Determination

Program	CFDA #	Expenditures	Factors/ Discussion
Student Financial Assistance Cluster	Various	$91,266,352	Size of program requires audit every year to meet minimum coverage requirements.
Program of Competitive Grants for Worker Training & Placement in High Growth & Emerging Industry Sectors (Pathways out of Poverty)	17.275	$803,069	Program had several significant findings in prior year and terminated in January 2012. We plan to perform limited procedures in the current year to update our understanding of the program and any changes, and expect to repeat findings issued last year.

2012 Audit Results
A-133 audit plan

Major Program Determination (cont'd)

Program	CFDA #	Expenditures	Factors
Higher Education Institutional Aid (Predominantly Black Institutions Formula Grant)	84.031	$855,264	Program above the threshold of $300,000 which had a significant finding in the prior year.
Trade Adjustment Assistance Community College and Career Training (TAACCCT)	17.282	$2,545,260	New program above the threshold of $300,000 which has not previously been audited.

Fees for Single Audit (as previously negotiated):

First two major programs	**$28,350**
Each additional major program (2 programs identified *)	**$11,300**

*** Note: for Pathways out of Poverty, we will charge a reduced fee if there have been no changes in finding status from prior year.**

There are two other programs meeting the $300,000 threshold that will not require audit this year (TRIO Cluster and Career and Technical Education – Basic Grants to States) because they were audited without findings in one of the last two years and there have been no significant changes to the programs or related processes, systems, and personnel (all programs meeting the threshold must be audited at least once every three years based on risk assessment).

2012 Audit Results
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The information herein is intended solely for the use of the Audit Committee and management and is not intended to be and should not be used by anyone but these specified parties.

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