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HOWARD COMMUNITY COLLEGE
(A Component Unit of Howard County, Maryland)

Financial Statements and
Report of Independent Public Accountants

For the Year Ended June 30, 2018

HOWARD COMMUNITY COLLEGE

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Howard Community College
Columbia, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Howard Community College (the College), a component unit of Howard County, Maryland, and its discretely presented component unit, the Howard Community College Educational Foundation, Inc., as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2018, and the respective changes in their financial position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Notes 2 and 11 to the financial statements, during the year ended June 30, 2018, the College adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the Schedule of Howard Community College’s Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension Systems, the Schedule of Howard Community College’s Contributions - Maryland State Retirement and Pension Systems, the Schedule of Howard Community College’s Proportionate Share of Net OPEB liability – Howard County OPEB Plan, and the Schedule of Howard Community College’s Contributions – Howard County OPEB Plan, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management’s discussion and analysis and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hunt Valley, Maryland
September 21, 2018

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HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Overview and Basis of Presentation

The following discussion and analysis provides an overview of Howard Community College's (referred to throughout as the "college" or "HCC") planning, enrollment, and financial activities. The intent of this section of the annual financial report is to provide an objective analysis of the college's financial activities based on currently known facts, decisions, or conditions that impacted the operations of the college during fiscal year (FY) 2018. In addition, this section should assist in assessing the financial position of the college and provide information about significant changes that have occurred. Finally, it presents an outlook on known conditions that may affect the college's financial position or operations in the coming years.

The college has presented the statements in compliance with the Governmental Accounting Standards Board (GASB) statement no. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and statement no. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

In compliance with GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements of the Howard Community College Educational Foundation, Inc. (referred to throughout as the "foundation" or "HCCEF") are presented discretely in the college's financial statements.

Comparative financial data are not presented in the financial statements; however, the college's comparative data are presented and discussed within this management discussion and analysis.

College Planning and Strategic Goals

The financial statements for the year ended June 30, 2018, reflect the financial results of the activities of the college, which are guided by the college's strategic planning and budget process. The strategic plan and the college's core work set the stage for the operational and financial goals the college expects to achieve. Long- and short-term goals guide the staff throughout the year and into the future. The college's mission, vision, and values follow.

Mission: Providing pathways to success

Vision: A place to discover greatness in yourself and others

Values: INSPIRES



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Management's Discussion and Analysis June 30, 2018

College Planning and Strategic Goals (continued)

The strategic goals implemented for a five-year period, 2016-2020, with 2016 being the base year, are listed on the next set of pages. Each year during the budget process, funds are allocated to achieve these initiatives. The report includes the action plans in place for FY18 and the fiscal year accomplishments related to these action plans that impacted the college's financial operations.

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Strategic Goal #1. Student Success, Completion and Lifelong Learning			
1.1	Increase number of students graduating annually.		
For FY18 - 1,295 Year over year trend: ↑			
	Lead	Action Plans	Results as of June 30, 2018
1.1A	VPAA VPSS	Develop, evaluate and revise program offerings (transfer and career) to meet the needs of students and the community, provide career opportunities (such as clinical placements, internships) (see also strategic goal 3) for students and promote degree completion and transfer.	<p style="text-align: center; color: blue;">Accomplished and Ongoing</p> <p>Graduated the largest number of students to date.</p> <p>Completed 23 program reviews; 22 student service unit reviews and intervention updates; 4 general education goal assessments.</p> <p>Worked to build partnerships with local employers for internship and employment opportunities. Increased the number of unique employer connections by 22% (425 in FY18 compared to 343 in FY17).</p> <p>Facilitated 191 internships in FY18 compared to 161 in FY17, an increase of 18.6%.</p>
1.1B	VPAA VPSS	Increase student participation in high impact (e.g., service learning) academic and specialized student engagement experiences that promote student success and completion.	<p style="text-align: center; color: blue;">Partially Accomplished and Ongoing</p> <p>Increased the number of students in all years of the Schoenbrodt Scholars program by 20.4%, from 49 in fall 2016 to 59 in fall 2017. Increased the number of students in all years of the STEM Scholars program by 12.1%, from 33 in fall 2016 to 37 in fall 2017.</p> <p>Supported the academic success of honors students participating in the scholars programs (Rouse, STEM, Schoenbrodt), who were retained at a significantly high level of 91.4% fall-to-spring, up from 87.3% in FY17. Cumulative GPA for scholars cohorts at the end of fall 2017 was 3.49, up from 3.40 in fall 2016 and 43% higher than the institutional average for fall 2017. Most recent data available for Rouse Scholars (Fall 2014 cohort) demonstrates a graduation/transfer rate of 80.5% at two years and 97.6% at three years.</p>

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<p>1.1B</p>	<p>VPAA VPSS</p>	<p><i>Continued:</i> Increase student participation in high impact (e.g., service learning) academic and specialized student engagement experiences that promote student success and completion.</p>	<p>Increased student participation in Step UP program by an additional 3.9%, to 242 in FY18 from 233 in FY17. Updated the assessment of Step UP student outcomes, which confirmed that Step UP exerts a significantly positive impact on students’ retention rates, term GPAs, and ratio of completed to attempted credits.</p> <p>Engaged 654 students in service learning experiences as part of 52 courses throughout the academic curriculum, and developed service partnerships with seven new community organizations. Service Learning participation grew by 4.6% from FY17, exceeding established benchmarks. The average course success rate for courses with significant service learning components in fall 2017 and spring 2018 was 93.9%, up from 92.5% in FY17 and exceeding the benchmark of 90%.</p> <p>Supported Silas Craft Collegians, resulting in retention rates at two years after entry significantly exceeding the one-year institutional averages for developmental education students, with 52% of the Silas Craft Collegians retained. Most recently available completion data (Fall 2015 entering cohort) shows a 25.9% graduation rate at 3 years, significantly higher than institutional averages.</p> <p>Students participating in study abroad (SABR) courses exhibited course success rates of 100%, equal to FY16 and significantly above the institutional average of 86%.</p> <p>Served 112 credit Career Links students in fall 2017 compared to 105 in fall 2016; 109 credit students in spring 2018 compared to 102 in FY17. There were ten non-credit students in FY18 compared to eight in FY17. The fall-to-spring retention rate decreased from 77.5% in FY17 to 73.2% in FY18. The cumulative GPA over 2.0 for fall 2017 was 68.6% compared to 79.4% in fall 2016.</p> <p>For New Student Orientation (NSO), a total of 1,545 students were engaged through sessions offered by student life and cohorts in FY18. This represents an approximate 20% increase from FY17 when a total of 1,287 students participated in orientation sessions. Seventy percent of all first-time enrolled students participated in orientation sessions in FY18 (1,545/2,198) compared to 56% in FY17 (1,287/2,314). NSO students are retained fall to spring at higher rates than other first-time to college students (86% compared to 78%).</p>
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1.1C	VPSS	Support a percentage increase in annual graduates by providing support services to include intrusive advising of students with 45 or more credits, promoting reverse transfer, and awarding scholarships.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Increased the number of students participating in virtual advising (98% increase in FY18 with 351 student users compared to 177 in FY17).</p> <p>The number of students graduating through reverse transfer is 55* in FY18 compared to 75 (as of May 2017). *A few more may complete as summer ends.</p> <p>Increased the number of students graduating after intrusive advising of students with 45 or more credits to 685 in FY18 compared to 288 (as of May 2017).</p>
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1.2	<i>Increase % of developmental completers, 4 years after entry to HCC, from 35.8% (fall 2003 cohort) to 45% (fall 2016 cohort). (MHEC Indicator)</i>		
As of the fall 2012 cohort - 41.0% Year over year trend: ↑			
	Lead	Action Plans	Results as of June 30, 2018
1.2A	VPAA	<p>Evaluate and revise as indicated the requirement for developmental mathematics students to also enroll in First Year Experience course.</p> <p>Evaluate and expand English 121 Accelerated Learning Program.</p> <p>Implement and evaluate course redesign linked to revision of the Code of Maryland Regulations (COMAR) definition</p>	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Reviewed two years of data on students with the combination of college-level reading skills and elementary algebra mathematics skills.* Results from comparing the baseline group Academic Year (AY) 2015 (FYEX not required) to AY17 (FYEX required) include:</p> <ul style="list-style-type: none"> • Increased enrollments in FYEX-100 by 98%, 225 more students. • Increased success in MATH-067 by 7.4% from 54% to 61.4%. • Increased success in MATH-141 by 8%, but not in MATH-138 or MATH-143. • Increased GPA (2.1 to 2.2) *for the student group noted above. • No benefit was found to pairing sections of MATH-067 and FYEX-100 with a single instructor. <p>Offered ENGL-121ALP, College Composition Accelerated Learning Program (ALP) sections in all areas of writing, reading, and ESL so that students who are near-college ready in either reading or writing and ready in one of these areas may enroll in designated sections of ENGL-121, College Composition.</p> <p>During this pilot year, the overall success rate for the combined ALP students was 69.3%, slightly less than the</p>

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		<p>of college-level mathematics.</p> <p>Encourage eligible developmental students to concurrently enroll in same-subject, credit-bearing course (see 1.2B).</p>	<p>regular ENGL-121 students (74.9%). The success rate for the ESL ALP students was 100% compared to the regular ESL students (88.4%). The coordinator is working with instructors and a panel from local colleges to analyze the data and explore options.</p>
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<p>1.2B</p>	<p>VPAA VPSS VPIT</p>	<p>Evaluate College and Career Readiness and College Completion Act (CCRCCA) requirement to include credit-bearing mathematics and English within the first 24 credit hours for first-time degree seeking students; encourage eligible developmental students to concurrently enroll in a same-subject, credit-bearing course; require students completing the developmental course sequence to immediately enroll in a same-subject, credit-bearing course the following semester.</p>	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Enrollments for the accelerated options MATH-070/141 and MATH-070/143 are fairly stable with approximately 20 students in the fall 2017 and 30 students in the spring 2018 semesters. For students in the accelerated courses, success rates in MATH-070 and MATH-143 remain higher than the course average but were lower this year for MATH-141. Curriculum changes made in MATH-070/141 are being reviewed.</p> <p>Continued collaboration with Howard County Public School System on the 12th grade college readiness mathematics course (advanced algebra), including teacher training on course content and assessment.</p> <p>Increased registration in statistics pathway course MATH-037, Mathematical Foundations by 27% from first year of 96 students, while maintaining ABC success rate above 60% and withdraw rate around 6%.</p> <p>Created advising charts showing options for students to enter and exit the developmental pathways based on student placement and college-level math course requirements.</p> <p>Continued to implement the intervention plan to meet the developmental and college-level English and mathematics requirements of the CCRCCA. ENGL-121, College Composition has been planned in the first semester in all credit program curriculum tracks. College-level mathematics courses are planned in the first semester when a mathematics course is identified in the curriculum. With student planning, all advisors are mapping the developmental sequence to the college-level mathematics and English courses. Student Planner helps student identify the need to complete consecutive developmental courses if needed within the required credit limit.</p>
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1.2B	VPAA VPSS VPIT	<i>Continued:</i> Evaluate College and Career Readiness and College Completion Act (CCCRA) requirement to include credit-bearing mathematics and English within the first 24 credit hours for first-time degree seeking students; encourage eligible developmental students to concurrently enroll in a same-subject, credit-bearing course; require students completing the developmental course sequence to immediately enroll in a same-subject, credit-bearing course the following semester.	Continued to use student planning web tools to allow students to see their progress toward chosen major completion. Created additional web intelligence reports with stakeholders to support tracking compliance the CCRCCA requirements. Studied multiple measures to be used to assess college readiness, and made the following recommendations in preparation for FY19 implementation: <ul style="list-style-type: none">• Students who completed high school (HS) within five years and have an unweighted cumulative GPA of 3.0 at the end of 10th grade will be considered college-ready for English 121.• Students who completed HS within five years and have an unweighted cumulative GPA of 3.0 in mathematics in high school will be eligible for college-level math courses.
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1.2C	VPAA VPSS	Expand the HCC Early Alert Program to attain positive outcomes in courses with low retention and success rates; establish a work group of faculty and staff to improve program processes and implement strategies to increase course completion and program effectiveness.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>The Early Alert program is still not showing significant positive outcomes. This summer, a work group met with a representative from the software program to review results and discuss options for improvement.</p> <p>Early College Program students were added to the Early Alert program. Advisors were alerted when students received flags from faculty and interventions were implemented.</p> <p>Completion Services staff worked with course coordinators to compile academic resources to meet the needs of students. Modules were developed that allowed faculty to pull information about academic resources and Early Alert into their course sites.</p> <p>In fall 2017, there were 206 course sections scheduled to participate in the HCC Early Alert program, an 80.7% increase from fall 2016 (114 course sections). In spring 2018, there were 207 course sections scheduled to participate, a 140% increase from spring 2017 (86 course sections).</p> <p>Piloted an Open Accounting Lab. ACCT 111 and 112 students that used the lab (comparative data from fall 2017 to spring 2018) indicated an increase of 28% in A and B grades and a reduction in C grades. Students who sought assistance on case study assignments received substantially higher grades (93%) than the class average (75%). Peer Leaders were used to provide additional assistance to the students. Zoom (online) faculty hours have been established with 45% of the faculty across the divisions providing immediate response to issues for students.</p> <p>The Entrepreneurship Individualized Program has seen a 50% increase in enrollment from fall 2016 to 2017 (from 36 to 60 students). This is due to development and implementation of highly effective one-credit courses that are topic specific and allow students to take up to three within a given semester. Continued development and marketing will be expanded in FY19.</p>
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Management’s Discussion and Analysis
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1.3	<i>Increase student successful-persistence rate after 4 years for all students from 73.2% (fall 2003 cohort) to 75% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)</i>		
As of the fall 2012 cohort (all students overall) – 76.4%. Year over year trend: ↑ Black/African American: 66.7% ↓ Asian 84.7% ↑ Latino-Hispanics 73.0% ↑			
Lead		Action Plans	Results as of June 30, 2017
1.3A	VPSS VPAA	<p>Ambiciones is a program focused on Latino-Hispanic student success. Increase participation in Ambiciones from 25 to at least 100 students by 2020.</p> <p>Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.</p>	<p>Partially Accomplished and Ongoing</p> <p>Exceeded the goal of increasing the number of Ambiciones participants in FY18 with 66 students, compared to 34 students in FY17. This represents a 48% increase.</p> <p>Eighty-five percent of the students were retained from fall 2017 to spring 2018 compared to 69% for all Hispanic/Latino students. In fall 2017, 76% of Ambiciones students attained a grade point average greater than, or equal to, a 2.0, compared to 66% of all Hispanic/Latino students. In spring 2018, 71% of Ambiciones students attained a grade point average greater than, or equal to, a 2.0, compared to 66% of all Hispanic/Latino students.</p> <p>Financial Aid Services (FAS) worked closely with Ambiciones in FY18 to support students in applying for aid and completing their files, with an assigned financial aid counselor. Out of 62 program participants, 32 students in the spring 2018 cohort completed the FAFSA by March 1 (up from 10 out of 34 in the prior year) , and 23 students were awarded a Maryland State Scholarship.</p>

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**Management’s Discussion and Analysis
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1.3B	VPSS VPAA	<p>Increase Howard P.R.I.D.E. participation by 30%, from 129 to 168 students, by 2020. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.</p>	<p>Howard P.R.I.D.E. exceeded goal to increase participation by 30%. In fall 2017, there were 159 participants and in spring 2018 there were 164 participants. The program currently serves 205 unduplicated students.</p> <p>During fall 2017, Howard P.R.I.D.E. retained 79% of its student participants from spring 2017 (<i>compared to 49% for all Black/African American males</i>) and recruited an additional 25 students. Students are progressing through their developmental sequence in developmental mathematics, with an increase in academic success by 7% to 54.4%. In spring 2018, 87 of 160 students achieved a 2.0 or higher compared to 58 of 123 in FY17.</p> <p>After three years, 30.8% of Howard P.R.I.D.E. students completed their degree as compared to 7.5% of all Black /African-American men. During fall 2017, eight Howard P.R.I.D.E. students completed requirements for graduation and transfer to four-year institutions and 26 students graduated this May. Additionally, 54.4% of spring 2017 students had a GPA of 2.0 or higher</p> <p>FAS worked closely with Howard P.R.I.D.E in FY18 to support students in applying for aid and completing their files, with an assigned financial aid counselor. For Howard Pride, 58 of the 132 students in the 2018WS cohort completed the 2018-2019 FAFSA by March 1, critical for Maryland State Scholarship eligibility, and 34 were awarded a Maryland State Scholarship. Additionally, 32 of 58 students were file complete when FAS made initial run of packaging in May.</p>
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**Management's Discussion and Analysis
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1.4	<i>Increase student graduation and transfer rate after 4 years for all students from 51.9% (fall 2003 cohort) to 55% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)</i>		
Fall 2012 cohort-All students: 52.5% Year over year trend: ↑ Black/African American: 41.3%-↓ Asian: 56.5%-↑ Latino-Hispanic: 46.0%-↑			
	Lead	Action Plans	Results as of June 30, 2017
1.4A	VPSS VPAA	Attract a critical mass of students to targeted programs (Howard P.R.I.D.E., Silas Craft Collegians, Ambiciones, Student Support Services, and Career Links) to provide supportive services to increase the graduation and transfer rates and close performance gaps of Black, Asian, and Latino-Hispanic students.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Participation increased in the Howard P.R.I.D.E. program (205 in FY18 compared to 159 in FY17), Career Links (85 in FY18 compared to 54 in FY17), and Ambiciones (66 in FY18 compared to 34 in FY17).</p> <p>A total of 26 Howard P.R.I.D.E. students graduated in FY18 compared to 15 in FY17. Twenty-four Career Links students graduated in FY18 compared to 19 in FY17. Graduation numbers for Ambiciones students are not yet available.</p>
1.4B	VPAA	Continue the systematic evaluation plan for all academic programs.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Completed 23 program reviews. Assessed general education goals of information literacy, science and quantitative reasoning, critical thinking, oral and expressive communication, and written communication. Twenty-two program reviews were completed.</p>
1.4C	VPAA	Continue and evaluate the undergraduate research program for STEM students with a goal that participants complete their degrees at a rate above the general population of STEM majors.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Increased the number of students participating in faculty-mentored STEM research projects in FY18 from 20 to 24 students (20% increase) and increased the fall-to-fall retention rate from 80% in 2015-2016 to 83% in 2016-2017. The first annual collection of original student research articles, <i>The Journal of Research in Progress</i>, was published.</p>

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1.4D	VPAA VPSS	Actively promote diversity in restricted enrollment and honors programs.	Accomplished and Ongoing
			<p>Significantly increased racial and ethnic diversity in honors programs. STEM Scholars: 48.5% in fall 2016 compared to 71% in fall 2017. Schoenbrodt Scholars: 46.9% in fall 2016 compared to 49% in fall 2017. Rouse Scholars: 31.6% in fall 2016 compared to 33% in fall 2017.</p> <p>Increased the number of Black/African American applicants to the Rouse Scholars program by 42.8% from fall 2016 to fall 2017, with a two-year increase of 81.8%. Maintained a stable number of Hispanic applicants from fall 2016 to fall 2017, with a two-year increase of 55%.</p>

Strategic Goal #2. Organizational Excellence			
2.1	<i>Increase % of minority employees to reflect county demographics from fall 2007 rates of 22.1% faculty and 20.9% staff (administrators and professional/technical) to 24% and 28%, respectively, by fall 2020. (MHEC Indicator)</i>		
Faculty: 24.3% Year over year trend: ↑ Staff: 27.5% Year over year trend: ↓			
	Lead	Action Plans	Results as of June 30, 2017
2.1A	ALL	Improve faculty and staff recruitment efforts outcomes, and retention.	Accomplished and Ongoing <p>Completed one-on-one interviews with minority employees to obtain suggestions for improved retention.</p> <p>Continued to advertise on sites and attend job fairs that are minority-specific and to evaluate the success of those efforts.</p>

2.2	<i>Increase stakeholder satisfaction for students from spring 2012 rates of: 86.6% for credit students; to spring 2020 rate of 87%, and for employees, from fall 2007 rate of 4.29 to fall 2019 rate of 4.35. Continuing education students will report 95% satisfaction.</i>		
Spring 2018 for credit students (39.6%) Year over year trend: ↑ FY18 noncredit students (98.61%) ↑, fall 2017 employees (4.27 out of 5) ↑			
	Lead	Action Plans	Results as of June 30, 2017
2.2A	ALL	Use systems thinking approach to improve (Plan-Do-Check-Act) a process or processes selected by the president's team	Accomplished and Ongoing <p>Academic Affairs</p> <ul style="list-style-type: none"> Reduced by 25% the amount of paper used and the copying expenses for the developmental mathematics program. Created a process and a form for reserving shared spaced in the new SET building.

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		<p>to create cost efficiencies while ensuring quality service to students and one another.</p>	<p>Administration and Finance</p> <ul style="list-style-type: none">• Completed and implemented revisions to the procurement policies and procedures based on new procurement law that allowed for higher dollar threshold for RFPs/Bids requirements.• Converted 134 new vendors to electronic check disbursement; increased e-checks from 44% in FY17 to 48% in FY18; since FY17, the college has saved \$18,400 with this change.• Set up recruitment site specifically targeting student workers in order to improve student satisfaction and retention.• Updated emergency leave bank procedure to allow usage prior to short-term disability instead of leave without pay, and to require usage prior to long-term disability (LTD) in an attempt to reduce LTD insurance costs. <p>Information Technology</p> <p>Completed comprehensive systematic approach for offices to define and implement testing plans of college's business process within Colleague.</p> <p>Student Services</p> <p>Completed a major revision of the scholarship application and improved the scholarship application outreach process. Results show that 58% more students completed scholarship applications for 2018-2019, three months into the application year, than for the entire 2017-2018 year. As of June 30, 2018, 825 scholarship applications have been completed for AY18-19, compared to 521 for AY17-18. The completion rate for scholarship applications for AY18-19 is 81% compared to 69% for AY17-18.</p> <p>President's Area</p> <p>The office improved its process for managing banner signage at the entrances to the college. Following priorities set by the President's Team, the office staff works across the college to identify key dates for the year ahead, develops the banner calendar in advance, and provides calendar access to the facilities department. This change ensures that the college's entrances reflect its most important events and messages.</p> <p>The development office staff improved the purchasing process at Vino Scholastico by implementing Gesture, an online mobile fundraising platform that allows guests to view all available products on their mobile device, make purchases, and checkout without waiting in line.</p>
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2.3	<i>Make progress toward achieving a 50/50 FT/PT faculty ratio and adequate staffing to meet organizational needs.</i>		
	FY18 FT/PT ratio was 45:55. Year over year trend: ↑		
	Lead	Action Plans	Results as of June 30, 2018
			Accomplished and Ongoing
2.3A	VPAA	Create scheduling efficiencies.	Met credit course scheduling benchmark of 70%-90% of all offered seats being filled. Met the benchmark of offering 40%-50% of courses between 9:30 a.m. and 2:30 p.m. (prime time) to be sure there are an array of offerings to accommodate diverse student schedules in the afternoon and evenings. Replaced recitation format of 70 minutes per week in the elementary algebra program with an 'on-demand' format that provides more flexibility for students and reduces classroom utilization from three rooms to one.
2.3B	All	Analyze vacancies and determine recruitment action.	Accomplished and Ongoing Reorganized the leadership in the finance department to enhance oversight of areas. Reorganized areas within academic affairs and student services to increase efficiencies.

2.4	<i>Increase development/training expenditure per FTE employee to stay in top quartile. 100% of budgeted employees will complete the campus-wide online training required in each annual professional development term.</i>		
	As of FY17 NCCBP comparative data (FY16 data) – 53 percentile Year over year trend: ↓		
	Lead	Action Plans	Results as of June 30, 2017
			Partially Accomplished and Ongoing
2.4A	VPAF	Continue to effectively and efficiently expend funds on professional development, including using an optimal mix of internal and external facilitators. Explore methods to capture the value of internal facilitators.	Implemented outside online training at reasonable pricing to give employees more convenient opportunities to improve skills and meet training requirements. Continued to use an effective and efficient mix of internal and external trainers to save money and provide excellent instruction

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

2.5	<i>Reduce HCC's carbon footprint 1% each year to achieve a 80% (more recently 100%) reduction in greenhouse gas emissions over 2009 levels by 2050.</i>		
	Latest reading: 19.98 kg/SF Year over year trend: ↓ Down is good.		
	Lead	Action Plans	Results as of June 30, 2018
2.5A	VPAF	Investigate best practices; examine and refine existing metrics; incorporate new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF) aligned with the college's Facilities Master Plan (FMP) and the American College & University Presidents Climate Commitment (ACUPCC) signatories' gross emissions by Carnegie class.	<p>Accomplished and Ongoing</p> <p>Incorporated new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF), which resulted in reduced emissions and aligned goals with college's Facilities Master Plan and with ACUPCC signatories for gross emissions per Carnegie class.</p> <p>Launched Green Professor Teaching Pilot to promote sustainability across the curriculum and reward faculty members who are green teachers while giving green courses a familiar face on syllabi and Canvas sites for students.</p> <p>Continued to revise goals to meet and exceed national standards, including new goal to incorporate climate neutrality by 2050.</p>

Strategic Goal #3. Building and Sustaining Partnerships			
3.1	<i>Increase resources to provide scholarships and facilities to students.</i>		
	See data below.		
	Lead	Action Plans	Results as of June 30, 2018
3.1A	President	Raise \$1,400,000 for scholarships and endowments.	<p>Accomplished</p> <p>Raised \$2,047,778 (includes gifts and pledges, based on gross event revenues).</p>
3.1B	President	Obtain \$2.4 million in competitive grants.	<p>Partially Accomplished and Ongoing</p> <p>Obtained \$2,160,741 in competitive grant funding.</p>
3.1C	VPAA VPAF	Begin the renovation of N and ST buildings.	<p>Accomplished and Ongoing</p> <p>Completed Phase 1 of the N/ST renovations on time and within budget.</p> <p>Started construction of Phase 1A and 2 of the N/ST project.</p> <p>Achieved LEED Gold for the science, engineering, and technology building.</p>

HOWARD COMMUNITY COLLEGE

**Management's Discussion and Analysis
June 30, 2018**

3.2	<i>Increase opportunities to serve the regional needs.</i>		
	See data below.		
	Lead	Action Plans	Results as of June 30, 2018
3.2A	VPSS	Increase the draw rate of HCPSS recent high school graduates to 26% by continuing to promote the honors/scholars brand and by increasing dual enrollment through the Early College.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Maintained 24.2% draw rate for fall 2017, the same draw rate for fall 2016.</p> <p>Collaborated with HCPSS to implement the JumpStart dual enrollment initiative for 2018-2019 with the expected result of doubling dual enrollment from 703 (FY17) to 1,479 (FY19).</p>
3.2B	VPSS	Increase enrollment, transfer, and college completion of adult students by implementing the adult learner initiative recommendations.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Developed and implemented virtual information sessions using the virtual advising platform.</p> <p>Increased the number of information sessions by 50% for Military and Paramedic to RN pathways at the LCC for military, veterans and adult learners.</p> <p>Enhanced on-site adult learner recruitment/enrollment through health professions academic resource fairs that led to 42% of participants who were new to HCC. For spring 2018, there were 91 total participants with 38 indicating they were new to HCC; 27 enrolled.</p> <p>Collaborated with Career Links to develop and implement a program to orient and encourage clinical nursing and allied health students to ensure success.</p> <p>Developed and implemented group application process for graduation of clinical nursing and allied health students.</p>

HOWARD COMMUNITY COLLEGE

Management’s Discussion and Analysis
June 30, 2018

3.2C	VPAA VPSS	Develop credit and noncredit courses that meet regional employment needs and expand internships/ apprenticeship opportunities.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Submitted to Maryland Higher Education Commission for approval:</p> <ul style="list-style-type: none"> • Audio Video Media Production area of concentration • Visual Arts area of concentration <p>Received MHEC approval for a new certificate program in Additive Manufacturing to train students in this new technology and to prepare them for employment in a variety of technical sectors.</p> <p>Expanded collaboration with Chinese School to include Chinese 202 sections in addition to Chinese 101.</p> <p>Continuing Education and Workforce Development (CONEDWFD):</p> <ul style="list-style-type: none"> • Successfully launched the Healthcare Interpreter Certificate Program in Spring 2017. Successfully graduated three cohorts, 47 students in total. • Developed a new workforce certificate training program for ophthalmic technicians in partnership with Johns Hopkins Wilmer Eye Institute in FY18. • Commenced the Multicultural Banking and Finance Institute in September 2018 with a first cohort of 13 students. • Developed a new certificate in Social and Emotional Foundations of Early Learning (SEFEL) for educators in response to the national need for teachers to appropriately respond to children’s social emotional needs. <p>Collaboration between credit and noncredit nursing programs solidified pathways from CNA (noncredit) to RN (credit).</p> <ul style="list-style-type: none"> • Received the first and exclusively hybrid Certified Nursing Assistant (CNA) approval from the Maryland Board of Nursing for the CNA hybrid program in September 2016; after the audit in winter 2018, the program was approved for another two years. • Created a guaranteed admissions process for continuing education certified nursing assistant students who have completed their certification process. Admissions is guaranteed for an identified number of students, who have otherwise completed the nursing admissions pre-requisite courses.
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HOWARD COMMUNITY COLLEGE

Management’s Discussion and Analysis
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3.2C	VPAA VPSS	<p><i>Continued:</i> Develop credit and noncredit courses that meet regional employment needs and expand internships/ apprenticeship opportunities.</p>	<p>CONEDWFD in partnership with the credit Health Sciences division:</p> <ul style="list-style-type: none"> • Developed and offered Certified Computed Tomography (CT) and Magnetic Resonance Imaging (MRI) technician certificate programs. • Developed and offered two new noncredit courses (Nitrous Oxide and Local Anesthesia) designed to meet the Maryland State Board of Dental Examiners (MSBDE) requirements for licensed dental hygienists <p>Increased the number of completed internships by 18.6% (191 in FY18 compared to 161 in FY17).</p> <p>Through the college’s White House Tech Hire designation, the Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant, and a partnership with the Economic Development Authority, the grant team has placed over 65 students in 99 various experiences and developed relationships with over 62 companies.</p> <p>HCC is the only college to be invited by UMBC professor Dr. Sidhu and Cyberspace Analytics Corporation to develop a Cyber Range at Gateway. An EARN grant will be submitted this year and additional national level grants will be submitted jointly over the next year. The devices that have been invented by Dr. Sidhu will allow mapping of networks, identification of vulnerabilities, virtualizing all labs and allowing training and teaching aspects. This partnership will allow us to provide Credit/Noncredit Training to businesses in both the secured and nonsecured areas. HCC will become part of a University Network across the country in addition to training all of the faculty/staff on varied and current topics in Cyber/Technology and Computer Science.</p>
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HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

College Planning and Strategic Goals (continued)

The following are some core work accomplishments that occurred during the fiscal year that impacted FY18 revenue and spending:

- Advocated successfully for the college's legislative agenda with federal, state, and local governments;
- Provided \$1,771,897 in overall support for scholarships and programs from the foundation to the college (\$1,462,001 for scholarships and \$309,896 for programs);
- Raised \$71,500 through named spaces in buildings to fund the donor's choice of scholarships, programs, or endowments;
- Established a digital marketing strategy that showcases institutional branding online year round;
- Developed a new web page and view book geared to prospective students who are high school students, and created materials to promote JumpStart;
- Partnered with Prince George's Community College to mark the new partners at the Laurel College Center – Morgan State University and Bowie State University;
- Celebrated the opening of the new Science Engineering and Technology (SET) building on the day of the solar eclipse, as well as hosted the SET Lecture Series to showcase HCC faculty and the new building;
- Concluded a multi-year partnership with the Farm Theatre Project with Carroll Community College and Prince George's Community College, with the student production of *In the Cotton*.
- Launched marketing campaign of the certified public accountant (CPA) track in November 2017, which resulted in more than 80 student leads and more than 20 new students enrolled for spring/summer/fall 2018 to date;
- Addressed community healthcare needs via continuing education and workforce development by offering new programs such as ophthalmic technician hybrid training via a partnership with the Wilmer Eye Institute; magnetic resonance imaging (MRI) and computed tomography (CT) technician certificate, partnering with the HCC health sciences division radiology program; and nitrous oxide for dental hygienists, partnering with the HCC health sciences division dental hygiene program;
- Completed the design of the new mathematics pathways, which will allow students two alternatives to enter *Statistics* or *Topics in Mathematical Literacy* with one fewer developmental course, and to reach *College Algebra* with one less module while also strengthening the pathway to *Pre-Calculus*;
- Received the Maryland Higher Education Commission (MHEC) approval for an additive manufacturing technology certificate program; the program, which includes courses in additive manufacturing technology, computer-aided design and entrepreneurship, is designed to meet workforce needs for training in emerging technologies;
- Initiated and directly facilitated the creation instructional videos and Zoom video-delivered library instruction for the Laurel College Center;
- Researched, procured, and implemented Canvas 24/7 support and VeriCite (plagiarism detection);

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

College Planning and Strategic Goals (continued)

- Opened the Howard County Bike Share station on the quad;
- Implemented the new Sick and Safe Leave Law with the help of information technology;
- Hosted the 10th annual Howard County GreenFest and National Campus Sustainability Day;
- Upgraded credentialing system to provide health sciences students with clinical identification (ID) cards in addition to their regular student IDs, and implemented procedures for credentialing dual enrolled students;
- Partnered with the Howard County Police Department to provide gang awareness training for the college community;
- Partnered with Howard County Health Department on OPIOIDS, A Call to Action including training and supplies for first responders and community in response to opioid crisis;
- Implemented Run, Hide, Fight into college's lockdown protocol and updated campus-wide training;
- Partnered with Restoring the Environment and Developing Youth (READY) program, Howard County, and local emergency management agencies on hurricane preparedness and disaster recovery kits;
- Completed county- and state-funded restoration of all streams on campus;
- Increased campus tree canopy with donation and planting of 50 perimeter trees by Howard Hughes Corporation donation and planting of 50 stream side flowering trees by Howard County Parks and Recreation department;
- Installed an additional six electric charging stations with partial grant funding;
- Established recruitment site specifically targeting student workers in order to improve student satisfaction and retention;
- Completed second full year of bookstore management by Barnes & Noble, and experienced an estimate of \$567,420 in cost savings to students for the year in rental, digital, and used title formats;
- Completed the Cyber Café renovations project in March, which netted a gain of forty additional seats, now at full capacity at 311;
- Completed feasibility study and Part I/Part II program for the new math and athletics building and submitted to the state;
- Completed the installation and upgrades to the college's technology infrastructure, which includes the phone system, firewalls, wireless antennas, edge routers, monitoring systems and core switches to improve security, reliability, and to increase bandwidth speeds;
- Completed the technology installations for the new SET building including network technology, technology for computer instructional labs, 564 classroom laptops computers and 350 desktop computers;
- Completed the migration of the college's Ellucian administrative computer system to its hosted cloud and management services;
- Completed upgrades to major third party applications for the college's administrative computing system which include student planner, student recruiter, financial aid self-service, classroom scheduler, and document management system;

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

College Planning and Strategic Goals (continued)

- Completed redesign and content update of the Laurel College Center's website;
- Collaborated with faculty and staff teams to complete learning outcomes assessments of 23 academic programs and 22 student services offerings and programs. Coordinated four general education assessment projects to measure the accomplishment of the institutional level student learning goals of: oral and expressive communication, written communication, global competency, and creative process and humanistic inquiry in collaboration with teams of faculty;
- Increased service to students with disabilities by three percent in fall 2017 to the highest number ever of 752, and by almost five percent in spring 2018 to 704 students;
- Secured a partnership between the HCC Food Pantry and the Maryland Food Bank, receiving a free refrigerator to offer perishable items and approximately 300 – 500 pounds of perishable and non-perishable foods per month. The pantry serves approximately 150 students on a monthly basis;
- Implemented the financial aid services year round Pell program. The college awarded Pell Grants in summer 2018 to 19 percent more students than in summer 2017;
- Revised the financial aid services scholarship application and the application outreach process. The result as of the end of academic year 2017-2018 is a 58 percent increase in completed scholarship applications for 2018-2019;
- Completed renovations to the Children's Learning Center playground including a bike path that was a collaboration with PNC Bank and a multi-sensory outdoor musical instruments that were designed and erected by HCC Engineering students; and
- Awarded Preschool for All grant by Maryland State Department of Education, and provided \$139,372 primarily to assist HCC students with child care tuition assistance for income eligible children.

HOWARD COMMUNITY COLLEGE

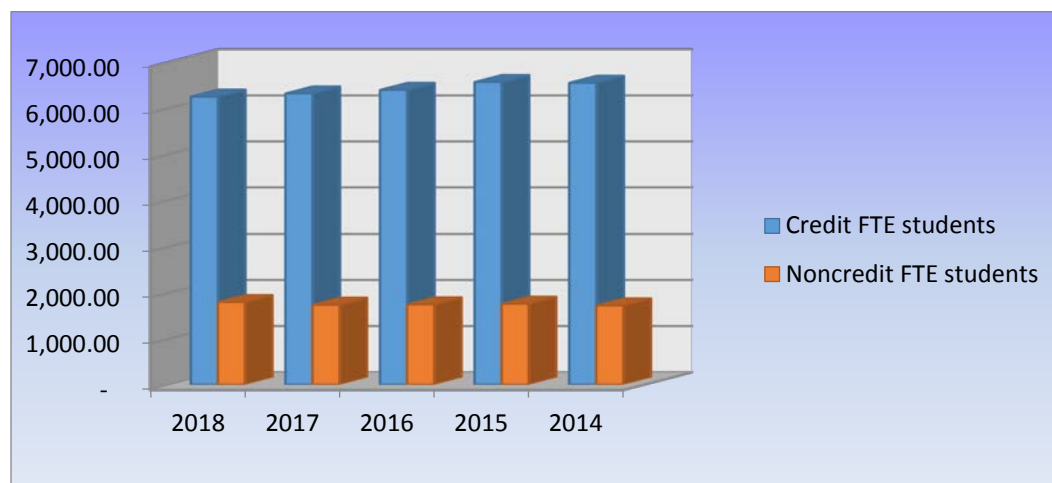
Management's Discussion and Analysis June 30, 2018

Enrollment Statistics and Analysis

For the year ended June 30, 2018, the college served approximately 14,291 credit and 15,407 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Education Commission in terms of full-time equivalent (FTE) students; FTE represents 30 hours of instruction. FTE is an important statistic of the college as it is the basis for comparison among the various state colleges and is, in part, what determines the college's state funding.

During FY18, the state approved credit and noncredit enrollments of 5,950.9 and 1,396.32 FTE. As compared to the prior year, this is a decrease of 120.31 credit FTE, however, it is an increase of 42.99 in noncredit FTE. State-funded FTE do not include out-of-state students, employees who took classes, and other ineligible students determined by the state. Overall, credit FTE of 6,239.76 decreased 68.5 FTE, or 1.1 percent. Noncredit FTE of 1,788.07 increased 58.21, or 3.26 percent. Together this number created a total decrease in FTE of 10.29 , or .13 percent. The college had anticipated enrollment to be flat in FY18. Nationwide, community colleges are experiencing declining enrollment as the improving economy attracts more people into the workforce and birthrates drop.

The chart below shows total FTE as opposed to state-funded FTE for fiscal years 2014 through 2018.



	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Credit	6,239.77	6,308.27	6,385.73	6,557.53	6,540.96
Noncredit	1,788.07	1,729.86	1,736.38	1,751.30	1,714.62
Total FTE	<u>8,027.84</u>	<u>8,038.13</u>	<u>8,122.11</u>	<u>8,308.83</u>	<u>8,255.58</u>

As seen in the data above, the FTE decline was 2.8 percent for this five-year period. No growth in credit, and only a slight increase in noncredit enrollment is anticipated in the FY19 budget.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Economic Impact

The college's economic stability comes primarily from three revenue sources: tuition and fees from students, and funding appropriations from Howard County Government and the State of Maryland. The original intent was that one-third of the college's operating funds would come from each of these sources; however, in FY18, the actual unrestricted revenue was 41 percent from students, 36 percent from the county, and 19 percent from the state, with the final four percent coming from auxiliary and miscellaneous revenue.

The college's per credit hour tuition rate increased by two dollars per credit hour, and the college's consolidated fee increased from 16.75 percent of tuition to 18.82 percent of tuition. The consolidated fee increase was needed for the repayment of the debt service incurred for the expansion of the east parking garage. Even with these increases, the student share of actual unrestricted revenue declined one percent.

State funds are distributed through the Cade funding formula, with the community colleges receiving a percentage of what the four-year institutions receive in funding from the state. The state increased the college's appropriation by three percent, or \$568,669 for FY18, and also increased its support for the Regional Higher Education Center at the Laurel College by \$19,243. The state's share of actual unrestricted revenue remained the same.

The college received a five percent, or \$1,724,832 increase in FY18 operating funding from the county. The county's increase in funding of actual unrestricted revenue increased one percent from the prior year. In FY17, the county paid health care costs for the college that were in excess of the premiums paid by the college, of \$71,607. There were no excess costs in FY18, reducing the overall county increase in funding.

Revenue from auxiliary services and miscellaneous revenue, increased three percent, primarily due to higher interest income earned due to the increase in interest rates. The percentage share of actual unrestricted revenue, however, remained the same as the prior year.

Financial Statement Highlights and Analyses

The financial statements, as prepared in accordance with GASB Statement nos. 34 and 35, are designed to present the college as a whole unit, consolidating the various funds (operating, continuing education, special, auxiliary, and facilities) and emulating corporate financial statements. The purpose of the statement of net position is to identify the college's financial and capital resources in one consolidated statement. The statement of revenue, expenses, and changes in net position identifies the college's operating revenue and expenses for its various programs, and also shows the support the college receives from Howard County Government, the State of Maryland, and various federal, state, and local grant programs. This statement also highlights spending in the various functional areas. Finally, the statement of cash flows identifies sources and uses of cash, and the change in the cash balance from the previous fiscal year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

The college's financial position remains positive, however, in FY18 Howard County Government has required the College, as well as county component units, to record its respective portion of the Other Postemployment Benefits (OPEB) liability. The liability was measured as of June 30, 2017, and calculated for each entity independently. Previously, the county had accepted and carried the full liability. This change made a negative fiscal impact to the college's financial position; creating a net negative unrestricted fund balance. The FY17 ending unrestricted fund balance and net assets were reduced by \$36,380,612 for the amount of the college's proportionate FY16 net OPEB liability. This is the restatement noted in the FY17 comparative statements shown in this section of the audit report.

The net position of the college increased seven percent over the prior year. The college continues to make improvements to its current facilities with a major renovation of the previously named nursing, science, and technology buildings. This ongoing renovation was the primary reason for the increase in the college's net fixed assets that grew five percent in FY18. This capital project increased the state receivable and offsetting payable to the county. The county pays for state-funded project costs upfront. The state share is reimbursed only after the county has paid its share of the project costs. In addition, some of the college's short-term debt, owed to the county for the expansion of the parking garage, was converted to long-term bond debt. The net OPEB liability decreased in FY18 primarily due to a change in actuarial assumptions and contributions to the OPEB trust. This is explained in the OPEB footnote disclosure and supplement information.

The primary increase in both operating revenue and expenses were due to an increase in appropriations used to offset additional operating costs for instruction, technology, and facilities. The college implemented the results of a compensation study in order to ensure salaries are competitive and that the college can retain and attract talented faculty and staff. Increase costs related to the garage expansion and science, engineering and technology building are also reflected in the college's expenses. The winding down of these capital projects in FY18, reduced capital appropriations used to fund these assets.

Efforts continue to be made college-wide to determine cost savings within departments and divisions. The college also works to create new opportunities for cost savings by partnering with other colleges and organizations on shared goals and objectives. The decision to discontinuing the operations of the Mediation and Conflict Resolution Center in FY18 was made because the cost to operate the center outweighed the benefit to HCC students.

A major financial challenge facing the college today is funding, and its impact on affordability. With state support at only 19 percent of unrestricted revenue, the burden of education falls heavily on the Howard County Government and HCC students. With the Maryland economy doing well, more students are opting to work rather than go to school and bear the burden of student loan debt. With declining enrollment trending throughout our nation, the college will continue to look for ways to reduce operating costs.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF NET POSITION

	June 30, 2018	<i>Restated</i> June 30, 2017	Dollar Variance	Percentage Variance
ASSETS				
Current assets	\$ 53,977,831	\$ 45,445,958	\$ 8,531,873	19%
Non-current assets, net	<u>268,356,230</u>	<u>256,296,131</u>	<u>12,060,099</u>	5%
Total Assets	322,334,061	301,742,089	20,591,972	7%
Deferred outflows of financial resources				
– pension	643,507	770,416	(126,909)	-16%
– other postemployment benefits	<u>269,612</u>	<u>-</u>	<u>269,612</u>	n/a
Total Deferred outflows of financial resources	913,119	770,416	142,703	19%
LIABILITIES				
Current liabilities	25,935,738	25,513,223	422,515	2%
Non-current liabilities	<u>47,017,297</u>	<u>46,918,773</u>	<u>98,524</u>	0%
Total Liabilities	72,953,035	72,431,996	521,039	1%
Deferred inflows of financial resources				
– pension	303,408	172,617	130,791	76%
– other postemployment benefits	<u>4,486,330</u>	<u>-</u>	<u>4,486,330</u>	n/a
Total Deferred inflow of financial resources	4,789,738	172,617	4,617,121	2675%
NET POSITION				
Net investment in capital assets	254,604,434	242,584,705	12,019,729	5%
Restricted funds, expendable	153,174	363,121	(209,947)	-58%
Unrestricted	<u>(9,253,201)</u>	<u>(13,039,934)</u>	<u>3,786,733</u>	-29%
Total Net Position	\$ 245,504,407	\$ 229,907,892	\$ 15,596,515	7%
Designations of unrestricted net position:				
	June 30, 2018	<i>Restated</i> June 30, 2017	Variance	
Continuing education	\$ 4,373,033	\$ 3,851,017	\$ 522,016	
Auxiliary enterprises	4,361,537	4,219,417	142,120	
Special funds	10,467,040	9,886,525	580,515	
Facility funds	10,968,712	7,403,831	3,564,881	
Other	1,989,882	1,989,882	-	
Unfunded pension related items	(1,955,503)	(2,159,242)	203,739	
Unfunded other postemployment benefits	(37,496,341)	(36,380,612)	(1,115,729)	
Unfunded vacation liability	<u>(1,961,561)</u>	<u>(1,850,752)</u>	<u>(110,809)</u>	
Total unrestricted net position	<u>\$ (9,253,201)</u>	<u>\$ (13,039,934)</u>	<u>\$ 3,786,733</u>	

- *Total assets* increased \$20,591,972, or seven percent over the prior year. The primary increase in *current assets* was in the state receivable and cash. During the year, the state's outstanding receivable on capital construction, increased \$4,733,934. In addition, the college increased its cash position \$3,253,947 in order to fund deferred maintenance and other systemic projects that the county was unable to fund in the college's FY19

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

capital budget request. *Non-current assets* increased five percent, or \$12,060,099 primarily due to the capitalization of the construction in progress costs of the nursing, science, and technology building renovation. Additional costs for the new parking garage, and the science, engineering, and technology building were also capitalized.

- The increase is net of depreciation on capital assets. Capital assets include land, buildings, renovation costs, furniture, equipment, software, library books, leaseholds, land improvements, and construction in progress (CIP). CIP, as of June 30, 2018, totaled \$21,079,148, which is the cost to date of the nursing, science, and technology buildings renovation project. The breakdown by asset category can be found in Note 7 of the financial statements.
- *Total liabilities* increased \$521,039, or one percent from the prior year. The primary increase in *current liabilities* was in the payable to Howard County for construction projects that the county pays up front on behalf of the state. The increase in the payable to the county is due from the state. In addition, the county has been paying for the parking garage construction and \$4,360,685 of the FY17 short-term payable to the county was converted to long-term bond debt in FY18.
- *Non-current liabilities* include the college's portion of the state pension liability for certain employees, the OPEB liability, and bond debt. The college's pension liability decreased 17 percent. The new bond debt for the east garage expansion, net of repayments and refunding of debt done by the county, increased by 47 percent. The bonds are held by the county on behalf of the college and provided funding for the garage and other capital assets. The debt repayment schedule is detailed in Note 8 of the financial statements. The new OPEB liability decreased \$3,100,989 primarily due to a change in assumptions. More information about the liability is found in Note 11.
- Deferred outflows related to pensions decreased 16 percent and deferred inflows increased 76 percent. These items are related to the college's pension liability for certain employees and are discussed in note 10 of the financial statements. New deferred outflows and inflows related to the OPEB liability are discussed in note 11 of the financial statements.
- These changes resulted in an increase in the college's *net position* of \$15,596,515, or seven percent. *Restricted funds*, which decreased 58 percent, satisfied grant obligations during FY18.

The college's *unrestricted net position* is internally designated as outlined in the previous chart. The college's portion of the unfunded OPEB liability had a material effect on the unrestricted net position of the college. The unrestricted net position is now (\$9,253,201). It should be noted that the county has funded the OPEB trust since its inception and has budgeted to fund the trust on the college's behalf in the FY19 budget.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

The primarily increase in the facilities funds was from the increase in the consolidated fee revenue collected to pay for the increased debt on the parking garage expansion. In addition, funds were held at year-end to pay for necessary projects identified in the capital system renovations project that the county was unable to fully fund in FY19.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

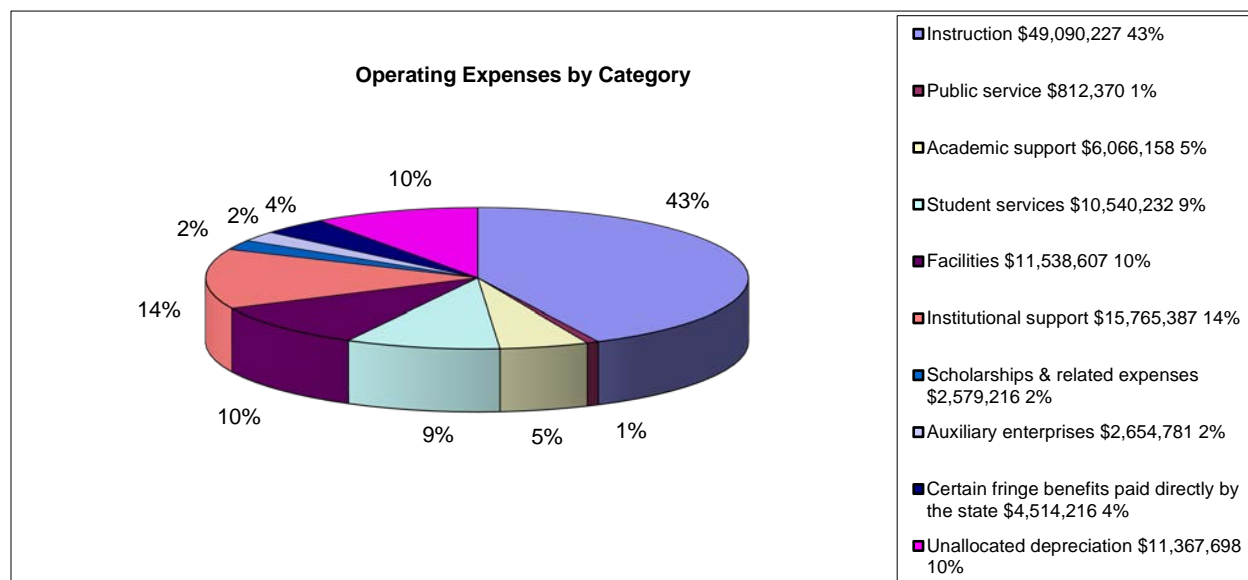
	<u>June 30, 2018</u>	<u>June 30, 2017 restated</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Total Operating Revenue	\$ 33,845,117	\$ 32,909,576	\$ 935,541	3%
Operating Expenses				
Instruction	49,090,227	45,397,339	3,692,888	8%
Public service	812,370	886,067	(73,697)	-8%
Academic support	6,066,158	5,591,369	474,789	8%
Student services	10,540,232	10,026,559	513,673	5%
Operation and maintenance of facilities	11,538,607	10,676,548	862,059	8%
Institutional support	15,765,387	15,286,328	479,059	3%
Scholarships and related expenses	2,579,216	2,733,628	(154,412)	-6%
Auxiliary enterprises	2,654,781	2,428,730	226,051	9%
Certain fringe benefits paid directly by the state	4,514,216	4,613,344	(99,128)	-2%
Unallocated depreciation	11,367,698	9,921,691	1,446,007	15%
Total operating expenses	<u>114,928,892</u>	<u>107,561,603</u>	<u>7,367,289</u>	7%
Operating loss	<u>(81,083,775)</u>	<u>(74,652,027)</u>	<u>(6,431,748)</u>	9%
Non-operating Revenue (Expenses)				
Government appropriations	51,945,355	49,792,654	2,152,701	4%
Grants and contracts	15,675,546	15,098,662	576,884	4%
Certain fringe benefits paid directly by government	6,072,727	6,243,462	(170,735)	-3%
Investment income	501,151	208,765	292,386	140%
Interest on debt to Howard County	(333,023)	(314,463)	(18,560)	6%
Net Non-operating Revenue	<u>73,861,756</u>	<u>71,029,080</u>	<u>2,832,676</u>	4%
Loss before capital appropriations	(7,222,019)	(3,622,947)	(3,599,072)	99%
Capital appropriations	<u>22,818,534</u>	<u>30,966,754</u>	<u>(8,148,220)</u>	-26%
Increase in net position	15,596,515	27,343,807	(11,747,292)	-43%
Net position, beginning of year	<u>229,907,892</u>	<u>202,564,085</u>	<u>27,343,807</u>	13%
Net Position, End of Year	<u>\$ 245,504,407</u>	<u>\$ 229,907,892</u>	<u>\$ 15,596,515</u>	7%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

- *Operating revenue* had a three percent, or \$935,541 increase from the prior year. This increase was primarily in other operating revenue. Consulting and administrative contract fees in the continuing education department as well as Prince Georges Community College's (PGCC) earned revenue, recognized from the Laurel College Center operations, both increased in FY18. HCC and PGCC evenly share revenues and expenses at the center for this partnership.
- *Non-operating revenue* had a four percent, or \$2,832,676 increase from the prior year. The county appropriation increased five percent and the state appropriation increased two percent in FY18. Grants and contracts increased four percent due to higher federal and local awards received. Increased investment income due to rising interest rates caused a 140 percent increase in investment income.



- Total *operating expenses* increased \$7,367,289, or seven percent from the prior year. *Instruction and academic support* together represent 48 percent of expenditures. This is the same percentage as the prior year. New full-time faculty and administrative positions, higher part-time faculty compensation, and technology costs, caused the increase in expenditures. The new OPEB expense was charged to each functional area and increased other employee benefits for eligible employees.
- The *public service* function decreased eight percent, or \$73,697 from the prior year. The elimination of the Mediation and Conflict Resolution Center in FY18 caused the decline in spending.
- The *facilities* function increased eight percent, or \$862,059 from the prior year. This increase in expenses is primarily due to new operating costs of the new science, engineering, and technology building.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

- The *scholarships and related expenses* decreased six percent or \$154,412 as compared to the prior year. This expense represents financial assistance paid directly to students for expenses other than their college charges of tuition and fees. Direct costs paid to the college increased five percent, causing this decrease. Direct costs include not only tuition and fees, but also child-care and international travel.
- Expenses in *auxiliary enterprises* increased nine percent, or \$226,051. Costs associated with athletics, the Children's Learning Center, and the food service operation all increased over the prior year.
- The *benefits paid directly by the state* decreased two percent, or \$99,128. This includes amounts paid to both the pension system and the optional retirement plans for employees who receive a retirement benefit. The amount contributed directly to the pension system by the state, on behalf of the college, declined five percent from the prior year.
- *Unallocated depreciation* increased 15 percent, or \$1,446,007. The additions of the parking garage and science, engineering, and technology building and the use of these new facilities increased this expense.
- *Capital appropriations* from the county and state government decreased \$8,148,220, or 26 percent from the prior year. Funding for the new science, engineering, and technology building, and the expansion of the east parking garage, decreased as expenditures are in their final phase.

STATEMENTS OF CASH FLOWS

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (62,051,116)	\$ (57,519,571)	\$ (4,531,545)	8%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing Activities	67,551,265	64,802,019	2,749,246	4%
Cash Flows From Capital Financing Activities				
Net cash used by capital financing activities	(2,747,353)	(9,133,585)	6,386,232	-70%
Cash Flows From Investing Activities				
Net cash provided by investing activities	501,151	208,765	292,386	140%
Net (Dec.)/Inc. in cash and cash equivalents	3,253,947	(1,642,372)	4,896,319	-298%
Cash, beginning of the year	<u>34,806,625</u>	<u>36,448,997</u>	<u>(1,642,372)</u>	-5%
Cash and Cash Equivalents, End of Year	<u>\$ 38,060,572</u>	<u>\$ 34,806,625</u>	<u>\$ 3,253,947</u>	9%

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Financial Statement Highlights and Analyses (continued)

- Cash and cash equivalents increased \$3,253,947, or nine percent from the prior year.
- The primary inflow of cash from operations continues to come from student tuition and fees. This inflow did not significantly increase for the year. The primary outflows of cash from operations are supplier payments, employee compensation, and employee benefits costs. Payments to suppliers and employees increased five percent, and benefits costs increased seven percent. Higher operating costs for new facilities, employee merit and the compensation study increases, as well as insurance rates that increased five percent, all contributed to these increases. Miscellaneous cash receipts in the non-credit division and the Laurel College Center, increased ten percent over the prior year. This netted to an overall eight percent increase in cash used *in operations*.
- State and local appropriations are the primary cash inflows from *non-capital financing activities*. Other funds come from grants and contracts. Both the county and state increased funding five and two percent, respectively. Grants increased five percent, primarily due to increased awards for Pell grants. Student loan receipts and disbursements increased five percent as student borrowing increased. The net increase in cash provided by *non-capital financing activities* was four percent over the prior year.
- *Capital financing activities* include resources received from Howard County Government and the State of Maryland for the college's capital projects, purchase of capital assets, and the issuance and repayment of debt. The large increase of 116 percent in this area was the issuance of new debt by the county for the east parking garage project. Payments made on that debt increased six percent. In addition, the college's capital appropriations and spending on capital assets declined 45 and 44 percent, respectively, as construction costs and funding for the east parking garage and SET projects are being finalized. Overall, the college had a 70 percent decrease in net cash used by *capital financing activities*.
- The college's *investing activity* cash flows come from investment income. Interest rates continued to rise during FY18, resulting in a 140 percent increase in net cash provided by *investing activities*.

The college believes that its liquidity position as of June 30, 2018, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2018.

As the college collects the majority of its tuition revenue at the beginning of each term and receives its grants and appropriations regularly, liquidity should not be an issue for the next fiscal year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Economic Factors that Will Affect the Future

Howard County and the State of Maryland provide significant resources to the college for both its operating and capital budgets. Restricted funding from federal, state, and local governments cover significant expenses for college programs and provide support to students with financial need. This support, exclusive of capital appropriations, is reflected on the financial statements as non-operating revenue. In FY18, these funds covered 64 percent of operating expenses, therefore, the economic condition of the country, state, and county are critical to the college's future financial health.

Although considered one of the wealthiest counties in the United States, Howard County experienced a \$7 million projected revenue shortfall this past year, resulting in a two percent budget reduction for County agencies, exclusive of the education entities. The unemployment rate was 3.6 percent versus 3.3 percent a year ago and is the lowest in the state. Revenue growth of the Howard County Government is projected to increase modestly, at a growth rate of 1.75 percent in FY19, with property taxes expected to increase 2.4 percent and income tax growth projected to show a modest recovery from a \$12 million dollar reduction a year ago.

Concern over lower county revenue results from the county's aging population and the increased multi-use housing because of lower anticipated incomes from those groups. Although there is an improvement in wage growth, it is offset by a slowdown in anticipated employment growth as the county moves to full employment. In addition, the county and state are both heavily dependent on federal government spending. The uncertainty in future federal spending remains a concern to future county revenue.

As noted previously, the county made the decision to move the college's portion of the OPEB liability from the county to the college. It is important to the financial stability of the college that funding of the OPEB trust remains the responsibility of the county.

Long term, the county is limited in land available for development both in quantity and configuration. However, development in growth corridors and the re-development of Downtown Columbia will contribute to the county's long-term economic progress. In FY18, the college received a five percent increase from the county, and is approved to receive a three percent increase in FY19.

The economic conditions in Maryland have declined slightly from the prior year. The June 2018 unemployment rate increased to 4.3 percent from 4.1 percent in June 2017. Maryland ranked 34th in the nation in unemployment in June 2018 versus 24 percent in June 2017, with the national average at 4.0 percent. The state was able to give the community colleges an increase of 2.3 percent for FY19 along with a two million-dollar one-time grant for colleges that held tuition increases at or below two percent. HCC was able to hold the tuition increase to 1.5 percent for county residents. HCC received a 3.18 percent increase from the state in FY18, and was approved for a 4.72 percent increase in FY19.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2018

Economic Factors that Will Affect the Future (continued)

The college experienced a 1.98 percent decline in state-funded credit enrollment in FY18 and is anticipating no enrollment growth in FY19. The college and the Howard County Public School System (HCPSS) entered into an updated MOU for dual enrollment. The HCPSS is promoting a new program called JumpStart which is anticipated to increase the college's dual enrollment program significantly over the next few years. However, based on the improving economy and a few years to truly get JumpStart off the ground, the college is expecting little or no increase in enrollment in FY19.

As enrollment slows, tuition and fees that supported 41 percent of the unrestricted budget in FY18 will decline, unless tuition rates continue to rise. In the FY19 budget, in-county tuition rates increased by two dollars per credit hour, out-of-county rates increased seven dollars and out-of-state rates increased \$12. State guidelines on tuition rates caused the higher increases for non-county residents.

Continuing into FY19, the college is renovating the formerly named nursing, science, and technology building (N/ST) that is funded by the county and the state. The college's next building addition is anticipated for county and state funding starting in FY20. The east parking garage expansion, completed during FY18, increased the college's bond debt, which will be repaid with student fees in future years.

Due to these funding limitations of the county and state, the college continues to look for ways to reduce costs. During the FY19 budget process, \$621,100 was saved. This included \$117,200 in full and part-time personnel costs, \$335,300 in savings from our early retirement incentive program, \$112,500 in travel, supplies and mailings, \$16,700 in contracted services, \$12,000 in furniture and equipment, \$9,700 in insurance and \$17,700 in rebates and the sale of inventory.

Requests for Information

The management's discussion and analysis financial report is intended to provide a general overview of the college's finances. Questions concerning information within this report or requests for additional information should be addressed to the office of administration and finance, Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044. Email questions can be sent to FinanceOffice@howardcc.edu.

Electronic versions of this audit report are provided for information only and for the convenience of the reader. While reasonable efforts have been made to ensure the integrity of electronic statements, they should not be relied on. A copy of the printed financial statements will be provided upon written request made to: Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044; Attention: The Office of the Vice President of Administration and Finance. Email requests should be sent to FinanceOffice@howardcc.edu.

FINANCIAL STATEMENTS

HOWARD COMMUNITY COLLEGE

**Statements of Net Position
June 30, 2018**

	Howard Community College	Howard Community College Educational Foundation, Inc.
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 38,060,572	\$ 368,835
Investments	-	4,283,202
Tuition and other receivables, net of allowance of \$3,115,656	309,447	-
Federal, state, local, and other receivables, net	14,364,083	-
Contributions receivable, net	-	138,129
Prepaid expenses and other assets	1,243,729	29,998
Total current assets	53,977,831	4,820,164
Non-current Assets		
Investments and interest in irrevocable trust	-	8,886,330
Contributions receivable, net	-	118,902
Capital assets, net	268,356,230	-
Total non-current assets	268,356,230	9,005,232
Total Assets	322,334,061	13,825,396
Deferred outflow of financial resources		
Pension	643,507	
Other postemployment benefits	269,612	-
Total Deferred outflow of financial resources	913,119	-
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	4,860,784	72,409
Accrued compensated absences	2,561,951	-
Payable to PGCC joint venture	92,575	
Payable to Howard County for construction	12,557,834	-
Other payables	383,227	-
Bonds payable, Howard County, current portion	611,598	-
Deposits	83,922	-
Agency funds	1,508,700	-
Unearned revenue	3,275,147	87,954
Total current liabilities	25,935,738	160,363

HOWARD COMMUNITY COLLEGE

**Statements of Net Position (continued)
June 30, 2018**

	Howard Community College	Howard Community College Educational Foundation, Inc.
Non-current Liabilities		
Pension Liability	\$ 2,295,602	\$ -
Bonds payable, Howard County, net of current portion	11,442,072	-
Other Postemployment Benefits	33,279,623	-
Total non-current liabilities	47,017,297	-
Total Liabilities	72,953,035	160,363
Deferred inflows of financial resources		
Pension	303,408	-
Other Postemployment benefits	4,486,330	-
Total Deferred inflows of financial resources	4,789,738	-
Net investment in capital assets	254,604,434	-
Restricted for:		
Nonexpendable:		
Scholarships	-	8,170,748
Expendable:		
Scholarships	-	2,929,653
Program uses	153,174	535,257
Unrestricted	(9,253,201)	2,029,375
Total Net Position	\$ 245,504,407	\$ 13,825,396

The accompanying notes are an integral part of these financial statements.

HOWARD COMMUNITY COLLEGE

**Statements of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2018**

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees (net of discounts, allowances, and financial aid of \$11,696,946)	\$ 30,822,494	\$ -
Cultural, community, and other programs (net of financial aid of \$39,095)	890,959	-
Auxiliary enterprises revenue (net of financial aid of \$121,969)	1,465,180	-
Other operating revenue	666,484	-
Contributions, including in-kind	-	2,327,030
Special events	-	501,797
Total Operating Revenue	33,845,117	2,828,827
Operating Expenses		
Instruction	49,090,227	-
Public service	812,370	-
Academic support	6,066,158	-
Student services	10,540,232	-
Facilities	11,538,607	-
Institutional support	15,765,387	466,307
Scholarships and related expenses	2,579,216	-
Program expenses	-	1,771,897
Cost of direct benefits to donors	-	110,604
Fundraising	-	366,725
Auxiliary enterprises	2,654,781	-
Certain fringe benefits paid directly by the State of Maryland	4,514,216	-
Unallocated depreciation	11,367,698	-
Total Operating Expenses	114,928,892	2,715,533
Operating (Loss) Gain	(81,083,775)	113,294
Non-Operating Revenue (Expenses)		
Howard County government appropriations	33,965,130	-
State of Maryland appropriations	17,980,225	-
Federal, state, local, and other grants and contracts	15,675,546	29,504
In-kind contributions – Howard County Government	1,158,000	-
Certain fringe paid directly by the State of Maryland and Howard County Government	4,914,727	-
Investment income	501,151	203,533
Net realized and unrealized gain on investments	-	855,385
Interest expense	(333,023)	-
Net Non-Operating Revenue	73,861,756	1,088,422
(Loss) Income before Capital Appropriations	(7,222,019)	1,201,716

The accompanying notes are an integral part of these financial statements.

HOWARD COMMUNITY COLLEGE

Statements of Revenue, Expenses and Changes in Net Position (continued)
For the Year Ended June 30, 2018

	Howard Community College	Howard Community College Educational Foundation, Inc.
Capital appropriations, State of Maryland	\$ 9,596,239	\$ -
Capital appropriations, Howard County	13,222,295	-
Total Capital Appropriations	22,818,534	-
Changes in net position	15,596,515	1,201,716
Net position, beginning of year, as restated	229,907,892	12,463,317
Net Position, End of Year	\$ 245,504,407	\$ 13,665,033

The accompanying notes are an integral part of these financial statements.

HOWARD COMMUNITY COLLEGE

**Statement of Cash Flows
For the Year Ended June 30, 2018**

	Howard Community College
Cash Flows From Operating Activities	
Student tuition and fees	\$ 30,999,933
Payments to suppliers	(23,462,907)
Payments to employees	(59,473,883)
Payments for employee benefits	(13,136,883)
Auxiliary enterprises	1,465,180
Other receipts	1,557,443
Net Cash From Operating Activities	(62,051,117)
 Cash Flows From Non-Capital Financing Activities	
Local appropriations	33,965,130
State appropriations	17,980,225
Grant and contracts	15,665,630
Student loan receipts	7,769,454
Student loan disbursements	(7,769,454)
Agency fund receipts	488,096
Agency fund disbursements	(547,816)
Net Cash From Non-Capital Financing Activities	67,551,265
 Cash Flows From Capital Financing Activities	
Capital appropriations	17,372,931
Purchase of capital assets	(23,427,797)
Interest expense payments	(333,023)
New bond issue	4,360,685
Principal payments on bonds	(720,149)
Net Cash From Capital Financing Activities	(2,747,353)
 Cash Flows From Investing Activities	
Investment interest	501,151
Net Cash From Investing Activities	501,151
 Net increase in cash and cash equivalents	3,253,947
Cash and cash equivalents, beginning of year	34,806,625
 Cash and Cash Equivalents, End of Year	\$ 38,060,572

The accompanying notes are an integral part of these financial statements.

HOWARD COMMUNITY COLLEGE

Statements of Cash Flows (continued) For the Year Ended June 30, 2018

	Howard Community College
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (81,083,775)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,367,698
In-kind contributions	9,915
Amounts paid directly by the state and county	6,072,727
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	213,575
Prepaid expenses and other assets	(900,270)
Accounts and other payables	1,080,282
Unfunded pension liability	23,229
Unfunded other postemployment benefits liability	1,385,341
Unearned revenue	(330,648)
Compensated absences	110,809
Net Cash From Operating Activities	\$ (62,051,117)
Howard Community College Educational Foundation, Inc.	
<hr/>	
Cash Flows From Operating Activities	
Changes in net position	\$ 1,201,716
Adjustments to reconcile changes in net position to net cash used in operating activities:	
Net realized and unrealized gain on investments	(957,247)
Amortization of discount on contributions receivable	(7,139)
Change in allowance for uncollectible accounts	2,500
Effects of changes in non-cash operating assets and liabilities:	
Contributions receivable, net	278,671
Prepaid expenses and other assets	(6,798)
Accounts payable and accrued wages	740
Due to Howard Community College	981
Unearned revenue	(113,396)
Net Cash From Operating Activities	400,028
Cash Flows From Investing Activities	
Proceeds from sale of investments	1,102,169
Purchase of investments	(1,756,252)
Net Cash From Investing Activities	(654,083)
Net increase in cash and cash equivalents	(254,055)
Cash and cash equivalents, beginning of year	622,890
Cash and Cash Equivalents, End of Year	\$ 368,835

The accompanying notes are an integral part of these financial statements.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

1. ORGANIZATION AND BACKGROUND

Howard Community College (the “college”), founded by the Board of Education of Howard County (the “county”), was formally authorized by the County Commissioners to provide a full range of educational services to the county’s citizens; however, citizens of other counties and states are also eligible to attend. In FY18, 71 percent of the college’s credit student populations were county residents. The college is fully accredited by the Middle States Commission on Higher Education and by the Maryland Higher Education Commission to offer programs of learning and to award associate degrees and certificates of proficiency.

A seven-member board of trustees, appointed by the Governor of Maryland, governs the college. The college president is a non-voting member and serves as the secretary-treasurer.

The college has been defined as a component unit of Howard County, Maryland government, and the college’s financial statements are included in the comprehensive annual report of the county in accordance with generally accepted accounting principles.

The Howard Community College Educational Foundation, Inc. (the “foundation”) is a separate legal entity with a separate board of directors. The foundation is a nonprofit organization established in 1978 to provide charitable benefits to the college and financial aid to qualified students attending the college. The college’s president holds the position of secretary and the college’s director of development holds the position of executive director. The foundation operates independently of the college.

Since the foundation was established for the purpose of obtaining resources and to provide charitable benefits to the college, it is considered a component unit of the college, and is discretely presented in the college’s financial statements.

Complete financial statements of the foundation can be obtained by contacting the foundation’s administrative office located at Howard Community College, 10901 Little Patuxent Parkway, Columbia, MD 21044-3197. Email requests can be sent to Foundation@howardcc.edu.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared using accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB).

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Given the importance of tuition, fees, and other exchange-type transactions in financing higher education, the college adopted the financial reporting model required by GASB for business-type activities (BTA). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. Accordingly, the accompanying college financial statements have been prepared on the accrual basis of accounting in accordance with governmental accounting standards generally accepted in the United States of America.

The foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB), including FASB Accounting Standards Codification Topic no. 958. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial reporting entity for these differences.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The college and the foundation consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Funds invested through the Maryland Local Government Investment Pool are also considered cash equivalents.

Investments and Interest in Irrevocable Trust

Investments of the foundation that are comprised of mutual funds and fixed income securities are reported at fair value, based upon the net asset value per share as determined by quoted market prices.

The foundation's investments in an external investment pool have no readily determined market value and are valued at fair value as estimated by the University System of Maryland Foundation (USMF) custodian based on values as reported by the record keeper. USMF's management estimates fair value of the underlying market values of the investments. Because of the inherent uncertainty of the valuation, it is reasonably possible that such estimated values may differ from the values that would have been used had a ready market for the securities existed.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Interest in Irrevocable Trust (Continued)

Changes in fair value are recognized in the statement of revenue, expenses, and changes in net position in the period in which the change occurs and are included in net realized and unrealized gains on investments.

Interest in irrevocable trust represents the foundation's interest in an irrevocable trust donated to the foundation during the year ended June 30, 2009. The foundation's interest is reported as the present value of the estimated fair value based on the foundation's share of the trust, the fair value of the assets in the trust, and the expected life of the donor.

Tuition and Other Receivables

The college's tuition receivable represents obligations of students resulting from course registrations. The receivable is due before the end of the semester for which it was incurred. Amounts that remain uncollected three weeks after the end of the semester are considered delinquent and are referred to a collection agency. The college has established a valuation allowance for the tuition receivable it estimates as uncollectible. As of June 30, 2018, the net tuition receivable was \$205,308. Included in other receivables are amounts due from the Howard Community College Educational foundation of \$71,669 and from Barnes and Noble of 32,470, primarily for June's commission on sales.

Contributions Receivable

The foundation's contributions receivable represents unconditional promises to give from various contributors including individuals, foundations, local businesses, and governments. There was a \$7,000 allowance for uncollectible accounts recorded as of June 30, 2018.

Contributions receivable are recorded at the donated amount or net present value for those contributions expected to be collected in excess of one year. A discount rate of three percent was used as of June 30, 2018. The unamortized discount of \$6,255 will be accreted into contribution revenue in the future.

Capital Assets

Capital assets of the college are long-lived tangible assets that will benefit future periods. These assets have been capitalized and are depreciated over their estimated useful lives. Capital assets are defined as land, land improvements, buildings, building renovations, leasehold improvements, furniture and equipment (including software), and library books that have initial useful lives extending beyond a single reporting period.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The college has established a threshold of \$5,000 for furniture and equipment for items to be capitalized. Library books are capitalized as one component unit for the purchases within the fiscal year.

Capital assets constructed or purchased are capitalized at cost, while assets acquired by gift are capitalized at their fair market value at the time of donation. The college depreciates all capital assets, except for land. Depreciation expense is not allocated functionally on the financial statements. Cost incurred for construction in progress is capitalized as incurred and not depreciated until the assets are ready to be placed in service.

Depreciation is computed on a straight-line basis over estimated useful lives (as listed below), beginning the year after acquisition, except for buildings, which are depreciated in the first year of their use.

<u>Class of Assets</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Land improvements	25 years
Renovations and leasehold improvements	15 years (or lease term, if shorter)
Library books	8 years
Furniture, equipment and software	3 - 10 years

Accrued Compensated Absences

The college accrues for unused compensated absences at year-end. Accrued compensated absences as of June 30, 2018, were \$2,561,951.

Changes in the college's accrued compensated absences for the year ended June 30, 2018, were as follows:

	<u>June 30, 2017</u>	<u>Net change</u>	<u>June 30, 2018</u>
Payable	<u>\$ 2,451,142</u>	<u>\$ 110,809</u>	<u>\$ 2,561,951</u>

Agency Funds

Funds held by the college as custodian or fiscal agent for others, such as student organizations used to support various student activities not directly related to instructional activities, are accounted for as agency funds. The funds held for others are recorded as a liability on the statement of net position and agency transactions are not included in the revenue and expenses of the college.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Unearned revenue for the college is primarily comprised of tuition received for semesters beginning after June 30, 2018, and grant revenue received during the year that has restrictions on spending related to time or purpose, which has been deferred until those restrictions are met. The foundation collects advance receipts for fundraising events. Funds received for foundation fundraising events are recognized as special events revenue upon the occurrence of the event.

Deferred Financing Inflows and Outflows Related to Pension Liability

Deferred financing outflows include changes in actuarial assumptions that are being amortized over a five-year period. The original amount was \$835,560, and the amount amortized during the year ended June 30, 2018, was \$167,112. Deferred financing inflows are made up of differences in the projected and actual investment earnings. The original amount was \$614,443 and the amount amortized during the year ended June 30, 2018, was \$122,889.

Deferred Financing Inflows and Outflows Related to OPEB Liability

Deferred financing outflows of \$269,612 is the amount paid to the county for the college's expense in FY18. This amount will be recognized in the OPEB expense in FY19 to coincide with the measurement date of the liability. Deferred financing inflows include changes in assumptions that are being amortized over a ten-year period, and a difference in the projected and actual investment earnings that are being amortized over a five-year period. The original amount was \$4,995,930 and the amount amortized during the year ended June 30, 2018, was \$509,600.

Net Position

Net position of the college is classified as restricted, unrestricted, or net investment in capital assets. Restricted net position is reported as either expendable or nonexpendable. Nonexpendable net position is to be maintained in perpetuity. Expendable net position, for which there are externally imposed constraints, are obligated or expensed within those condition(s).

The restricted net position of \$153,174 represents grants given to the college for a specific use, designated by the grantor. The unrestricted balance of (\$9,253,201) represents auxiliary enterprise funds of \$4,361,537, continuing education funds of \$4,373,033, cultural, community, theatre and other funds of \$12,456,922, and \$10,968,712 designated for construction and debt repayment, net of \$1,961,561 of unfunded vacation liability, \$1,955,503 of unfunded pension liability, and \$37,496,341 of unfunded postemployment related benefits.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

The net investment in capital assets of \$254,604,434 is net of related debt that includes the short-term and long-term debt to Howard County of \$12,053,670, and outstanding payables related to construction projects as of June 30, 2018, of \$1,698,128.

The foundation's net position is expanded into three separate categories, unrestricted, restricted for expendable, and nonexpendable net position. Unrestricted net position are contributions not subject to donor-imposed stipulations, or those whose restrictions have been satisfied.

Restricted for expendable net position are contributions subject to donor-imposed stipulations that will be met by the foundation through the passage of time, conduct of service, or incurrence of expenditures. Promises to pay for the endowments are recorded as restricted for expendable net position until the cash is received. Once the cash is received, those amounts are transferred to nonexpendable net position. As the restrictions on expendable net position are met, they are transferred from expendable net position to unrestricted net position through the assets released from restriction due to satisfaction of donor restrictions in the accompanying statement of revenue, expenses, and changes in net position.

Restricted for nonexpendable net position are contributions subject to donor-imposed stipulations that must be maintained in perpetuity by the foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Revenue Recognition

The financial statements of the college have been prepared on the accrual basis of accounting, whereby all revenue is recorded when earned and all expenses are recorded when they have been incurred. These financial statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution. Internal activity between programs has been eliminated.

The college's tuition and fee revenue is shown net of scholarship allowances. A scholarship allowance is defined as the difference between the stated charge for tuition, fees, goods, and services provided by the college and the amount that is paid by the student and/or third-parties making payments on behalf of the student. The scholarship allowance represents the amount the college receives as tuition from outside sources, such as the Title IV Federal Grant Program, the foundation, other restricted grants, and the college's own scholarship program. Funds received on behalf of students from outside sources, such as third-party payers, are reported in the appropriate revenue classification.

Certain aid, such as loans and third-party payments, are credited to the student's account as if the student made the payment. For the year ended June 30, 2018, the college netted expenses

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

in the amount of \$11,771,390, reducing tuition revenue by \$11,696,946, auxiliary enterprise revenue by \$64,613, and cultural revenue by \$9,831, for these payments.

Auxiliary Enterprises, Continuing Education, and Cultural, Community, and Other Programs

Auxiliary enterprises operated by the college include the Children's Learning Center, the art galleries, and student athletic programs. The bookstore, food service, and vending are outsourced.

Continuing education and workforce development programs primarily represent noncredit courses offered by the college for a fee.

Cultural, community, and other programs are primarily events of Rep Stage, the Laurel College Center (LCC), summer instructional and sports camps, the youth music program, the international programs, various student services programs, and athletic activities sponsored by the college for the community. Net position for these programs are part of the unrestricted net position balance.

The contributions received by the foundation are recorded as unrestricted, expendable, or nonexpendable restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in expendable or nonexpendable net position, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension Systems (MSRPS) and additions to/deductions from MSRPS fiduciary net position have been determined on the same basis as they are reported by MSRPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Operating and Non-operating Components

The college has elected to report its operating expenses by functional classification, with the exception of certain fringe benefits paid directly by the state and depreciation expense, which are presented as distinct expenses. The statement of cash flows is presented as required using

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-operating Components (Continued)

the direct method that depicts cash flows from operating activities and a reconciliation of operating loss and operating cash flows.

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, non-capital financing, or investing activities. The college's principal ongoing operations determine operating activities. Ongoing operations of the college include, but are not limited to, providing intellectual, cultural, and social services through associate degree and certificate programs, along with continuing education and workforce development programs. Operating revenue of the college consists of tuition and fees; cultural, community, and other programs; auxiliary enterprise revenue; and other operating revenue.

Non-operating components include transactions and other events that are defined as non-capital financing activities, capital financing activities, and investing activities.

Non-capital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest.

Non-operating activities include certain intergovernmental receipts and payments, such as state and local appropriations, grants, payments paid on behalf of the college, investment earnings, and interest on debt. The college has also identified student financial aid assistance, including Pell Grants and Supplemental Educational Opportunity Grants, as non-operating revenue as the college does not consider them to be exchange transactions.

Capital financing activities include acquiring and disposing of capital assets used in providing services or producing goods; borrowing money for acquiring, constructing, or improving capital assets, and repaying the amounts borrowed, including interest; and paying for capital assets obtained from vendors on credit. Investing activities include acquiring and disposing of debt or equity instruments and the related investment earnings.

In-Kind Contributions

The foundation is the designated recipient for all college gifts. The foundation receives and records all in-kind gifts intended for the college, such as artwork, books, equipment, etc. This property is transferred to the college immediately upon receipt. Annually, the college records all in-kind gifts in the restricted fund. The college recorded \$9,915 of in-kind gifts in FY18.

The foundation receives contributions of various services from non-related sources. These contributions and their related expenses are reported at fair value in the period the services are performed. The estimated fair value of these contributions for the year ended June 30, 2018, was \$40,162. Additionally, the foundation receives in-kind support from the college consisting of personnel, legal, consulting, and office costs. The estimated value of these services for the year ended June 30, 2018, was \$802,988.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fundraising and Management and General Expenses

Fundraising expenses of the foundation consist of donor support expenses and fundraising event-related insurance policies. Management and general expenses consist of office expenses and accounting and legal fees.

Federal and State Income Tax Status

The college is exempt from federal and state income taxes as it is essentially a political subdivision of the state. The foundation has been granted an exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

The IRS has also determined that the foundation is not a private foundation. The foundation is required to report unrelated business income to the IRS. The foundation did not have any unrelated business income for the year ending June 30, 2018. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The foundation has analyzed tax positions taken for filing with the IRS and in Maryland where it operates. The foundation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the foundation's financial position or results of activities. Accordingly, the foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2018. The foundation is still open to examination by taxing authorities from FY15 forward.

New Accounting Pronouncements

The college adopted Governmental Accounting Standard Board (GASB) Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ending June 30, 2018. The implementation of the statement required the college to restate the beginning net OPEB liability. The restatement resulted in a decrease in the college's net position as of July 1, 2017, by \$36,380,612. The OPEB liability was calculated by actuarial consultants using January 1, 2016, valuation data rolled forward to June 30, 2017. The liability is adjusted for passage of time by adding normal cost minus benefit payments, all adjusted with interest.

During the year ended June 30, 2018, GASB issued statement no. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and statement no. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; and statement no.87, *Leases*. The college is analyzing the effects of these pronouncements and plans to implement them by their effective dates, FY19 and FY20, respectively.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In January 2018, the FASB issued Accounting Standards Update 2018-08, *Not-for-Profit Entities* (ASU 2018-08). This ASU clarifies and improves the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The Foundation does not expect the adoption of ASU 2018-08 to have a significant effect on its financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. The amendments in this ASU are effective December 15, 2017, with an option for early adoption. The ASU 2016-14 will impact the presentation of the financial statements and related disclosures when it is adopted.

December 15, 2017. The ASU 2016-14 will impact the presentation of the financial statements and related disclosures when it is adopted.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The foundation does not expect the adoption of ASU 2016-15 to have a significant effect on its financial statements.

3. CASH AND CASH EQUIVALENTS

A. Deposits

As of year-end, the carrying amount of the college's deposits was \$1,348,810 and the bank balance was \$2,749,703. The deposits of the college, as of June 30, 2018, were not exposed to custodial credit risk. The operating account is federally insured up to \$250,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$250,000 were collateralized by mortgage back securities with a market value of \$10,000,000, as of June 30, 2018. The collateral is held by the bank's agent in the college's name.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

3. CASH AND CASH EQUIVALENTS (CONTINUED)

B. Investments

The college's allowable investments are determined by Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the college's investment policy. The college may invest in certificates of deposit with commercial banks in the State of Maryland, direct U.S. obligations, U.S. government agency obligations, repurchase agreements, banker's acceptances from approved banks with acceptable credit ratings, commercial paper from entities with an acceptable credit rating, money market funds, and the Maryland Local Government Investment Pool (MLGIP).

As of June 30, 2018, the college's investment balance consisted of \$36,708,462 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 3,300
Carrying amount of deposit	1,348,810
Carrying amount of MLGIP	36,708,642
Total cash and cash equivalents	\$ 38,060,572

Interest rate risk

Fair value fluctuates with interest rates and increasing interest rates could cause fair value to decline below original cost. To limit the college's exposure to fair value losses arising from increasing interest rates, the college's investment policy limits the term of investment maturities. As of June 30, 2018, the college's investments were limited to the MLGIP with maturity of less than one year. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the college from having to sell investments below original cost for that purpose. The investments, as of June 30, 2018, met the college's investment policy as of that date.

Investment income included interest and dividends in the amount of \$501,151 for the year ended June 30, 2018.

Credit Risk

The college invests in MLGIP, which is under the administration of the state treasurer. The MLGIP is rated AAAM by Standards & Poor's, its highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of one dollar per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, market-to-market, is calculated and maintained on a weekly basis to ensure a one dollar per unit constant value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the college will not be able to recover all or a portion of the value of its investments or collateral

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (continued)

securities that are in the possession of an outside party. The college's investments were all invested in the MLGIP and are not exposed to custodial credit risk.

Foreign Currency Risk

The college's investment policy does not allow for investments denominated in foreign currencies. The college did not have any investments denominated in any foreign currency as of June 30, 2018.

4. INVESTMENTS AND INTEREST IN IRREVOCABLE TRUST

The foundation's investments and interest in irrevocable trust as of June 30, 2018, were summarized as follows:

	Amortized Cost	Gross Unrealized Gain/Loss	Fair Value
Fixed income - corporate bonds	\$ 929,604	\$ (14,659)	\$ 914,945
Mutual funds - equities	1,314,234	491,051	1,805,285
Interest in external investment pool	7,895,953	2,416,638	10,312,591
Interest in irrevocable trust	87,262	42,200	129,462
Total	\$ 10,227,053	\$2,935,230	\$ 13,162,283

On January 29, 2009, the foundation received an irrevocable bequest expectancy in which the college would receive 20 percent of a charitable remainder trust. The value of the trust was \$2,426,026 as of June 30, 2018. As of June 30, 2018, the interest in irrevocable trust was recorded at \$129,462, net of the related discount of \$355,743. The foundation used the IRS guideline suggested discount rate of 6.8 percent as of June 30, 2018.

5. FAIR VALUE MEASUREMENTS

Fair value is defined under Accounting Standards Codification (ASC) topic no. 820, *Fair Value Measurements and Disclosures*, as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under ASC topic no. 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and are as follows:

Basis of Fair Value Measurement

Level 1 Inputs: Valuation based on quoted prices in active markets for identical unrestricted assets or liabilities that a reporting entity has the ability to access at the measurement date,

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the foundation's assumptions

about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following section describes the valuation methodologies used by the foundation to measure its financial assets at fair value:

- **Mutual funds and fixed income** - The foundation's investments in mutual funds and fixed income is valued at the closing price reported on the active and open market on which the fund is traded.
- **Interest in external investment pool** - The foundation's investments in the investment pool are held in the USMF investment pool, which is valued based on Level 3 inputs within the fair value hierarchy. The investments of USMF related to the foundation's pool holds the majority of its investment assets in money market, global equities, hedge global and U.S. equity and absolute return funds. USMF carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the board of trustees of USMF after consideration of factors thought to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that USMF might reasonably expect to receive upon the current sale of the investment in

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

an arms-length transaction in the investment's principal market. The financial statements of the USMF are audited annually by a nationally recognized firm of independent auditors.

The foundation does not directly invest in the underlying securities of the USMF, but instead holds units in the overall United Investment Fund. The amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

- **Interest in irrevocable trust** - The foundation's interest in an irrevocable trust is valued at the estimated fair value of the underlying market value of investments.

There have been no changes in the valuation methodologies used as of June 30, 2018.

The following tables set forth, by level within the fair value hierarchy, the foundation's investment assets at fair value as of June 30, 2018. As required by ASC topic no. 820, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 914,945	\$ -	\$ -	\$ 914,945
Mutual funds	1,805,285	-	-	1,805,285
Interest in external investment pool	-	-	10,312,591	10,312,591
Interest in irrevocable trust	-	129,462	-	129,462
Total	\$ 2,720,230	\$ 129,462	\$ 10,312,591	\$ 13,162,283

The following table presents the foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC topic no. 820-10 for the year ended June 30, 2018:

<i>June 30, 2018</i>	
Balance, beginning of year	\$ 8,756,868
Realized gains	457,841
Unrealized gains	428,404
Investment fees	(92,951)
Sales/redemptions	(343,037)
Purchases	1,105,466
Balance, end of year	\$ 10,312,591

Unrealized gains in fair value are recorded in the statement of revenues, expenses, and changes in net position.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

Quantitative information as of June 30, 2018, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) was as follows:

Description	Fair Value	Principal Valuation Technique	Unobservable input	Weighted Average
Interest in external investment pool	\$ 10,312,591	Net Asset Value	Values assigned to underlying fund investments, including capital activity (capital calls and distributions) and performance estimates as received from the fund manager	N/A

Level 3 Valuation Process

The USMF custodian determines the fair value of the overall investment pool and provides that information to the record keeper. A unitized accounting methodology is used for the valuation process. This methodology takes into account the beginning units along with the withdrawal units. The earnings are then allocated and any additions and transfers are added at the current month value. USMF personnel also have regular calls with management of the funds and meet periodically with the foundation's investment committee and report the performance of the funds.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the foundation's interest in the external investment pool are subject to market risks resulting from changes in the market value of its investments and other events that may occur over the life of the investments and may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2018, were recorded as follows:

Due in:	Amounts
Less than one year	\$ 145,129
One to five years	125,157
	270,286
Less: discount for net present value of three percent	6,255
Less: allowance for uncollectible accounts	7,000
Contributions Receivable, Net	\$ 257,031

7. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for the year ended June 30, 2018:

	June 30, 2017	Additions/ Transfers	Retirement s	June 30, 2018
Land	\$ 378,578	\$ -	\$ -	\$ 378,578
Land improvements	1,987,708	-	-	1,987,708
Buildings	258,288,338	2,379,558	-	260,667,896
Building renovations	60,838,133	1,999,655	(1,719,543)	61,118,245
Furniture and equipment	21,242,491	1,230,120	(1,017,067)	21,455,544
Library books	361,740	12,720	(35,262)	339,198
Leasehold improvements	332,648	-	-	332,648
Total	343,429,636	5,622,053	(2,771,872)	346,279,817
Less: accumulated depreciation	90,406,907	11,364,486	(2,768,658)	99,002,735
Assets, net of depreciation	253,022,729	(5,742,433)	(3,214)	247,277,082
Construction in progress	3,273,402	17,805,746	-	21,079,148
Total	\$ 256,296,131	\$12,063,313	\$ (3,214)	\$ 268,356,230

8. BONDS PAYABLE, HOWARD COUNTY

The college is indebted to the county for bond issues in the amount of \$12,053,670, as of June 30, 2018, for construction costs of the east parking garage, the college's portion of the Horowitz Visual and Performing Arts Center, and the Campus Roadway Project that includes the east parking garage expansion. New bond debt of \$4,360,685 was incurred during FY18 for the Campus Roadway Project. During FY18, the county refunded the bonds and that resulted in additional county revenue of \$88,058. Payments began in 2008 and are due through 2038 at interest rates ranging from three percent to five percent.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

8. BONDS PAYABLE, HOWARD COUNTY (CONTINUED)

The debt and interest payments in the future are as follows:

<u>For The Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 611,598	\$ 487,078
2020	794,844	488,812
2021	817,411	450,006
2022	705,722	413,570
2023	789,191	379,506
2024-2028*	3,798,912	1,353,397
2029-2033*	2,378,005	657,827
2034-2038*	2,157,987	214,253
Total	<u>\$ 12,053,670</u>	<u>\$ 4,444,449</u>

*Debt associated with older capital projects is paid off during these five-year periods. The amount is smaller over time as older projects are paid off.

Changes in the college's long-term liabilities for the year ended June 30, 2018, are as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Amounts Due in One Year</u>
Bonds payable	<u>\$ 8,501,192</u>	<u>\$4,360,685</u>	<u>\$ 808,207</u>	<u>\$ 12,053,670</u>	<u>\$ 611,598</u>

9. RESTRICTED NET POSITION

Restricted for expendable net position of the college of \$153,174, as of June 30, 2018, consists of funds for grant programs. Restricted for expendable net position of the foundation of \$3,464,910 as of June 30, 2018, consists of funds restricted for scholarship purposes and other specified programs. Net position released from restrictions were funds restricted for scholarship purposes and other specified programs whose restrictions were satisfied. Nonexpendable net position of the foundation of \$8,170,748, as of June 30, 2018, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships.

Endowment

The board of directors of the foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the foundation classifies as nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

9. RESTRICTED NET POSITION (CONTINUED)

Endowment (Continued)

endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in nonexpendable net position is classified as expendable net position until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund;
- the purposes of the foundation and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the foundation; and
- the investment policies of the foundation.

Return Objectives and Risk Parameters

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The foundation has a policy of appropriating four percent of the average year-end balance for the prior three years of the endowment at the end of each fiscal year. The foundation board may spend more or less than the four percent because balances may not be sufficient due to deposits, withdrawals, and investment returns.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

9. RESTRICTED NET POSITION (CONTINUED)

Endowment (Continued)

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature reported in expendable net position, as of June 30, 2018.

Composition of the Endowment by Net Position

As of June 30, 2018, the composition of the endowments was as follows:

As of June 30, 2018				
	Unrestricted	Expendable	Nonexpendable	Total
Board designated and donor-restricted endowment Funds	\$ 544,008	\$ 1,865,630	\$ 8,170,748	\$ 10,580,386

Change in Endowment Net Position

The changes in endowment net position were as follows:

June 30, 2018				
	Unrestricted	Expendable	Nonexpendable	Total
Endowment net position, June 30, 2017	\$ 544,088	\$ 1,459,535	\$ 7,133,524	\$ 9,137,067
Investment return:				
Investment income	-	152,027	-	152,027
Net depreciation	-	641,267	7,341	648,608
Total investment return	-	793,294	7,341	800,635
Contributions	-	31,060	892,071	923,131
Appropriated for expenditures	-	(342,540)	-	(342,540)
Transfers	-	(75,719)	137,812	62,093
Endowment net position, June 30, 2018	\$ 544,008	\$1,865,630	\$ 8,170,748	\$ 10,580,386

During the year ended June 30, 2018, transfers were made among unrestricted net assets, expendable net position, and nonexpendable net position. The transfers were based on a more accurate understanding of the donors' intentions for contributions received by the foundation.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

10. RETIREMENT BENEFITS

All budgeted full-time and budgeted part-time college employees participate in either the Maryland State Retirement and Pension Systems (MSRPS) or an Optional Retirement Program (ORP), primarily the Teachers Insurance and Annuity Association (TIAA). The college's total current-year payroll for all employees was \$59,173,925. The payroll of employees covered by either the MSRPS or an ORP was \$44,161,042.

MSRPS is a cost-sharing multiple employer Public Employees Retirement System (PERS) established and administered in accordance with State Personnel and Pension Article of the Annotated Code of Maryland. Annually, the State Retirement Agency publishes a publicly-available financial report that includes financial statements and required supplementary information for the PERS. That report may be obtained by writing to MSRPS at the State Retirement Agency, 301 West Preston Street, Baltimore, Maryland, 21201-2363.

MSRPS Benefits Provided

Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The system also provides disability and survivor benefits to DB plan members.

Employee benefits and contributions differ based on the employees' participation in either the retirement system (Teachers' Retirement System or Employees' Retirement System) or the pension system (Teachers' Pension System or Employees' Pension System). All new budgeted employees must join the pension system or an ORP. Employees who were members of the retirement system on December 31, 1979, can continue membership unless they elect to join the pension system or an ORP.

All employees have vested benefits after 10 years of creditable service. Retirement benefits under both the retirement and pension systems are based on years of service. Under the pension system, benefits are integrated with Social Security benefits and cost-of-living adjustments vary depending on the plan. The retirement system has no integration level.

The pension system requires individuals to contribute seven percent of their annual salary. Employees, who are members of the retirement system can, if elected by July 1984, contribute seven percent of their annual compensation and receive an unlimited cost-of-living adjustment.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

10. RETIREMENT BENEFITS (CONTINUED)

Employer Contributions

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The State of Maryland pays, on behalf of the college, the employer's share of retirement costs for teachers and related positions. During the fiscal year ended June 30, 2018, the state paid \$4,514,216 in retirement costs, equal to approximately 10.2 percent of the covered payroll costs. The college's share of retirement costs for other employees was calculated based on the accrued benefit cost method.

Optional Retirement

TIAA is a Fortune 100 financial services organization that is a leading retirement provider for people who work in the academic, research, medical and cultural fields. Much of TIAA operates on a non-for-profit basis, with surplus returned to participants. The TIAA program is a money purchase plan under which the benefit is determined by the retirement income purchased by state and employee contributions. Fidelity is also an available employee options to establish an ORP. The state contribution rate is determined by state law and is currently 7.25 percent of salary. No employee contribution is required. Participants in an optional retirement plan may begin to receive their annuity income at any time after leaving the college; however, there is a penalty for those under retirement age.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

As of June 30, 2018, the college reported a liability of \$2,295,602, for its proportionate share of the MSRPS plans liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. As of June 30, 2018, the college's proportion was .106 percent.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the college recognized pension expense related to the employee's system only, of \$38,254. This does not include amounts that may be included in the \$4,514,216 of state paid benefits. The net amount of \$340,099, reported as deferred outflows and

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

10. RETIREMENT BENEFITS (CONTINUED)

inflows of resources related to pensions, was recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

As of June 30, 2018, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ 6,792	\$ (160,301)
Net difference between projected and actual earnings on pension plan investments	318,724	(143,107)
Changes in assumption	75,999	-
College contributions subsequent to the measurement date	241,992	-
Total	\$ 643,507	\$ (303,408)

The net amount of \$340,099, reported as deferred outflows of resources and (deferred inflows) of resources related to pensions, will be recognized in pension expense as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 286,215
2020	88,825
2021	12,938
2022	(47,879)

Actuarial Assumptions

Investment rate of return – 7.5 percent a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.15 percent to 9.15 percent, including inflation.

Inflation - 2.65 percent general, 3.15 percent wage

Mortality assumptions - The healthy life postemployment mortality table used in this valuation of the system was the RP-2014 Combined Healthy Mortality Table.

The long-term expected rate of return on pension plan investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements
June 30, 2018

10. RETIREMENT BENEFITS (CONTINUED)

The long-term expected rate of return on pension plan investments (continued)

(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate

of return by weighing the expected future real rates of return adopted by the Maryland State Pension Plan Board after considering input from the system’s investment consultant(s) and actuary(s). For each major asset class that is included in the systems target asset allocation, these best estimates are summarized in the following tables:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.3%
Private Equity	11%	7.0%
Rate Sensitive	21%	1.2%
Credit Opportunity	9%	3.6%
Real Assets	15%	5.7%
Absolute Return	<u>8%</u>	3.1%
Total	<u>100%</u>	

The above was the Maryland State Pension Plan Board adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2018.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.50 percent was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

10. RETIREMENT BENEFITS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.5 percent, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher.

	<u>1% Lower (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Higher (8.50%)</u>
Howard Community College proportionate share of the net pension liability	\$3,128,367	\$2,295,602	\$1,599,398

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Maryland State Retirement and Pension System Comprehensive Annual Financial Report.

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The college contributes to the Howard County Other Postemployment Benefits Trust, a cost-sharing multiple-employer defined benefit health care plan (the plan). The county established an irrevocable trust for administering the plan assets and paying health care costs on behalf of the participants. Howard County provides postemployment health insurance benefits to all eligible employees who retire from the county or its component units who wish to participate. In order to be eligible, the retiree must have a minimum of 10 years of service, and immediately preceding retirement, been enrolled in a medical, vision, or prescription drug insurance plan offered to active employees of the county or its components. The county will pay a percentage of the retiree's health insurance premium based upon certain criteria. This percentage varies with the number of years of service attained by the employee. Other retirees who do not meet the eligibility criteria must have five years of service to participate in the retirees' health insurance program by paying the full premium at the group rate.

Plan Funding Policy

The college's required annual contribution is based on its annual retiree expense. The county, as the plan sponsor, is responsible for funding the plan. For the year ended June 30, 2018, the college recognized the county payment made on behalf of the college of \$400,511, which was made during the measurement period.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Funding Status and Funding Process

While the college is paying an annual contribution, the college is not funding the plan. Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2017, the plan was 8.62 percent funded.

OPEB Liability, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2018, the college reported a liability of \$33,279,623 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The college's proportion of the net OPEB liability was based on an actuarial calculation of the College's OPEB liability on a standalone basis compared to the Plan's total OPEB liability. As of June 30, 2018, the college's proportion was 3.01 percent.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the college recognized an OPEB expense of \$1,766,320. This amount includes the contribution of \$400,511, made by the county. As of June 30, 2018, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 4,406,275
Changes in assumption	-	80,055
College contributions subsequent to the measurement date	269,612	-
Total	\$ 269,612	\$ 4,486,330

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2018**

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

\$269,612 reported as deferred outflows of resources related to OPEB resulting from college contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. This deferred outflow of \$269,612 combined with the deferred inflows of resources of (\$4,486,330) related to OPEB will be recognized in OPEB expenses as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2019	\$(239,988)
2020	(509,600)
2021	(509,600)
2022	(509,600)
2023	(489,586)
Thereafter	(1,958,344)

The long-term expected rate of return on OPEB plan investments

The long-term expected rate of return on OPEB plan investments was determined for expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long- Term Expected Real Rate of Return</u>
Equities	3.27%
Fixed Income	1.14%
Total	

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements
June 30, 2018

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)(continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

Significant valuation methods and assumptions are as follows:

Actuarial cost method	Entry Age Normal
Interest assumption	Discount rate of 3.94%
Actuarial Trend Assumption	Medical and prescription drug trend rate applied to FY2017 is 5.6%, with the ultimate rate of 3.90%; dental trend applied to all years is 5.00%
Inflation	2.30%
Municipal bond rate	3.58% as of 6/30/17 based on the Bond Buyer General Obligation 20-year Bond Municipal Bond Index
Projected cash flows	College and County contributions will continue to increase \$3 million per annum Long-term expected rate of return of 7.5% was applied to fiscal years 2018 through 2036, the date the plan is expected to be insolvent
Mortality	Generational RP-2000 Combined Mortality Table for Males and Females

The OPEB liability is based on the methods, assumptions and participant data used as detailed in the 2017 GASB actuarial valuation report dated September 1, 2018. These calculations are based on the Entry Age Actuarial cost method as required by GASB 74 and 75. That actuarial cost methods requires a salary scale assumption.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.94 percent. The projection of cash flows used to determine the discount rate assumed that contributions from county and the college will be made at contractually required rates, actuarially determined. Based on this assumption, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees through 2036. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments through 2036 to determine the total OPEB liability.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements

June 30, 2018

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.94%) or 1-percentage-point higher (4.94%) than the current discount rate:

	1% Decrease (2.94%)	Discount Rate (3.94%)	1% Increase (4.94%)
Net OPEB liability	\$ 40,104,048	\$ 33,279,623	\$ 27,834,974

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using healthcare cost trend that are 1 percentage-point lower (3.90% decreasing to 2.90%) or 1 percentage-point higher (3.90% increasing to 4.90%) than the current healthcare cost trend rates:

	1% Decrease (3.90% decreasing to 2.90%)	Healthcare Cost Trend Rates (3.90% medical trend)	1% Increase (3.90% increasing to 4.90%)
Net OPEB liability	\$ 27,029,267	\$ 33,279,623	\$ 41,569,863

12. RISK MANAGEMENT

The college is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The college is self-insured through Howard County Government's self-insurance program, which is underwritten by the Local Government Insurance Trust (LGIT). The self-insurance fund provides general liability insurance, all-risk property, and worker's compensation insurance for Howard County, Maryland. The Fund is a self-insurance mechanism, authorized under Maryland Law, by which local governments' pool together to provide casualty self-insurance coverage.

The limit of coverage for general liability is \$5,000,000 per occurrence for any single event, with the first \$1,000,000 covered under the Howard County fund and the \$4,000,000 additional through a policy of excess liability insurance directly through LGIT. The limit for property coverage is full replacement cost equal to the insurable value of real or personal property, with the first \$100,000 covered under the Howard County Fund and the remaining balance of full replacement through a policy of excess property insurance directly through LGIT. The limit of

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

12. RISK MANAGEMENT (continued)

coverage for workers' compensation is the statutory coverage as required by the State of Maryland, with the first \$1,000,000 covered under the Howard County Fund and \$4,000,000 additional through a policy of excess professional liability insurance directly through LGIT. In addition, the college maintains its primary and excess automobile coverage directly through LGIT with a limit of \$1,000,000 for each automobile claim.

Under the umbrella of Howard County, the college has additional coverage from LGIT for liability and property claims in excess as described above. The county pays annual premiums to LGIT for these coverages. LGIT was created to provide broader insurance than that available from commercial insurers, coverage that otherwise would be unavailable, and loss control and risk management services for local governments. The college is covered for workers' compensation claims in excess of the \$1,000,000 per claim as described above. Settled claims have not exceeded coverage in any of the past five years.

The college makes payments to the county and LGIT based on the premiums established by the county dependent on a combination of actuarial estimates and historical cost information. The college has no liability for covered claims other than paying the premium established by the county. The amount paid to the county and LGIT and expensed during the year ended June 30, 2018, was \$532,249.

The college has also entered into an agreement with Howard County to provide health care coverage for its employees under the county's self-insured plan. The college has the option to terminate the agreement at the end of each fiscal year. The college has no liability for covered claims other than paying the premiums established by the county, which were \$8,005,076 for the year ended June 30, 2018. For the year-ended June 30, 2018, the county made no payments for claims in excess of premiums on behalf of the college.

13. RELATED PARTY TRANSACTIONS

As discussed, the foundation has been determined to be a component unit of the college, after analyzing the requirements of GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, and its financial activity is presented discretely in the college's financial statements.

For the year ended June 30, 2018, the college provided \$802,988 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$1,462,001 in scholarships awarded to students and \$309,896 in non-scholarship benefits to the college in support of college programs and other services. This figure includes in-kind contributions.

Howard County Government allows the college to use the Hickory Ridge Building and the first floor of the Gateway Building for classrooms and administrative offices. Both facilities are owned by the county. The college pays all maintenance and operating costs related to the use of this 77,200 square feet of space. The college has recognized \$1,158,000 in non-operating revenue and facilities expense for this in-kind county contribution.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

14. JOINT VENTURE - LAUREL COLLEGE CENTER (LCC)

In FY01, the college entered into a joint-venture agreement with Prince George's Community College (PGCC) to form the LCC. The LCC offers both credit and noncredit courses. The college and PGCC split revenue of \$3,623,249 and expenses of \$3,315,181 associated with the LCC equally. For the year ended June 30, 2018, the college recorded 50 percent of revenue and 50 percent of expenses of the center in the statement of revenue, expenditures, and changes in net position, as per the agreement with PGCC. As of June 30, 2018, the amount of \$92,575 is due to PGCC from HCC.

As part of the joint venture agreement, the college and PGCC entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease had an initial term of five years with the option to renew the lease for an additional five years in one-year increments. The lease payments have an escalation clause of three percent per year and the college has recognized its proportionate share of the rent expense in accordance with the terms of the lease agreement. HCC's proportionate share of the rent expense for the year ended June 30, 2018, was \$591,813.

In FY13, the colleges entered into a five-year lease, with two additional five-year renewal options. The lease contains a non-appropriation clause. In this lease agreement, if after 10 years the LCC continued to lease the space, the LCC would receive a rent abatement of \$1,005,651 in year 10. The lease contains an escalation clause of three percent per year. The lease increased the lease space by 4,514 square feet on another floor of the building.

During FY14, the colleges agreed to increase the lease space by another 7,694 square feet on the fifth floor of the building and renewed the existing leased space agreement for five years. There is now one renewal option left on the lease. The rent abatement increased from \$450,000 to \$1,455,651, and was spread evenly between September 1, 2014, and August 31, 2021.

The college's proportionate share of the future minimum lease payments under the terms of the leases as of June 30, 2018, were:

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 539,019
2020	558,309
2021	578,178
2022	96,918
TOTAL	<u><u>\$ 1,172,424</u></u>

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2018

15. COMMITMENTS AND CONTINGENCIES

Contingencies

In the normal course of business, the college becomes involved in legal actions. There are no legal actions pending at the current time.

As of June 30, 2018, the college has commitments of approximately \$19,978,456, to complete outstanding capital construction projects.

Grants

Most grants and cost-reimbursable contracts of the college and foundation specify the types of expenses for which the grant or contract funds may be used. The expenses made by the college under some of these grants and contracts are subject to audit. To date, the college has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

16. SUBSEQUENT EVENTS

The college's management evaluated the accompanying financial statements for subsequent events and transactions through September 20, 2018, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Proportionate Share of the Net Pension Liability - Maryland State Retirement and Pension Systems

	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
College's proportion of net pension liability	0.0106%	0.0117%	0.0124%	0.011%
College's proportionate share of net pension liability	\$2,295,602	\$2,757,041	\$2,579,875	\$1,878,075
College's covered-employee payroll	\$3,214,415	\$3,031,305	\$3,021,313	\$2,983,599
College's proportionate share of net pension liability as a percentage of its covered-employee payroll	71.42%	90.95%	85.39%	62.95%
Plan fiduciary net position as a percentage of total pension liability	69.38%	65.79%	68.78%	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the college presents information for those years for which information is available.

**The amounts presented above were determined as of June 30, 2017, 2016, 2015, and 2014, respectively.*

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Contributions - Maryland State Retirement and Pension Systems

	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
Statutorily required contributions	\$241,992	\$216,075	\$227,640	\$261,657
Contributions in relation to statutorily required contributions	\$241,992	\$216,075	\$227,640	\$261,657
Contribution deficiency (excess)	-	-	-	-
College's covered-employee payroll	\$3,214,415	\$3,031,305	\$3,021,313	\$2,983,599
Contributions as a percentage of covered-employee payroll	7.5%	7.1%	7.5%	8.8%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the college presents information for those years for which information is available.

*The amounts presented above were determined as of June 30, 2017, 2016, 2015, and 2014, respectively.

HOWARD COMMUNITY COLLEGE

Notes to Required Supplementary Information for Pensions June 30, 2018

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: There were the following changes in assumptions from the 2016 to 2017 valuation.

	<u>2016</u>	<u>2017</u>
Inflation	2.00%	2.65%
Salary Increase	3.30% to 9.20%	3.15% to 9.15%
Investment Rate of Return	7.55%	7.50%

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability – Howard County Government

	June 30, 2018*
College's proportion of net OPEB liability	3.01%
College's proportionate share of net OPEB liability	\$33,279,623
College's covered-employee payroll	\$41,961,287
College's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	79.3%
Plan fiduciary net position as a percentage of total OPEB liability	8.62%

*The amounts presented above were determined as of June 30, 2017.

Information for fiscal years earlier than 2018 is not available.

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Contributions – Howard County Government - Other Postemployment Benefits (OPEB)

	June 30, 2018*
Statutorily required contributions	\$250,080
Contributions in relation to statutorily required contributions	\$250,080
Contribution deficiency (excess)	-
College's covered-employee payroll	\$41,961,287
Contributions as a percentage of covered-employee payroll	.60%

*The amounts presented above were determined as of June 30, 2017.

Information for fiscal years earlier than 2018 is not available.

HOWARD COMMUNITY COLLEGE

Notes to Required Supplementary Information for OPEB
June 30, 2018

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: There were the following changes in assumptions from the 2016 to 2017 valuation.

	<u>2016</u>	<u>2017</u>
Investment Rate of Return	3.2%	3.94%

Because this OPEB plan does not depend on salary, no salary information is shown.