MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Wednesday, June 10, 2015 – 12:00 Noon

Present: Mr. Anthony J. Simonetta, Mr. Matthew Bergheiser, Mr. Jeremiah White, Donald Generals, Ed.D., Mr. Jacob Eapen, Mr. Todd E. Murphy, Mr. James P. Spiewak, Mr. Robert Lucas, representing Grant Thornton: Mr. Brian Page & Mr. Andy Beck and representing The Meridian Group: Mr. Anthony B. Scott

AGENDA – PUBLIC SESSION

1. Approve Minutes of Audit Committee Meeting on March 24, 2015 (Action Item):

Action: Mr. Simonetta asked for a motion to recommend acceptance of the March 24, 2015 Audit Committee meeting minutes. Mr. Bergheiser made the motion. Mr. White seconded the motion. The motion passed unanimously.

2. 2014-2015 Audit Process (Information Item):

Attachment A contains the formal presentation made by Mr. Brian Page, Engagement Partner, Mr. Andy Beck, Senior Manager, from Grant Thornton and Mr. Anthony Scott from the Meridian Group. Mr. Page began his discussion by informing the Committee that he would be reviewing areas of focus, changes to the audit approach as well as new accounting pronouncements that will affect this year's 2014-2015 audit. He discussed the responsibilities of the auditors as well as the responsibilities of management as it relates to the audit. He noted that auditing standards have remained relatively the same as last year with no significant changes. Two opinions will be issued, one for the financial statements and the other on Circular OMB A-133 as it relates to a compliance audit with respect to Federal funding the College receives.

Mr. Page also discussed the required communications that Grant Thornton will present as a result of the audit. He then briefly discussed the significant audit areas as outlined in Attachment A. He described the audit methodology, audit approach, timeline, as well as management's responsibilities and those charged with governance. Grant Thornton will take a substantive approach to the financial statement audit, which means they will look at "key tests" or substantive tests. In addition, internal controls will be walked through as it relates to the College. However, as it relates to Circular OMB A-133, the compliance testing will test controls to ensure compliance with all Federal requirements.

Mr. Page stated that his team will be on campus next week to focus on planning procedures; finalizing their risk assessment and performing any interim testing the auditors feel appropriate.

Mr. Page asked Committee members if there were any other areas that the Committee would like the audit team to focus on or matters of fraud risk that they might have concerns. Committee members affirmed that they were satisfied with the proposed audit scope.

Mr. Andy Beck then walked through the timeline, areas of focus and high risk areas that the audit team will concentrate on during the audit; specifically, tuition revenue recognition, accounts receivables, state and city appropriations, state and federal contracts, investments and auxiliary income. The audit team will perform reasonableness tests on all income to ensure proper accounting. A new accounting pronouncement by the Government Accounting Standards Board (GASB) 68 will need to be implemented this year. This standard requires the College to set up a liability on the College's books for both cost sharing pension plans that some faculty and staff participate. An actuarial calculation will determine the value that the College will be required to record. These plans are not offered to new employees. However, if a faculty or staff member were enrolled at a previous employer, the College is required to continue to offer that plan. The two plans are PERS (Public Employees' Retirement System) and SERS (State Employees' Retirement System). Currently only 23 employees participate in PERS and 9 employees in SERS.

Mr. Simonetta asked how the information will be audited. Mr. Page stated that the College will rely on the information from the State. However, Grant Thornton's in-house actuaries will review the key assumptions made such as discount rate and salary information.

Mr. Page discussed the process of determining what Federal programs will be audited as part of the OMB A-133 audit. Specifically, student financial aid is always audited given its size. Other programs will be determined when Grant Thornton is on campus next week.

Mr. Simonetta then asked if there were any new significant grants in this fiscal year. Mr. Murphy affirmed that there was nothing than the normal grants with some continuing, and no pending grant similar to the $20 million dollar TAACCCT consortium grant. Dr. Generals noted that the TAACCCT grant will be closing out September 30th of this year.

Mr. Page then discussed technology support for the audit. The auditors will review access to the systems as well as security controls, change management and any other controls that may impact the College's financial statements. Grant Thornton's Information Technology (IT) control review related to the College's ERP system is currently under review now and expects no significant change from last year.

Mr. White raised a question about the Burt Hill litigation related to a campus construction matter in which the College won a verdict. Mr. Page indicated that they will confirm with all College attorney's as to the status and any pending appeals.

Mr. Page then discussed several new GASB accounting pronouncements. The first was GASB 72 effective June 2015, which deals with how the College reports fair value in its financial statements. He indicated that this should not have a huge impact for the College but will require additional disclosures in the footnotes that show how they are leveled with the ability to liquidate assets. The other big change is in the OMB A-133 requirements which became effective December 26, 2014. These new requirements contain some procurement changes that the College adopted in refining its procurement policy.

Mr. Page then discussed some industry updates regarding the challenges colleges and universities are facing, such as enrollment and demographic changes. Mr. White asked how other colleges and universities are handling these challenges. Mr. Page indicated that many institutions are invoking different enrollment strategies as the College is currently undertaking. Mr. White then asked about public private partnerships. Mr. Page stated that this is the current trend in higher education; however, the College's need to review residential risk and risk management closely. He recommended that the College does its due diligence carefully and consult with Grant Thornton before the College proceeds with a project to discuss the various issues.

Dr. Generals reminded the Committee that the College is looking at many new initiatives with capital, curriculum changes, shared services and new revenue streams.

Mr. Page then discussed several different major projects that GASB is currently working on that may impact the College at a future date, which is outlined in Attachment A. There is still a potential change to the GASB 45 Post Employment Benefit Liability, which may now be shown differently on the College's Net Position in the 2016-17 year. Currently, the Post Employment Benefit Liability for the College is phased in over 30 years. This new project may require institutions with Post Retirement Benefits to recognize the entire liability all at once. There is a new proposal for how asset retirement obligations are treated where an environmental issue needs to be remediated. GASB is examining whether to estimate that cost and determine the potential exposure. The final project that GASB is working on deals with the treatment of leases. Leases may all need to be capitalized with the entire liability recorded.

Mr. Page concluded his presentation with reiterating if there were any particular areas of focus the Committee would like reviewed. Mr. White commented to look at sustainability. Mr. Page stated that he would be happy to meet with any Committee members to discuss this issue.

3. 2014-2015 Budget Update (Information Item):

Mr. Spiewak provided a handout (Attachment B) to the Committee, which was previously presented at the May 2015 Business Affairs Committee. The implications of key factors currently impacting on the budget were discussed. The originally projected use of carry-over funds for the 2014-15 year was $1,075,299. The shortfall has been eliminated as a result of much lower-than-budgeted costs associated with the College's self-insured medical program, higher-than-budgeted lapsed salaries and other continued successful cost containment efforts. The College will be using some of the self-insurance savings to buy out some longer term leases in the amount of $2.8 million. Mr.

Spiewak noted that there is projected to be a residual savings of approximately $700 thousand for the year by budgets not being fully expended which will be used to pay off leases.

Mr. Eapen provided an update on the 2015-2016 Budget. He specifically noted that we are the only College in Pennsylvania that does not have an increase in tuition and fees. He explained that it is a balanced budget and will accommodate the priority initiatives desired by the Board and the President. Dr. Generals then discussed some of the initiatives that are incorporated into the budget. Mr. Eapen discussed the College's strategy in using the Bond refinancing savings to help with new capital projects. He reminded the Committee about the College's A1 Moody's rating and supplied the Committee with the report.

4. Internal Audit Plan (Information Item):

Mr. Lucas provided an update on the 2014-2016 internal audit plans. He discussed his new reporting relationship starting July 1, 2015. He will be reporting to the new Chief of Staff, Dr. Judith Gay with a dotted line to the Board. Mr. Lucas stated that he had not finalized any new reports since the last meeting. However, he described working on a number of different audits and hopes to complete two of them by June 30th. He has updated the audit universe with new areas and functions based on information from Cabinet members and other changes. New audit areas were risk rated in the Internal Audit Risk Assessment and Mr. Lucas noted that he did not recommend any changes to the current 2 year audit plan.

Mr. White asked who reviews the audit plan. Mr. Lucas pointed out that the annual or 2 year audit plans were reviewed and approved by the President and the Vice President for Business and Finance. Mr. White then asked if there is an area of risk or a specific problem, who would get notified; specifically, how Trustees would be made aware of the audit plan and findings. Dr. Generals stated that it would come to him and he would inform the Board.

Mr. Lucas discussed the importance of internal controls and what approach he takes as compared to the external auditors. Mr. Simonetta asked if the audit plan and the resolutions of findings were reviewed by the Board. Mr. Lucas confirmed. He stated that he developed an audit follow up matrix that he has shared in the past. He also works with management to help get the issues resolved from prior audits. Mr. Lucas noted that he does not generally go over every comment in his reports; however, key issues are discussed.

Mr. White expressed concern that very small things can turn into big things. He stated that he would like the next report to articulate with key examples of some of the issues. He does not just want to see that the issue was discovered and mitigated. Specifically, he feels that the Board needs to understand the real problem. Mr. Lucas stated that he receives information on potential issues from various sources. If he believes there exists an internal control issue he will research and consult on the matter to try to help management correct it. The issues may not always be material; but since they came to his attention the need to follow up and make sure such issues gets resolved is crucial. Mr. Lucas discussed coming up with a document for management to better understand and identify internal controls, especially when a new function or procedure is put in place. Management may not understand that process and procedures may not be controls. Mr. Lucas plans to work with Senior Management and the Cabinet to develop a better understanding of internal controls.

Mr. Simonetta stated from the Committee's standpoint, they would like to get a summary of what is completed from the audit plan as well as a list of the findings and resolutions. He referred to Mr. White's point that some things can seem insignificant, but may turn into a huge issue which could in turn lead to a negative reflection on the College. He feels that risk is subjective and that the Committee needs to be informed.

Mr. Eapen stated that with the Fall Semester he will work with Mr. Lucas to ensure that Managers and Directors are trained as to the importance of internal controls.

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.

TEM/lmh
Attachments

cc: Dr. Donald Generals, Jr.
Mr. Jacob Eapen
Mr. Robert Lucas
Mr. Jim Spiewak
Representing Grant Thornton: Mr. Brian Page
Representing Grant Thornton: Mr. Andy Beck
Representing The Meridian Group: Mr. Anthony B. Scott

ATTACHMENT A

GRANT THORNTON

2014-15 AUDIT PROCESS

Grant Thornton

Discussion with the Audit Committee of Community College of Philadelphia

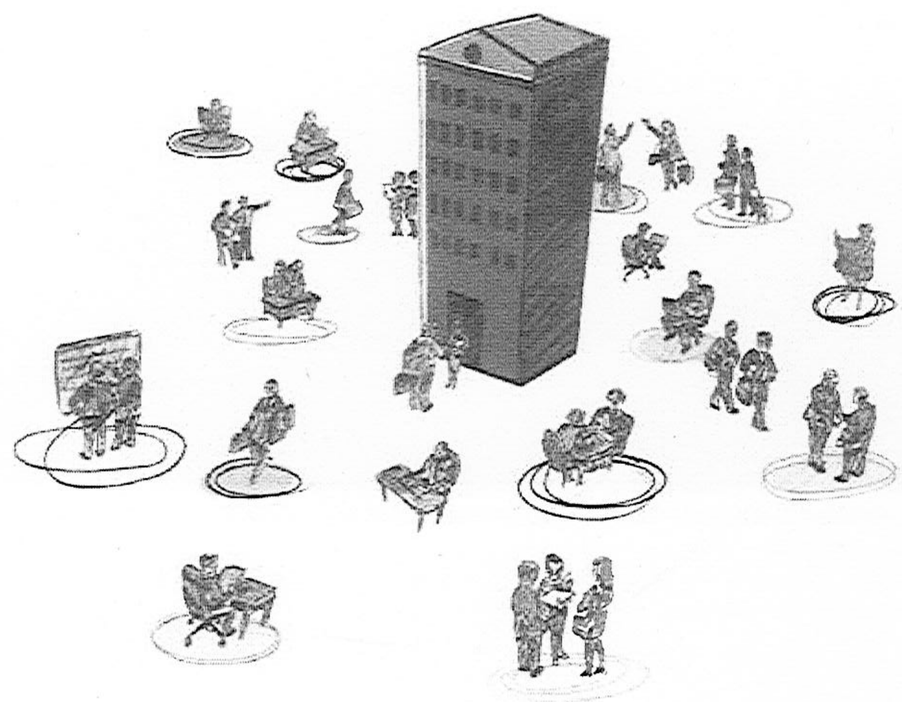
June 10, 2015

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 of the College's financial statements as prepared by management, with your oversight, conducted under US GAAS and *Government Auditing Standards*
- 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 Awards, is fairly stated in relation to the financial statements as a whole
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Communicating fraud involving management and abuse with regard to federal programs
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose
- Reporting material noncompliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting
- Reporting material noncompliance with federal awards requirements applicable to major program(s) audited under OMB Circular A-133, as well as, significant deficiencies and/or material weaknesses in internal control over compliance.

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:

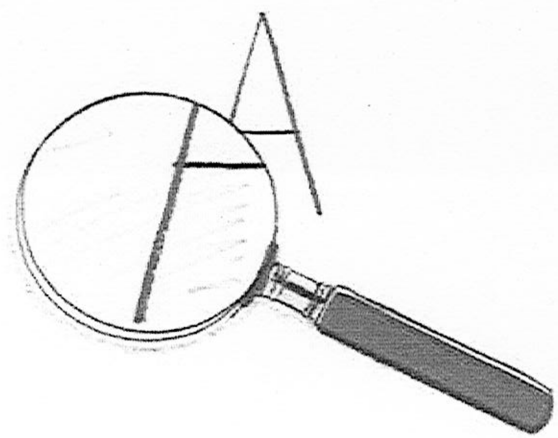
- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the Organization's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud and abuse, including your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

Management

Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and over 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, abuse, 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 certain written representations

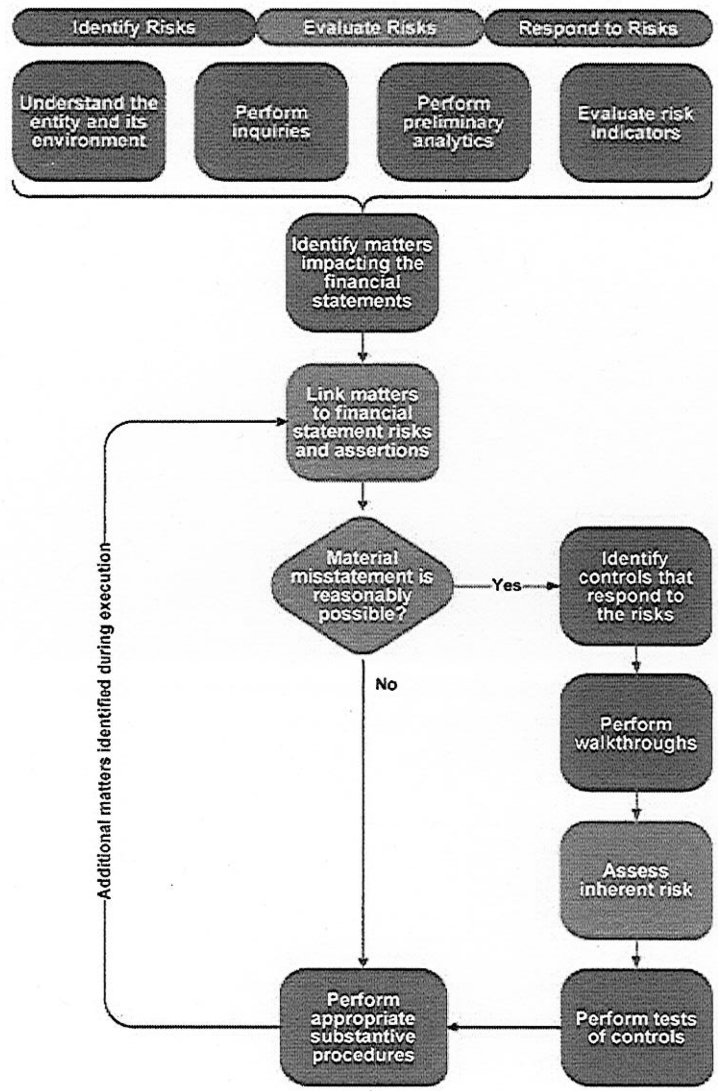
Audit scope



Horizon audit methodology

We approach our audits by:

- Understanding the institution's business processes, including the environment it operates in, and significant or unusual transactions/activities
- Using that knowledge and understanding to analyze the institution's financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas



Audit timeline

May/June 2015	Client acceptance	• Client acceptance • Engagement letter • Conduct internal client service planning meeting
June 2015	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 • Initial audit committee communications
June 2015	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
June/July 2015	Interim procedures	• Perform walk-throughs of business processes and controls • Perform selective substantive testing on interim balances
August/September 2015	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results • Present results to the Audit Committee

Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark.

- We believe that a percentage of assets is the appropriate benchmark for the institution.

Financial statement items greater than materiality are in scope. Other areas lower than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).

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 organization'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

Areas of focus

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

Areas of focus	Planned approach
Tuition revenue, auxiliary enterprises and related receivables/deferred revenue	• Perform reasonableness test on tuition, student aid and auxiliary income amounts. • Perform deferred revenue testing to determine proper cut-off. • Inquire of management as to the allowance methodology and penalties for lack of payment of student account. • Review management's analysis of allowances for doubtful accounts for consistency with methodology and accuracy of inputs.
State and city appropriations	• Obtain detail of appropriations received from 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.
GASB 68	• Ensure pension liabilities are recorded appropriately in accordance with GASB 68

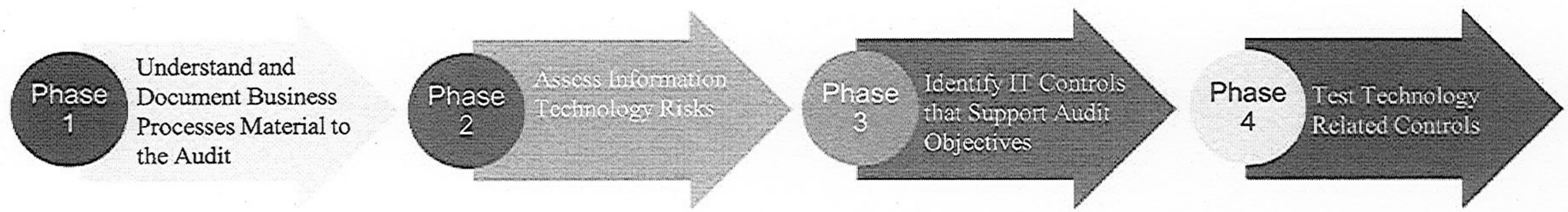
Areas of focus, continued

Areas of focus	Planned approach
Investments and related earnings	• Confirm investments with custodian and, if applicable, fund manager. • Test valuation of publicly traded investments using an independent pricing source. • Test valuation of investments that are not publicly traded by performing an independent assessment of the valuation methodology and/or testing management's process to determine fair value. • Review investments for impairment. • Test the recognition of investment earnings by recalculating and/or testing sales activities. • Test unitization of earnings to pooled endowment.
State and federal grants and contracts	• Review contract documents for 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 financial statement presentation and disclosure

Areas of focus, continued

Areas of focus	Planned approach
Compliance with OMB Circular A-133	• Identify major program(s) and determine the compliance requirements which are direct and material. • Identify key controls over compliance and test those controls. • Select a sample of transactions subject to compliance requirements.

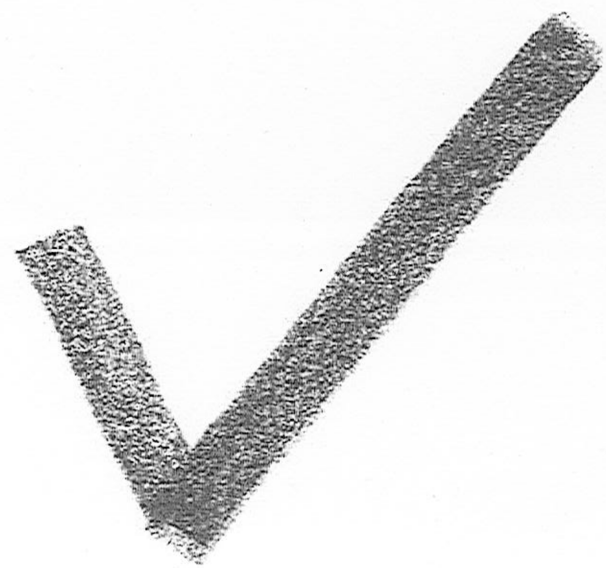
Technology support As part of the audit process



Processing transactions and producing the information needed to manage day-to-day activities is an important aspect of an institution's internal control structure. A critical component of our audit approach is to understand how information technology 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.

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.

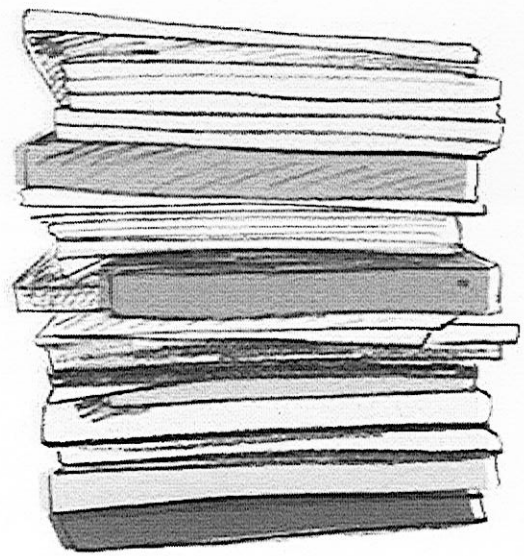
The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

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 Organization's "whistleblower" obligations.

Technical updates



GASB Statement 72, *Fair Value Measurement and Application*

Summary

- Defines "fair value" as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."
- Governments are generally required to measure investments at fair value using one of three techniques

➢ Market approach
➢ Cost approach
➢ Income approach

- Establishes a three level hierarchy of inputs to valuation techniques used to measure fair value. The guidance is very similar to existing guidance for FASB organizations.
  - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
  - Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security
- Requires disclosures to be made about fair value measurement, the level of fair value hierarchy, and valuation techniques.
- Effective for periods beginning after June 15, 2015.

Potential Impact

This will significantly impact accounting for certain investments that may have been reported at cost due to ambiguity within previous guidance. In addition, all public colleges and universities will need to revise the existing disclosures to conform to the new disclosure requirements, which are very similar to current disclosure requirements for FASB organizations. Gathering the "Leveling" information required to be disclosed could be difficult to identify and time-consuming, depending on the instruments that are within the three categories of the valuation hierarchy. Pubic institutions are encouraged to review disclosures of large/complex private (FASB) institutions for helpful examples.

GASB major projects

Major Project	Timing
Asset Retirement Obligations	Exposure Draft to be issued 4Q15
Economic Conditions Reporting: Financial Projections	On hold
Fiduciary Responsibilities	Preliminary views issued 4Q14 with exposure draft anticipated in 3Q15
Conceptual Framework - Recognition	On Hold – An invitation to comment was issued in 2011 with no current date for an exposure draft to be issued.
Leases	Preliminary views issued 4Q14 with exposure draft anticipated in 1Q16
Postemployment Benefit Accounting and Financial Reporting:	
- Other Postemployment Benefit Accounting and Financial Reporting- Employer	Final statement expected 3Q15
- Other Postemployment Benefit Accounting and Financial Reporting- Plan	Final statement expected 3Q15
- Pensions Not Within Statement 68 Scope	Final statement expected 3Q15

GASB major project – Asset Retirement Obligations

Summary	Potential Impact
The objective of this project would be to improve financial reporting by developing requirements on recognition and measurement for asset retirement obligations (ARO), other than landfills. One major topic expected to be addressed will be what constitutes an ARO and what the term retirement should encompass in the guidance. The project will determine a general approach to recognition and measurement of an ARO, considering existing practice among governments and feedback received from preparers and auditors regarding their concerns about complexity, comparability, and the balance of costs and benefits. The project also will consider the following issues: 1. Should costs, if any, associated with AROs be capitalized? If so, how should these costs be recognized and measured? 2. What information about AROs should be disclosed in the notes to the financial statements?	This proposed standard is intended to reduce diversity in practice and related inconsistency in current reporting; thereby enhancing comparability between governmental entities. It would also improve the usefulness of information for external users, including rating agencies and analysts by expanding disclosure requirements related to these obligations.

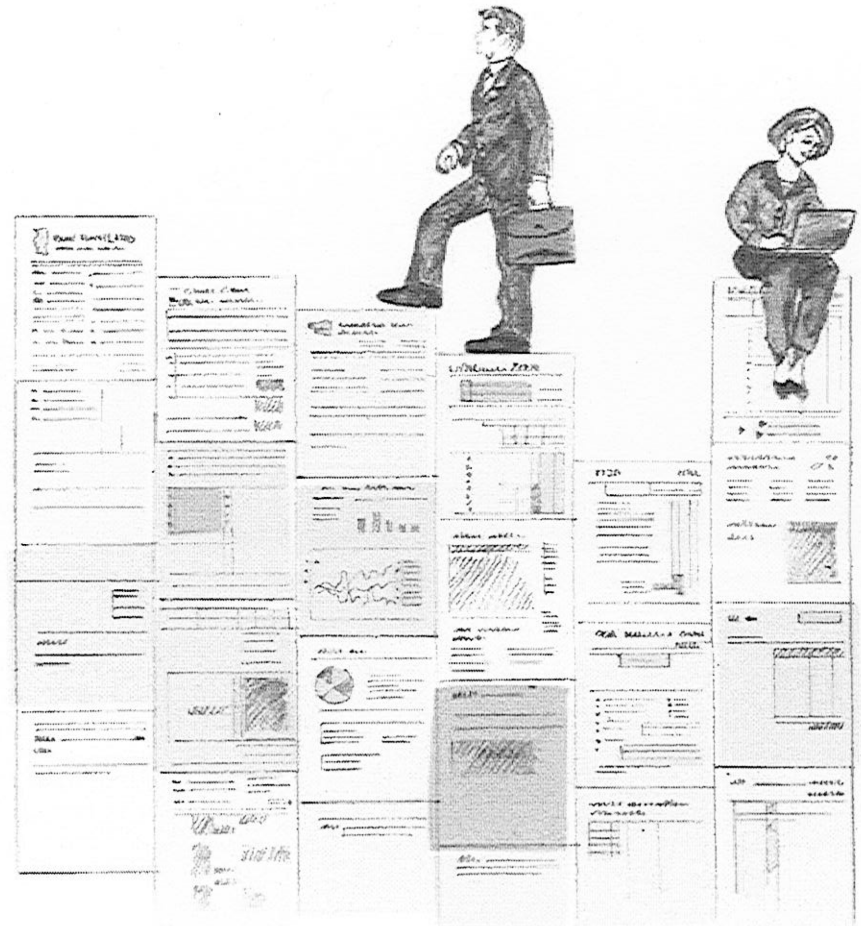
GASB major project – Leases

Summary	Potential Impact
• The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether current operating leases meet the definitions of assets or liabilities. • The project is considering the following issues: 1. What types of leases are entered into by state and local governments? 2. What specific user needs exist regarding governmental leases and what decision-useful or accountability information is needed to meet those needs? 3. Are current accounting and financial reporting standards appropriate to meet essential user needs? 4. Should there be a distinction between types of leases, such as operating and capital? 5. If current standards are not considered adequate, what additional potential requirements should be considered? • The board is currently deliberating various topics within the scope of this project such as lessee disclosures, lessor recognition and measurement and lessor disclosures. The Board issued an exposure draft 3Q 2014. Comment period will end in 1Q 2015.	Similar to the GASB Major Project addressing fair value measurements, this project reflects an effort by the GASB to align its accounting for leases with the accounting guidance proposed by the FASB and IASB as a joint project. The most significant change could be the elimination of most arrangements currently recorded as operating leases. If requirements standardized as proposed, the impact on all entities with lease arrangements could be profound. While still at least several years away, Public Colleges and Universities are encouraged to inventory all existing lease agreements, closely monitor FASB Leases project and, begin to analyze potential impact on key financial ratios, debt covenants, and credit ratings.

GASB major projects – Postemployment benefit accounting and financial reporting (employer & plan)

Summary	Potential Impact
There are three major projects addressing various aspects of postemployment benefit accounting and financial reporting (employer & plan) Objectives of this project are: 1. To improve accountability and the transparency of financial reporting in regard to the financial effects of employers' commitments and actions related to OPEB. 2. To improve the usefulness of information for decisions or judgments of the various users of the general-purpose external financial reports of governmental employers and OPEB plans. These projects are intended to follow the guidance related to pensions which were addressed with GASB 67 & 68 to update the guidance for OPEB. An exposure draft was issued and the comment period ended recently. The Board is currently deliberating the feedback from the exposure draft comment period for all three projects. Final statement expected to be issued Q2 2015.	Once issued, this standard could have a significant impact on accounting and reporting of other postemployment benefits by all governmental employers and by the trustees, administrators or sponsors of OPEBs.

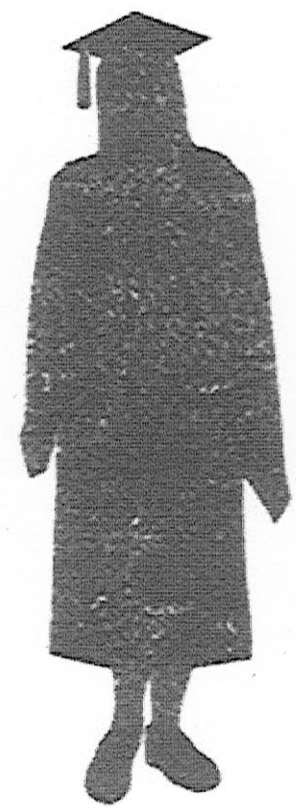
Regulatory updates



OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

- Updated guidance is effective related to awards made after December 26, 2014
- Consolidates guidance from eight sources to one for recipients of federal awards
- As it relates to R&D and other awards common to higher education organizations, the most significant changes relate to the following areas:
  - Procurement (focused on documentation, no longer allows for geographic preferences in evaluation of bids)
  - Personnel costs (time & effort reporting, allows additional flexibility for determining allocation of effort)
  - Sub-recipient monitoring
    - Because of increase to audit requirement threshold (current- $500k, new- $750k), certain sub-recipients may no longer be required to obtain an audit
    - Sub-recipients no longer required to provide audit reports directly to pass through entities but rather required to submit to FAC, which will make them generally available via the web)
- New compliance requirements are subject to audit for fiscal years beginning after December 26, 2014 (for June 30 year end entities, fiscal year ending June 30, 2016)

Industry Updates



Governance; leadership responding to changing conditions

In response to external concerns about Board engagement, boards are adopting approaches to focus on long-term issues:

- oversight of risk management and risk tolerance parameters
- monitoring strategic plans and key performance indicators
- assessing institutional ability and willingness to respond to changing conditions
- compliance, deferred maintenance and educational delivery models

AGB and United Educators found colleges and universities still lack "formal risk assessment processes."

AGB also reinforces the boards' responsibility to ensure that institutions focus on measuring student outcomes.

As part of the governance process, there is a **re-focus on educating board members** so they are equipped to provide effective oversight in these areas.

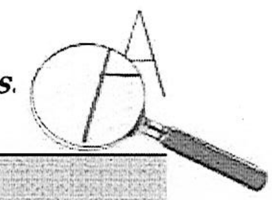
Addressing enrollment and demographic changes

Institutions cannot afford to rely exclusively on organic growth. Proactive strategies are needed to adapt to shifting student profiles and enrollment trends. Below are several data points that serve as indicators for the future:

- the number of high school graduates is decreasing nationwide through 2029; however many states have prioritized increasing the number of high school graduates who go on to college
- by 2020, white non-Hispanics will no longer be the majority in public high schools and the percentage of native-born students is also dropping
- 50% of low income high school students were college students in 2013 (33% in the 1980's)
- continued economic pressures will continue to support part time enrollment
- on-line courses and classes are growing at a faster rate than overall enrollment at higher education institutions (7.1 million students taking on-line courses in 2013)
- the US Department of Education recently projected 14% growth of enrollment in colleges and universities between 2011 and 2022, with growth greatest at the graduate level.
- strong enrollment demand from international students is an opportunity for revenue growth and diversification; market-leading universities attract the largest number of international students.
- significantly elevated application volume and sector-wide declining yield rates complicate budgeting and financial aid

Increasing student outcomes and achievement

Policy makers and educational leaders are shifting their attention to measuring *outcomes*.



To analyze retention trends institutions are:

- developing databases to track non-returning students
- developing freshmen and sophomore survey tools to identify students at risk for non-completion
- transforming remediation programs with just-in-time instructional support, aligning math and science courses to the programs of study
- matching curriculum to "real world" needs as well as traditional educational values

To improve on-time graduation rates institutions are:

- establishing structured pathways from meta majors to specific majors/minors
- increasing credit loads to 15 to ensure on-time graduation
- increasing hybrid on-line curriculum and blended courses
- creating real-time tracking of milestones for student and on-line interventions to keep student on track

To improve post graduation success institutions are:

- realigning student advising, career counseling, internships, externships and faculty development
- analyzing silo behavior between support service functions and increasing faculty engagement

Increased focus on the "value" of an education

- The case for a college education paying off economically is supported by a good deal of evidence.
- Financial returns of a college education, though measurable, are not sufficient to prove whether its "worth it."
- The gradual public shift away from "Is college worth it?" to "How do I pick the best college for the return on my investment" will continue to keep the pressure on universities to substantiate academic quality and cost effectiveness
- A rebound in household net worth indicates an improved ability to pay for college
- The traditional intangible values of a college education need to be complemented by hard evidence of employability and institutions should expect to provide the facts that answer the questions about worthiness and effectiveness

Emerging technology tools to improve academic innovation, data analytics and operating results

- colleges are increasingly using data analytics to predict whether students and prospective students will be academically successful
- data mining and analytics are becoming more prevalent in monitoring student learning and progress, procurement operations, fundraising operations and admissions
- the Campus Computing Project reports that a small but significant (and growing) number of campuses are contracting with third-party providers for various services (recruitment, curricular development, student services) to help develop or expand their online programs.
- more colleges are creating affiliated entities to offer online education such as those already offered by Harvard and MIT.
- information is increasingly accessible, says *The Chronicle of Higher Education*, with libraries as we know them becoming obsolete.

Government funding; uncertainty continues with shifts in funding

Widespread cuts in state funding is not anticipated in the next few years since most states are funding public higher education at levels below 2008

- 35 states moving forward with some version of performance-based funding for public universities;
- combined state funding for higher education grew in FY 2014; the reliance on government operating support dipped to new lows in FY 2013 with median funding at less than 25% of university operating revenues (30% in FY 2009)
- the pace of increases in state funding for the next 1-2 years expected to be slow; funding on a per-student basis has declined despite recent increases in state appropriations.
- net tuition per-student eclipsed state appropriations per-student in 2011 and has continued to grow at a rate greater than state appropriations per-student

Shifts in federal funding for education reflect concerns about access, affordability, achievement, economic growth

Federal funding for research rebounded in 2014 to 2012 levels but projected to be flat beyond 2015 which represents a decline on an inflation adjusted basis

Boards intensify their focus on being financially sustainable

In a recent AGB governance survey of trustees, it was reported that **fiscal sustainability** is *the* most important area to be addressed.

- The Hechinger Report states, "Nearly 40 percent of public and 45 percent of private institutions expect their enrollments will decline in fall 2015". The National Association of College and University Business Officers (NACUBO) foresees increasing tuition discounts at four-year private colleges.
- almost all business officers (89%) are focused more on enrollment management today than they did five years ago
- public universities will be more challenged than privates to grow operating revenue, with both tuition and state funding revenue growth hindered

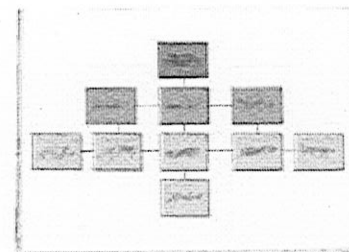
As the economy continues to improve, more institutions will work to better position themselves for long-term financial sustainability and quality academic performance.

- NACUBO reports endowment returns are moving sharply upward.
- fundraising grew another 5.2% in FY14 on top of the highest fundraising year in 2013.

Enterprise risk management is a necessity to safeguard reputation, validate strategy and sustain financial viability

A survey by AGB and United Educators found colleges and universities are increasingly making oversight of institutional risk a priority, but the institutions' confidence that they are following good practices has decreased.

- ERM programs are relatively immature in most organizations
- compliance must be addressed, particularly around sexual assaults
- failures in compliance reporting, public safety, cyber security, ethics, and decision-making have tested the crisis management plans of many universities
- continued IRS scrutiny, Congressional and White House proposals place annual reporting in the spotlight
- doing business abroad continues to challenge business and internal control systems due to changing world politics and economic policies
- strategic plans are being implemented with specific and quantifiable measurements, data dashboards and scorecards to better identify risks to achieving goals and objectives



Grant Thornton's Client Service Cycle

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- What's important to you?
- How would you rate the team's overall service delivery?
- Would you refer Grant Thornton to a friend or colleague?

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.

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ATTACHMENT B

2014-15 BUDGET UPDATE

Community College of Philadelphia
Operating Budget Projections
Fiscal Year 2014-2015

	Original Budget	Current Project as of May 20, 2015	Change
REVENUES			
Student Tuition and Fees	$76,692,948	$76,033,978	($658,970)
Commonwealth of Pennsylvania	28,226,906	28,941,805	414,899
City of Philadelphia	21,197,544	20,936,911	(260,634)
Other Income	1,867,400	1,663,720	(203,680)
TOTAL REVENUES	**$127,984,798**	**$127,276,414**	**($708,384)**
EXPENSES			
Salaries, Net of Lapsed Funds	$73,584,960	$72,812,728	($772,232)
Fringe Benefits	34,499,400	31,393,400	(3,106,000)
Other Expenses	20,775,737	22,839,497	2,063,760
Student Financial Aid	200,000	200,000	0
TOTAL EXPENES	**$129,060,097**	**$127,245,625**	**($1,814,472)**
OPERATING BUDGET STATUS	**($1,075,299)**	**$30,788**	**$1,106,087**