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

Financial Statements and
Report of Independent Public Accountant

For the Year Ended June 30, 2016

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, 2016, 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.



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

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, 2016, and the respective changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

2015 Financial Statements

The financial statements of the College as of and for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on September 30, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Howard Community College Proportionate Share of the Net Pension Liability - Maryland State Retirement and Pension Systems and the Schedule of Howard Community College's Contributions -Maryland State Retirement and Pension Systems 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 22, 2016

SB & Company, LLC

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

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) 2016. 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, 2016, 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



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

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 FY16 and the fiscal year accomplishments related to these action plans that impacted the college's financial operations.

Howard Community College
 Strategic Plan Fiscal Years 2016–2020
Fiscal Year 2016 Report

Strategic Goal #1. Student Success, Completion and Lifelong Learning			
1.1	Increase number of students graduating annually.		
	For FY16 - 1,210 graduates		Year over year trend: ↑
	Lead	Action Plans	Results as of June 30, 2016
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) for students and promote degree completion and transfer.	<p style="text-align: center; color: blue;">Accomplished and Ongoing</p> <p>Graduated largest number of students to date.</p> <p>All programs of study have been redesigned to reflect the new core and meet requirements of the College Completion and Career Readiness Act. Fifteen program reviews were completed this last year.</p> <p>Career Coach overview is included in first academic advising appointment.</p> <p>The total number of completed internships for FY16 was 148, which is a 34.5 percent increase from the previous year.</p>

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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: right;">Accomplished and Ongoing</p> <p>Step UP program participants have higher fall mean term GPAs, re-enrollment rates, and a higher ratio of credits earned to credits attempted than matched control groups of non-participants.</p> <p>In course sections where service learning is required, student success and retention rates are higher than the course average; when not required, students who complete the service learning assignment exhibit a higher rate of academic success than the overall average for the course.</p> <p>Silas Craft Collegians retention rates exceed benchmarks.</p> <p>First Year Experience (FYE) Peer Leaders were recruited, hired and trained. Surveys administered to both faculty and students with peer leaders indicate a high level of satisfaction with the assistance in supporting student success. HCC students continue to display a high level of engagement and they rate HCC’s “Contribution to Student Knowledge, Skills, and Personal Development” similar to or better than students at other colleges in the same national cohort size of the Community College Survey of Student Engagement.</p> <p>Sent military-friendly reminders to faculty and staff throughout the year, and had a campaign focused on military during Military Appreciation Month.</p> <p>Incorporated new student orientation into Freshman Focus during the “focus sessions;” 468 students attended.</p>
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**Management's Discussion and Analysis
June 30, 2016**

1.1C	VPSS	Support an increase in annual graduates by providing support services to include intrusive advising of students with 45 or more credits, promoting reverse transfer, and awarding Pathway Scholarships	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Promoted "Thirty credits in a year" in the schedule of classes, and as part of the advising protocol for all students. Sent emails to all students with 45+ credits and 2.00 GPA to encourage students to complete a degree and see an advisor for assistance.</p> <p>Contacted unsuccessful degree petitioners following each graduation period to assist students with degree completion. Worked with nursing and allied health students who were not admitted to clinical programs to assist with degree completion in other areas of study.</p> <p>Sent out Reverse Transfer letters to potential students. In collaboration with Towson University, University of Maryland Baltimore County, University of Maryland University College and University of Baltimore, sent reverse transfer letters to students.</p> <p>Piloted virtual advising via Canvas using an interface that provides a more personalized approach with an excellent real time face to face interaction.</p>
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HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis
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1.2	Increase % of developmental completers, 4 years after entry to HCC, from 35.8% (fall 2003 cohort) to 45% (fall 2011 cohort).		
As of the fall 2011 cohort - 39.8%. Year over year trend: ↑			
	Lead	Action Plans	Results as of June 30, 2016
1.2A	VPAA	<p>Pilot requirement for developmental mathematics students to also enroll in First Year Experience course.</p> <p>Evaluate and expand by one percent English 121 Accelerated Learning Program.</p> <p>Implement and evaluate course redesign linked to revision of the Code of Maryland Regulations (COMAR) definition of college-level mathematics.</p>	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Beginning fall 2015, HCC decreased the developmental MATH sequence from four to three courses. Policies were determined for placement and advising for current and new students into MATH-061, Basic Algebra and Geometry, or adult basic education courses.</p> <p>FYEX-100, First Year Experience was approved as a co-requisite for MATH-067, Elementary Algebra Applications' students.</p> <p>ENGL-121ALP, College Composition Accelerated Learning Program sections are offered 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, affecting approximately 300 students each academic year. The success rate for ENGL-121ALP in fall 2015 was 81.2 percent.</p>

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1.2B	VPAA VPSS VPIT	Implement and 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. Allow certain developmental students to concurrently enroll in same-subject credit-bearing course. Require students completing the developmental course sequence to immediately enroll in same-subject credit-bearing course the following semester.	<p>Partially Accomplished and Ongoing</p> <p>Assessment and Learning in Knowledge Spaces (Aleks), a product that supports learning in the classroom, was piloted in 10 sections of MATH-061, Basic Algebra and Geometry, with positive results. Students demonstrated course success rates of 75 percent. In addition, the number of students earning an A increased, and the withdrawal and failure rate decreased.</p> <p>ENGL-121, College Composition has been planned in the first semester in all credit program curriculum tracks. College-level math courses are planned in the first semester when a math course is identified in the curriculum. With student planning, all advisors are mapping the developmental sequence to the college-level math and English courses.</p> <p>Launched Student Planning web tools to allow students to see their progress toward chosen major completion.</p>
1.2C	VPSS	Expand and improve HCC Early Alert Program processes to attain positive outcomes. Establish course completion benchmarks and study program effectiveness.	<p>Partially Accomplished and Ongoing</p> <p>In FY16, the HCC Early Alert Program increased student/faculty engagement via faculty training and classroom visits. 79 percent of faculty reported that they initiated follow-ups with their students after alerts were sent. 64 percent of faculty reported that students initiated follow-ups with them after alerts were sent.</p>
1.2D	VPSS VPAA	Continue College Readiness program in English and mathematics with HCPSS.	<p>This program was discontinued.</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 80% (fall 2011 cohort). Close performance gaps as needed for Blacks, Asians, Hispanics.</i>		
	As of the fall 2011 cohort – 82.9%; target for all students overall achieved. Year over year trend: ↓ Blacks: 70.6% - ↑ Asians: 80.2% - ↓ Hispanics: 67.0% - ↑		
	Lead	Action Plans	Results as of June 30, 2016
1.3A	VPSS VPAA	Implement a Hispanic student success pilot program. Establish metrics to track, establish baseline, and identify benchmarks to evaluate the impact of the pilot’s success in eliminating the achievement gap.	Partially Accomplished and Ongoing Ambiciones began with 23 students during the 2015-2016 academic year. The goal for FY17 is to increase the number of participants by 100 percent.
1.3B	VPSS VPAA	Increase Howard P.R.I.D.E. participation by 30% over 3 years via upscaling the existing services. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.	Partially Accomplished and Ongoing Howard P.R.I.D.E. served 106 students in FY16. The goal for FY17 will be to serve at least 116 students (10 percent increase). Retention, academic standing, transfer and graduation rates remain higher than African-American males in general.

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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 60% (fall 2011 cohort). Close performance gaps as needed for Blacks, Asians, Hispanics.</i>		
<p style="text-align: center;">As of the fall 2011 cohort – 65.5%, target for all students overall achieved.</p> <p style="text-align: center;">Year over year trend: ↑</p> <p style="text-align: center;">Blacks: 46.4% - ↑ Asians: 51.6% - ↓ Hispanics: 40.2% - ↑</p>			
	Lead	Action Plans	Results as of June 30, 2016
1.4A	VPSS VPAA	In targeted programs (Howard P.R.I.D.E., Silas Craft Collegians, Hispanic Student Success, Student Support Services, and Career Links) provide supportive services to increase the graduation and transfer rates and close performance gaps of Blacks, Asians, and Hispanics. Benchmarks will be established that align with college indicators and increased incrementally each year over a five-year period.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Career Links (CL) increased outreach on campus. The CL roster included 129 credit students and 10 noncredit students.</p> <p>In FY17, Howard P.R.I.D.E. will increase its number of participants by 10 percent and Ambiciones will increase by 100 percent.</p> <p>Howard P.R.I.D.E.’s fall-to-spring retention rate was 83.8 percent. The academic success rate for fall 2015 was 60.6 percent over fall 2014 at 59.1 percent.</p> <p>Career Links retention rate, fall-to-spring is 76 percent, with 19 program graduates and/or transfers.</p> <p>Benchmarks for Ambiciones will be established in FY17.</p>
1.4B	VPAA	Continue the systematic evaluation plan for all academic programs.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Sequencing and mapping completed. General education goals of information literacy, science and quantitative reasoning, and critical thinking assessed. 125 course reviews and 15 program reviews were completed.</p>

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**Management's Discussion and Analysis
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1.4C	VPAA	Develop a plan for an undergraduate research program for STEM students.	<p>Accomplished and Ongoing</p> <p>In FY16, the first year of the program, 19 students worked on five research projects: Development of Wearable CO₂ Sensor to Measure Indoor Air Quality; Dynamics of a variable length double pendulum; Building upon 30 printing know-how - Temperature and orientation effects; Environmental Assessment, Gloede Dam, Patapsco River; and Monitoring Campus Surface Waters. Fifteen students are returning to continue their research in fall 2016 and five new students have been added to the project. This program is being funded, in part, by an NSF S-STEM Scholarship grant.</p>
1.4D	VPAA VPSS	Actively promote diversity in restricted enrollment programs.	<p>Partially Accomplished and Ongoing</p> <p>Reached out to the high schools to promote diversity enrollment in restricted and selective programs.</p> <p>Increased the number of African-American applications to the Rouse Scholars program by 45 percent and the Hispanic Rouse applications by more than 100 percent.</p> <p>Informed Howard P.R.I.D.E. and Ambiciones students of restricted and selective enrollment programs and encouraged application.</p> <p>Reviewed all web and print materials to insure that program diversity was well represented.</p>

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Management's Discussion and Analysis
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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% for both by fall 2015.</i>		
	Full-time Faculty Fall 2015 - 23.2% Year over year trend: ↑ Full-time Administrative and Professional Staff - 27.7%; target exceeded. ↓		
	Lead	Action Plans	Results as of June 30, 2016
2.1A	ALL	Improve faculty and staff recruitment efforts, outcomes, and retention.	Partially Accomplished and Ongoing The staff percentage of minorities has fallen slightly for the second straight year, but at 27.7 percent continues to exceed the goal. The faculty percentage rose slightly this year to 23.2 percent to match the highest figure in at least 10 years. Human resources continues to attend job fairs at colleges with high minority populations and to advertise on minority websites and with minority professional associations.

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2.2	<p><i>Increase stakeholder satisfaction for students from spring 2008 rates of: 37.5% for credit students to spring 2016, rate of 43% and for employees, from fall 2007 satisfaction rate of 4.29 to 4.35. Continuing education students will report 95% satisfaction. Make progress toward achieving a 50/50 FT/PT faculty ratio and appropriate (based on strategic plan requirements) staff ratio.</i></p>		
<p style="text-align: center;">Spring 2016 for credit students (38.7 %) Year over year trend: ↑ FY16 noncredit students (98.4%) ↓ , fall 2015 employees (4.12 out of 5) ↓ , FY16 FT/PT ratio was 41:59. ↑</p>			
	Lead	Action Plans	Results as of June 30, 2016
2.2A	ALL	<p>Use systems thinking approach to improve (Plan-Do-Check-Act) a process selected by the president’s team with the aim to create cost efficiencies while ensuring quality service to students and one another.</p>	<p style="text-align: center;">Partially Accomplished and ongoing</p> <p>Academic Affairs – Created program maps for all programs and certificates (128) to provide students with the most efficient and effective sequencing of course scheduling to support program completion. Reorganized elements of the Division of Continuing Education and Workforce Development, to enable the division to sustain the mission and better utilize human and fiscal resources. Worked with the cashier’s office and information technology department to establish capability of accepting credit card payments in Hickory Ridge building during major English Language Center (ELC) registration periods. Eliminated 80 percent of credit card problems, which saved over 25 hours each semester spent on following up on rejected credit card payments and reduced the number of hours and staff needed to consolidate drop safe payments by 50 percent.</p> <p>Administration and Finance - Completed set up for an in-house payment plan within Colleague. Agreed to a partnership with the county to outsource COBRA administration and dependent benefits audit.</p> <p>Student Services with Information Technology - Implemented self-service planning, which resulted in a significant increase in online registration. As of July 2016, 81 percent of registrations were completed online. Financial aid services adjusted internal processes to auto-package need-based scholarships, where possible.</p>

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Management’s Discussion and Analysis
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2.3	Increase development/training expenditure per FTE employee to stay in top quartile.		
As of FY14 NCCBP comparative data (FY 15 report) – 64th percentile. Year over year trend: ↓			
	Lead	Action Plans	Results as of June 30, 2016
2.3A	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.	Partially Accomplished and ongoing Data is obtained from the National Community College Benchmarking Project each fall. In fall 2014, the most recent data available, HCC’s expenditures on professional development reached the 64 th percentile. Budgetary issues prevented the college from meeting its goal, but HCC departments continue to value professional development for employees and to devote financial resources to this effort when possible. Employees also volunteer to lead training sessions for other employees.
2.4	Reduce HCC’s carbon footprint from 3.7 MMBTUs*/FTE (fall 2007) to 3.1 MMBTUs*/FTE (fall 2012). For 2013-15: reduce HCC’s carbon footprint another 1% each year. (*metric tons of carbon dioxide emissions) The industry changed this measure so now HCC calculates average gross emissions per square foot of built space (per 1,000 SF) instead.		
Latest reading: 11.16 MT Year over year trend: ↓ Down is good.			
	Lead	Action Plans	Results as of June 30, 2016
2.4A	VPAF	The Facilities and Sustainability Team (FAST) will work to achieve 5% emissions reduction over five years relative to baseline emissions in 2009 and an 80% reduction over 2009 levels by 2050. Current footprint at 3.31 MMBTUs/FTE. Investigate best practices. Examine and refine existing metrics to calculate the average gross emissions per square foot of built space (per 1,000 SF).	Partially Accomplished and Ongoing Incorporated new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF). Calculated current footprint at 20.56 kg/SF, which is 34.2 percent reduction of emissions below the 2009 baseline emissions and exceeds the goal of one percent reduction per year. Aligned goals with college’s Facilities Master Plan and with Association for the Advancement of Sustainability in Higher Education signatories for gross emissions per Carnegie class. Continue to revise goals to meet and exceed national standards, including new goal to incorporate climate neutrality by 2050.

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Management's Discussion and Analysis
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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, 2016
3.1A	President	Raise \$1,300,000 for scholarships and endowments and evaluate results of the feasibility study for a capital campaign.	Accomplished and Exceeded Raised \$2,007,916 (includes gifts and pledges, based on gross event revenues)
3.1B	President	Obtain \$2.4 million in competitive grants.	Partially Accomplished and Ongoing Obtained \$2,398,621
3.1C	VPAA VPAF	Continue construction of the new SET Building. Complete the renovation design of N and ST buildings.	Partially Accomplished and Ongoing Continued construction of the science, engineering, and technology building. Completed design and started construction of the East Garage expansion. Continued the design process for the nursing and science and technology renovation, which is currently at the 50 percent construction document phase.

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Management’s Discussion and Analysis
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3.2	<i>Increase opportunities to serve the regional needs.</i>		
See data below.			
	Lead	Action Plans	Results as of June 30, 2016
3.2A	VPSS	<p>Increase the draw rate of HCPSS recent high school graduates to 26 percent by continuing to promote the honors/scholars brand and by increasing dual enrollment.</p>	<p style="text-align: center;">Partially Accomplished and ongoing</p> <p>Early College: The college now has two Early College programs with the Howard County Public School System (HCPSS), one in cyber security at the Applied Research Lab and the other in STEM at Oakland Mills High School. The cyber security program has two cohorts of students, one of 21 students who just finished the eleventh grade and one cohort of 24 in the tenth grade. The college expects 29 current ninth grade students to start the program as sophomores next year, in a third cohort. At Oakland Mills, 40 sophomores completed their first two-credit course in the spring semester. For the second cohort, there are 45 tenth grade students identified to start college courses in the 2016-17 academic year. An additional 69 eighth graders are interested in pursuing the STEM program next year, as ninth graders in a third cohort. Students from both programs will enroll for nine to 12 credits at HCC each semester during their senior year of high school.</p> <p>Rebrand of honors admissions programs including Schoenbrodt Scholars required a redesign of print and web materials, and information sessions to expand the pool of prospective honors students.</p> <p>Trained honors students to be involved with high school honors recruitment.</p> <p>Implemented a program for current honors students to mail personalized handwritten notes to all newly accepted students.</p> <p>Collaborated with public relation and marketing to enhance Naviance marketing to target prospective students who expressed an interest in UMCP, UMBC, Towson, Stevenson, and Salisbury Universities.</p>

HOWARD COMMUNITY COLLEGE

**Management's Discussion and Analysis
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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>Designed and implemented five large scale events for the adult learner with approximately 100 prospective students attending each.</p> <p>Developed and piloted a virtual advising model geared to the adult learner and active military and veterans.</p> <p>Collaborated with Excelsior College to conduct sessions targeting adult learners.</p> <p>Increased presence in the community targeting adult learners, military, and veteran populations including Fort Meade, US Cyber Command, NSA, MD Transportation Authority, Howard County Commission for Veterans and Military Families, Howard County library branches, North Laurel Community Center, the MultiService Center, with events including Hispanic Community Fair and career and health fairs.</p>
3.2C	VPAA	Develop credit and noncredit courses that meet regional employment needs.	<p style="text-align: center;">Partially Accomplished and Ongoing</p> <p>Submitted to Maryland Higher Education Commission for approval:</p> <ul style="list-style-type: none"> • Cyber Forensics Technology Certificate • Entertainment Technology Certificate • Healthcare Documentation Specialist Certificate • Diagnostics Medical Vascular Certificate

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

The following are some core work accomplishments that occurred during the fiscal year that impacted FY16 revenue and spending:

- Advocated successfully for the college's legislative agenda with federal, state, and local governments;
- Provided \$1,586,898 in overall support for scholarships and programs from the foundation to the college (\$1,335,152 for scholarships and \$251,746 for programs);
- Collaborated in the development, launch, and subsequent content management of a new prospect-friendly and career-focused college website;
- Leveraged the college's improved website to incorporate new digital marketing tools and search engine optimization strategies into our marketing communications, including implementation of a new advertising campaign developed for the Trade Adjustment Assistance Community College and Career Training Grant Program (TAACCCT) grant project to generate prospect awareness and leads for our cyber/information technology programs;
- Redesigned the "Pathways" television show, hosted by Dr. Hetherington, which won three national awards;
- Completed design and installation of branding signage for the college's new dedicated sponsorship area within The Mall of Columbia, and have hosted interactive public events;
- Attained or maintained accreditation of the eight clinical programs within the health sciences divisions, e.g., nursing, cardiovascular and radiologic technology, diagnostic medical sonography, dental hygiene, etc.;
- Received a \$120,000 mathematics award over four years as part of a First in the World grant to the University System of Maryland to develop a course that will prepare students to take statistics allowing more students to complete their college-level course within one year;
- Implemented undergraduate research in science and engineering and engaged 19 science, engineering, technology and mathematics (STEM) students in faculty mentored research projects in engineering, geology, physics, chemistry, and environmental science;
- Developed and launched the 3-D Innovation Hub in partnership with the science, engineering, and technology and continuing education and workforce development divisions;
- Continued implementation of the Early College Grant in cyber security with two summer boot camps, hands on lab work, and inclusion of high school students in the college cyber team and lab;
- Developed and delivered a "train-the-trainer" program for Healthcare Interpreter Certificate Program under a grant from the Horizon Foundation;
- Launched *Pronunciation Lab* to assist English as a Second Language (ESL) students with their oral communication skills; pronunciation faculty coaches served students during 267 sessions;
- Hosted and facilitated *EdCamp* professional development focused on best practices for Howard Community College (HCC) and the Howard County Public School System (HCPSS) faculty in English and world languages;
- Piloted the online supplemental Spanish lab as part of a five-year plan to develop the communicative and cultural competency of language learners;

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- Collaborated with HCPSS to dually enroll students in EDUC 110-Intro to Teacher Education; Implemented memorandum of understanding between the school systems;
- Embedded information literacy outcomes in general education courses;
- Implemented the voluntary retirement incentive program;
- Outsourced the bookstore to Barnes & Noble and achieved an estimated cost savings in textbooks to students in excess of \$180,000 due to their strong emphasis on course related materials in digital, rental and used title formats;
- Refined the Safe Campus Initiative to help achieve the AACC Award of Excellence for Community College Safety Planning and Leadership;
- Ranked in top ten in Maryland for RecycleMania by recycling 68 metric tons of waste equivalent to removing 14 vehicles from the road or the energy consumption of 7 households;
- Expanded the preventative maintenance system to include environmental services tasks and inspections;
- Implemented electronic work order scheduling and distribution to monitor work load;
- Received \$63,000 in rebates through the BGE Empower Maryland program and \$10,000 in demand curtailment rewards;
- Began the campus-wide compensation study;
- Implemented minimum wage increases effective July 2015 and July 2016; oversaw the distribution of required Internal Revenue Service Affordable Care Act forms to employees;
- Installed three electric car charging stations in the west garage;
- Reduced monthly Sodexo subsidy with a savings over FY15 of \$41,591;
- Launched Bikeshare partnership with Howard County;
- Completed the stream restoration grant project partnering with middle schools, businesses and community; established arboretum on Centennial Beech Tree Hill;
- Continued collaboration with the READY program (Restoring the Environment and Developing Youth) for 30 youth designing and building rain gardens on campus;
- Joined SEED (Sustainability Education & Economic Development Center) to promote green education and sustainability advancement on campus; conducted a faculty professional development learning community to study resources from SEED Center to incorporate areas of sustainability into the college's curriculum;
- Implemented new government accounting standards board (GASB) standard 68 to record the college's pension liability;
- Renegotiated the print shop equipment lease agreement based on new production needs realized with adoption of Barnes and Noble, which saved \$12,000 annually;
- Completed the annual payment card industry (PCI) audit and certification by an external examiner;
- Completed an upgrade to the Colleague enterprise database application to improve the functionality of the college's portal for staff and students use;
- Worked with the health science faculty to complete installation of an application to manage instruction and outcomes of students completing medical simulations;
- Completed implementation of a new fiber optic computer network for the Hickory Ridge building;

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2016

- Implemented the student self-service module to improve and assist students with their registration process and academic planning, which includes an automated degree audit process;
- Completed enhancements of the campus website, such as a virtual campus tour; The site was also successfully moved to an external hosting site;
- Improved document imaging process was developed and deployed to expedite the distribution of academic and student computer software applications efficiently and accurately to all computer desktops;
- Established a second location on campus to provide redundancy and back up technology of the campus computer systems supporting business processes and data storage;
- Implemented self-service student planning for fall 2016 registration, which is a degree planning and online registration tool. Since implementation, the college has seen a 20 percent increase in online registration, and a 55 percent decrease in-person registration traffic compared to last year;
- Expanded Early College activities with Howard County Public School System in cyber security and in STEM to include curriculum development and English and math intervention strategies to prepare students for college-level English and math courses;
- Achieved first place in the women's soccer junior college tournament, Maryland Junior College Athletic Conference (JUCO), and went to the National Junior College Athletic Association (NJCAA) national tournament; women's lacrosse won regionals and went to the NJCAA national tournament; placed 32 out of 36 in the NJCAA nationals men's and women's track and field; men finished 4th and women 8th at nationals;
- Sustained HCC's recognition as a Military Friendly Institution for a fourth year in a row; hosted an inaugural Veteran's Day breakfast for students and employees who are veterans;
- Launched the college food pantry;
- Launched a pilot with the vendor NROC/EdReady in order to better prepare students for the Accuplacer placement test and reduce developmental placement scores;
- Increased the number of student internships by 34.5 percent to 148 compared to 110 in FY15;
- Implemented "Getting Ahead" groups for individuals living in poverty through an initiative with Career Links, the college's program for single parents and displaced homemakers, adult basic skills and Howard County Citizens Services and received a Howard County Citizen Services Community Support Award for commitment and support to the Getting Ahead program.

HOWARD COMMUNITY COLLEGE

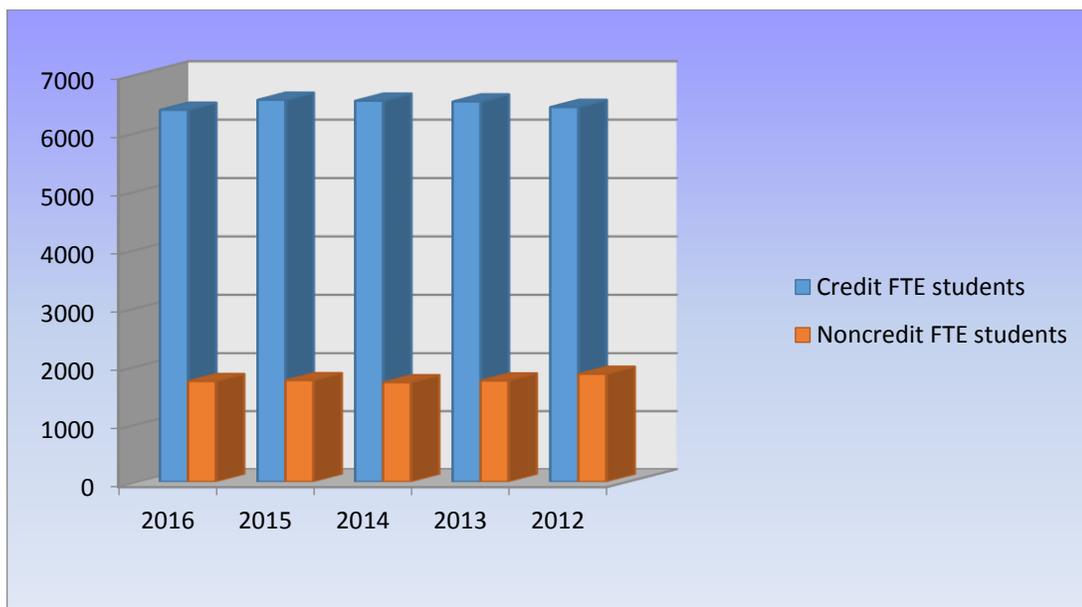
Management's Discussion and Analysis June 30, 2016

Enrollment Statistics and Analysis

For the year ended June 30, 2016, the college served approximately 14,467 credit and 15,751 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 FY16, the state approved credit and noncredit enrollments of 6,189.77 and 1,325.50 FTE. As compared to the prior year, this is a decrease of 220.80 FTE, or 2.85 percent. 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 6,385.73 and noncredit FTE of 1,736.38 decreased 171.80 and 14.92, respectively. Together this number created a total decrease in FTE of 186.72 or 2.26 percent. The college had anticipated enrollment to be flat in FY16. Nationwide, community colleges are experiencing declining enrollment as the improving economy attracts more people into the workforce.

The chart below shows total FTEs as opposed to state-funded FTE for fiscal years 2012 through 2016.



	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Credit	6,385.73	6,557.53	6,540.96	6,528.33	6,433.73
Noncredit	1,736.38	1,751.30	1,714.62	1,746.89	1,860.64
Total FTES	<u>8,122.11</u>	<u>8,308.83</u>	<u>8,255.58</u>	<u>8,275.22</u>	<u>8,294.37</u>

As seen in the data above, the FTE decline was two percent for this five-year period. No growth in credit or noncredit enrollment is anticipated in the FY17 budget.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

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 FY16, the actual unrestricted revenue was 43 percent (students), 34 percent (county), and 17 percent (state), respectively, with the final six percent coming from auxiliary and miscellaneous revenue. Due to the improving state economy, the state was able to increase its share of support by one percent over the prior year, while the auxiliary and miscellaneous revenues declined by one percent. The student share remained the same, although the college's per credit hour tuition rate increased by five dollars per credit hour.

In FY16, the college received the same level of funding it had received from the county in FY15. The state operating support increased two percent, or \$252,203 over the original FY15 budget before the mid-year cut. This also represents an additional \$950,874 from the state over the FY15 final state funding level, since the college received a mid-year state cut of \$698,671. 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.

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 plant) 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.

The college's financial position remains positive. The net position of the college increased 12 percent over the prior year. Neither total operating nor non-operating revenue changed significantly in FY16. Spending increased three percent. The retirement of assets related to closing the Mount Airy College Center for Health Care Education (MACCHCE) represents 2.6 percent of expenditures. Offsetting this increase by 1.5 percent is the reduction of auxiliary expenditures that declined from the prior year due to the outsourcing of the college's bookstore in October 2015. Capital appropriations from the state and county for the college's capital projects increased 135 percent over the prior year.

Efforts are being made college-wide to determine cost savings within departments and divisions. During FY16, the college completed a voluntary retirement incentive program with the hope of reducing future salary costs. The college also works to create new opportunities for cost savings by partnering with other colleges and organizations on shared goals and objectives.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Financial Statement Highlights and Analyses (continued)

A major financial challenge facing the college today is the need to build facilities to serve students and provide adequate parking on campus. While the county and state have committed funds for the completion of the new science, engineering, and technology building and renovations on campus, funding for the east parking garage expansion will be paid for primarily by the college. The college will spend \$6,000,000 and carry \$7,717,000 in county-issued bond debt to provide additional parking. In the future, an increase in student fees will be required in order to repay this debt. Securing adequate operating funds for new and renovated facilities during a time of lower enrollment and consequently lower student tuition and fee revenue, is another financial challenge facing the college. Therefore, controlling operating costs will continue to be a major focus for the college in the future.

CHANGES IN NET POSITION

	June 30, 2016	June 30, 2015	Dollar Variance	Percentage Variance
ASSETS				
Current assets	\$ 61,901,895	\$ 45,241,399	\$ 16,660,496	37%
Non-current assets, net	<u>224,155,497</u>	<u>196,704,247</u>	<u>27,451,250</u>	14%
Total Assets	<u>286,057,392</u>	<u>241,945,646</u>	<u>44,111,746</u>	18%
Deferred outflows of financial resources – pension related	<u>604,392</u>	<u>288,825</u>	<u>315,567</u>	109%
LIABILITIES				
Current liabilities	38,343,463	19,664,673	18,678,790	95%
Non-current liabilities	<u>9,166,614</u>	<u>8,782,907</u>	<u>383,707</u>	4%
Total Liabilities	<u>47,510,077</u>	<u>28,447,580</u>	<u>19,062,497</u>	67%
Deferred inflows of financial resources – pension related	<u>207,010</u>	<u>205,568</u>	<u>1,442</u>	1%
NET POSITION				
Net investment in capital assets	214,325,606	188,604,788	25,720,818	14%
Restricted funds, expendable	376,712	582,321	(205,609)	-35%
Unrestricted	<u>24,242,379</u>	<u>24,394,214</u>	<u>(151,835)</u>	-1%
Total Net Position	<u>\$ 238,944,697</u>	<u>\$ 213,581,323</u>	<u>\$ 25,363,374</u>	12%

Designation of unrestricted net position:

	June 30, 2016	June 30, 2015	Variance
Continuing education	\$ 3,464,285	\$ 3,562,393	\$ (98,108)
Auxiliary enterprises	4,019,613	3,757,567	262,046
Special funds	10,428,393	8,191,915	2,236,478
Facility funds	8,675,341	10,494,850	(1,819,509)
Other	1,504,862	2,101,791	(596,929)
Unfunded pension related items	(2,182,493)	(1,878,075)	(304,418)
Unfunded vacation liability	(1,667,622)	(1,836,227)	168,605
Total unrestricted net position	<u>\$ 24,242,379</u>	<u>\$ 24,394,214</u>	<u>(\$151,835)</u>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Financial Statement Highlights and Analyses (continued)

- *Total assets* increased \$44,111,746, or 18 percent over the prior year. The primary increase in *current assets* was in the state receivable and cash. At year-end, due to capital construction projects, the state receivable increased. In addition, the college increased cash for FY17 technology needs and also one-time costs related to the opening of the new science, engineering, and technology building. One asset that was liquidated during FY16 was the bookstore inventory. The bookstore operation is now outsourced to Barnes and Noble who purchased most of the inventory. *Non-current assets* increased due to the addition of construction-in-progress, less additional depreciation on capital assets, and less the retirement of assets. Capital assets include land, buildings, renovation costs, furniture, equipment, software, library books, leaseholds, land improvements, and construction in progress (CIP). CIP valued at June 30, 2016, of \$53,562,667 includes costs for the new science, engineering, and technology building, the nursing/science and technology buildings renovation, and the east garage expansion. The breakdown by asset category can be found in Note 7 of the financial statements.
- *Total liabilities* increased \$19,062,497, or 67 percent over the prior year. The primary increase in *current liabilities* was in construction payables, wages payable, and the payable to Howard County for construction. The construction payables increased due to retainage held on the new science, engineering, and technology building. The payable due to the county for construction projects that the county pays up front on behalf of the state increased in relation to the state payable due for construction (see the offsetting receivable from the state mentioned in assets above). Wages payable increased due to the voluntary retirement incentive program. *Non-current liabilities* include the college's portion of the state pension liability for certain employees and bond debt. The bonds are held by the county on behalf of the college and provided funding for capital assets. The debt repayment schedule is detailed in Note 8 to the financial statements. The pension liability increased, however, bond debt decreased. While new debt was added for the campus parking project, repayments and refunding of debt by the county caused an overall reduction of bond debt.
- Deferred outflows increased 109 percent and deferred inflows increased one percent. These items are related to the college's pension liability for certain employees and are discussed in note 10 to the financial statements.
- These changes resulted in an increase in the college's *net position* of \$25,363,374, or 12 percent. *Restricted funds*, which decreased 35 percent, satisfied grant obligations during FY16. The balance remaining will satisfy obligations in FY17.
- The college's *unrestricted net position* is internally designated as outlined in the previous chart. The decrease in facilities funds was caused by spending on capital projects, which was planned in the budget. The increase in the special funds is for FY17 technology needs and new building operating costs mentioned above, under total assets. In addition, other declined because the FY17 operating budget required less carry-over funding to balance the budget.

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

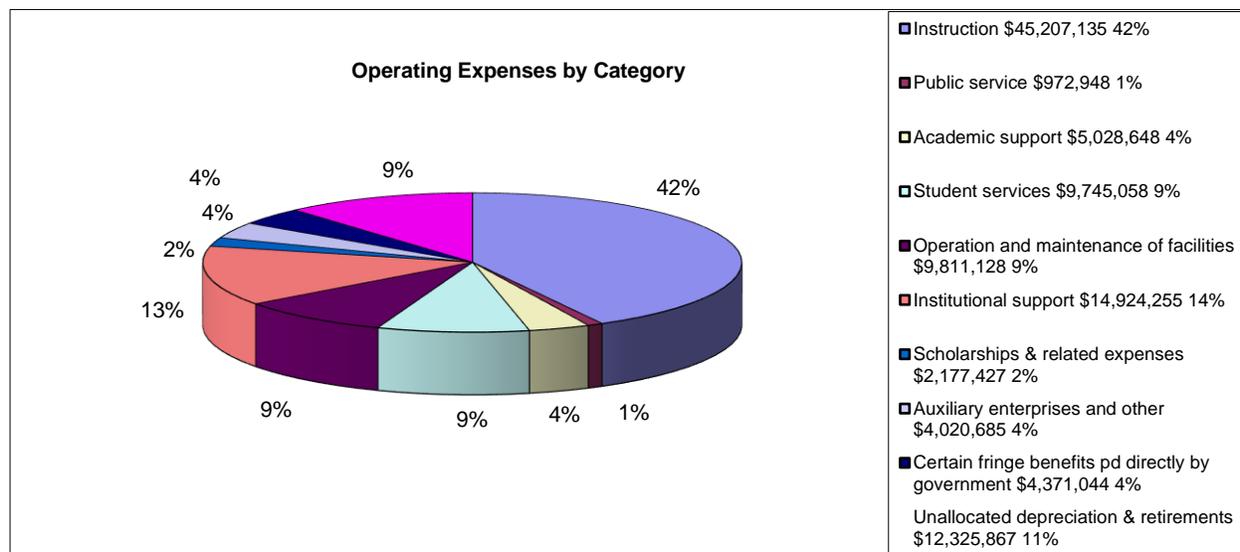
	<u>June 30, 2016</u>	<u>June 30, 2015 with reallocation of expenses</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Total Operating Revenue	\$ 34,215,690	\$ 34,389,511	\$ (173,821)	-1%
Operating Expenses				
Instruction	45,207,135	44,207,039	1,000,096	2%
Public service	972,948	750,209	222,739	30%
Academic support	5,028,648	5,402,087	(373,439)	-7%
Student services	9,745,058	9,267,095	477,963	5%
Operation and maintenance of facilities	9,811,128	9,695,803	115,325	1%
Institutional support	14,924,255	14,700,560	223,695	2%
Scholarships and related expenses	2,177,427	1,850,897	326,530	18%
Auxiliary enterprises	4,020,685	5,834,794	(1,814,109)	-31%
Certain fringe benefits paid directly by the state	4,371,044	4,090,342	280,702	7%
Unallocated depreciation	12,325,867	9,353,788	2,972,079	32%
Total operating expenses	<u>108,584,195</u>	<u>105,152,614</u>	<u>3,431,581</u>	3%
Operating loss	<u>(74,368,505)</u>	<u>(70,763,103)</u>	<u>(3,605,402)</u>	5%
Non-operating Revenue (Expenses)				
Government appropriations	46,864,122	45,881,423	982,699	2%
Grants and contracts	15,150,887	15,965,070	(814,183)	-5%
Certain fringe benefits paid directly by government	4,640,117	4,484,361	155,756	3%
Investment income	83,624	16,906	66,718	395%
Interest on debt to Howard County	<u>(310,225)</u>	<u>(382,793)</u>	<u>72,568</u>	-19%
Net Non-operating Revenue	<u>66,428,525</u>	<u>65,964,967</u>	<u>463,558</u>	1%
Loss before capital appropriations	<u>(7,939,980)</u>	<u>(4,798,136)</u>	<u>(3,141,844)</u>	65%
Capital appropriations	<u>33,303,354</u>	<u>14,148,877</u>	<u>19,154,477</u>	135%
Increase in net position	25,363,374	9,350,741	16,012,633	171%
Net position, beginning of year, as restated	<u>213,581,323</u>	<u>204,230,582</u>	<u>9,350,741</u>	5%
Net Position, End of Year	<u>\$ 238,944,697</u>	<u>\$ 213,581,323</u>	<u>\$ 25,363,374</u>	12%

- *Operating revenue* had a one percent decline from the prior year. Lost revenues from outsourcing the bookstore were offset by higher tuition and fee revenue earned due to the five dollar per credit hour increase in tuition rates.
- *Non-operating revenue* had a one percent increase from the prior year. Increased investment income and increased state funding appropriations were offset by the decline in grant funding. Higher interest rates and higher investment balances caused a 395 percent increase in investment income. Grants and contract revenue declined five percent from the prior year. Funding from the Nursing Support Program was received in the prior year and covered a multi-year spending period. In addition, interest on debt to Howard County declined due to refunding done by the county in FY15.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Financial Statement Highlights and Analyses (continued)



- Total *operating expenses* increased \$3,431,581, or three percent over the prior year. *Instruction and academic support* together represent 46 percent of expenditures. Expenditures in the *academic support* function declined seven percent; expenditures on technology were lower than in the previous year, and this function had several open positions throughout the year.
- The *public service* function increased 30 percent, or \$222,739 over the prior year. The county increased funding for the cable studio, and the mediation center received grant funding in FY16. This funding provided staffing for both areas.
- The *scholarships and related expenses* increased 18 percent or \$326,530 over the prior year. This expense represents financial assistance paid directly to students for expenses other than their college charges of tuition, fees, and books. With the outsourcing of the college's bookstore, students are using financial assistance to pay a third party and not the college. Therefore, book costs for the winter/spring and summer one term are included in scholarships in FY16.
- Expenses in *auxiliary enterprises* declined 31 percent, or \$1,814,109 due to the outsourcing of the bookstore.
- The county portion of *benefits paid by government* is now included in functional expenses in FY16. The FY15 expense has been reallocated for comparability.
- Due to the June 2016 closing of the Mount Airy College Center for Health Care Education, the capitalized costs to renovate the center and some of the purchased equipment were retired at the end of FY16. This caused the large variance in *unallocated depreciation and retirements* of 32 percent over the prior year. Depreciation expense, without the MACCHCE one time write offs, was comparable to the prior year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Financial Statement Highlights and Analyses (continued)

- *Capital appropriations* from the county and state government increased \$19,154,477, or 135 percent from the prior year. Additional funding for the new science, engineering, and technology building, the nursing/science and technology buildings renovation, and the expansion of the east garage, was significant to the college's increase in net position for FY16.

STATEMENTS OF CASH FLOWS				
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (57,436,767)	\$ (56,765,485)	\$ (671,282)	1%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing Activities	62,181,418	61,937,144	244,274	0%
Cash Flows From Capital Financing Activities				
Net cash used by capital financing activities	(2,397,626)	(3,398,577)	1,000,951	-29%
Cash Flows From Investing Activities				
Net cash provided by Investing Activities	<u>83,624</u>	<u>16,906</u>	<u>66,718</u>	395%
Net increase in cash and cash equivalents	2,430,649	1,789,988	640,661	38%
Cash, beginning of the year	<u>34,018,348</u>	<u>32,228,360</u>	<u>1,789,988</u>	6%
Cash and Cash Equivalents, End of Year	<u><u>\$ 36,448,997</u></u>	<u><u>\$ 34,018,348</u></u>	<u><u>\$ 2,430,649</u></u>	7%

- Cash and cash equivalents increased \$2,430,649, or seven percent from the prior year.
- The primary inflow of cash from operations continues to come from student tuition and fees. This inflow increased one percent due to the five dollar per credit hour increase paid by students. The primary outflows of cash from operations are supplier payments, employee compensation, and employee benefits costs. Payments to suppliers declined five percent, and auxiliary enterprises declined 29 percent. This was primarily due to the elimination of bookstore purchases after October 2015, when the operation was outsourced. Employee compensation remained the same, while employee benefits increased nine percent. Employee compensation was less than anticipated due to the loss of the bookstore employees, as well as having open positions throughout the year. In addition, the college delayed hiring when positions became open as a cost savings measure. The large increase in employee benefit costs is related to the FY16 pension expense, and the voluntary retirement incentive. This netted an overall one percent increase in cash used *in operations*.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Financial Statement Highlights and Analyses (continued)

- State and local appropriations are the primary cash inflows from *non-capital financing activities*. Other funds come from grants and contracts. The net increase was flat compared to the prior year. While the state increased funding seven percent, grants and contracts declined five percent. Student loan receipts and disbursements decreased eight percent as student borrowing declined.
- *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 college's capital appropriations and purchase of capital assets both increased significantly over the prior year as construction and design activity progressed. The purchase of assets in relationship to the inflows from appropriations and new debt issued was less than in the prior year, therefore, the college had a 29 percent decrease in net cash used by *capital financing activities*.
- The college's *investing activity* cash flows come from investment income. Interest rates steadily rose during FY16, resulting in a 395 percent increase in *investing activities*.

The college believes that its liquidity position as of June 30, 2016, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2016.

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.

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 FY16, these funds covered 61 percent of operating expenses, therefore, the economic condition of the country, state, and county are critical to the college's future financial health.

The economy of the county is showing signs of recovery. The unemployment rate was 3.5 percent versus 4.5 percent a year ago and is the lowest in the state. Revenue growth of the Howard County Government is projected to increase 3.2 percent between FY16 and FY17. Property taxes are expected to increase 3.3 percent in FY17. Income tax growth is projected to increase 4.2 percent in FY17. 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

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2016

Economic Factors that Will Affect the Future (continued)

economic progress. In FY16, the college did not receive an increase from the county, however, a four percent increase was approved for FY17.

The economic conditions in Maryland have continued to strengthen in recent months. The unemployment rate dropped to 4.3 percent from 5.6 the year before. The Maryland labor markets have generally expanded while housing market conditions have also shown signs of improvement. The state was able to give the community colleges an increase of 5.2 percent for FY17. HCC received a seven percent increase from the state in FY16 over the FY15 funding, and was approved for a 10.74 increase in FY17 based on past enrollment growth.

The college experienced a 2.79 decline in state-funded credit enrollment in FY16 and is anticipating no enrollment growth in FY17. Based on Howard County Public School System enrollment reports, the system is not anticipating an increase in the graduating class until FY19. Based on this and the improved economy, the college is anticipating little increase in enrollment for the next few years. As enrollment slows, tuition and fees that supported 43 percent of the unrestricted budget in FY16 will decline unless tuition rates continue to rise. Tuition rates increased by five dollars per credit hour in FY16 and two dollars per credit hour in FY17 in order to balance the budget.

In FY17, the college is opening the new science, engineering, and technology building and a 750-space addition to the east parking garage, as well as renovating existing space. While most of these capital costs are funded by the county and the state, the college will incur additional long-term debt. This new debt will be repaid through an increase in the consolidated fee charged to students in future years.

Requests for Information

The management 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.

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.

FINANCIAL STATEMENTS

HOWARD COMMUNITY COLLEGE

Statement of Net Position June 30, 2016

	Howard Community College	Howard Community College Educational Foundation, Inc.
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 36,448,997	\$ 525,335
Investments	-	3,488,167
Tuition and other receivables, net of allowance of \$2,635,837	491,899	-
Federal, state, local, and other receivables, net Mount Airy College Center for Health Care	24,209,644	-
Education receivable	253,183	-
Contributions receivable, net	-	417,390
Prepaid expenses and other assets	498,172	23,786
Total current assets	<u>61,901,895</u>	<u>4,454,678</u>
Non-current Assets		
Investments and interest in irrevocable trust	-	6,603,562
Contributions receivable, net		312,313
Capital assets, net	<u>224,155,497</u>	-
Total non-current assets	<u>224,155,497</u>	<u>6,915,875</u>
Total Assets	<u>286,057,392</u>	<u>11,370,553</u>
Deferred outflows of financial resources – pension related		
	<u>604,392</u>	-
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	6,408,039	41,346
Accrued compensated absences	2,268,011	-
Payable to Prince George's Community College - joint venture	154,764	-
Payable to Howard County for construction	23,942,390	-
Other payables	527,881	-
Bonds payable, Howard County, current portion	723,131	-
Deposits	57,865	-
Agency funds	1,508,470	-
Unearned revenue	2,752,912	98,875
Total current liabilities	<u>38,343,463</u>	<u>140,221</u>

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

HOWARD COMMUNITY COLLEGE

**Statement of Net Position – (continued)
June 30, 2016**

Non-current Liabilities

Pension Liability	\$ 2,579,875	\$ -
Bonds payable, Howard County, net of current Portion	6,586,739	-
Total Non-current Liabilities	<u>9,166,614</u>	<u>-</u>
Total Liabilities	<u>47,510,077</u>	<u>140,221</u>

**Deferred inflows of financial resources- pension
related**

	<u>207,010</u>	<u>-</u>
Net investment in capital assets	214,325,606	-
Restricted for:		
Nonexpendable:		
Scholarships	-	6,603,562
Expendable:		
Scholarships	-	2,901,013
Program uses	376,712	434,643
Unrestricted	<u>24,242,379</u>	<u>1,291,114</u>
Total Net Position	<u>\$ 238,944,697</u>	<u>\$ 11,230,332</u>

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

HOWARD COMMUNITY COLLEGE

Statement of Revenue, Expenses and Changes in Net Position For the Year Ended June 30, 2016

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees, (net of discounts, allowances, and financial aid of \$10,895,334)	\$ 29,915,342	\$ -
Cultural, community, and other programs	1,072,475	-
Auxiliary enterprises revenue, (net of financial aid of \$643,418)	2,355,516	-
Other operating revenue	872,357	-
Contributions, including in-kind	-	2,427,389
Special events	-	456,299
Total Operating Revenue	34,215,690	2,883,688
Operating Expenses		
Instruction	45,207,135	-
Public service	972,948	-
Academic support	5,028,648	-
Student services	9,745,058	-
Operation and maintenance of facilities	9,811,128	-
Institutional support	14,924,255	414,458
Scholarships and related expenses	2,177,427	-
Program expenses	-	1,598,771
Cost of direct benefits to donors	-	326,864
Fundraising	-	365,076
Auxiliary enterprises	4,020,685	-
Certain fringe benefits paid directly by the State of Maryland	4,371,044	-
Unallocated depreciation and loss on asset disposal	12,325,867	-
Total Operating Expenses	108,584,195	2,705,169
Operating (Loss)/Gain	(74,368,505)	178,519
Non-Operating Revenue (Expenses)		
Howard County government appropriations	31,000,287	-
State of Maryland appropriations	15,863,835	-
Federal, state, local, and other grants and contracts	15,150,887	90,851
Certain fringe benefits paid directly by the State of Maryland and Howard County Government	4,640,117	-
Investment income	83,624	142,115
Net realized and unrealized losses on investments	-	(410,990)
Interest expense	(310,225)	-
Net Non-Operating Revenue	66,428,525	(178,024)
(Loss) Income before Capital Appropriations	(7,939,980)	495

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

HOWARD COMMUNITY COLLEGE

Statement of Revenue, Expenses and Changes in Net Position (continued) For the Year Ended June 30, 2016

	Howard Community College	Howard Community College Educational Foundation, Inc.
Capital appropriations, State of Maryland	\$18,036,354	\$ -
Capital appropriations, Howard County	15,267,000	-
Net Capital Appropriations	33,303,354	-
Change in net position	25,363,374	495
Net position, beginning of year	213,581,323	11,229,837
Net Position, End of Year	\$ 238,944,697	\$ 11,230,332

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows For the Year Ended June 30, 2016

	Howard Community College
Cash Flows From Operating Activities	
Student tuition and fees	\$ 29,291,553
Payments to suppliers	(23,120,337)
Payments to employees	(55,296,612)
Payments for employee benefits	(12,611,719)
Auxiliary enterprises	2,355,516
Other receipts	1,944,832
Net Cash From Operating Activities	(57,436,767)
Cash Flows From Non-Capital Financing Activities	
State appropriations	15,863,835
Local appropriations	31,000,287
Grant and contracts	15,124,380
Student loan receipts	7,130,351
Student loan disbursements	(7,130,351)
Agency fund receipts	599,831
Agency funds disbursements	(406,915)
Net Cash From Non-Capital Financing Activities	62,181,418
Cash Flows From Capital Financing Activities	
Capital appropriations	37,875,075
Purchase of capital assets	(39,777,117)
Interest expense payments	(310,225)
New bond issue	467,877
Principal payments on bonds and gain on refunding	(653,236)
Net Cash From Capital Financing Activities	(2,397,626)
Cash Flows From Investing Activities	
Investment interest	83,624
Net Cash From Investing Activities	83,624
Net increase in cash and cash equivalents	2,430,649
Cash and cash equivalents, beginning of year	34,018,348
Cash and Cash Equivalents, End of Year	\$ 36,448,997

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

HOWARD COMMUNITY COLLEGE

Statement of Cash Flows (continued) For the Year Ended June 30, 2016

	Howard Community College
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (74,368,505)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense and loss on asset disposal	12,325,867
In-kind contributions	26,507
Amounts paid directly by the state and county	4,640,117
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	(308,672)
Inventory	751,194
Prepaid expenses and other assets	(189,801)
Accounts and other payables	(557,253)
Pension liability	703,242
Unearned revenue	(290,857)
Compensated absences	(168,606)
Net Cash From Operating Activities	\$ (57,436,767)
<hr/> Howard Community College Educational Foundation, Inc. <hr/>	
Cash Flows From Operating Activities	
Change in net position	\$ 495
Adjustments to reconcile change in net position to net cash used in operating activities:	
Net realized and unrealized gain on investments	302,412
Amortization of discount on contributions receivable	(8,371)
Change in allowance for uncollectible contributions receivable	(20,000)
Effects of changes in non-cash operating assets and liabilities:	
Contributions receivable, net	(311,782)
Prepaid expenses and other assets	12,536
Accounts payable and accrued wages	647
Due to Howard Community College	24,320
Unearned revenue	(29,360)
Net Cash From Operating Activities	(29,103)
Cash Flows From Investing Activities	
Proceeds from sale of investments	837,335
Purchase of investments	(1,143,665)
Net Cash From Investing Activities	(306,330)
Net decrease in cash and cash equivalents	(335,433)
Cash and cash equivalents, beginning of year	860,768
Cash and Cash Equivalents, End of Year	\$ 525,335

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

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 FY16, 75.1 percent of the college’s credit student populations were county residents. The college is fully accredited by the Middle States Association of Colleges and Secondary Schools and by the Maryland Department of Education 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 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. In accordance with Governmental Accounting Standards Board (GASB) no. 39, *Determining Whether Certain Organizations are Component Units*, it 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.

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, 2016

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, 2016

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 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, 2016, the net tuition receivable was \$219,932. Included in other receivables are amounts collectible for bookstore credit memos, non-governmental grants, and miscellaneous receivables.

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 \$4,500 allowance for uncollectible accounts recorded as of June 30, 2016.

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 two percent was used as of June 30, 2016. The unamortized discount will be accreted into contribution revenue in the future.

Capital Assets

Capital assets of the college are long-lived tangible assets, which 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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The college has established a threshold of \$5,000 for furniture and equipment in order for those capital assets to be capitalized. Library books are capitalized as one component unit for the purchases within the fiscal year. Capital assets of \$5,000 or more must be capitalized and assets between \$1,000 and \$5,000 that are deemed a capital asset with a useful life of greater than one year by a purchasing agent or manager can be capitalized and depreciated at the discretion of the director of accounting and/or in accordance with the funding agent.

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 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 and equipment	3 - 10 years

Accrued Compensated Absences

The college accrues for unused compensated absences at year-end. Accrued compensated absences as of June 30, 2016, were \$2,268,011.

Changes in the college's accrued compensated absences for the year ended June 30, 2016, are as follows:

	<u>June 30, 2015</u>	<u>Net change</u>	<u>June 30, 2016</u>
Payable	<u>\$ 2,436,617</u>	<u>\$ (168,606)</u>	<u>\$ 2,268,011</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, 2016

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, 2016, 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

Deferred financing outflows include changes in actuarial assumptions that are being amortized over a five-year period. The original amount was \$33,960, and the amount amortized during the year ended June 30, 2016, was \$6,792. Deferred financing inflows are made up of differences in the projected and actual investment earnings. The original amount was \$256,960 and the amount amortized during the year ended June 30, 2016, was \$51,392.

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 \$376,712 represents grants given to the college for a specific use, designated by the grantor. The unrestricted balance of \$24,242,379 represents auxiliary enterprise funds of \$4,019,613, continuing education funds of \$3,464,285, cultural, community, theatre and other funds of \$11,933,255, and \$8,675,341 designated for construction and debt repayment, net of \$1,667,622 of unfunded vacation liability and \$2,182,493 of unfunded pension liability.

The net investment in capital assets of \$214,325,606 is net of related debt that includes the bond debt to Howard County of \$7,309,870, and outstanding payables related to construction projects as of June 30, 2016, of \$2,520,021.

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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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, 2016, the college netted expenses in the amount of \$11,571,350, reducing tuition revenue by \$10,895,334, auxiliary enterprise revenue by \$628,152, and cultural revenue by \$47,864, 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, art galleries, and student athletic programs. The bookstore was operated by the college through

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Auxiliary Enterprises, Continuing Education, and Cultural, Community, and Other Programs (Continued)

October 2015, but is now outsourced. The food service and vending operations are also 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), Mount Airy College Center for Health Care Education, 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 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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-operating Components (Continued)

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 art work, 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 \$26,507 of in-kind gifts in FY16.

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, 2016, was \$121,219. 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, 2016, was \$744,595.

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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016. 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, 2016. The foundation is still open to examination by taxing authorities from FY13 forward.

New Accounting Pronouncements

During the year ended June 30, 2016, GASB issued statement no. 77, *Tax Abatement Disclosures*; statement no. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; statement no. 79, *Certain External Investment Pools and Pool Participants*; statement no. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; statement no. 81, *Irrevocable Split-Interest Agreements*; and statement no. 82, *Pension Issues – an amendment of GASB Statements no. 67, no. 68, and no. 73*. The college is analyzing the effects of these pronouncements and plans to implement them by their effective dates, FY17 through FY18.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires all entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The FASB recently issued ASU 2015-14 to defer the effective date of its revenue recognition standard by one year. Based on the deferral of the effective date the ASU would not be effective for the foundation until FY19. The foundation is currently evaluating the effect that the provisions of ASU 2014-09 will have on the financial statements.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In May 2015, the FASB issued ASU 2015-07, which simplifies FASB ASC topic no. 820, *Fair Value Measurements and Disclosures*, by removing the requirement to categorize, within the fair value hierarchy, all investments measured using the net asset value (NAV) per share practical expedient. Although classification within the fair value hierarchy is no longer required, an entity must disclose the amount of investments in the hierarchy to the corresponding line items in the statement of financial position. The amendments are effective retrospectively for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The foundation is currently evaluating the effect the provisions of ASU 2015-07 will have on the financial statements.

3. CASH AND CASH EQUIVALENTS

A. Deposits

As of year-end, the carrying amount of the college's deposits was \$1,884,308 and the bank balance was \$2,494,449. The deposits of the college were not exposed to custodial credit risk as of June 30, 2016. 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 a surety bond with a market value of \$10,000,000 as of June 30, 2016. The bond is held by the bank's agent in the college's name.

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, 2016, the college's investment balance consisted of \$34,560,395 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

Types	Amounts
Cash on hand	\$ 4,294
Carrying amount of deposit	1,884,308
Carrying amount of MLGIP	34,560,395
Total cash and cash equivalents	\$ 36,448,997

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2016, 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, 2016, met the college's investment policy as of that date.

Investment income included interest and dividends in the amount of \$83,624 for the year ended June 30, 2016.

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 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, 2016.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

4. INVESTMENTS AND INTEREST IN IRREVOCABLE TRUST

The foundation's investments and interest in irrevocable trust as of June 30, 2016, were summarized as follows:

	Amortized Cost	Gross Unrealized (Losses)	Fair Value
Fixed Income - corporate bonds	\$ 655,186	\$ 16,918	\$ 672,104
Mutual funds - equities	1,692,338	129,681	1,822,019
Interest in external investment pool	8,161,064	(675,477)	7,485,587
Interest in irrevocable trust	87,262	24,757	112,019
Total	\$10,595,850	\$ (504,121)	\$ 10,091,729

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 \$2,300,283 as of June 30, 2016. As of June 30, 2016, the interest in irrevocable trust was recorded at \$112,019, net of the related discount of \$348,038. The foundation used the IRS guideline suggested discount rate of 6.8 percent as of June 30, 2016.

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, 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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

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 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, 2016.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

The following tables set forth, by level within the fair value hierarchy, the foundation's investment assets at fair value as of June 30, 2016. 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, 2016			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 672,104	\$ -	\$ -	\$ 672,104
Mutual funds	1,822,019	-	-	1,822,019
Interest in external investment pool	-	-	7,485,587	7,485,587
Interest in irrevocable trust	-	112,019	-	112,019
Total	\$ 2,494,123	\$ 112,019	\$ 7,485,587	\$ 10,091,729

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, 2016:

June 30, 2016

Balance, beginning of year	\$ 7,213,095
Realized gains	260,257
Unrealized losses	(332,579)
Investment fees	(95,582)
Sales/redemptions	(379,076)
Purchases	819,472
Balance, end of year	\$ 7,485,587

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, 2016**

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

Quantitative information as of June 30, 2016, 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) is as follows:

Description	Fair Value	Principal Valuation Techniques	Unobservable input	Weighted Average
Interest in external investment pool	\$ 7,485,587	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, 2016

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2016, were recorded as follows:

<u>Due in:</u>	<u>Amounts</u>
Less than one year	\$ 433,850
One to five years	323,825
	<u>757,675</u>
Less: discount for net present value of two percent	23,472
Less: allowance for uncollectible accounts	4,500
Contributions Receivable, Net	<u><u>\$ 729,703</u></u>

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, 2016:

	<u>June 30, 2015</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Land	\$ 378,578	\$ -	\$ -	\$ 378,578
Land improvements	1,941,406	47,366	(1,064)	1,987,708
Buildings	168,788,160	111,514	-	168,899,674
Building renovations	60,742,265	515,381	(289,422)	60,968,224
Furniture and equipment	18,395,722	1,134,568	(459,549)	19,070,741
Library books	417,374	18,046	(43,041)	392,379
Leasehold improvements	3,178,311	332,648	(3,178,311)	332,648
Total	<u>253,841,816</u>	<u>2,159,523</u>	<u>(3,971,387)</u>	<u>252,029,952</u>
Less: accumulated depreciation	73,082,643	9,497,723	(1,143,244)	81,437,122
Assets, net of depreciation	<u>180,759,173</u>	<u>(7,338,200)</u>	<u>(2,828,143)</u>	<u>170,592,830</u>
Construction in progress	15,945,074	37,617,593	-	53,562,667
Total	<u><u>\$ 196,704,247</u></u>	<u><u>\$30,279,393</u></u>	<u><u>\$(2,828,143)</u></u>	<u><u>\$ 224,155,497</u></u>

8. BONDS PAYABLE, HOWARD COUNTY

The college is indebted to the county for bond issues in the amount of \$7,309,870 as of June 30, 2016, for construction costs of a 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 \$467,877 was incurred during FY16 for the Campus Roadway Project. During FY16, the county refinanced the bonds and that resulted in additional county revenue of \$62,839. Payments began in 2008 and are due through 2036 at interest rates ranging from three percent to five percent.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2016**

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>
2017	\$ 723,131	\$ 314,463
2018	641,564	279,490
2019	542,857	250,122
2020	561,154	222,615
2021	523,270	195,487
2022-2026	2,789,774	649,030
2027-2031	1,371,534	125,191
2032-2036	156,586	14,371
Total	<u>\$ 7,309,870</u>	<u>\$ 2,050,769</u>

Changes in the college's long-term liabilities for the year ended June 30, 2016, are as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Amounts Due in One Year</u>
Bond payable	<u>\$ 7,495,229</u>	<u>\$467,877</u>	<u>\$ 653,236</u>	<u>\$ 7,309,870</u>	<u>\$ 723,131</u>

9. RESTRICTED NET POSITION

Restricted for expendable net position of the college of \$376,712 as of June 30, 2016, consists of funds for grant programs. Restricted for expendable net position of the foundation of \$3,335,656 as of June 30, 2016, consists of funds restricted for scholarship purposes, debt service, 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 \$6,603,562 as of June 30, 2016, 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 endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

9. RESTRICTED NET POSITION (CONTINUED)

Endowment (Continued)

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 at the end of each fiscal year four percent of the average year-end balance for the prior three years of the endowment. The 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, 2016

9. RESTRICTED NET POSITION (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, deficiencies of this nature that are reported in expendable net position were \$0 as of June 30, 2016.

Composition of the Endowment by Net Position

As of June 30, 2016, the composition of the endowments was as follows:

	As of June 30, 2016			
	Unrestricted	Expendable	Nonexpendable	Total
Board designated and donor-restricted endowment Funds	\$ 544,008	\$ 936,623	\$ 6,603,562	\$ 8,084,193

Change in Endowment Net Position

The changes in endowment net position were as follows:

	June 30, 2016			
	Unrestricted	Expendable	Nonexpendable	Total
Endowment net position, June 30, 2015	\$ 113,935	\$1,238,587	\$ 6,092,828	\$ 7,445,350
Investment return:				
Investment income	-	99,950	-	99,950
Net depreciation	-	(172,272)	(4,798)	(177,070)
Total investment return	-	(72,322)	(4,798)	(77,120)
Contributions	-	427,501	106,539	534,040
Appropriated for expenditures	-	(433,476)	-	(433,476)
Transfers	430,073	(223,667)	408,993	615,399
Endowment net position, June 30, 2016	\$ 544,008	\$ 936,623	\$ 6,603,562	\$ 8,084,193

During the year ended June 30, 2016, 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, 2016

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 \$56,055,160. The payroll of employees covered by either the MSRPS or an ORP was \$40,407,526.

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 ten 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, 2016

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, 2016, the state paid \$4,371,044 in retirement costs, equal to approximately 10.8 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 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities

At June 30, 2016, the college reported a liability of \$2,579,875 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the college's proportion was .0124 percent.

HOWARD COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2016**

10. RETIREMENT BENEFITS (CONTINUED)

Pension Liabilities (Continued)

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ 20,376	\$ (52,834)
Net difference between projected and actual earnings on pension plan investments	227,233	(154,176)
Changes in assumption	129,143	
Reporting unit contributions subsequent to the measurement date	227,640	-
Total	\$ 604,392	\$ (207,010)

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the college recognized pension expense of \$387,675. At June 30, 2016, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Amount of \$604,392 reported as deferred outflows of resources related to pensions resulting from college employer contributions and change in assumptions and change in assumptions subsequent to the measurement date, was recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>For Years ended June 30</u>	<u>Amount</u>
2017	31,285
2018	31,285
2019	31,285
2020	75,887

Actuarial Assumptions

Investment rate of return – 7.55 percent a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.2 percent to 8.95 percent, including inflation.

Inflation - 2.70 percent general, 3.2 percent wage

Mortality assumptions - The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table projected to the year 2025.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

10. RETIREMENT BENEFITS (CONTINUED)

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 (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 system's 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	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
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, 2015.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 2.71 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 7.55 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 7.55 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, 2016

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 7.55 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 (6.55%)</u>	<u>Discount Rate (7.55%)</u>	<u>1% Higher (8.55%)</u>
Howard Community College proportionate share of the net pension liability	\$3,642,099	\$2,579,875	\$1,693,697

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. 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. Other than automobile coverage, the college is insured by the Howard County self-insurance programs, which provide coverage up to a maximum of \$1,000,000 for each general liability claim, \$100,000 for each property claim, and \$500,000 on each workers' compensation claim. The college has a separate policy with the Local Government Insurance Trust (LGIT), a public entity risk pool that consists of various local counties and municipalities, for automobile coverage up to a maximum 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 of the coverages described above. The county pays annual premiums to LGIT for liability 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 \$500,000 per claim as previously described under an additional policy purchased by the county. Settled claims have not exceeded coverage in any of the past five years.

The college makes payments to the county 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, 2016, was \$343,766.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

11. RISK MANAGEMENT (CONTINUED)

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 \$7,247,603 for the year ended June 30, 2016.

12. 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, 2016, the college provided \$744,595 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$1,335,152 in scholarships awarded to students and \$263,619 in non-scholarship benefits to the college in support of college programs and other services. This figure includes in-kind contributions.

13. JOINT VENTURES

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 \$3,728,743 and expenses of \$2,883,702 associated with the LCC equally. For the year ended June 30, 2016, the college increased revenue by \$252,300 and included \$407,064 in instructional operating expenses in the statement of revenue, expenses, and changes in net position to reflect its proportional share. This resulted in a payable to PGCC as of June 30, 2016, of \$154,764.

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. The college's proportionate share of the rent expense for the year ended June 30, 2016, was \$465,086.

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 ten. 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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

13. JOINT VENTURES (CONTINUED)

Laurel College Center (LCC) (continued)

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, 2016, are as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 494,351
2018	520,291
2019	539,019
2020	558,309
2021	578,178
2022	96,918
TOTAL	<u><u>\$ 2,787,066</u></u>

Mount Airy College Center for Health Care Education

In FY11, the college entered into a joint-venture agreement with Frederick Community College (FCC) and Carroll Community College (CCC) to form the Mount Airy College Center for Health Care Education. Classes began in August 2012. The center offered both credit and noncredit courses during FY16.

During FY16, a decision was made to close operations at the center effective June 30, 2016. An agreement was reached with the landlord to buy-out the existing 10-year lease, which was in effect until July 2022. The cost of the buy-out was \$834,000 and is included in the total shared loss for the center.

For the year ended June 30, 2016, the center earned revenues of \$816,512, booked expenses of \$2,166,594, and the resulting total loss of \$1,350,082 was shared as follows: FCC \$450,027, CCC \$450,027 and HCC \$450,028. After deducting the lease buy-out of \$834,000, true operating expenses were \$1,332,594, resulting in an operating loss of \$516,082. The anticipated FY16 loss was \$761,951.

During the year, FCC and CCC were billed by the college for \$462,628 of expenses in excess of its share. The college booked additional revenue of \$131,358 and reduced expenses \$131,358 to reflect shared revenues and expenses. For the year-ended June 30, 2016, a receivable was due totaling \$253,183.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

14. 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.

On September 2, 2014, the college received a 972CG notice from the IRS that purposed a potential penalty of \$254,300 for incorrectly filing information returns for the tax year 2012. The college submitted 1098-Ts and 1099-MISCs without proper Tax Identification Numbers (TIN) as that information was not provided to the college by students before the filing due date. This was a new IRS initiative that colleges across the country were dealing with because there was no requirement for students to provide TIN numbers to the colleges. This was the second notice received from the IRS on this topic because the college had already filed the 2012 tax filing before beginning to address the 2011 penalty that was received. The 2011 penalty of \$216,500 was forgiven.

The college has attempted to mitigate the 2012 penalty as well, however, this penalty continues to be included as a payable in the FY16 statements as no decision to forgive this penalty has been received. In addition, the college has received no additional penalties related to this matter.

Capital Projects

As of June 30, 2016, the college has commitments of approximately \$35,910,791, to complete outstanding capital construction projects.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2016

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

15. POST RETIREMENT BENEFITS

The college contributes to the Howard County Other Postemployment Benefits Trust, a cost-sharing multiple-employer defined benefit healthcare plan (the plan). The county established an irrevocable trust for administering the plan assets and paying healthcare costs on behalf of the participants. Howard County provides post-employment 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 ten 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 these 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. For the year-ended June 30, 2016, the county did not pay claims in excess of premiums on behalf of the college.

The plan's funding policy provides for the county and its component units to contribute to the trust the actuarially determined annual required contribution (ARC). The college is a cost sharing agent participant to the plan and thus is only responsible for its required annual contribution established by the county. When a contribution is made, the county will make the college's ARC contribution. The county contributed \$269,073 toward the plan in FY16.

16. SUBSEQUENT EVENTS

The college evaluated subsequent events through, September 30, 2016, which is the date the financial statements were available to be issued. The college did learn from an Internal Revenue Notice from the Internal Revenue Service that "the IRS is waving penalties assessed against any college, university, or other educational institution for Forms 1098-T that were filed with an incorrect or missing taxpayer identification number. The IRS is granting this relief for tax years 2012, 2013, and 2014." However, until the college receives an official individual notification from the IRS that the penalties have been waived, the college will continue to carry the liability of the 2012 assessment described in note 14.

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

	<u>June 30, 2015*</u>
College's proportion of net pension liability	0.0124%
College's proportionate share of net pension liability	\$ 2,579,875
College's covered-employee payroll	\$ 3,021,313
College's proportionate share of net pension liability as a percentage of its covered-employee payroll	85.39%
Plan fiduciary net position as a percentage of total pension liability	68.78%

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, 2015

HOWARD COMMUNITY COLLEGE

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

	<u>June 30, 2016</u>
Statutorily required contributions	\$ 227,640
Contributions in relation to statutorily required contributions	227,640
Contribution deficiency (excess)	<u>\$ -</u>
College's covered-employee payroll	\$ 3,021,313
Contributions as a percentage of covered-employee payroll	7.5%
	<u>June 30, 2015</u>
Statutorily required contributions	\$ 261,657
Contributions in relation to statutorily required contributions	261,657
Contribution deficiency (excess)	<u>\$ -</u>
College's covered-employee payroll	\$ 2,983,599
Contributions as a percentage of covered-employee payroll	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.

HOWARD COMMUNITY COLLEGE

Notes to Required Supplementary Information Year Ended June 30, 2016

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

Changes of assumptions: Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the system for use in the annual pension valuations beginning with the June 30, 2014, valuation.