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COMMUNITY COLLEGE DISTRICT NO. 508  
DECEMBER 6, 2018

# **FINANCE & ADMINISTRATIVE SERVICES COMMITTEE**

November 14, 2018



# Agenda

1

FY2018 Financial Audit and Findings

2

FY2019 Financial Update

# FY2018 Financial Audit and Findings

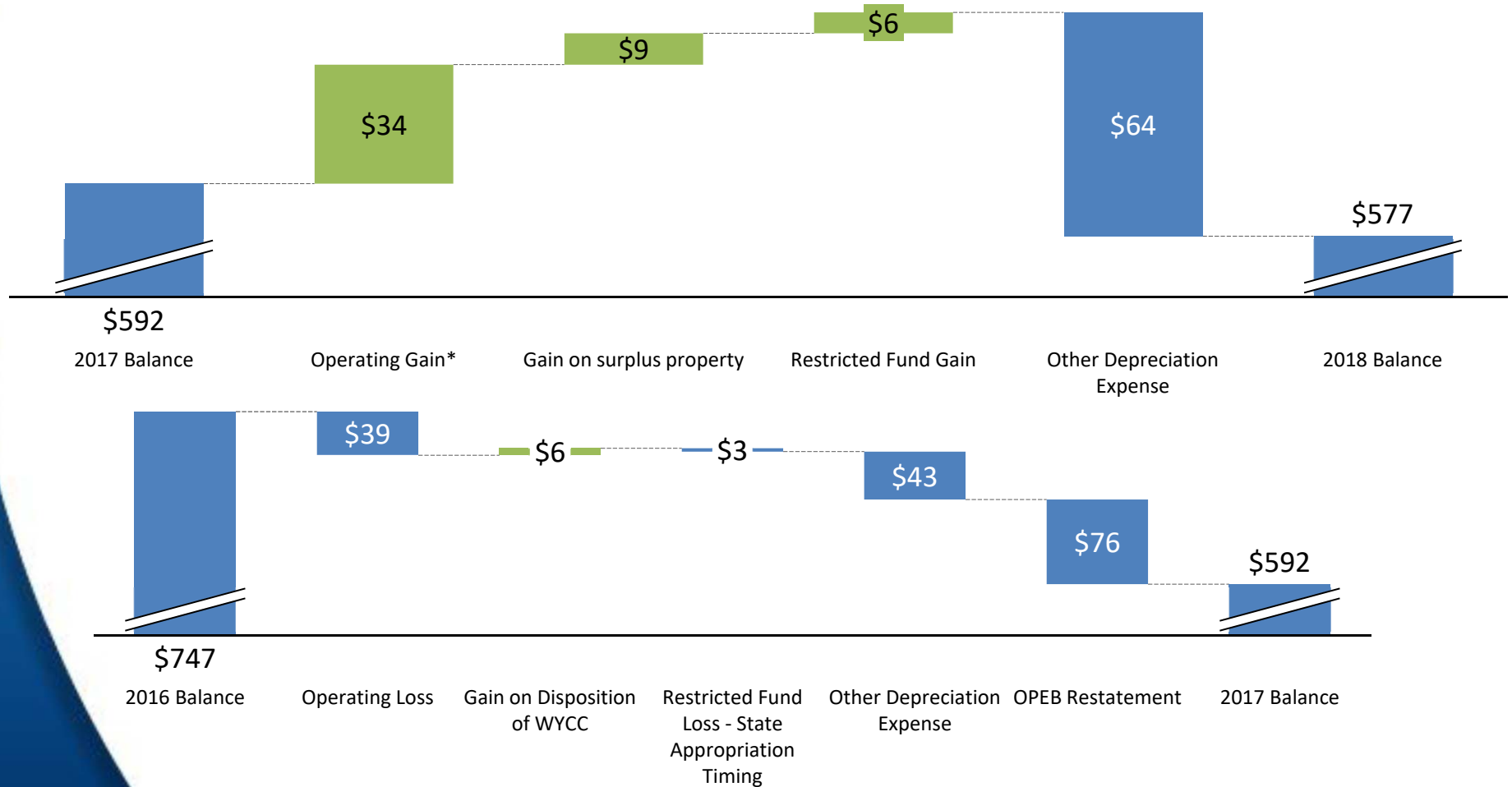
# **Fiscal Year Ended June 30, 2018**

## **Comprehensive Annual Financial Report (CAFR)**

- The CCC FY2018 external audit was completed on October 15, 2018
  - The audit is required to be completed by December 31, 2018 per Illinois statute
  - CCC has received an unmodified (clean) opinion on City Colleges' June 30, 2018 financial statements
  - There have been no disagreements between RSM and management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements
  - There were no audit adjustments
  - There were four (4) audit findings related to Federal awards

# Net Asset Roll-Forward

Decline in Net Asset Balance is largely due to depreciation expense, including the write-down of 226 W. Jackson, offset by 2017 State Funding received in 2018  
(\$ in millions)



\*Net of operating transfers

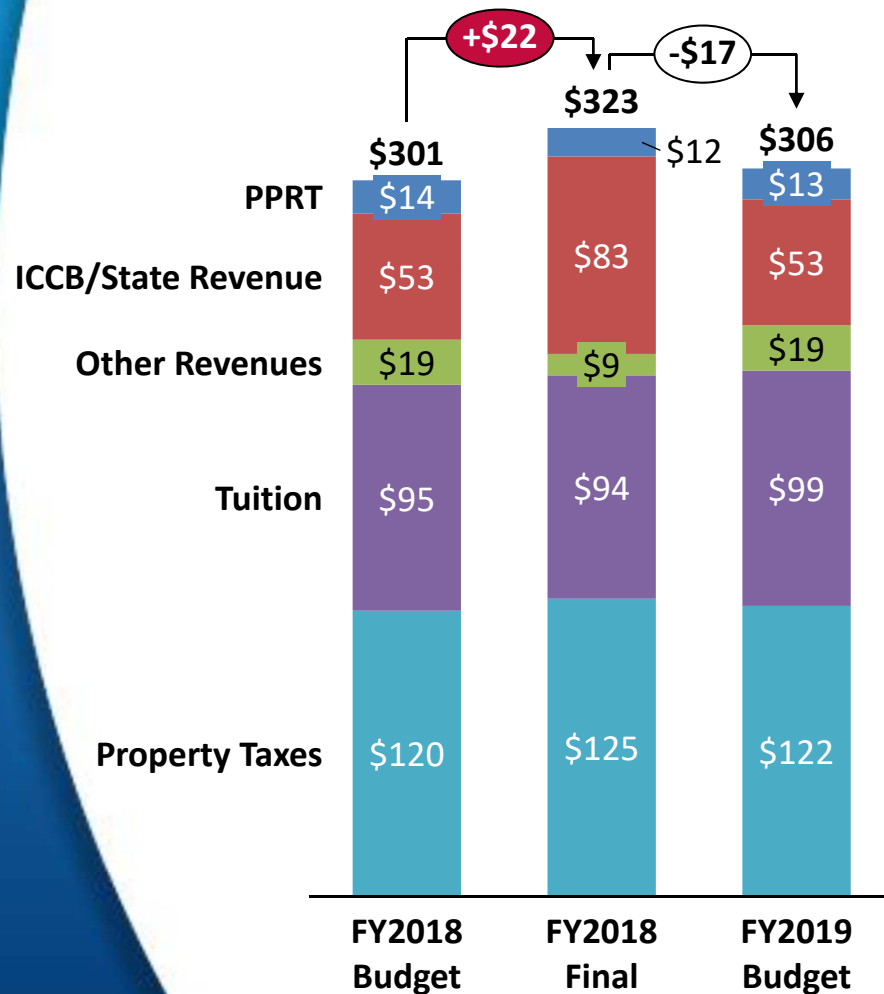
# Change in Net Assets

Unrestricted Net Assets at 6/30/2018 are **(\$82)** million, and fall short of the GFOA recommended minimum level of 5% of operating expenses or \$15M.

| Net Assets<br>(\$ in millions)                                      | 6/30/2018      | 6/30/2017        | 6/30/2016     |
|---|----------------|------------------|---------------|
| Unrestricted  | <b>(\$82M)</b> | <b>(\$114M)*</b> | \$25M         |
| Restricted<br>(Audit, Liability, Protection and<br>Settlement Fund) | 0.2            | 1                | 2             |
| Net Investments in Capital Assets                                   | 659            | 705              | 720           |
| <b>Total Net Assets</b>   | <b>\$577M</b>  | <b>\$592M</b>    | <b>\$747M</b> |

\*Includes Other Postemployment Benefits (OPEB) restatement of **(\$76M)**

## FY2018 Operating Revenues\* Were \$22M Favorable to Budget (\$ in millions)

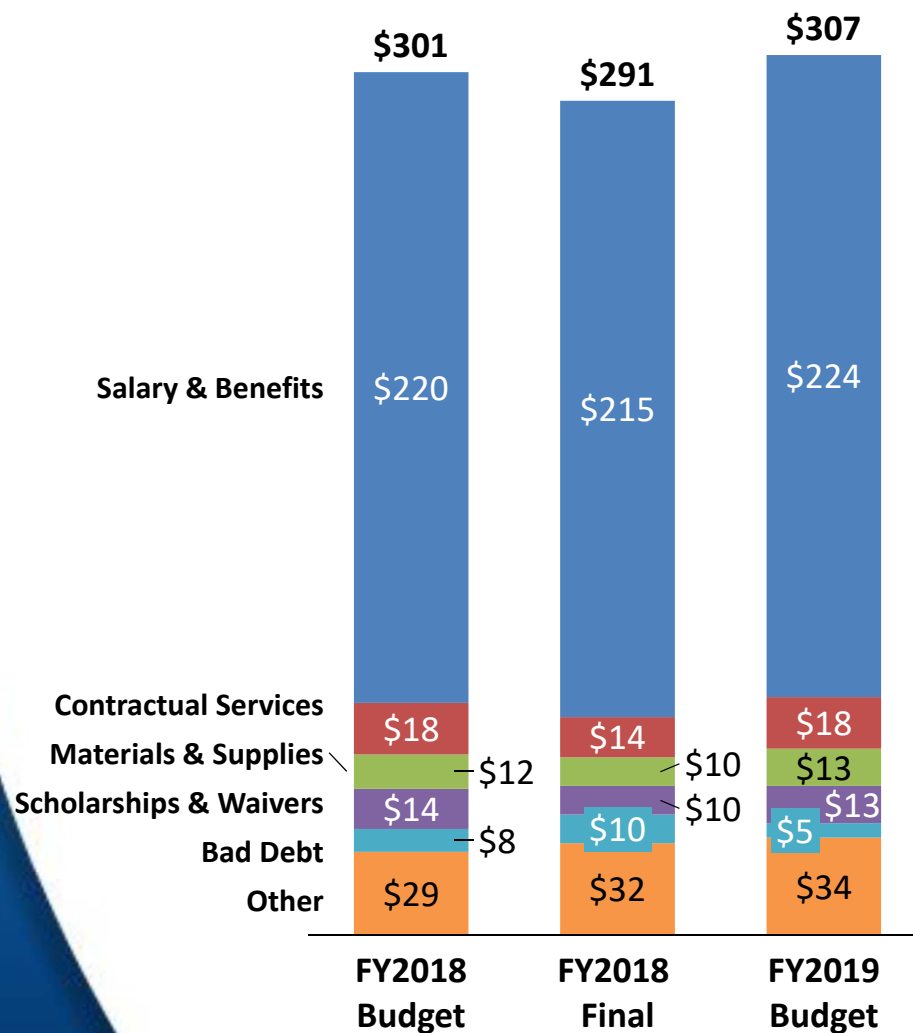


\*Includes Education, Operations & Maintenance, Bond & Interest, Auxiliary Enterprise, Audit and Liability and Protection Settlement Fund

### Key Revenue Drivers

- ICCB/State Funding was nearly **\$30M** above budget due to 2017 State operating grants received in 2018
- Property Tax revenue was about **\$5M** above budget with City declared TIF surplus
- Other Revenues were under budget by **(\$10M)** primarily due to lower Fundraising and Enterprise down by about **(\$5M)** respectively
- Additionally, PPRT was reduced by **(\$2M)** by the State during FY18 and Tuition Revenue was **(\$1M)** under budget

## FY2018 Operating Expenses\* Were \$10M Favorable Budget (\$ in millions)



\*Includes Education, Operations & Maintenance, Bond & Interest, Auxiliary Enterprise, Audit and Liability and Protection Settlement Fund

### Key Expense Variance Drivers

- Personnel related expenses were favorable to budget by **\$5M** due to nearly \$7M in savings from OPEB actuarial valuations offset by salaries over budget by \$2M due to bargaining settlements
- Scholarships and Waivers were about **\$4M** favorable to budget due to more timely completions of financial aid applications for scholarship last dollar programs
- Student bad debt expense was **(\$2M)** unfavorable to budget
- Contractual services, **\$4M**, and Materials and Supplies, **\$2M**, both were favorable to budget
- Other expenses were **(\$3M)** unfavorable to budget



## FY2018 Operating Results Were \$32M Favorable to Budget

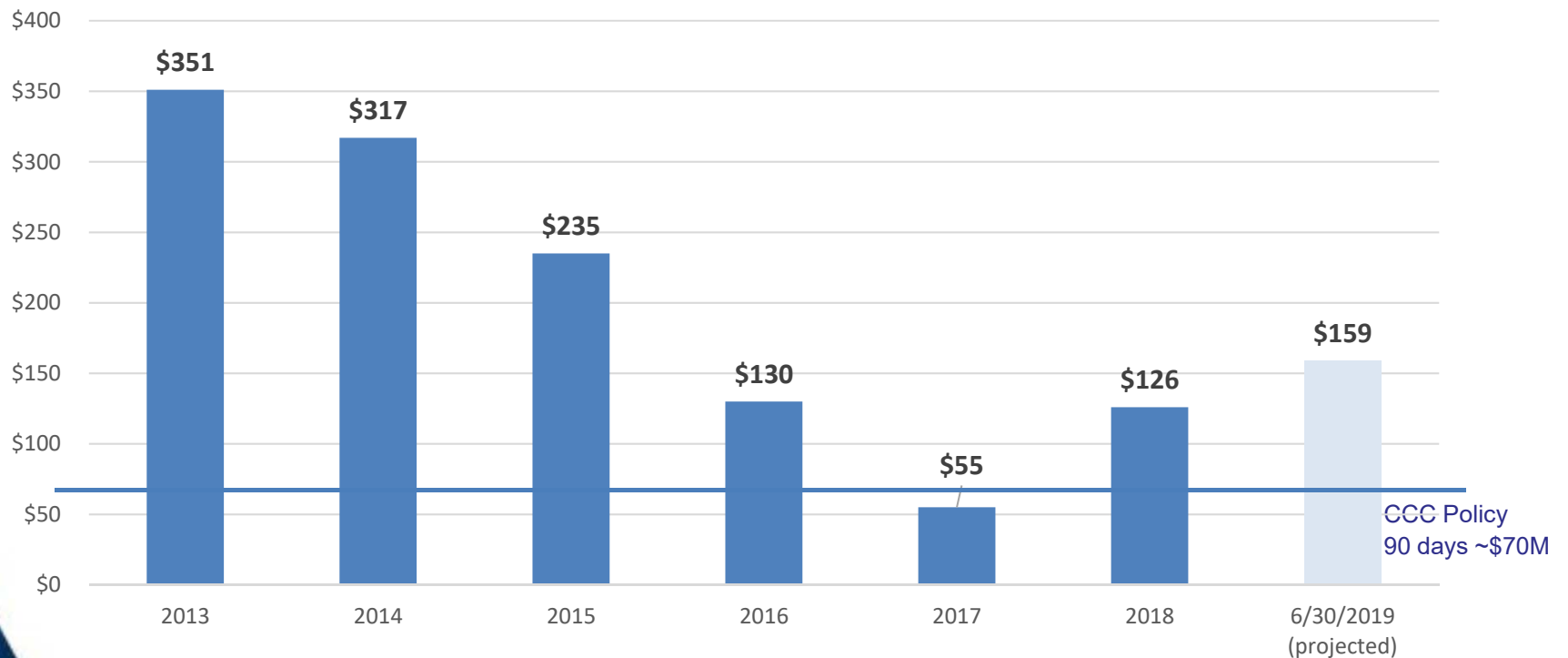
(\$ in millions)

| Operating Revenues Were \$22M Favorable to Budget           |               |   |
|---|---------------|---|
| Total Budgeted Revenues                                     | \$301M        |   |
| ICCB/State Funding  | +30M          | 2017 funding received in 2018   |
| TIF Surplus   | +\$5M         | Remitted to CCC by the City of Chicago  |
| Fundraising   | -\$5M         | Pipeline of opportunities beginning to convert in 2019                                      |
| Enterprise  | -\$5M         | Largely related to French Pastry School decline in enrollment                               |
| PPRT and Tuition  | -\$3M         |   |
| <b>Total Actual Revenues</b>                                | <b>\$323M</b> |   |
| Operating Expenses Were \$10M Favorable to Budget           |               |   |
| Total Budgeted Expenses                                     | \$301M        |   |
| Salaries & Benefits   | -\$5M         | Savings from OPEB offset by bargaining settlements  |
| Scholarships and Waivers                                    | -\$4M         | More completed financial aid applications saved last dollar funding; STAR continued to grow |
| Student Bad Debt  | +\$2M         | Student bad debt continues rise with higher receivable balances                             |
| Contractual Services, Materials & Supplies, and Other (net) | -\$3M         |   |
| <b>Total Actual Expenses</b>                                | <b>\$291M</b> |   |
| <b>2018 Operating Surplus</b>                               | <b>\$32M</b>  |   |

## The District is focused on stabilizing its cash position

- CCC's goal is to establish financial growth stabilization, and provide a positive outlook on the financial position of the District.
- CCC used cash reserves to fund priority investments during the State budget crisis.
- We plan to continue to build cash reserves by achieving operating surpluses for multiple years and the proceeds from the pending sale of the 226 W. Jackson.

CCC's Operating Cash Balances  
(\$ In millions)



# Capital Expenditures

(\$ in millions)

| College      | FY2017        | FY2018        | FY2019 Planned |
|--------------|---------------|---------------|----------------|
| MXC          | \$12.3        | \$8.1         | \$1.7          |
| OHC          | 1.7           | 2.3           | 8.7            |
| DA           | 8.3           | 17.2          | 27.8           |
| Other        | 15.1          | 11.4          | 8.2            |
| <b>Total</b> | <b>\$37.4</b> | <b>\$39.0</b> | <b>\$46.4</b>  |

Capital Expenditures were \$39M for FY2018, and totaled \$528M for the Comprehensive Five-Year (FY2014-2018) Construction Improvement Program

# FY2018 Audit Findings

## **FY2018 Audit**

- No (0) material weaknesses or (0) significant deficiency reported in FY2018
- Four (4) A-133 Audit Findings on Report of Federal Awards FY2018

## **FY2017 Audit**

- No (0) material weaknesses and one (1) significant deficiency were reported for FY2017-issue resolved in FY2018
- Four (4) A-133 Audit Findings on Report of Federal Awards FY2017- two (2) issues resolved & two (2) issues repeated in FY2018

## Management Responses to Audit Findings Financial Statement Review

| <u>Finding</u>                | <u>Detail</u>  | <u>Management Response</u>  | <u>Responsible Party</u><br><u>Due Date</u>                     |
|-------------------------------|--|---|---|
| <b>2018-001 – Eligibility</b> | The College was unable to provide verification documents for one student whose Institutional Student Information Record (ISIR) was selected for verification testing. 34 CFR Section 668.57 states that if an applicant is selected to verify any of the specified criteria, the College must obtain specified documentation based on the verification flag type on the Institutional Student Information Record (ISIR). | <p>City Colleges of Chicago has completed an RFP process to identify a vendor with a product/service that will allow students to complete CCC financial aid forms electronically and to scan and attach required documentation to an electronic form. We are in the process of implementing the contract and are on target to have all 2019-2020 financial aid documents stored electronically on the vendor's secure server.</p> <p>Financial aid staff will have 24-7 access to our stored documents and we will be able to print copies on demand, when needed for audit review.</p> | Robert Covey-Robbins<br>Anticipated completion date: 12/03/2018 |

## Management Responses to Audit Findings Financial Statement Review

| <u>Finding</u>   | <u>Detail</u>   | <u>Management Response</u>  | <u>Responsible Party</u><br><u>Due Date</u>   |
|--|---|---|---|
| <b>2018-002 – Use of Federal Work Study Funds (repeat finding)</b> | <p>During review of the Federal Work Study (FWS) program, we noted that at one of the seven campuses, the College did not employ a student in a reading tutor or family literacy project. 34 CFR section 675.18 states that City Colleges must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this requirement, the College must include at least one of the following:</p> <ul style="list-style-type: none"> <li>a) The reading tutoring project employs one or more FWS students as reading tutors for children who are preschool age or who are in elementary school; or,</li> <li>b) The family literacy project employs one or more FWS students in family literacy activities.</li> </ul> | <p>The Financial Aid Director at Olive-Harvey College has worked with the Child Care Center at their campus to place a FWS student as a reading tutor there.</p> <p>Additionally, the Director has scheduled meetings with two community based organizations to discuss the possibility of placing additional reading and math tutors. Meetings are currently scheduled with Phalanx Family Services and Chicago Youth Center</p> | <p>Robert Covey-Robbins<br/>Anticipated completion date:<br/>Minimum corrective action has already been met.</p> <p>Additional efforts will continue to ensure that the campus does not rely on just one student to meet the requirement.</p> |

## Management Responses to Audit Findings Financial Statement Review

| <u>Finding</u>  | <u>Detail</u>  | <u>Management Response</u>   | <u>Responsible Party</u><br><u>Due Date</u>   |
|---|--|--|---|
| <b>2018-003<br/>Enrollment<br/>Reporting<br/>(repeat<br/>finding)</b> | Three students out of forty tested withdrew from City Colleges for which status changes were not properly reported to the National Student Loan Data System (NSLDS). CFR section 685.309(b)(2) requires City Colleges to notify the lender within 30 days if City Colleges discovers that a student who received a loan either did not enroll or was not enrolled on at least a half-time basis. For official student status changes, City Colleges has 60 days to notify the lender if the next scheduled roster date is within 60 days of the date of determination. | <p>Timing issues are the primary cause of not fully meeting enrollment reporting requirements. A student may enroll in a class, attend one day, and then drop the class prior to the date that an enrollment reporting file is created. Students who drop classes prior to our transcript date do not appear to have attended at all and the student is omitted from the enrollment file.</p> <p>We acknowledge the need to verify requirements to report enrollment and the processes to enable CCC to do so. Our information technology staff are reviewing specific requirements and how National Student Clearinghouse utilizes data to determine the best course of action to bring CCC into full compliance. While conducting analysis, a separate report will be run at the time NSC files are sent to identify students who withdrew between the beginning of a term and the transcript date of that term. Those students will be manually updated in through NSC to reflect the correct enrollment status and effective date.</p> | Robert Covey-Robbins<br>Anticipated completion date: 7/01/2019 (Interim process in place immediately) |

## Management Responses to Audit Findings Financial Statement Review

| <u>Finding</u>              | <u>Detail</u>  | <u>Management Response</u>  | <u>Responsible Party</u><br><u>Due Date</u>  |
|-----------------------------|--|---|--|
| <b>2018-004 – Reporting</b> | City Colleges did not submit quarterly performance reports to the Illinois Community College Board (ICCB) in a timely manner. There are two grants associated with the Career and Technical Education: Perkins III Grant and Perkins Leadership Grant. The Perkins III grant requires quarterly performance submissions to the Illinois Community College Board (ICCB). The Perkins Leadership Grant requires quarterly financial and performance reports and midterm and final report | The Apprenticeship and Workforce Solutions team at Harold Washington College has developed a revised system for submission of the quarterly financial and performance reports to the Illinois Community College Board (ICCB). The Coordinator-Grant Program will provide the Executive Director with a draft of both the quarterly financial and performance reports three weeks in advance of the required submission date. The Executive Director will review the reports no less than one week prior to the required submission date. Updates and revisions will be made by the Coordinator-Grant Program and resubmit to the ED for final review and sign off no later than three business days before submission. Using this revised system, the quarterly financial and performance submissions will be made timely to ICCB for CTE Grants. | Paul Thompson III, Executive Director Apprenticeship and Workforce Solutions<br><br>Anticipated completion date: 10/1/18 |



## FY2019 Financial Update

We are trending towards a **(\$7.9M)\*** FY19 operating budget deficit. However, a substantial portion is under CCC's management control.

| Operating Revenues are Forecasted at (\$2.0M) Under Budget |                 |   |
|--|-----------------|---|
| Total Revenue  | \$306.7M        |   |
| TIF Surplus  | +\$4.0M         | Confirmed by the City of Chicago  |
| Investment income  | +\$0.5M         | Due to higher cash balances and short-term interest rates               |
| Tuition Revenue  | -\$6.5M         | Potential upside if Spring retention improves significantly             |
| <b>Total Projected Revenues</b>                            | <b>\$304.7M</b> |   |
| Operating Expenses are Forecasted at (\$5.9M) Over Budget  |                 |   |
| Total Expenses   | \$306.7M        |   |
| Salaries   | +\$4.8M         | Will improve if we achieve our salvage targets                          |
| Student Bad Debt   | +\$5.0M         | Bad Debt Plans are underway in FY19 with savings to be achieved in FY20 |
| OPEB   | -\$3.9M         | Savings based on preliminary actuarial report                           |
| <b>Total Projected Expenses</b>                            | <b>\$312.6M</b> |   |
| <b>Projected Operating Deficit</b>                         | <b>-\$7.9M</b>  |   |

\* As of September 30, 2018