MEETING OF THE BUSINESS AFFAIRS COMMITTEE
OF THE BOARD OF TRUSTEES
Community College of Philadelphia
Wednesday, October 23, 2013– 9:00 A.M.

TO: Business Affairs Committee of the Board of Trustees

FROM: Thomas R. Hawk

DATE: October 18, 2013

SUBJECT: **Committee Meeting**

A meeting of the Business Affairs Committee of the Board of Trustees will be held on **Wednesday, October 23, 2013 at 9:00 A.M.** in the College's **Isadore A. Shrager Board Room, M2-1**.

AGENDA – PUBLIC SESSION

(1) 2013-14 Budget Update (Information Item):

Dr. Hawk and Mr. Spiewak will provide an overview of the College's budget status for fiscal year 2013-14. Early projections for the 2013-14 budget results will be provided based upon enrollments and expenditure patterns in the first quarter of the year. As a result of the achievement of significantly higher enrollment levels in the first half of the year than budgeted, it is anticipated that the 2013-14 operating budget will be balanced.

(2) 2012-13 Fiscal Year KPMG Audit Report Including Key Account Changes (Action Item):

Ms. Chris Chepel, Engagement Partner, and Mr. Arthur Ayres, Engagement Manager, from KPMG LLC will present the results of the 2012-13 fiscal year audit. Attached separately is the draft of the 2013 Financial Statements. As shown in the Statement of Revenues, Expenses and Changes in Net Position, the College had a negative change in net position of $4,360,410 for the year. Absent the impact of GASB 45 (post-retirement benefit accrual) reporting, net position for the College would have increased by $4,169,623. The Financial Statements include the GASB 44 statistical reporting. The statistical reporting tables are found on pages 50 to 59 of the 2013 Financial Statements. Mr. Murphy will present a summary of factors associated with the larger changes in the College's general ledger accounts. Committee recommendation to the full Board of acceptance of the 2012-13 fiscal year KPMG audit report is requested.

(3) <u>2013 Financial Performance Indicators (Information Item)</u>:

The annual financial performance indicators were developed in collaboration with the Board to provide a snapshot of the College's current financial operating characteristics. Staff will present the 2013 Financial Performance Indicators. (See <u>Attachment A</u>.) These indicators incorporate the financial results for the 2012-13 fiscal year and include preliminary projections for the current year.

(4) <u>Internal Audit Plan 2013-14 Year Update (Information Item)</u>:

Mr. Robert Lucas, Internal Auditor, will present a status report on the 2013-14 Audit Plan.

(5) <u>Next Meeting Date</u>

The next meeting of the Committee is scheduled for Wednesday, November 20, 2013 at 9:00 A.M. in the Isadore A. Shrager Boardroom, M2-1.

TRH/lm
Attachments
c: Mr. Matthew Bergheiser
Dr. Judith Gay
Mr. Robert Lucas
Mr. Todd Murphy
Mr. Jim Spiewak
KPMG, LLP: Ms. Chris Chepel, Engagement Partner
Mr. Arthur Ayres, Engagement Manager

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ATTACHMENT A

2013 FINANCIAL PERFORMANCE REPORT
OCTOBER 23, 2013

2013 FINANCIAL PERFORMANCE REPORT
OCTOBER 23, 2013

Current Evidence of Financial Viability

- Through successful operational efficiencies and cost containment strategies, the College has finished the fiscal year with (small) operating budget surpluses in each of the last ten fiscal years. Initially budgeted deficits in 2011, 2012 and 2013 were eliminated and small surpluses achieved.
- Strong liquidity. Average daily cash and investment balances in excess of $43 million.
- Moody's bond rating (A1) was reassessed and reaffirmed in June 2012.
- Significant long-term debt retirement in 2014 fiscal year.
- Audits are consistently unqualified with no significant control weakness findings.
- Facility expansions and renewals are creating important enrollment growth opportunities. Enrollments for the first half of 2013-14 are 1.2 percent higher than comparable period in 2012-13 and 5.4 percent higher than budgeted.
- September 2013 resolution of staff labor contracts facilitates more comprehensive multi-year financial planning.

Current Financial Challenges

- Levels of financial support from City and State.
- Large dependence on student tuition and fee revenues and associated federal aid to sustain College budgets.
- Growing vulnerability to shifts in Federal Financial Aid (Pell) policies.
- Many successive years of responding to tight budget scenarios has greatly limited degrees of freedom to respond to future revenue shortfalls.

CCP FINANCIAL PERFORMANCE MEASURES

OCTOBER 2013

FIGURE I

Average Monthly Operating Fund Cash and Investment Assets as a Percentage of Final Operating Budget Expense

	Average Monthly Amount of Operating Cash and Liquid Investments	% of Annual Expense
2004-05	$25,328,414	26.8%
2005-06	$28,909,469	30.4%
2006-07	$33,923,655	34.6%
2007-08	$40,065,045	39.1%
2008-09	$42,902,426	40.1%
2009-10	$45,390,373	40.4%
2010-11	$48,696,232	40.6%
2011-12	$42,258,724	35.3%
2012-13	$43,316,313	36.1%

Comment: An upward trend is indicative of improved liquidity and the ability to withstand short-term fluctuations in revenue receipts.

Target: 25% (coverage for 3 months of operations) or higher.

Current Status: The purchase of the 15th and Hamilton Street property in the amount of $5.8 million using College cash resources in the second half of the 2010-11 fiscal year reduced the College's liquidity. Recent tightening of federal cash-draw-down procedures for federal student financial aid dollars has delayed College access to these funds and also reduced average monthly liquidity. Current projections are that the College's liquidity position for 2013-14 will be similar to levels for 2012-13.

FIGURE II-A

Unrestricted (Carry-Over) Fund Balances Including Quasi Endowment Funds as Percent of Operating Budget Excluding the Impact of the Post-Employment Health Benefit (GASB 45) Accrual

Fiscal Year	Unrestricted (Carry-Over) Funds Prior to Recording Post-Employment Benefit Accrual	Operating Budget	Unrestricted Carry-Over Funds as a Percent of Budget
2004-05	$9,692,958	$94,728,456	10.23%
2005-06	$11,682,218	$95,054,502	12.29%
2006-07	$17,051,787	$98,088,111	17.38%
2007-08	$22,349,410*	$102,513,725	21.80%*
2008-09	$24,578,300*	$106,942,052	22.99%*
2009-10	$31,164,140*	$112,444,701	27.72%*
2010-11	$31,967,219*	$120,084,822	26.62%*
2011-12	$32,240,063*	$119,272,435	27.03%*
2012-13	$32,335,599*	$119,945,027	26.96%*

*Prior to recording GASB 45 accrual.

Comment: In fiscal 2008, the College was required to implement a new accounting reporting standard (GASB 45) which results in the College recording the estimated value of post-employment benefits for current and retired staff. This accrual for future expenses is being phased in over 30 years. The above chart shows the value of the College's unrestricted carry-over funds without the impact of reporting the GASB 45 post-employment health benefit accrual. Growth of unrestricted (carry-over) funds provides a resource to ensure stability in College operations in years of underfunding, as well as provides potential resources for one-time needs not fundable out of current-year budget resources. The GASB 45 post-employment health benefit accrual reduces the amount reported for unrestricted funds but has no impact on the College's cash position. [See Figure II-B]

Target: At the end of fiscal 2006, the Board set a target to maintain unrestricted funds at a level equal to 15% of the operating budget (prior to the impact of GASB 45).

Current Status: The 2013-14 fiscal year is currently projected to end with a small surplus. The ratio will remain essentially flat.

FIGURE II-B

Reported Value of Unrestricted (Carry-Over) Fund Balances
Including Quasi Endowment Funds
with the Impact of the Post-Employment Health Benefit (GASB 45) Accrual

Fiscal Year	Cumulative Value of GASB 45 Annual Accrual	Reported Value of Unrestricted Carry-Over Funds Including Quasi-Endowment Funds With GASB 45 Accrual
2004-05	0	$9,692,958
2005-06	0	$11,682,218
2006-07	0	$17,051,787
2007-08	$5,194,673	$17,154,757
2008-09	$10,367,219	$14,553,315
2009-10	$16,575,690	$14,588,450
2010-11	$22,614,325	$9,352,894
2011-12	$30,225,327	$2,014,736
2012-13	$38,755,360	($6,419,761)

Comment: In fiscal 2008, the College was required to implement a new accounting reporting standard (GASB 45) which requires the College to record the estimated value of post-employment health benefits for current and retired staff. This accrual for future expenses is being phased in over 30 years. The GASB 45 post-employment health benefit accrual reduces the amount reported for unrestricted funds but has no impact on the College's cash position. The above data shows the cumulative value of the accrual which reduces both the value reported for unrestricted net assets and the College's reported net position.

Current Status: An additional accrual for the post-employment healthcare benefit will occur in 2013-14. Changes to the eligibility requirements in the current employee contract which tighten requirements to qualify for the benefits are expected to reduce the future growth in the value of this accrued expense.

FIGURE III

Fiscal Year End Current Asset to Current Liability Ratio

	As Reported in Financial Statements	Including the Value of Liquid Long-Term Investments
2004-05	1.22	1.22
2005-06	1.29	1.29
2006-07	1.57	1.57
2007-08	1.47	1.65
2008-09	1.54	1.70
2009-10	1.50	1.65
2010-11	1.11*	1.66
2011-12	1.08*	1.61
2012-13	1.02*	1.52

- Current assets reduced by movement of some operating cash to long-term investments.

Comment: A positive trend in this ratio is indicative of a growing capacity to handle current debt obligations. Beginning in 2011, the nominal value for the current ratios was reduced by the movement of some core cash into liquid long-term investments. Long-term liquid investments in 2013 totaled $15.8 million. Including these funds, the College's current ratio is 1.52. Because the longer-term fixed-income investments can be liquidated without penalty, the longer-term investment strategy did not create any significant operational risk for the College. The above chart shows the current ratio without and with the inclusion of liquid long-term investments.

Target: Ratio: 1.2 or higher

Current Status: No major change in this ratio will occur during the 2013-14 year.

FIGURE IV

Total Debt Payments Made Using City Dollars as a Percentage of Unrestricted Operating Revenue

	Total Debt Payments Made from City Dollars	**Debt Payments Made from City Dollars as Percent of Total Operating Revenue**
2004-05	$3,378,206	3.56%
2005-06	$3,378,259	3.46%
2006-07	$3,469,762	3.37%
2007-08	$3,848,690	3.57%
2008-09	$6,819,821	6.25%
2009-10	$6,183,563	5.20%
2010-11	$6,471,559	5.32%
2011-12	$6,576,665	5.49%
2012-13	$6,822,960	5.64%

Comment: The portion of the College debt paid by the State is funded separately by the State and, as a result, growth in State-funded debt payments does not impact on the College's operating revenues. However, debt payments made using City revenues directly impact on dollars which are available for College operating purposes. Act 484 requires that local sponsor revenues be used to fund the local sponsor share of capital costs prior to applying funds to operating expenditures. A decline in the percentage of operating revenues required for debt payments is a positive indication of financial flexibility.

Target: The accepted standard for private colleges and universities is to keep this ratio below 7%.

Current Status: Debt payments will remain relatively constant through fiscal year 2014 at which point the debt issued in 1999 will have been retired and this ratio will decline.

FIGURE V

Revenue Dispersion - Operating Budget Revenues by Source

Operating Revenue by Source	FY 10-11	% of Total	FY 11-12	% of Total	FY 12-13	% of Total
State Appropriation	$31,152,104		$28,036,906		$28,036,906	
State Lease Appropriation	191,123		192,403		202,918	
TOTAL STATE	31,343,227	25.78%	28,229,309	23.39%	28,239,824	23.32%
City Operating Appropriation	18,091,851	14.88%	17,652,221	14.73%	18,063,705	14.92%
Student Tuition & Course-related Fees	68,811,100		70,832,589		72,014,866	
Student Regulatory Fees	899,739		808,692		1,190,926	
TOTAL STUDENT	69,701,839	57.32%	71,641,281	59.09%	73,205,792	60.47%
Other	2,453,996	2.02%	2,350,126	1.96%	1,547,115	1.28%
Total	$121,590,914		$119,872,937		$121,056,437	

Comment: The value reported for FY 2011 State funding includes the amount provided by the State out of federal stimulus funds, $2,844,299. These funds were not replaced for the 2012 year by the State when federal stimulus funding expired. As a result, FY 2012 State funding was $3.1 million less than received in FY 2011. No change was made in the State operating appropriation for FY 2013. The City operating appropriation represents dollars remaining from the total City allocation after all City capital obligations are met. Other income includes investment income, Federal Perkins operating budget support for career programs, and other miscellaneous income. Revenue dispersion, lack of overdependence on one revenue source, is viewed as an important indicator of financial stability. The growth in College dependence on student revenues, and indirectly on State and Federal Student aid programs (see Figure VI), is a concern.

Target: To reduce operating budget dependence on student revenues over time.

Current Status: State operating funding for FY 2014 remains unchanged from FY 2013. As a result, on a percentage basis, State funding will be lower in fiscal 2014 and will provide an estimated 23.1 percent of operating revenues. The City budget allocation to the College for 2013-14 was one million dollars higher than provided in 2012-13. With this increase, City operating revenues will provide approximately 15.4 percent of total operating revenues. The current realities of City and State revenue receipts are likely to require a greater dependency on tuition and fee revenue for at least the next several years, if not permanently.

FIGURE VI

Trends in Student Revenue Dependency, Percent of Tuition and Fees Paid by Grant Aid, and Operating Budget Dependency on Student Financial Aid Programs

Year	Annual Tuition and Fee Revenues (in $000)	Percent of Operating Revenues Dependent Upon Student Tuition and Fees	Percent of Student Revenues Paid by Federal and State Aid Grants	Percent of Operating Budget Dependent on Federal and State Aid Programs
2003-04	$41,113	44.9%	42.9%	19.3%
2004-05	$45,811	48.4%	45.3%	21.9%
2005-06	$45.330	47.6%	45.0%	21.4%
2006-07	$48,944	49.8%	47.3%	23.6%
2007-08	$54,020	49.6%	47.3%	23.5%
2008-09	$56,844	52.3%	46.5%	24.3%
2009-10	$65,308	55.0%	56.2%	30.9%
2010-11	$69,701	57.3%	61.1%	34.9%
2011-12	$71,641	59.8%	60.0%	35.9%
2012 -13	$73,206	60.5%	58.3%	35.3%

Comment: Over the last two decades, the College has become increasingly dependent on student-generated revenues as the largest source of operating revenues for the College. In fiscal 2013, 60.5 percent of revenues were generated by students. Of these student revenues, a growing percentage is being paid *via* federal financial aid (Pell). In FY 2013, 35.3 percent of College operating revenues came from federal and State (primarily Pell) aid awards. Levels of funding and eligibility standards for Pell awards are subject to a political environment in Washington which is frequently less supportive of higher education funding. The College is increasingly dependent on a revenue stream with growing unpredictability.

Target: To reduce dependency on student-generated revenues as the largest single source of operating funds and reduce the College's exposure to the funding uncertainties associated with federal financial aid programs.

Current Status: The distribution of operating revenues by source is not expected to change significantly for the 2013-14 year.

FIGURE VII

Tuition and Fee Changes

	2007-08[3]	2008-09[3]	2009-10	2010-11	2011-12	2012-13	2013-14
Tuition[1]	$115	$115	$122	$128	$138	$148	$153
General College Fee	$4.00 per cr. hr.	$4.00 per cr. hr.	$4.00 per cr. hr.	$4.00 per. cr. hr.	$4.00 per cr. hr.	$4.00 per cr. hr.	$4.00 per cr. hr.
Technology Fee	$28.00 per cr. hr.	$28.00 per cr. hr.	$28.00 per cr. hr.	$28.00 per. cr. hr.	$28.00 per cr. hr.	$28.00 per cr. hr.	$28.00 per cr. hr.
Average Course Fee	$6.65 per cr. hr.	$6.53 per cr. hr.	$6.39 per cr. hr.	$6.31 per. cr. hr.	$7.15 per. cr. hr.	$7.66 per cr. hr.	$7.66 per. cr. hr.
Average Total Annual Costs for Full-time Study[2]	$3,688	$3,685	$3,849	$3,991	$4,263	$4,504	$4,624

Source: The College.

(1) Per credit hour for Philadelphia residents. Other Pennsylvania residents pay double tuition and out-of-state students pay triple tuition.

(2) Assumes full-time enrollment (12 credits in fall and spring terms). Amount includes: tuition, student activity fee, technology fee, and average course fees.

(3) The College charges course fees in high cost course areas such as allied health and laboratory sciences. Course fees range from $75 to $300 per course.

Comment: Course fees are charged in disciplines where instructional delivery costs are above average based upon factors such as class size constraints, faculty workloads, and instructional materials costs. As a result, full-time student charges vary by program of study. The lowest possible charge for a full-time student in the 2013-14 fiscal year is $4,440. Over the past six years, the average annual increase in tuition and fees has been 3.8%.

Target: To keep tuition and fee increases per year at the lowest feasible level.

Current Status: Tuition and fee charges for the 2014-15 year cannot currently be predicted pending more information on probable levels of City and State support. However, the retirement of long-term debt will free up some additional City dollars for operating purposes and, assuming no reduction in City support, will reduce the required level of tuition increase needed to achieve a balanced budget.

FIGURE VIII

Total Credit Enrollments and Operating Cost Per FTE Credit Student

	Total Credit FTEs	Percent Increase/ Decrease in Enrollment	Total Operating Cost Per FTE Credit Student(1)	Percent Increase/ Decrease in Cost Per FTE	Change in Philadelphia All Urban CPI Increase
2005-06	13,629		$6,668		
2006-07	13,569	-.4%	$7,020	5.3%	3.9%
2007-08(1)	13,942	2.8%	$7,113	1.3%	2.4%
2008-09(1)	14,208	1.9%	$7,198	1.2%	3.2%
2009-10(1)	15,808	11.3%	$6,779	-5.5%	-0.2%
2010-11(1)	16,091	1.8%	$7,166	5.4%	1.9%
2011-12(1)	15,796	-1.8%	$7,355	2.6%	2.8%
2012-13 (1)	15,115	-4.3%	$7,707	4.8%	1.8%

(1) Excludes the impact of GASB 45 post-retirement expense accrual.

Comment: This chart reports total institutional operating cost per full-time equivalent (FTE) credit students. Because many of the College's costs are relatively fixed, a significant increase or decrease in enrollments will have a major impact on costs per FTE student. The drop in cost per FTE in 2009-10 is explained by the large enrollment increase. Similarly the relatively large increase in cost per FTE for 2012-13 reflects the drop in credit enrollments which occurred for the year. The costs per FTE shown in this chart do not include the future expense accrual for post-employment benefit (GASB 45) expenses. The value of this accrual for 2012-13 was $8.5 million or $563 per credit FTE.

Target: Over time to keep the average annual increase in cost per credit FTE at or below the Philadelphia Consumer Price Index increase.

Current Status: The currently projected increase in enrollments, coupled with continuing restraints on College expenditures, will result in no significant change in cost per FTE for the 2013-14 year.

FIGURE IX

Average Annual Salary and Annual Percentage Increase in Average Salary

	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013
Faculty and Lab Aides					
Average Salary	$65,381	$67,266	$66,236	$66,137	$66,862
Percent Increase	+3.1%	+2.9%	-1.5%	0%	+1.1%
Administrators					
Average Salary	$71,910	$74,652	$75,744	$75,731	$74,804
Percent Increase	+1.5%	+3.8%	+1.5%	0%	-1.2%
Classified and Confidential					
Average Salary	$39,553	$41,307	$40,944	$40,609	$41,322
Percent Increase	+1.6%	+4.4%	-.9%	-.8%	+1.8%

Comment: Data for each year are points-in-time values as of the middle of the fall term based upon all full-time filled positions as of that date. Vacant position salaries are not included in the computation.

Target: All faculty and classified employees' salaries are set by collective bargaining agreements. The most recent five year employee contracts began on September 1, 2013. The five year contract provided no salary increases in 2011-12 and 1.5% increases in 2012-13. A mid-year increase of 3% will occur in 2013-14. However, through the opportunities provided by employee turnover and retirement, the goal is to keep overall average salary increases below the percentage increases granted to continuing employees over the five year contract period.

Current Status: The mid-year salary increase for 2013-14 will result in the salaries of continuing employees being approximately 3% higher in fall, 2014. However, employee turnover due to resignations and retirements are expected to result in a fall, 2014 average salaries which increase by less than 3% over the fall, 2013 salaries.