MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Thursday, September 28, 2017 – 12:00 Noon

TO: Audit Committee of the Board of Trustees

FROM: Gim S. Lim

DATE: September 26, 2017

SUBJECT: **Audit Committee Meeting**

A meeting of the Audit Committee will be held on **Thursday, September 28, 2017 at 12:00 Noon** in the College's **M2-34 Conference Room.** Lunch will be provided for the meeting.

AGENDA – PUBLIC SESSION

(1) Approve Minutes of Audit Committee Meeting on June 15, 2017 (Action Item):

Attachment A contains the minutes from the June 15, 2017 meeting. The Committee is asked to review and approve the minutes.

(2) 2016-17 Updated Budget Results (Information Item):

Mr. Spiewak will provide an overview of the College's updated budget results for fiscal year 2016-17 (handout). The various factors which contributed to the favorable financial performance results for the year will be reviewed in detail. The year ended with operating revenues exceeding operating expenses by $1,759,462.

(3) 2016-17 Fiscal Year Audit Report (Action Item):

Mr. Brian Page, Engagement Partner from Grant Thornton will present the results of the 2016-17 fiscal year audit. Attached separately is the draft of the 2017 Financial Statements. Attachments B & C as shown in the Statement of Revenues, Expenses and Changes in Net Position, the College had a negative change in net position of $9.1 primarily due to the one-time settlement of $2.2 million received in 2016 and a $4.6 million in federal grants and contracts revenue. The Financial Statements include the GASB 44 statistical reporting. These are found on pages 65 to 71 of the 2017 Financial Statements. Committee recommendation of acceptance of the 2016-17 fiscal year Grant Thornton audit report to the full Board is requested.

(4) Internal Audit Plan 2016-2018 Year Update (Information Item):
Mr. Robert Lucas, Internal Auditor, will present a status report on the 2016-2018 Audit Plan and the approved 2016-2018 Audit Plan.

(5) February 2018 Meeting Date (Information Item):

The next meeting of the Audit Committee will be scheduled in February 2018. At that time, the Committee will discuss the 2016-2017 A-133 audit report.

EXECUTIVE SESSION

During any audit committee meeting; Management, The Independent Auditors or the Internal Auditor may request an Executive Session to meet privately with the Audit Committee.

GSM/lmh
Attachments

cc: Dr. Donald Generals, Jr.
Mr. Jacob Eapen
Mr. Robert Lucas
Mr. Jim Spiewak
Victoria Zellers, Esq.
Representing Grant Thornton: Mr. Brian Page
Representing the Meridian Group: Mr. Anthony B. Scott

ATTACHMENT A

Minutes from June 15, 2017
Audit Committee Meeting

MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Thursday, June 15, 2017 – 12:00 Noon
Isadore A. Shrager Boardroom, M2-1

Present: Mr. Anthony J. Simonetta, Mr. Jeremiah White (via telephone), Ms. Suzanne Biemiller, Dr. Donald Generals, Jr., Mr. Jacob Eapen, Mr. James P. Spiewak, Mr. Robert Lucas, Victoria Zellers, Esq.; and representing Grant Thornton: Mr. Brian Page and Ms. Angelica Roiz

Not Present: Matthew Bergheiser & Representing The Meridian Group: Mr. Anthony B. Scott

AGENDA – PUBLIC SESSION

1. Approve Minutes of Audit Committee Meeting on March 27, 2017 (Action Item):

Action: Mr. Simonetta asked for a motion to recommend acceptance of the March, 2017 Audit Committee meeting minutes (Attachment A). Ms. Biemiller made the motion. Mr. White seconded the motion. The motion passed unanimously.

2. 2016-2017 Audit Process (Information Item):

Attachment B contains the formal presentation made by Mr. Brian Page, Engagement Partner and Ms. Angelica Roiz, Senior Manager, from Grant Thornton. Mr. Page began his discussion by reviewing the information contained in slides four and five that dealt with the responsibilities of Grant Thornton and the responsibilities of the College's Governance Team and Management. Mr. Page asked the Committee members if they had any specific fraud-related concerns to which the members responded they had none. Mr. Page and Ms. Roiz then walked through the presentation highlighting areas of focus, audit approach, and timeline and discussed various topics including materiality, risks and awareness of fraud, internal controls, and the use of work of others. In response to a question from Ms. Biemiller, Mr. Page responded that their audit will look at the valuation of investments of both the College and the Foundation. He explained the planned audit procedures for areas of focus that included: tuition revenue and related receivables and deferrals, auxiliary enterprises, GASB 68, valuation of investments and related earnings, State and Federal grants and contracts, State and City appropriations, compliance with Uniform Guidance (formerly OMB Circular A-133), accounting estimates and financial statement disclosures. Mr. Page noted that a separate technology team from Grant Thornton reviews the College's use of technology including its associated controls, processes and practices.

Mr. Page then discussed several new GASB accounting pronouncements and updates. The first three statements are effective for fiscal year 2018. The first statement, GASB 75, will have the biggest accounting effect. Currently the College's OPEB Liability is being phased in over 30 years. This new pronouncement will require the full amount of that liability to be included in the financial statements for that year. Mr. Page noted that this will have a significant impact on many colleges and Government agencies. This will increase the overall liability and decrease the College's net assets. He pointed out that rating agencies have already factored this into their ratings of colleges and other public entities.

The second statement, GASB 80, discusses the blending of component units. The College will have to review the statement's criteria and make a determination if it can continue to show the Foundation's financials discretely or be required to blend it with the College in its financial statements.

The third statement, GASB 81, refers to irrevocable split-interest agreements and Mr. Page noted that the College needs to review any potential endowments that may fall under this statement.

Mr. Page mentioned GASB 83, which deals with Certain Asset Retirement Obligations, is not effective until fiscal year 2019 and the College may not have any circumstances for which this statement applies. He discussed two major projects that GASB is currently involved in: (1) Financial Reporting Model and (2) Leases. The first project is related to how not-for-profit entities display financial information and requirements for the Management's Discussion and Analysis (MD&A). The second project is related to the accounting treatment of leases and proposes eliminating the distinction between capital and operating leases.

Mr. Page ended his presentation with a brief review of key themes and activities in the higher education industry.

3. 2016-2017 Budget Update (Information Item):

Mr. Spiewak provided a handout (Attachment C) to the Committee, which reflected the most recent revenue and expense projections for fiscal year 2017. The implications of key factors currently impacting the FY 15-16 budget were discussed.

5. 2017-2018 Budget (Information Item):

Mr. Eapen distributed copies of the fiscal year 2017-18 budget and discussed the highlights. He noted that enrollments are budgeted to be stable but that staff are aware that a 1% decrease equates to reduced student tuition and fees of $565,000 and are prepared to reduce expenses should a decrease occur. He stated that, consistent with the offer made to the Union, salaries are budgeted with a 2% increase. Mr. Eapen explained that 9 staff positions were eliminated from the budget along with 8 faculty positions. Medical costs were budgeted at an 8.5% increase of projected expenses for fiscal year 2016-17. Due to a successful electricity procurement process, utility costs are budgeted approximately $300,000 lower than fiscal year 2016-17. Contracted facility services costs are budgeted to be approximately $200,000 higher than fiscal year 2016-17.

6. **Internal Audit Plan (Information Item):**

Mr. Lucas provided an update on the 2016-2018 Internal Audit Plan (Attachment D). He provided a copy of a summary report of activities since the last Audit Committee meeting as well as a copy of the Internal Audit Plan for the two-year period ending June 2018 to the Committee members. Mr. Lucas stated that, since the last meeting, he had issued one finalized audit report and two draft audit reports to management, and noted that another draft audit report will be issued shortly.

Mr. Lucas noted that he had started and completed a financial investigation since the prior meeting. He stated that someone had accused an employee of financial misconduct and that Victoria Zellers, General Counsel, and Dr. Judith Gay, VP for Strategic Initiatives and Chief of Staff, had requested that he conduct the investigation. Mr. Lucas noted that the results of the investigation did not substantiate the allegations.

The Audit Committee members present had several questions regarding the whistleblower hotline and the methods of communication. Ms. Zellers responded to each of the questions noting that all allegations have to be investigated even in cases such as this one in which the accuser recanted the allegations.

Mr. Lucas also noted that, since the prior meeting, he performed an informal risk assessment update by soliciting input from Cabinet members and senior managers to determine if there were any new or significantly changed functions which should be considered for possible addition to the remaining year of the Internal Audit Plan due to the risks associated with those changes. Mr. Lucas noted that all Cabinet members responded to his request for any such changes. He stated that everyone responded that no such changes had occurred in their respective divisions. There were two responses which referenced concerns for specific subjects, but that those subjects were already on the current 2016-2018 Internal Audit Plan. As such, Mr. Lucas had no recommended changes to communicate to the Audit Committee.

Mr. Lucas also noted that he continues to work with management to obtain the statuses of previously issued audit comments. He noted that a number of audit comments with open action plans had target dates of June 30, 2017. In order to allow management to have the remaining time and budget resources for actions by that date, Mr. Lucas did not conduct a full update of the Internal Audit Follow Up matrix. He noted that he will provide a full updated version of the matrix to the Committee at the September meeting.

Executive Session

A brief Executive Session was held to allow Committee members to have further discussions with the independent auditors absent the presence of College employees.

JPS
Attachments

cc: Dr. Donald Generals, Jr.
Mr. Jacob Eapen
Mr. Robert Lucas
Mr. Jim P. Spiewak
Victoria Zellers, Esq.
Representing Grant Thornton: Mr. Brian Page
Representing Grant Thornton: Ms. Angelica Roiz
Representing The Meridian Group: Mr. Anthony B. Scott

ATTACHMENT C

Grant Thornton's Presentation

Presentation to the Audit Committee of Community College of Philadelphia

for the year ended June 30, 2017

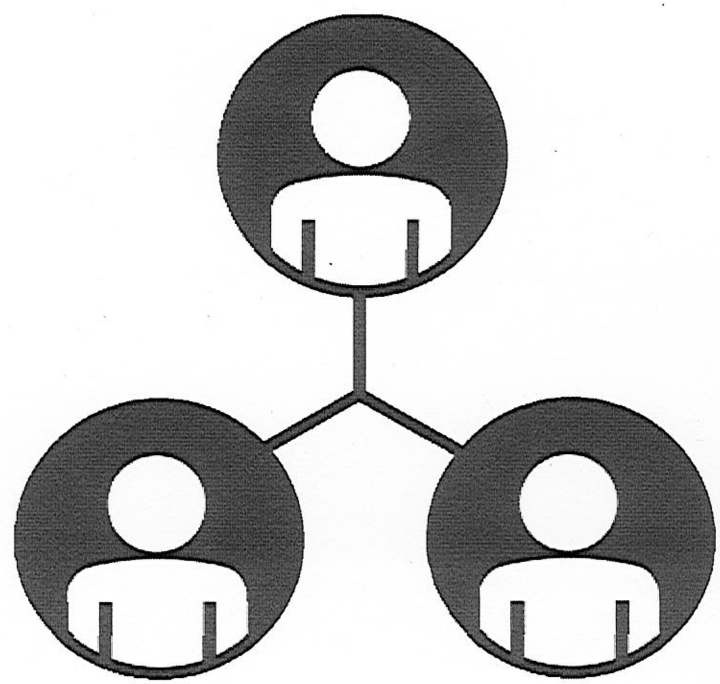
September 28, 2017

Our Values are CLEARR

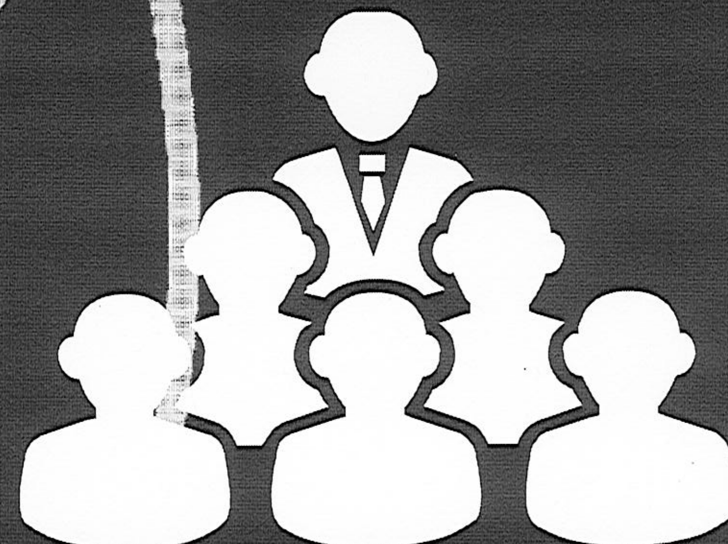
To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.



Responsibilities



Our Responsibilities

We are responsible for:

Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight

Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP

Forming and expressing an opinion about whether certain supplementary information, including the Schedule of Expenditures of Federal (SEFA) is fairly stated in relation to the financial statements as a whole.

Communicating fraud and abuse with regard to federal programs

Reporting material noncompliance with federal awards requirements applicable to major program(s) audited under the Uniform Guidance requirements (formerly OMB Circular A-133), as well as significant deficiencies and/or material weaknesses in internal control over compliance

Communicating specific matters to you on a timely basis; we do not design our audit for this purpose.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged with Governance and Management Responsibilities

Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the College's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
    - Entity strategies and related business risks that may result in heightened risks of material misstatement
    - Matters warranting particular audit attention
    - Significant communications with regulators
    - Matters related to the effectiveness of internal control and your oversight responsibilities
    - Your views regarding our current communications and your actions regarding previous communications

Management

Management is responsible for:

- Preparing and fairly presenting the financial statements including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and compliance with federal grant requirements
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

Audit Scope & Results

Audit Timeline

May/June 2017	**Client reacceptance**	• Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with audit support teams such as IT and tax
June 2017	**Planning**	• Meet with management to confirm expectations and discuss business risks • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance • Initial Audit Committee communications
July 2017	**Preliminary risk assessment procedures**	• Develop audit plan that addresses risk areas • Update understanding of internal control environment • Coordinate planning with management and develop work calendar
August 2017	**Interim fieldwork**	• Perform walk-throughs of business processes and controls • Perform selective substantive testing on interim balances • Begin Single Audit (formerly A-133) compliance testing
August-September 2017	**Final fieldwork and deliverables (short form)**	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results • Present results to the Audit Committee
December 2017 – March 2018	**Final fieldwork and deliverables (Single Audit)**	• Perform final phase of Single Audit (formerly A-133) compliance testing • Meet with management to discuss results

Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark(s).

- We believe that total revenues is the appropriate benchmark for the College.
- We believe total expenditures for each major program are the appropriate benchmarks for the Single Audit.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

Views of those charged with governance

Discussion points

- Risks of fraud
- Awareness of fraud
- Awareness of related party transactions; understanding of purpose of related party transactions
- Awareness of whistleblower tips or complaints
- Oversight of management's risk assessment process
- Views about the College's objectives and strategies and related risks of material misstatement
- Awareness of any internal control matters and views about management's response
- Oversight of financial reporting process
- Actions taken in response to developments in law, accounting standards and corporate governance matters
- Actions in response to our previous communications, if any

Use of the Work of Others

Specialists
GT Pricing group – Valuation of investment portfolio
GT Actuarial group – Review of assumptions & methodology underlying the calculation of the IBNR claims liability for self-insured medical and pharmacy plans as provided to CCP by third party actuary at Alliant Insurance Services
GT Tax group - Review of UBIT and tax positions

Significant Risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
Tuition revenue, auxiliary enterprises and related receivables/deferred revenue	• Perform reasonableness test on tuition, student aid and auxiliary revenue amounts. • Perform deferred revenue testing to determine proper cut-off. • Inquire of management about the allowance methodology and, policies governing additional charges or other steps taken (e.g., cannot register, cannot attend commencement) for lack of payment of student account. • Review management's analysis of allowances for doubtful accounts for consistency with methodology and accuracy of inputs.
GASB 68	• Ensure pension liabilities are recorded appropriately in accordance with GASB 68.

Significant Risks and other areas of focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
Valuation of Investments and related earnings	• Review of compliance with the College's investment guidelines, policies, procedures and controls. • Test valuation of publicly traded investments using an independent pricing source. • Tested valuation of investments that are not publicly traded by performing an independent assessment of the valuation methodology and testing roll forward period of alternative investments and obtaining underlying audited financial statements of the respective funds. • Test reasonableness of investment-related income, including unrealized appreciation/(depreciation) in fair market values. • Review investments for impairment. • Obtain SSAE16 reports from investment custodians.

Significant Risks and other areas of focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
State and Federal Grants & Contracts	• Review contract documents to obtain understanding of the terms. • Compare revenues and recorded expenses to determine that amounts are being recorded appropriately based upon the terms of the contracts. • Review any deferred amounts for reasonableness. • Agree any subsequent collections to year-end receivable balances. • Review propriety of financial statement presentation and disclosure.

Significant Risks and other areas of focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
State & city appropriations	• Obtain detail of appropriations received from the state for fiscal year. • Confirm amounts with state, agreeing to revenue recorded in general ledger. • Review receivable, determining calculation is correct based on cash received and amounts outstanding based on confirmation.
Compliance with Uniform Guidance (formerly OMB Circular A-133)	• Identify major program(s) and determined the compliance requirements that are direct and material. • Identify key controls over compliance and tested those controls. • Select a sample of transactions subject to compliance requirements.

Significant Risks and other areas of focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Planned procedures
Accounting Estimates	The preparation of the College's financial statements requires management to make multiple estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts presented in certain required disclosures in the notes to those financial statements. The most significant estimates relate to the allowance for doubtful accounts, useful lives of fixed assets, valuation of Level 2 investments which are based on NAV per share, actuarial estimates for the College's post-retirement benefit plan (OPEB) under GASB 45, and actuarial estimates for the College's self-insurance medical claims liability (IBNR). Our procedures have been designed in part, to review these estimates and evaluate their reasonableness.
Financial Statement Disclosures	Our procedures will also include an assessment as to the adequacy of the College's financial statement disclosures to ensure they are complete, accurate and appropriately describe the significant accounting policies employed in the preparation of the financial statements and provide a detail of all significant commitments, estimates and concentrations of risk, amongst other relevant disclosures required by accounting standards and industry practice.

Technology support as part of the audit process

Phase 1	Phase 2	Phase 3	Phase 3
Understand and document business processes material to the audit	Assess IT risks	Identify IT controls that support audit objectives	Test technology-related controls

An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

In-Scope Application: Banner

- Banner Financial Aid Module Review
- Administrator Access & Password Testing

Technology support
Results of procedures performed on Banner

Application	Results
Banner	<u>Segregation of Duties & Employee Transfers</u> We noted that Gim Lim - Controller (formerly Director of Financial Aid) for a period of time (4/5/2017- 4/21/2017) retained elevated access to the Financial Aid module as well Financial Reporting access within Banner. While this access was known by IT due to a role change – the access in both the financial aid module and to perform financial reporting was maintained, as the individual was tasked with continuing to perform responsibilities within his old job function while already taking on responsibilities in his new role. Additionally, IT is not always notified of changes to legacy access. There is a process to notify IT when there is a termination, but there is no formal requirement to notify IT when there is a change to a user's role/rights. Therefore, new access may be granted when a user changes their position, but legacy access may not always be removed. We recommend that IT enforce legacy access removal indications on a user access form to be completed by the supervisor of the transferring employee. This will ensure that users only retain access needed for their roles and responsibilities as access to multiple modules could result in unauthorized and undetected changes. *<u>Management's FY17 Response:</u>* *Management considers a smooth transition of the controller's responsibilities an important priority. During the period mentioned Gim Lim was not tasked with any responsibilities for his future role other than to attend meetings and prepare for the transition. He had no operational or functional responsibilities in Finance. Furthermore, he had no maintenance access to Banner student accounts, receivables and billings. Other controls were also in place, e.g., signature authority, approval process, and system logging by user ID in Banner.*

Summary of Adjustments ($000s)

Description	Increase (Decrease) to: Assets	Liabilities	Net Assets	Change in Net Assets
<u>Recorded adjustments</u>				
None noted.				
<u>Unrecorded adjustments</u>				
DR. Deposits, Current	$ -	$ (250,000)	-	-
CR. Deposits, Noncurrent	$ -	$ 250,000	-	-
To reclassify security deposit for parking garage property to non-current based on the nature of the agreement.				
Net impact	$ -	$ -	$ -	$ -

Management believes the unrecorded adjustments are immaterial to the financial statements. Unrecorded misstatements could be potentially material to future financial statements. As such, we request that these unrecorded adjustments be corrected.

Disclosure Adjustments

Recorded disclosure adjustments

The following is a description of adjustments to disclosures identified during the audit that were made by the College:

- **None noted.**

Unrecorded disclosure adjustments

The following is a description of omitted, incomplete or inaccurate disclosures identified during the audit that were not made by the College:

- **None noted.**

Internal Control Matters

Our responsibility

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency will be (or were) communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's annual or interim financial statements will not be prevented or detected on a timely basis.

Other Required Communications

Disagreements with management
None noted.

Management's consultations with other accountants
None noted of which we are aware.

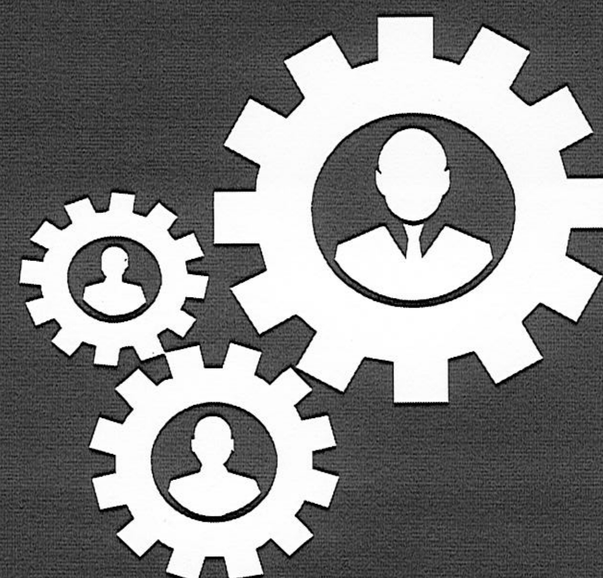
Other findings or issues
None noted. No modifications to the report are deemed necessary and we are not aware of the audited financial statements being included in another document, such as an annual report.

Other Required Communications (continued)

Significant difficulties encountered during the audit
None noted.

Related parties and related party transactions
We did not identify any of the following matters through the course of our audit procedures: • Identification of significant related party transactions that have not been appropriately authorized and approved • Nondisclosure (whether intentional or not) by management of related parties or significant related party transactions • Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions • Noncompliance with applicable laws and regulations prohibiting or restricting specific types of transactions • Difficulties in identifying the party that ultimately controls the entity

Quality of Accounting Practices and Alternative Treatments



Quality of Accounting Practices and Alternative Treatments

Accounting policies
Accounting policies are consistent with those of prior year and are outlined in Note A of the financial statements.

Accounting estimates
Significant estimates are described in Note A of the financial statements. These estimates include: • Allowance for doubtful accounts • Useful lives of fixed assets • Valuation of Level 2 investments which are based on NAV per share • Actuarial estimates for the College's post-retirement benefit plan (OPEB) under GASB 45 • Actuarial estimates for the College's self-insured medical claims liability (IBNR)

Quality of Accounting Practices and Alternative Treatments (continued)

Disclosures
Financial statements and the disclosures therein are clear and complete in accordance with GASB pronouncements.

Other related matters
The effects of the refunding of the 2007 Series Bonds and issuance of the 2017 Series Bonds are appropriately disclosed in the financial statements.

Other Matters

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and Internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link

- Can be found on our internal website
- Can be accessed from our external website (https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191)

Disclaimer: EthicsPoint is not meant to act as a substitute for a College's "whistleblower" obligations.

Technical Updates & Current Events

Accounting Updates

Selected pronouncements effective for the year ending June 30, 2017 or subsequent periods - GASB

Title	Effective date
GASB 75- *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*	Periods beginning after June 15, 2017
GASB 81- *Irrevocable Split-Interest Agreements*	Periods beginning after December 15, 2016
GASB 82- *Pension Issues, an Amendment of GASB statements 67, 68 and 73*	Periods beginning after June 30, 2016, except in certain circumstances
GASB 83- *Certain Asset Retirement Obligations*	Periods beginning after June 15, 2018
GASB 84- *Fiduciary Activities*	Periods beginning after December 15, 2018
GASB 85- *Omnibus 2017*	Periods beginning after June 15, 2017
GASB 86- *Certain Debt Extinguishment Issues*	Periods beginning after June 15, 2017
GASB 87- *Leases*	Periods beginning after December 15, 2019

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

Summary	Potential impact
• GASB 75 replaces the requirements related to OPEB accounting and reporting currently provided in GASB 45 and 57 • GASB 74 established new accounting and financial reporting requirements for the financial statements of the state and local government OPEB plans • State and local governments providing defined benefit OPEB plans administered through a trust meeting certain criteria must report a net OPEB liability on the face of their financial statements, similar to the requirement to report the net pension liability in accordance with GASB 68. • Provides a more comprehensive measure of OPEB expense than is currently required, which better reflects when the benefit cost is incurred. • Requires more extensive disclosures and required supplementary information • Effective for fiscal years beginning after June 15, 2017, with early adoption encouraged. Similar to adoption of GASB 68 (Pensions), retrospective adoption is required.	Colleges with OPEB plans will most likely need to reflect an obligation related to their proportionate share of the unfunded liability related to OPEB, similar to the recognition of a pension liability in connection with the adoption of GASB 68. As with GASB 68, extensive planning and discussions among all parties (management, state government contacts and others) is critical to a successful adoption. Colleges should begin to evaluate the information needed to adopt the guidance as a significant portion of that information may come from state or other related entities. Because many plans are "pay as you go," the impact of recording this liability could be significantly greater than the recognition of a pension liability, where there may have been existing plan assets to partially offset the liability.

GASB Statement 81, *Irrevocable split-interest agreements*

Summary	Potential impact
• Scope includes irrevocable split-interest agreement giving arrangements for which the government is the intermediary (trustee or agent) and a beneficiary, as well as beneficial interests in resources held and administered by third parties • Guidance establishes accounting for Lead Interests (government is a recipient of payments during the term of the agreement) and Remainder Interests (government is the beneficiary when the agreement terminates, and makes payments to non-government beneficiary – typically the donor or designee of the donor- during the term of the agreement) as well as life-interest in real estate and charitable annuity gifts. • Accounting requires recognition of an asset, liability and deferred inflow. When assets are held by third parties, the recognition will be an asset and a deferred inflow, with no need for a corresponding liability. There will be an annual re-measurement in subsequent periods. • Effective for periods beginning after 12/15/2016, with early adoption permitted. Retrospective application should be applied.	Because there has been some diversity in practice related to accounting for irrevocable split-interest agreements, some Colleges may need to reflect new accounting, primarily the recognition of deferred inflows, associated with these arrangements. Management should begin to inventory the current agreements in place to determine the impact of this standard on current accounting and reporting.

GASB Statement 83, *Certain Asset Retirement Obligations*

Summary	Potential impact
• Objective is to develop requirements on recognition and measurement for asset retirement obligations (ARO), other than landfills (GASB 18) or pollution remediation obligations (GASB 49), such as nuclear power plants and sewage treatment facilities • The pronouncement addresses the following: - Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources when a governmental entity has a legal obligation to perform future asset retirement activities related to its tangible capital assets - Proposes capitalization of the ARO as a deferred outflow of resources, to be amortized in a systematic and rational manner (such as the straight-line method), generally over the life of the related asset giving rise to the obligation - Requires disclosures regarding governmental entity legal requirements to provide funding or other financial assurance for their performance of asset retirement obligations (e.g., how are those requirements being met) as well as nature and timing of AROs, method used to determine the estimated liability and useful life of the associated tangible asset. • Effective for periods beginning after June 15, 2018. Earlier application is encouraged.	Similar to the efforts Colleges underwent when adopting GASB 49, management should inventory any activity whereby there is a related obligation to dispose of certain assets subject to regulatory and legal requirements. With that list, management must calculate the expense of that effort and track it annually. The effort to inventory these assets/costs may requirement input from facilities and potentially other areas of the College and the process to estimate costs of future events may also require assistance from facilities and other departments.

GASB Statement 84, *Fiduciary Activities*

Summary	Potential impact
• Guidance addresses the following: - The categorization of fiduciary activities for financial reporting - How fiduciary activities are to be reported - When liabilities to beneficiaries must be disclosed • Types of fiduciary funds that must be reported include the following: - Pension (and other employee benefit) trust funds - Investment trust funds - Private-purpose trust funds - Custodial funds • A government controls the assets of an activity if it holds the assets or "has the ability to direct the use, exchange or employment of the assets in a manner that provides benefits to the specified or intended recipients" • Fiduciary activities must be disclosed in the basic financial statements of the government entity and a state of fiduciary net position and changes in fiduciary net position should be presented (unless the period of custody is less than three months). • Effective for periods beginning after December 31, 2018, with early adoption encouraged.	Colleges often will agree to act as a fiduciary for certain third party organizations that might be somehow affiliated to the College (such as student clubs, alumni clubs, or other such organizations). Under this new requirement, the College must report the fiduciary activity on its financial statements, where it may not have done so in the past. Management should identify which fiduciary activities it is engaged in to inventory the relationships which may need to be reported. Management may want to consider changing the terms of the relationships such that they are not subject to reporting on the financial statements of the College when the requirement becomes effective.

GASB Statement 86, *Certain Debt Extinguishment Issues*

Summary	Potential impact
• The purpose of this guidance is to achieve consistency regarding accounting for the defeasance of debt irrespective of the source of funds set aside in an irrevocable trust for the purpose of funding the remaining debt (source of funds could be proceeds from a refunding arrangement or existing sources within the governmental entity). • New guidance clarifies the accounting for debt extinguishment when the source of the assets to be set aside in an irrevocable trust is existing resources rather than refund proceeds. When all of the other criteria for in substance defeasance are in place, the debt is removed from the statement of net position and is disclosed in the footnotes in either scenario. • GASB 86 also requires that any remaining prepaid insurance related to the debt being extinguished must be included in the net carrying amount of that debt (to determine gain or loss on refunding). • Disclosures include a description of the transaction in the related period and remaining amounts outstanding in each subsequent period that the debt remains outstanding. • Effective for periods beginning after June 15, 2017, with early adoption encouraged. Changes to adopt this standard should be applied retroactively.	Depending on how colleges fund the irrevocable trust related to debt extinguishments, the new standard may create additional situations where debt will be "removed" from the statement of net position, and disclosed in the footnotes to the financial statements. For colleges considering future refundings, there is no longer a distinction in the accounting if the source of funds to be placed in an irrevocable trust are from existing resources or refunding arrangements.

GASB Statement 87, *Leases*

Summary	Potential impact
• The GASB recently issued guidance which follows the recently issued FASB guidance on leases closely in an effort to further align accounting for leases by governments with non-governmental entities. • To determine whether a lease exists, a government should assess whether it has both: 1) The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and 2) The right to determine the nature and manner of use of the underlying asset as specified in the contract • For Lessees: - In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" asset and a corresponding lease liability within long term debt - On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term) - There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term - Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five year increments thereafter and commitments under leases before a lease commencement period, among other items • Effective for periods beginning after December 15, 2019, with early adoption encouraged. Existing lease will be adjusted based on the remaining lease payments as of the beginning of the period of adoption or beginning of any earlier periods restated (for example, for June 30 year ends, adoption is June 30, 2021 so the beginning period is July 1, 2020).	For those colleges which use operating leases to finance certain capital activities, this standard could have a significant impact on the financial statements of the College upon adoption. Management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing leases that will be subject to the new accounting and disclosures.

GASB projects

Project	Timing
Financial Reporting Model- Reexamination of Statements 34, 35, 37, 41 and 46, and Interpretation 6	Evaluation of feedback from Invitation to Comment in process, planned issuance of final standard in 2021.
Debt disclosures, including Direct Borrowing	Exposure Draft issued in June 2017, with comment period through October 2017
Revenue and expense recognition	Initial deliberations, with an Invitation to Comment expected in early 2018.
Recognition (conceptual framework)	GASB is redeliberating on results from comments on preliminary views
Capitalization of interest costs	Recently added to the agenda

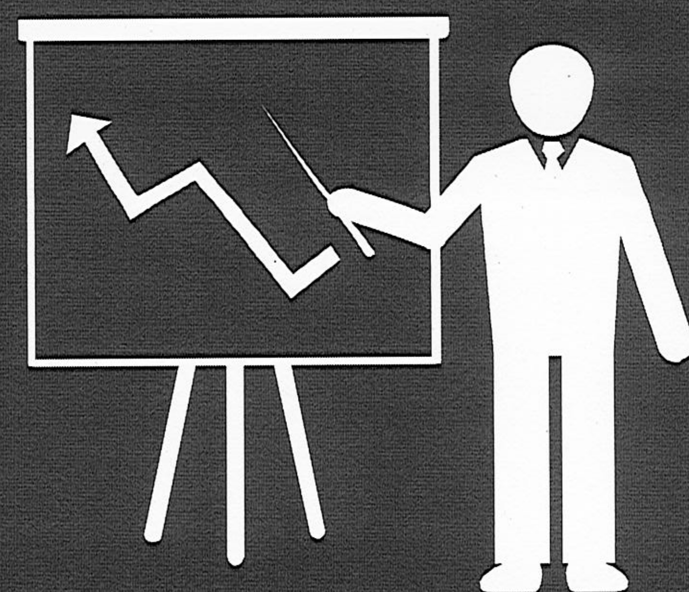
GASB pre-agenda research

- Conduit debt
- Going concern disclosures
- Information technology arrangements, including cloud computing
- Note disclosures reexamination
- Public-private partnerships, including reexamination of Statement 60
- Social Impact Bonds

GASB major project – Financial Reporting Model

Summary	Potential impact
• GASB is revisiting its reporting model established in GASB 34 and 35, as well as other GASB standards, following the FASB project to revisit the reporting model of NFP entities. • Although there is general consensus that most of the components of the financial reporting model are effective, the Board determined that there is a need to update guidance related to several categories, focusing on the following: - MD&A - Government-wide financial statements - Major funds - Governmental fund financial statements - Proprietary fund and business-type activity financial statements - Fiduciary fund financial statements - Budgetary comparisons • Other options to permit more timely and less complex financial reporting will be explored in conjunction with other topics • The Board is redeliberating based on feedback from invitation to comment and public meetings. Tentative timing for issuance of final guidance is projected to occur in 2021.	Similar to the significant impact on reporting and disclosures when GASB 34 and 35 were issued, this proposed guidance could have sweeping effects on the reporting and disclosures by public colleges and universities. Depending on how much the GASB looks to what is being done by the FASB on the NFP reporting model, there could be an increase in comparability between the two types of entities that currently use very different reporting models. Three of the business type activities issues that the GASB is considering that are particularly relevant to public universities are guidance on the operating indicator, MD&A and extraordinary and special items.

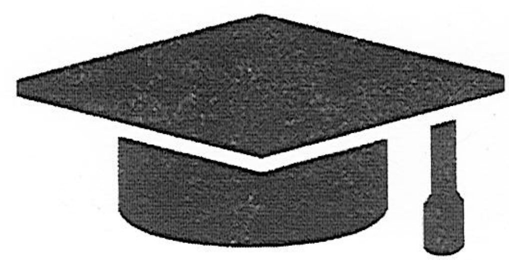
Industry Updates



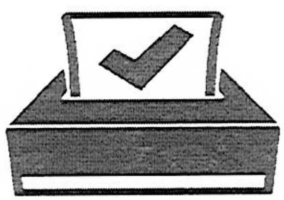
Key Themes in 2017

- Good news:
- Colleges and universities are holding steady, with flat or modest revenue increases accompanied by warning signs
- More and more experiments with "business model" are occurring

- Not so good news:
- Revenue is highly constrained with limited prospects of improvement
- Price sensitivity (restraint on net price increases) continues
- Demographics worrisome in East and Midwest
- No help from Washington

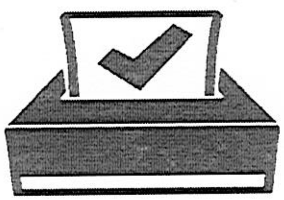


Washington Update: General



1. **Six year gridlock has ended**: Republicans in control of both White House & Congress; but Republicans don't always agree (see ACA failure), and Courts remain a wild card
2. **Implementation likely to be slow and/or uneven**: Administration has been slow getting started; its capacity to implement is uncertain; and big issues (other than higher education) are taking priority
3. **Much remains uncertain and unspoken**. Higher education is seldom mentioned.
4. **Hard to find anything that will help the industry**. No likelihood of support for increased funding or for policy changes that would be helpful to colleges and universities.

Washington Update: Collateral to Higher Ed



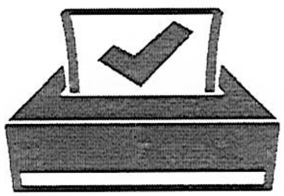
1. **Immigration, including DACA**: Negative impact on trend toward globalization: insecurity of existing students & faculty, less international students & faculty; stifled programs abroad

2. **Deregulation Ethos**: End of high level of regulation on for-profit higher education; less oversight of civil rights and Title IX; support for student loans from private banks

3. **Budget Priorities**. Desire for balanced budget and for increased spending on military & infrastructure means less for student aid, research funding, and oversight

4. **Investment Climate/Tax Code Changes**. Investment returns very positive right now; strong market plus tax code changes could improve fund raising

Washington Update: Specific to Higher Ed



1. **"Free tuition"**: Being proposed by governors and adopted in in some states; potential negative impact on private colleges in those states
2. **Private loans v. direct lending**: Likely reversal of Obama rule allowing only direct loans (by and from Federal government), re-introducing bank private loans into marketplace
3. **Much remains uncertain and unspoken**. Higher education is seldom mentioned. Policy positions in Department of Education remain mostly unfilled.
4. **Civil rights**. Enforcement of Title IV (sexual assault) is being stalled. Republican platform specifically excluded LGBT\Q rights from Title IX enforcement. Obama trans "bathroom" regulations already eliminated.

Moody's

MOODY'S

"Stable with Clouds Forming on the Horizon"

Second year in a row of "stable" rather than "negative"

- Revenue growth
- Modest net tuition growth
- Incremental increases in state appropriations
- Stable research funding*

Clouds on the horizon

- Softening revenues
- Increasing labor costs
- Potential slowing of endowment & gift revenue
- Uncertainty around Federal policies and funding*

*issued just after Nov. 2016 election

Moody's

"Stable with Clouds Forming on the Horizon"

- Almost one third of small colleges generated operating deficits in FY2016, up from 20% three years ago.
- Net tuition declined at nearly a third of private colleges.
- Proportion of large universities generating deficits declined to 13%, compared to 20% three years ago.

Standard & Poor's 2017 Sector Outlook

S&P Global Ratings

Opportunities

- More schools have shown a **willingness to make difficult decisions** to refine their operations through focused, rather than general, expansion strategies
- Problems of-profit sector could lead to enrollment & program opportunities for nonprofits
- Aging workforce and upcoming retirements could lead to lower tenure rates and salary expenses

Risks

- **Limited revenue raising flexibility** at smaller schools and **price resistance** for all schools
- Flat or reduced public expenditure for higher education but more government control
- Lower endowment returns

"Significant headwinds"

"Confident my institution will be financially **stable**"

Over five years..........

63%	63%	62%
All institutions "agree" or "strongly agree"	**Public** universities "agree" or "strongly agree"	**Nonprofit private** colleges "agree" or "strongly agree"

Over ten years..........

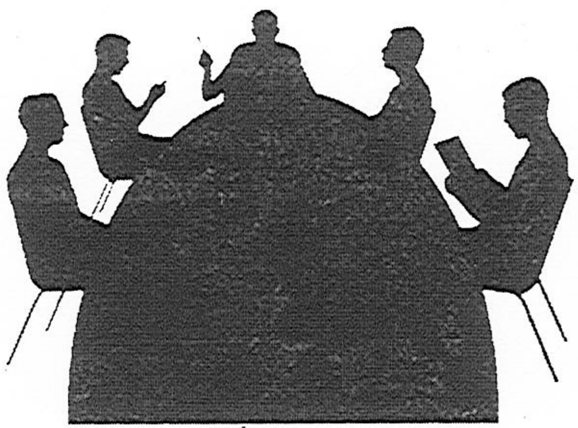
52%	49%	54%
All institutions "agree" or "strongly agree"	**Public** universities "agree" or "strongly agree"	**Nonprofit private** colleges "agree" or "strongly agree"

"Confident my institution will be financially **sustainable over ten years**"

Elite Private Universities	Elite Private Colleges	Public Flagship Universities	Private Colleges
93%	85%	69%	10%

Private tuition dependent colleges see themselves as most at risk!

What do business officers say?



- **Only 54% are confident** in their institution's financial stability over the next ten years *(Inside Higher Ed survey in 2016)*
- One in four complained about **"resistance to change"** on their campuses *(NACUBO survey in 2016)*

Price resistance

- **Price resistance is growing.**
- 18.6% of students who were admitted to their top choice of college or university in 2016, but decided not to go there, turned it down because of the cost of attendance
- 39.9% who turned down their college of first choice did so for a reason related to cost, such as financial aid received from another college, non-need based scholarships, or "a college's value"
- Results not much different between SAT score levels or minority status

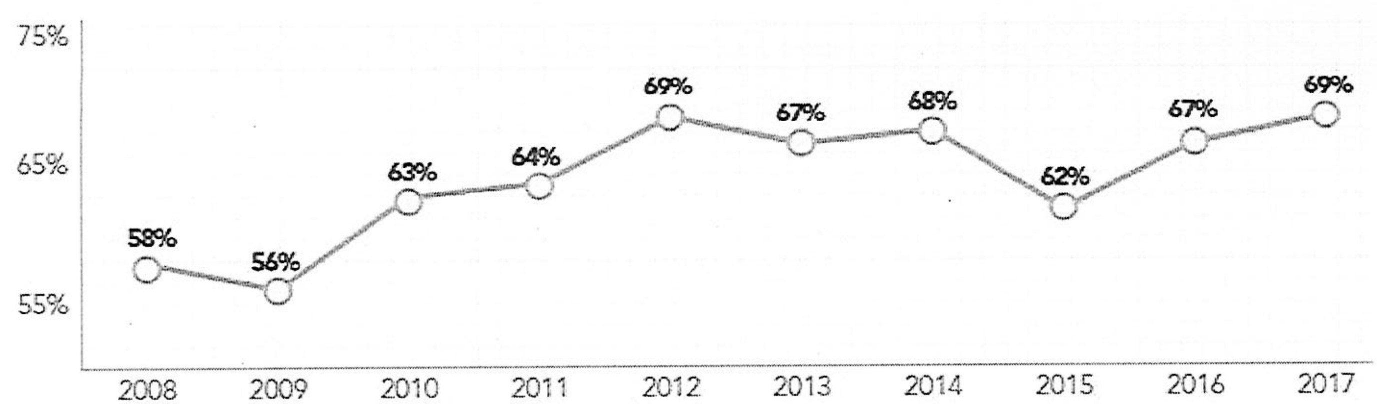
Reason for Not Attending College of First Choice	Percentage of Students Citing
Cost of attendance	18.6%
Campus environment	9.4%
Location of the school	9.3%
The financial aid I received	9.1%
Academic reputation	8.1%
Proximity to home	7.6%
Offered the major I wanted	6.6%
The merit-based scholarship I received	6.3%
Best value	5.9%
Reputation in my intended field of study	4.9%
The size of the school/number of students	3.8%
Athletic programs	3.3%
Overall Reputation	3.0%
Legacy/family member attended the school	1.8%
Amount of contact after admission	1.1%
Timing of my financial aid award	1.0%
Amount of contact before application	0.4%

Price resistance

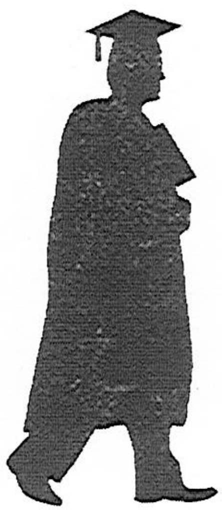
- **Price resistance is growing.**
- Last year 69% of parents/prospective students eliminated some colleges from their selections because of cost, a number that jumped from 58% ten years ago.

Figure 5

Elimination of Colleges from Selection Set Due to Cost, over Time

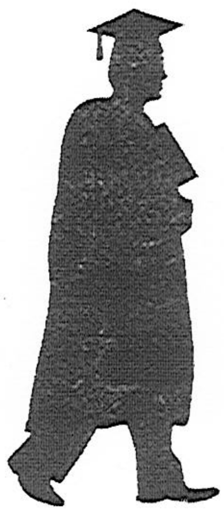


Net tuition revenue pressures



- Chronicle of Higher Education survey:
- Four in ten private colleges and almost three in ten public ones **missed their goals for enrollment and net tuition revenue in 2016**, a track record similar to the prior three years.
- College Board:
- **Net tuition revenue has been essentially flat** in the two years most recently available, for private baccalaureate and master's level colleges
- Moody's
- **"Low gains in tuition revenue are the 'new normal' for colleges"** and
- “Institutions that lack a distinct brand or strong value proposition are bearing the brunt of an increasingly value-oriented consumer"

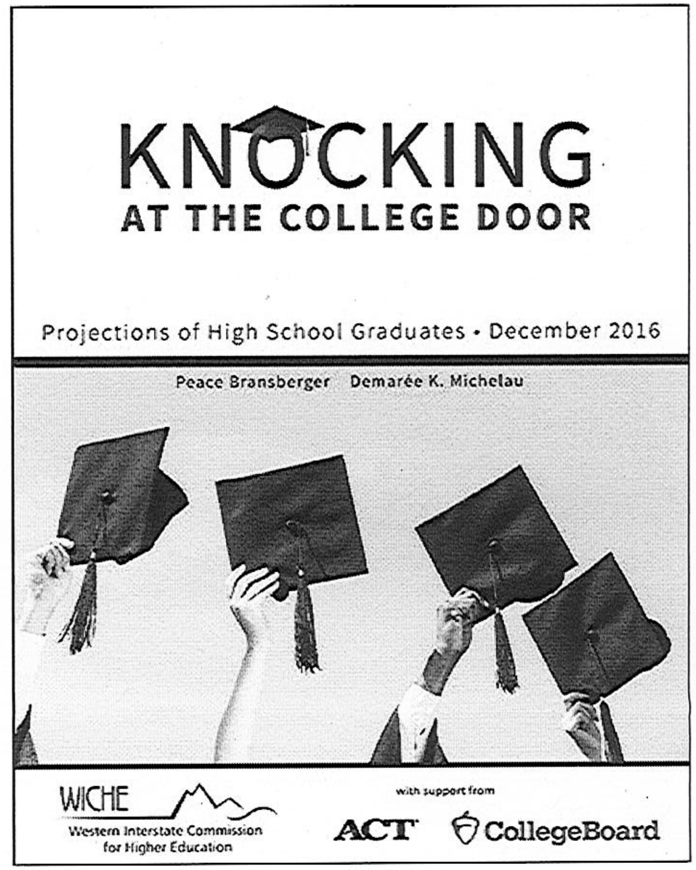
Net tuition revenue pressures (part two)



- NACUBO Tuition Discounting Study:
- Net revenue growth projected at just over 1% for freshman, a decrease from prior year, and 37.5% of institutions had enrollment declines among both first-year classes and their entire student bodies from 2014-15 to 2015-16.
- More than half of institutions, 51.2%, reported a decrease in total undergraduate enrollment, and 53.5% said freshman enrollment dropped.

Demographics

- Number of high school graduates
  - Plateau nationally
  - Ongoing declines in east and Midwest
- Ethnicity of higher school graduates
  - Decline of non-Hispanic whites
  - Growth of Hispanics



- WICHE 9th Ed., issued Dec. 2016

What are colleges doing to generate financial return?

What are colleges doing to generate financial return?

Academic Modes

- Retention
- Online and hybrid programs
- Credentials (certificates & other "micro" credentials for competencies, 3 year degrees, joint degrees, masters

What are colleges doing to generate financial return?

Management

- Data analytics
- Understanding costs (& using that information for decision making)
- Sharing services
- Faculty productivity (workload, sabbatical policies, types of appointments
- Outsourcing
- Budgeting by substitution

What are colleges doing to generate financial return?

Governance

- Intensifying shared governance (working effectively with faculty)
- Board more focused on strategy than oversight
- Presidents are pro-active strategists, innovators, & risk takers

What some universities are doing but should not

- Overspending from endowment
- "Borrowing" from endowment / restricted funds
- Using debt, in excess, for liquidity purposes
- Running deficits without a plan
- Overbuilding
- Selling physical assets without a plan
- Deferring maintenance

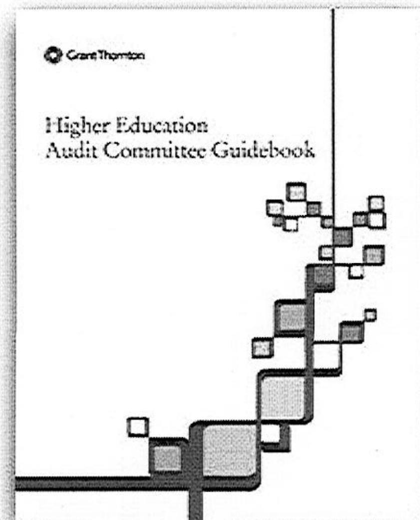
"A college's greatest enemies are **complacency** and **nostalgia**"

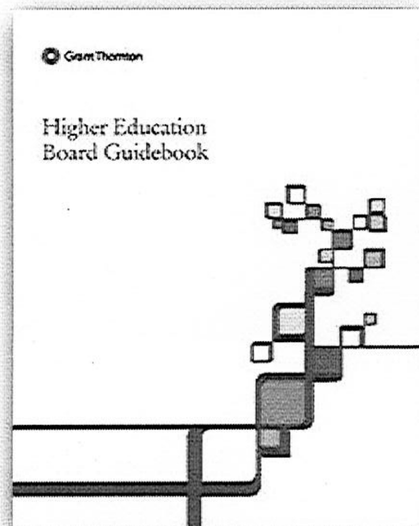
Changes to consider going forward

- Making the case for value of higher education
- Developing capacity for change
- Delivering education in different styles and formats (including cheaper)
- Finding paths to success for new student populations
- Adjusting to lower net student revenue and modest growth in government support
- Holding all stakeholders committed to common purpose

Additional Resources

www.grantthornton.com/industries/NFP





Stay in touch

Board and Executive Institute

Keep on top of topics and best practices, and current and emerging accounting, regulatory, legal and operational business trends.

Sign up >

This communication is intended solely for the information and use of management and the Audit Committee of Community College of Philadelphia and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton