



# Frederick Community College ANNUAL FINANCIAL REPORT



JUNE 30, 2016

**FREDERICK COMMUNITY COLLEGE  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2016**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Trustees  
Frederick Community College

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Frederick Community College (the College), a component unit of Frederick County, Maryland, as of and for the years ended June 30, 2016 and 2015, 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***

The College's 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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### ***Opinions***

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 2015, 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***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 our 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.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Hunt Valley, Maryland  
September 23, 2016

# **FREDERICK COMMUNITY COLLEGE**

## **Management's Discussion and Analysis June 30, 2016 and 2015**

### **Overview and Basis of Presentation**

This section of the Frederick Community College (the College) basic financial statements presents management discussion and analysis (MD&A), which provides an overview of its financial activities as of and for the years ended June 30, 2016 and 2015. This should be read in conjunction with the financial statements, as well as the more detailed information in the related notes to the financial statements. The MD&A, financial statements, and the related notes are the responsibility of management.

### **Discretely Presented Component Units**

The College reporting entity includes the College and the Frederick Community College Foundation (the Foundation) as a component unit of the College, whose sole purpose is to serve the institution by providing resources for scholarships and other College projects. The Foundation financial statements as of and for the years ended June 30, 2016 and 2015, are displayed in the financial statements section of this report.

### **Significant Financial and Enrollment Highlights**

- An unreserved fund balance of \$3.5 million remains in the Current Unrestricted Educational and General Subfund to be used for unanticipated revenue shortfalls and changing fiscal conditions. The auxiliary fund balance is \$0.6 million.
- The Reserve Policy and Procedures were revised and approved by the College Board of Trustees in May 2016. This policy created a goal of establishing a Contingency Fund Reserve (CFR) designated for fiscal stability equal to 5% of the current year's operating budget. This policy also consists of a Strategic Fund Balance Reserve (SFBR) and a Budgeted Annual Operating Reserve (BAOR) equal to up to 2% and 1%, respectively, of the current approved operating budget. The SFBR may be used to provide a funding source for opportunities that cannot be funded in the current fiscal year through the operating budget and the BAOR is to provide a funding source for unexpected expenses that may occur. As of June 30, 2016, the CFR is \$2.6 million, and the SFBR is \$1.0 million and both reserves are fully funded. The SFBR in the amount of \$1.0 million is allocated for use in fiscal year 2017. The remaining balance relates to the \$2.9 million 2015 unreserved balance which is used in the fiscal year 2017 budget.
- In-County tuition rates were increased by \$2 per credit hour, out-of-county rates increased by \$4 per credit hour and out-of-state rates increased by \$6 per credit hour in fiscal year 2016. The county and state share of unrestricted revenue was 33.0% and 24.0%, respectively.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2016 and 2015

### Significant Financial and Enrollment Highlights (continued)

- The Mt. Airy College Center for Health Care Education was a center established with Howard Community College (HCC) and Carroll Community College (CCC) to provide health care programs. The center opened for classes in the fall of 2012. During fiscal year 2016, a decision was made to close operations at the center effective June 30, 2016. For the year ended June 30, 2016, the center had a net loss of \$1.4 million. The revenues and expenditures were shared among the three Colleges. The College share of the loss is reflected in the accompanying statements.
- Bookstore had a loss of \$49 thousand for fiscal year 2016 which was less of a loss than the prior fiscal year, mainly due to the decrease in cost of goods sold. Dining Services operating performance decreased \$13 thousand from the prior fiscal year due to decreased sales. The Children's Center operating performance decreased \$36 thousand from the prior fiscal year due to decreased enrollment and increased administrative expenses.
- Academic headcount enrollment decreased slightly between fiscal year 2016 and fiscal year 2015. The following summarizes state-reimbursable FTE trends over the past five years:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Credit</b>	3,842	3,798	3,672	3,659	<b>3,594</b>
<b>Non-credit</b>	571	534	529	560	<b>613</b>
<b>Total</b>	<u>4,413</u>	<u>4,332</u>	<u>4,201</u>	<u>4,219</u>	<u><b>4,207</b></u>

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2016 and 2015

### Statements of Net Position

The Statements of Net Position present all assets and liabilities of the College as of the end of the fiscal year. The net position represents the difference between assets and liabilities and is one way to measure the financial health of the College.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016/2015 Change</u>	<u>2015/2014 Change</u>
<b>Assets</b>					
Current assets	\$ 18,428,711	\$ 20,168,178	\$ 19,795,261	\$ (1,739,467)	\$ 372,917
Non-current assets	<u>78,140,750</u>	<u>77,976,741</u>	<u>70,013,198</u>	<u>164,009</u>	<u>7,963,543</u>
<b>Total Assets</b>	<u>96,569,461</u>	<u>98,144,919</u>	<u>89,808,459</u>	<u>(1,575,458)</u>	<u>8,336,460</u>
<b>Liabilities and Net Position</b>					
<b>Liabilities:</b>					
Current liabilities	4,618,062	6,344,788	5,325,613	(1,726,726)	1,019,175
Noncurrent liabilities	<u>7,636,071</u>	<u>7,832,971</u>	<u>8,189,400</u>	<u>(196,900)</u>	<u>(356,429)</u>
<b>Total Liabilities</b>	<u>12,254,133</u>	<u>14,177,759</u>	<u>13,515,013</u>	<u>(1,923,626)</u>	<u>662,746</u>
<b>Net Position:</b>					
Capital assets	71,650,952	71,222,608	62,999,729	428,344	8,222,879
Restricted	700,144	570,333	558,343	129,811	11,990
Unrestricted	<u>11,964,232</u>	<u>12,174,219</u>	<u>12,735,374</u>	<u>(209,987)</u>	<u>(561,155)</u>
<b>Total Net Position</b>	<u>\$84,315,328</u>	<u>\$83,967,160</u>	<u>\$ 76,293,446</u>	<u>\$ 348,168</u>	<u>\$ 7,673,714</u>

Net position increased to \$84.3 million and \$84.0 million in fiscal year 2016 and fiscal year 2015, respectively. Non-current assets increased by \$0.2 million and \$8.0 million in fiscal year 2016 and 2015, respectively, due mainly to the Wayfinding and Campus Signage project in fiscal year 2016 and the reconfiguration of Building B project in fiscal year 2015. Unrestricted net position decreased \$0.2 million in fiscal year 2016 due mainly to the disbursement of funds for the CIP projects.

### Statements of Revenue, Expenses, and Change in Net Position

The Statements of Revenue, Expenses and Change in Net Position present the operating results of the College, as well as the non-operating revenue and expenses. Annual county and state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally accepted in the United States. Accordingly, public colleges will show an operating loss prior to the display of non-operating revenue, which is primarily governmental funding support.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2016 and 2015

### Statements of Revenue, Expenses, and Change in Net Position (continued)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016/2015</u> Change	<u>2015/2014</u> Change
<b>Operating Revenue</b>					
Tuition and fees, net	\$ 16,098,692	\$ 16,132,042	\$ 16,224,781	\$ (33,350)	\$ (92,739)
Grants and contracts	2,407,287	2,261,397	2,317,084	145,890	(55,687)
Auxiliary enterprises	4,487,076	4,733,601	4,432,509	(246,525)	301,092
Other revenue	<u>3,964,391</u>	<u>3,830,757</u>	<u>3,045,029</u>	<u>133,634</u>	<u>785,728</u>
<b>Total Operating Revenue</b>	<u>26,957,446</u>	<u>26,957,797</u>	<u>26,019,403</u>	<u>(351)</u>	<u>938,394</u>
<b>Operating Expenses</b>					
Education and general	53,865,578	52,766,392	50,456,539	1,099,186	2,309,853
Depreciation expense	3,363,260	3,326,538	3,046,773	36,722	279,765
Auxiliary enterprises	4,707,589	5,008,172	4,331,245	(300,583)	676,927
Other expenditures	<u>589,295</u>	<u>764,246</u>	<u>679,276</u>	<u>(174,951)</u>	<u>84,970</u>
<b>Total Operating Expenses</b>	<u>62,525,722</u>	<u>61,865,348</u>	<u>58,513,833</u>	<u>660,374</u>	<u>3,351,515</u>
<b>Operating Loss</b>	<b>(35,568,276)</b>	<b>(34,907,551)</b>	<b>(32,494,430)</b>	<b>(660,725)</b>	<b>(2,413,121)</b>
<b>Nonoperating Revenue (Expenses)</b>					
Government appropriations	24,103,203	23,520,198	23,044,899	583,005	475,299
State retirement	2,282,158	2,203,032	2,008,303	79,126	194,729
Capital appropriations	3,986,671	10,706,471	3,640,140	(6,719,800)	7,066,331
Investment income	25,221	13,641	14,141	11,580	(500)
Other	<u>5,519,191</u>	<u>6,137,923</u>	<u>6,003,860</u>	<u>(618,732)</u>	<u>134,063</u>
<b>Total Nonoperating Revenue</b>	<u>35,916,444</u>	<u>42,581,265</u>	<u>34,711,343</u>	<u>(6,664,821)</u>	<u>7,869,922</u>
<b>Change in Net Position</b>	<u>\$ 348,168</u>	<u>\$ 7,673,714</u>	<u>\$ 2,216,913</u>	<u>\$ (7,325,546)</u>	<u>\$ 5,456,801</u>

County appropriations, including in-kind appropriations, in support of the operating budget increased 4% and 2% in fiscal year 2016 and 2015, respectively. State appropriations remained unchanged in fiscal year 2016 and increased 2% in fiscal year 2015, respectively.

Total educational and general expenditures increased 2% and 5% during fiscal years 2016 and 2015, respectively. In July of fiscal year 2016, all college employees received a 1% cost of living increase and the College continued to control spending based on flat enrollment.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2016 and 2015

### Statements of Cash Flows

The Statements of Cash Flows provides information about cash receipts and cash payments during the year. These statements also help users assess ability of the College to generate net cash flow and its ability to meet obligations as they come due.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016/2015</u> <u>Change</u>	<u>2015/2014</u> <u>Change</u>
<b>Cash and Cash Equivalents From</b>					
Operating activities	\$ (31,712,923)	\$ (28,405,985)	\$ (27,956,194)	\$ (3,306,938)	\$ (449,791)
Non-capital financing activities	31,366,769	27,552,142	28,991,338	3,814,627	(1,439,196)
Capital and related financing activities	824,799	(167,669)	191,100	992,468	(358,769)
Investing activities	25,221	13,641	14,141	11,580	(500)
<b>Net Change in Cash and Cash Equivalents</b>	<u>\$ 503,866</u>	<u>\$ (1,007,871)</u>	<u>\$ 1,240,385</u>	<u>\$ 1,511,737</u>	<u>\$ (2,248,256)</u>

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprises, and grants and contracts. Major cash outlays in operating activities consist of salaries and benefits, outsourced services, and technology spending. State and local appropriations are the primary source of non-capital financing.

Capital and related financing activities include appropriations for renovation and construction projects from state and county sources.

The investment activity of the College is related to money management accounts and the Maryland Local Government Investment Pool (MLGIP), which generate interest revenue.

### Economic Factors That Will Affect the Future

State funding remained unchanged in fiscal year 2016 and increased \$136 thousand in fiscal year 2015. The county appropriation increased \$583 thousand in fiscal year 2016 and \$339 thousand in fiscal year 2015. However, this is not guaranteed funding for future years. With zero growth in enrollment expected, the College continues to work closely with the county government to maintain adequate funding for its operations.

### Contacting Frederick Community College's Financial Management

This report is designed to provide interested parties with a general overview of the finances of the College. If you have questions about this report or would like additional financial information, contact Frederick Community College, Finance Office, 7932 Opossumtown Pike, Frederick, Maryland, 21702.

# FREDERICK COMMUNITY COLLEGE

## Statements of Net Position As of June 30, 2016 and 2015

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
	2016	2015	2016	2015
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 15,016,744	\$ 14,512,878	\$ 675,360	\$ 670,646
Investments	-	-	11,728,585	12,089,274
Accounts receivable:				
Governmental	1,378,665	3,752,772	-	-
Student & third party, net of allowance	377,531	429,028	-	-
Pledges, net of discount	-	-	9,439	9,779
Other accounts receivable	671,666	834,614	-	-
<b>Total accounts receivable</b>	<b>2,427,862</b>	<b>5,016,414</b>	<b>9,439</b>	<b>9,779</b>
Prepaid expenses and other assets	502,351	71,568	525	-
Inventory	481,754	567,318	-	-
<b>Total Current Assets</b>	<b>18,428,711</b>	<b>20,168,178</b>	<b>12,413,909</b>	<b>12,769,699</b>
Noncurrent Assets:				
Beneficial interest in charitable remainder trusts	-	-	407,194	434,335
Capital assets, net of accumulated depreciation	78,140,750	77,976,741	-	-
<b>Total Noncurrent Assets</b>	<b>78,140,750</b>	<b>77,976,741</b>	<b>407,194</b>	<b>434,335</b>
<b>TOTAL ASSETS</b>	<b>96,569,461</b>	<b>98,144,919</b>	<b>12,821,103</b>	<b>13,204,034</b>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	1,603,323	2,319,379	4,663	97,694
Accrued salaries	265,964	198,940	-	-
Accrued liabilities	912,877	1,255,830	-	-
Accrued leave	22,420	158,121	-	-
Bond payable	275,000	270,000	-	-
Unearned revenue	1,380,228	1,903,516	-	-
Deposits held for others	158,250	239,002	-	-
<b>Total Current Liabilities</b>	<b>4,618,062</b>	<b>6,344,788</b>	<b>4,663</b>	<b>97,694</b>
Noncurrent Liabilities:				
Bond payable, net of discount	6,214,798	6,484,133	-	-
Accrued leave	1,421,373	1,348,838	-	-
<b>Total Noncurrent Liabilities</b>	<b>7,636,071</b>	<b>7,832,971</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>12,254,133</b>	<b>14,177,759</b>	<b>4,663</b>	<b>97,694</b>
<b>NET POSITION</b>				
Net investment in capital assets	71,650,952	71,222,608	-	-
Restricted – expendable	700,144	570,333	-	-
Temporarily restricted	-	-	7,103,159	7,554,161
Permanently restricted	-	-	4,316,441	4,162,694
Unrestricted	11,964,232	12,174,219	1,396,840	1,389,485
<b>TOTAL NET POSITION</b>	<b>\$ 84,315,328</b>	<b>\$ 83,967,160</b>	<b>\$ 12,816,440</b>	<b>\$ 13,106,340</b>

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

# FREDERICK COMMUNITY COLLEGE

## Statements of Revenue, Expenses, and Change in Net Position For the Years Ended June 30, 2016 and 2015

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
	2016	2015	2016	2015
<b>Operating Revenue</b>				
Tuition and fees, net of scholarship allowances of \$1,739,884 and \$1,912,442	\$ 16,098,692	\$ 16,132,042	\$ -	\$ -
Grants and contracts	2,407,287	2,261,397	-	-
Auxiliary enterprises	4,487,076	4,733,601	-	-
Contributions	-	-	627,664	432,654
In-kind contributions	-	-	425,563	458,915
Pledge revenue, net of discounts	-	-	1,370	8,037
Other revenue	3,964,391	3,830,757	185,467	207,323
<b>Total Operating Revenue</b>	<b>26,957,446</b>	<b>26,957,797</b>	<b>1,240,064</b>	<b>1,106,929</b>
<b>Operating Expenses</b>				
Instruction:				
Academic	20,659,733	20,376,026	-	-
Continuing education	3,752,538	3,615,585	-	-
<b>Total Instruction</b>	<b>24,412,271</b>	<b>23,991,611</b>	<b>-</b>	<b>-</b>
Academic support	1,471,154	1,665,514	-	-
Student services	6,748,131	6,488,683	-	-
Plant operations and maintenance	7,432,733	6,888,346	-	-
Institutional support	9,203,882	8,757,992	-	-
Scholarships	1,447,832	1,424,042	-	-
Student aid	3,149,575	3,550,204	-	-
Depreciation	3,363,260	3,326,538	-	-
Auxiliary enterprises	4,707,589	5,008,172	-	-
Program services	-	-	694,700	699,642
Support services	-	-	532,992	571,856
Other expenses	589,295	764,246	-	-
<b>Total Operating Expenses</b>	<b>62,525,722</b>	<b>61,865,348</b>	<b>1,227,692</b>	<b>1,271,498</b>
<b>Operating (Loss) Income</b>	<b>(35,568,276)</b>	<b>(34,907,551)</b>	<b>12,372</b>	<b>(164,569)</b>
<b>Nonoperating Revenue</b>				
State appropriations	8,975,284	8,975,284	-	-
County appropriations	15,127,919	14,544,914	-	-
State and County capital projects appropriations	3,986,671	10,706,471	-	-
Student aid	4,889,459	5,462,646	-	-
Investment income	25,221	13,641	5,190	(12,096)
Net unrealized and realized gain on investments	-	-	(280,321)	419,389
Change in the value of Charitable Remainder Trusts	-	-	(27,141)	6,463
Other revenue	629,732	675,277	-	-
State paid benefits	2,282,158	2,203,032	-	-
<b>Nonoperating Revenue</b>	<b>35,916,444</b>	<b>42,581,265</b>	<b>(302,272)</b>	<b>413,756</b>
<b>Change in Net Position</b>	<b>348,168</b>	<b>7,673,714</b>	<b>(289,900)</b>	<b>249,187</b>
<b>Net Position - Beginning of year</b>	<b>83,967,160</b>	<b>76,293,446</b>	<b>13,106,340</b>	<b>12,857,153</b>
<b>Net Position - End of year</b>	<b>\$ 84,315,328</b>	<b>\$ 83,967,160</b>	<b>\$ 12,816,440</b>	<b>\$ 13,106,340</b>

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

# FREDERICK COMMUNITY COLLEGE

## Statements of Cash Flows For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>		
Tuition and fees received	\$ 15,644,462	\$ 16,173,961
Payments to suppliers	(18,947,617)	(16,416,566)
Payments to employees	(39,193,910)	(38,887,194)
Auxiliary enterprise charges	4,493,809	4,733,445
Other receipts	6,290,333	5,990,369
<b>Net Cash From Operating Activities</b>	<u>(31,712,923)</u>	<u>(28,405,985)</u>
<b>Cash Flows From Noncapital</b>		
<b>Financing Activities</b>		
Federal revenue	4,889,459	5,462,646
State and County appropriations	26,477,310	22,089,496
<b>Net Cash From Noncapital Financing Activities</b>	<u>31,366,769</u>	<u>27,552,142</u>
<b>Cash Flows From Capital and Related</b>		
<b>Financing Activities</b>		
State and County capital appropriations	3,986,671	10,706,471
Other revenue	629,732	675,277
Purchase of capital assets	(3,527,269)	(11,290,081)
Payments of bonds	(264,335)	(259,336)
<b>Net Cash From Capital and Related Financing Activities</b>	<u>824,799</u>	<u>(167,669)</u>
<b>Cash Flows From Investing Activities</b>		
Investment income	25,221	13,641
<b>Change in Cash and Cash Equivalents</b>	<u>503,866</u>	<u>(1,007,871)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>14,512,878</u>	<u>15,520,749</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 15,016,744</u>	<u>\$ 14,512,878</u>

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

# FREDERICK COMMUNITY COLLEGE

## Statements of Cash Flows For the Years Ended June 30, 2016 and 2015

### Reconciliation of Net Operating Loss To Net Cash From Operating Activities

	<u>2016</u>	<u>2015</u>
<b>Operating Loss</b>	<b>\$ (35,568,276)</b>	<b>\$ (34,907,551)</b>
<b>Adjustments to reconcile operating loss to net cash from operating activities:</b>		
Depreciation	3,363,260	3,326,538
State paid benefits	2,282,158	2,203,032
<b>Effect of the changes in non-cash operating assets and liabilities</b>		
Accounts receivable	214,445	(204,431)
Prepaid expenses	(430,783)	(17,462)
Inventory	85,564	271,807
Accounts payable	(716,056)	413,953
Accrued salaries	67,024	(174,870)
Accrued liabilities	(342,953)	556,378
Accrued leave	(63,266)	17,925
Unearned revenue	(523,288)	108,482
Deposits held for others	(80,752)	214
<b>Net Cash From Operating Activities</b>	<b><u>\$ (31,712,923)</u></b>	<b><u>\$ (28,405,985)</u></b>

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

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2016 and 2015**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Frederick Community College (the College)**

##### **Basis of Presentation**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The College is considered a business-type special-purpose government using the activities reporting model. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the College adopted the financial model required by business-type activities (BTA). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. The BTA model requires the following financial statement components:

- Management's Discussion and Analysis
- Statements of Net Position
- Statements of Revenue, Expenses and Change in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements

##### **Basis of Accounting**

The accompanying financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles whereby all revenue is recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. The summer semesters of the College overlap fiscal years. Consistent with generally accepted accounting principles, summer semester revenue is recorded as earned and expenditures are recorded as incurred in each fiscal year.

##### **Reporting Entity**

The College is a separate legal entity created by state law and accordingly prepares its own financial statements and reports. Since the County Council of Frederick County approves the College operating budget, the College is also included as a component unit in the financial statements of Frederick County, Maryland. Although the College does not control the timing or amount of receipts from the Frederick Community College Foundation, Inc. (the Foundation), all of the resources or income thereon that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for, the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College financial statements. Complete financial statements for the Foundation can be obtained by contacting Frederick Community College Foundation, Inc., 7932 Opossumtown Pike, Frederick, MD, 21702.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Budgetary Accounting**

The College maintains a system of budgetary control for management purposes and to meet requirements of State Law. Encumbrance accounting is used for budgetary purposes. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these financial statements.

#### **Use of Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, cash and cash equivalents include deposits and money-market fund investments held at financial institutions.

#### **Accounts Receivable**

Accounts receivable relates to transactions involving student tuition and fee billings, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions.

#### **Allowance for Doubtful Accounts**

Accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amount of accounts receivable that will not be collected. This valuation allowance is based on the age, historical trends and estimated collectability of receivables. The allowance for doubtful accounts was \$188,571 and \$207,932 as of June 30, 2016 and 2015, respectively.

#### **Scholarship Allowance**

Student tuition and fees are reported net of any scholarship allowance. A scholarship allowance is the difference between the stated charge for tuition, goods and services provided by the College and the amount that is paid by the student or third parties making payments on behalf of the student. These scholarship allowances represent funds received from outside resources such as the Title IV Federal Grant Program.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capital Assets

Capital assets are either recorded at cost or, in the case of contributed assets, at the fair value at the date of donation. The College's policy is to include only those capital assets with a purchase price or fair value at donation of at least \$2,500 and a minimum life of 1 year. The library collection is recorded and valued annually as a group at cost or estimated cost without regard to individual item cost. It is depreciated on a unit basis with each year's additions comprising an individual unit.

Capital asset additions constructed using funding provided by the State or County government agencies are stated at the cost incurred for such additions by the agency. Depreciation is expensed over the estimated economic life of the asset on a straight line basis as follows:

	<b>Number of Years</b>
Buildings and improvements	10-40
Library collection	10
Furniture and equipment	5-10

#### Inventory

Inventory is carried at the lower of average cost or market as of June 30, 2016 and 2015.

#### Revenue Recognition and Unearned Revenue

Tuition revenue is recognized when instruction is provided. Grant and appropriation revenue is recognized when all of the conditions are met.

Unearned revenue is primarily tuition received for semesters beginning after June 30, 2016. Grant revenue received during the year that has restrictions on spending has been deferred until those restrictions are met.

#### Operating Revenue and Expenses

The principal ongoing operations of the College is to determine operating flow activities. Ongoing operations of the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs.

Operating revenue of the College consists of tuition and fees, grants and contracts and auxiliary enterprise income. Operating expenses include those expenses required to be incurred to generate the operating revenue of the College. All other expenses and revenue are considered non-operating.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Expenses

The Statements of Revenue, Expenses, and Change in Net Position categorize expenses by function. The following summarizes expenses by natural class:

	For the Years Ended	
	June 30, 2016	June 30, 2015
Salaries and benefits	\$ 39,176,145	\$ 38,700,258
Supplies and materials	1,532,296	1,745,510
Depreciation	3,363,260	3,326,538
Contracted services	3,363,605	3,155,153
Conferences and meetings	523,979	615,443
Communications	233,687	222,726
Utilities	992,669	1,028,872
Insurance	169,289	155,367
Scholarships	4,665,130	5,091,907
Campus projects and equipment	1,568,206	946,123
Cost of goods sold (bookstore and food service)	2,402,157	2,760,742
Miscellaneous	2,253,141	1,913,677
Certain fringe benefits paid directly by the state of Maryland	2,282,158	2,203,032
<b>Total</b>	<b>\$ 62,525,722</b>	<b>\$ 61,865,348</b>

#### Postemployment Benefits

College employees participate in retirement plans as more fully discussed in Note 6. Also, the College offers other post-employment benefits described in Note 7.

#### Compensated Absences

Qualified administrators and support staff as well as those at the Assistant Professor, Associate Professor and Professor levels employed on a 12-month basis earn annual leave at the rate of 20 working days per year. Assistant Instructors and Instructors earn annual leave at the rate of 15 days per year. Ten and eleven month administrative and supportive staff accrue annual leave at the same rates but will not accrue leave during the periods when they are not required to work. All part-time regular administrators and part-time regular support staff working at least 17.5 hours per week are eligible for a prorated share of annual leave.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Compensated Absences** (continued)

Qualified 12-month faculty, administrators, and support staff hired prior to July 1, 1987, may accumulate a maximum of 40 days and are paid up to a maximum of 30 days upon separation from employment for resignation, retirement, or non-renewal. Those hired after June 30, 1987, may accumulate a maximum of 30 days and there is no cash payout of unused annual leave upon separation from employment.

Annual leave benefits earned but not yet taken are charged to expense in the current fiscal year. These benefits will be funded by future appropriations when paid.

All full-time regular administrators, full-time regular support staff, and full-time faculty are eligible for sick leave. Qualified employees are entitled to a sick leave benefit of one day for each month employed. Sick leave for part-time employees is accrued on a prorated basis. Unlimited sick leave may be accumulated. Qualified staff employed prior to July 1, 1985, are eligible for payout upon termination of 40% of sick leave accumulated up to a maximum of 120 days. For those hired after June 30, 1985, there is no cash payout of unused sick leave upon separation from employment.

#### **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 is exempt from taxation under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no income taxes are reflected in these financial statements.

#### **Net Position**

The College maintains the following net position classifications:

##### *Net Investment in Capital Assets*

Capital assets, net of accumulated depreciation and outstanding debt.

##### *Restricted – Expendable*

Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

##### *Unrestricted*

Unrestricted net position may be designated for specific purposes by the College's Board of Trustees.

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements**

**June 30, 2016 and 2015**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Net Position (continued)**

When both restricted and unrestricted net position are available for expenditure, the decision as to which assets are used first is left to the discretion of the College.

#### **Frederick Community College Foundation, Inc. (the Foundation)**

##### **Revenue Recognition**

The Foundation is a private non-profit organization that accounts for its activities under FASB standards, as denoted in the FASB Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation financial information in the College financial statements for these differences.

##### **Basis of Accounting**

The Foundation is a publicly supported foundation, incorporated under the laws of the State of Maryland. The Foundation is organized exclusively for charitable, scientific, literary and educational purposes; to promote, augment and further the educational purposes and programs of Frederick Community College, a non-profit educational institute of higher learning and to assist in developing and carrying out the educational functions of the College for the benefits of students, faculty and the community at large. The Foundation has been granted tax-exempt status under the Internal Revenue Code Section 501(c)(3). Financial statements of the Foundation have been prepared on the accrual basis of accounting.

##### **Fair Value Measurement**

Accounting principles generally accepted in the United States of America, establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair Value Measurement (continued)

The three levels of the fair value hierarchy described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Realized and unrealized gains and losses are reflected in the Statements of Revenue, Expenses, and Change in Net Position. Investment income from money market funds is recognized on a monthly basis. Investment income from the University System of Maryland Foundation (USMF) is recorded on a quarterly basis as notified by the fund. At year-end, an accrual is made for interest earned through that date. The investment objectives of the Foundation are to provide stable and predictable spendable cash income from year to year, and to preserve the capital value of the fund protecting it from wide variations in market value. The investment manager and custodial management fees are deducted from investment income earned.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Classification of Net Assets

As required under generally accepted accounting principles in United States of America, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – Contributions not subject to donor-imposed stipulations or whose restrictions have been satisfied.

Temporarily Restricted Net Assets – This net asset group includes expendable donor-restricted gifts and earnings on permanently restricted net assets, which are restricted for the following purposes:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Scholarships	\$ 2,182,244	\$ 2,592,496
Scholarships Quasi-Endowment	3,963,008	4,057,484
Other Program Support	957,907	904,181
<b>Total</b>	<u><u>\$ 7,103,159</u></u>	<u><u>\$ 7,554,161</u></u>

Net assets released from restrictions were as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Scholarships	\$ 415,389	\$ 441,143
Program Services	279,311	180,940
Support Services	15,873	25,163
Administrative Fees	59,888	61,041
<b>Total</b>	<u><u>\$ 770,461</u></u>	<u><u>\$ 708,287</u></u>

Permanently Restricted Net Assets – This net asset group reflects non-expendable donor-restricted principal, which is restricted for the following purposes:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Scholarships	\$ 4,224,984	\$ 4,071,587
Other Program Support	91,457	91,107
<b>Total</b>	<u><u>\$ 4,316,441</u></u>	<u><u>\$ 4,162,694</u></u>

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foundation Assets

Pledges receivable – These pledges represent unconditional promises to give from various contributors including individuals, local businesses, and state and local governments. Pledges receivable in excess of one year have been discounted using a risk-free discount rate ranging from 0.28% to 0.69% and all pledges receivable are recorded at fair value as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the allowance was \$538 and \$616, respectively.

Charitable Remainder Trust – The Foundation has been named beneficiary of a charitable remainder trust. A qualifying charitable remainder trust provides lifetime income to the donor and/or the donor's family members, with the remaining trust assets passing to the Foundation when the trust ends. The trust was created by donors independently of the Foundation and are neither in the possession nor under the control of the Foundation. The trust is administered by outside fiscal agents as designated by the donor. The Foundation records the present value of the remainder interest discounted at a rate of 3.00% for both 2016 and 2015. Charitable remainder trust is recognized as revenue when the Foundation is notified that it has been named as a beneficiary.

Contributions of temporarily restricted net assets that are received and expended in the same fiscal year are treated as temporarily restricted revenue and net assets released from restrictions in that year.

#### The Foundation's Endowment Fund Management Policy

Under accounting principles generally accepted in the United States of America, Endowments of Non-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. Accounting principles generally accepted in the United States of America requires that the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the organization's governing board, must be retained permanently consistent with the relevant law. Accounting principles generally accepted in the United States of America also expands the disclosures required for both donor-restricted and board-designated endowment funds.

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2016 and 2015**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **New Accounting Pronouncements**

##### **Frederick Community College**

As of the year ended June 30, 2015, GASB issued Statement No. 72 entitled, Fair Value Measurement and Application; Statement No. 73 entitled, Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68; GASB Statement No. 74 entitled, Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans; GASB Statement No. 75 entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB Statement No. 76 entitled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. These statements may have a material effect on the College's financial statements once implemented. The College will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

##### **Frederick Community College Foundation, Inc.**

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.

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.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

#### Frederick Community College

The College includes cash on hand, cash in bank accounts and cash invested in the Maryland Local Government Investment Pool (MLGIP) as cash and cash equivalents in the accompanying financial statements.

Cash on hand for petty cash and change funds as of June 30, 2016 and 2015, was \$8,000 and \$7,500, respectively.

#### Deposits

The carrying amount of the College deposits as of June 30, 2016 and 2015, was \$6,556,438 and \$6,069,398, respectively, and the bank balance was \$6,643,883 and \$6,532,371, respectively. All of the College bank balances are collateralized by Federal agency securities held in safekeeping by the Federal Reserve.

#### MLGIP

Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the College investment policy, determines the allowable investments the College can make. 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, bankers 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). The College investment balance in the MLGIP as of June 30, 2016 and 2015, was \$8,452,306 and \$8,435,980, respectively. This investment is considered to be a cash equivalent for financial statement purposes. The College has no unfunded commitments nor significant terms or conditions for redemption.

#### Reconciliation of Cash and Cash Equivalents as shown on the Statements of Net Position:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash on hand	\$ 8,000	\$ 7,500
Carrying amount of deposits	6,556,438	6,069,398
Carrying amount of MLGIP	<u>8,452,306</u>	<u>8,435,980</u>
<b>Total cash and cash equivalents per statement of net position</b>	<b><u>\$ 15,016,744</u></b>	<b><u>\$ 14,512,878</u></b>

Investment income includes net interest and dividends of \$25,221 and \$13,641, for the years ended June 30, 2016 and 2015, respectively.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

#### MLGIP (continued)

##### *Investment 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 exposure to fair value losses arising from increasing rates, the College investment policy limits the term of investment maturities. For the years ended June 30, 2016 and 2015, the College investments were limited to the MLGIP. 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 and 2015, met the College investment policy.

##### *Credit Risk*

The College invests in MLGIP which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95, Section 22G, of the Annotated Code of Maryland and is rated AAAM by Standard & Poors, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 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 possession of an outside party. The College investments were all invested in the MLGIP.

### 3. RELATIONS WITH FREDERICK COUNTY, MARYLAND

#### Frederick Community College

Frederick County, Maryland provides approximately 31% of the College operating budget. The College budget is subject to the approval of the County Council. The County provided an in-kind appropriation for PeopleSoft software support of \$426,884 and \$434,637, for the years ended June 30, 2016 and 2015, respectively. They also provided an in-kind appropriation for internal audit services and real estate appraisals of \$24,533 and \$60,775, for the years ended June 30, 2016 and 2015, respectively, which has been included in the County appropriation revenue and as part of Institutional Support expenditures in the financial statements.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 4. CAPITAL ASSETS

#### Frederick Community College

Schedules of capital assets and accumulated depreciation for the years ended June 30, 2016 and 2015 were as follows:

	July 1, 2015	Additions & Transfers	Retirements & Transfers	June 30, 2016
Capital assets not being depreciated				
Land	\$ 271,620	\$ -	\$ -	\$ 271,620
Construction in Progress	<u>4,977,058</u>	<u>119,400</u>	<u>(4,977,058)</u>	<u>119,400</u>
Total capital assets not being depreciated	<u>5,248,678</u>	<u>119,400</u>	<u>(4,977,058)</u>	<u>391,020</u>
Capital assets being depreciated				
Building and Improvements	100,710,904	6,770,849	-	107,481,753
Site Improvements	6,413,789	834,471	-	7,248,260
Furniture and Equipment	5,170,560	803,642	(139,990)	5,834,212
Library Collection	<u>2,031,547</u>	<u>19,811</u>	<u>-</u>	<u>2,051,358</u>
Total capital assets being depreciated	<u>114,326,800</u>	<u>8,428,773</u>	<u>(139,990)</u>	<u>122,615,583</u>
Less: Accumulated Depreciation				
Building and Improvements	(30,553,987)	(2,736,505)	-	(33,290,492)
Site Improvements	(5,599,176)	(120,247)	-	(5,719,423)
Furniture and Equipment	(3,549,662)	(474,731)	96,144	(3,928,249)
Library Collection	<u>(1,895,912)</u>	<u>(31,777)</u>	<u>-</u>	<u>(1,927,689)</u>
Total accumulated depreciation	<u>(41,598,737)</u>	<u>(3,363,260)</u>	<u>96,144</u>	<u>(44,865,853)</u>
Total assets being depreciated, net	<u>72,728,063</u>	<u>5,065,513</u>	<u>(43,846)</u>	<u>77,749,730</u>
<b>Capital assets, net</b>	<u>\$ 77,976,741</u>	<u>\$ 5,184,913</u>	<u>\$ (5,020,904)</u>	<u>\$ 78,140,750</u>

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 4. CAPITAL ASSETS (continued)

#### Frederick Community College (continued)

	<u>July 1, 2014</u>	<u>Additions &amp; Transfers</u>	<u>Retirements &amp; Transfers</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land	\$ 271,620	\$ -	\$ -	\$ 271,620
Construction in Progress	<u>3,509,017</u>	<u>4,517,886</u>	<u>(3,049,845)</u>	<u>4,977,058</u>
Total capital assets not being depreciated	<u>3,780,637</u>	<u>4,517,886</u>	<u>(3,049,845)</u>	<u>5,248,678</u>
Capital assets being depreciated				
Building and Improvements	91,789,852	8,921,052	-	100,710,904
Site Improvements	6,071,743	342,046	-	6,413,789
Furniture and Equipment	4,698,594	540,961	(68,995)	5,170,560
Library Collection	<u>2,013,203</u>	<u>18,344</u>	<u>-</u>	<u>2,031,547</u>
Total capital assets being depreciated	<u>104,573,392</u>	<u>9,822,403</u>	<u>(68,995)</u>	<u>114,326,800</u>
Less: Accumulated Depreciation				
Building and Improvements	(27,986,065)	(2,567,922)	-	(30,553,987)
Site Improvements	(5,262,428)	(336,748)	-	(5,599,176)
Furniture and Equipment	(3,231,735)	(386,559)	68,632	(3,549,662)
Library Collection	<u>(1,860,603)</u>	<u>(35,309)</u>	<u>-</u>	<u>(1,895,912)</u>
Total accumulated depreciation	<u>(38,340,831)</u>	<u>(3,326,538)</u>	<u>68,632</u>	<u>(41,598,737)</u>
Total assets being depreciated, net	<u>66,232,561</u>	<u>6,495,865</u>	<u>(363)</u>	<u>72,728,063</u>
<b>Capital assets, net</b>	<u>\$ 70,013,198</u>	<u>\$ 11,013,751</u>	<u>\$ (3,050,208)</u>	<u>\$ 77,976,741</u>

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 5. LONG-TERM LIABILITIES

#### Frederick Community College

The College records a liability for accrued annual leave as earned to the extent payable to its employees upon termination. A liability is also recorded for sick leave payable at retirement according to College policy. Employees hired after June 30, 1985 must use their sick leave prior to termination. As those employees hired prior to June 30, 1985 retire, the College sick leave liability is declining. The annual leave liability slightly increased for fiscal year 2016 due to fewer employees using leave.

For the Years Ended June 30,

	2014	Addition (Reduction) in Accrual	2015	Addition (Reduction) in Accrual	2016
Annual Leave Liability	\$ 1,194,227	\$ 28,227	\$ 1,222,454	\$ 894	\$ 1,223,348
Sick Leave Liability	188,991	(11,576)	177,415	(59,664)	117,751
Estimated Payroll Taxes	105,816	1,274	107,090	(4,496)	102,594
<b>Total Liability</b>	<b>1,489,034</b>	<b>17,925</b>	<b>1,506,959</b>	<b>(63,266)</b>	<b>1,443,693</b>
Less: current portion	(48,103)	(110,018)	(158,121)	135,701	(22,420)
<b>Long-Term Portion</b>	<b>\$ 1,440,931</b>	<b>\$ (92,093)</b>	<b>\$ 1,348,838</b>	<b>\$ 72,435</b>	<b>\$ 1,421,273</b>

The College issued Certificates of Participation in December 2010 to finance a new parking garage and a portion of the enrollment services building. Manufacturers and Traders Trust Company serves as trustee for the transaction and there is a term of approximately 25 years. Principal payments began in 2013. The following table summarizes this liability:

	June 30, 2015	Principal Payment	Premium Discount Amortization	June 30, 2016	Current Portion	Long Term Portion
<b>Bond payable</b>	\$ 6,754,133	\$ (270,000)	\$ 5,665	\$ 6,489,798	\$ 275,000	\$ 6,214,798

### 6. PENSION AND RETIREMENT PLANS

#### Frederick Community College

All permanent employees of the College are covered under one of the two cost-sharing multiple-employer pension/retirement plans. One of these plans is provided directly by the State of Maryland, and the employer funding for eligible College employees is provided directly by the State. The other retirement plan, provided through TIAA/CREF or Fidelity, is an option for certain professional employees and is also provided for those College employees for which the State does not provide employer share funding of retirement benefits.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 6. PENSION AND RETIREMENT PLANS (continued)

#### **Maryland State Teachers Retirement and Pension System**

*Plan description.* Teachers employed by the College are provided with pensions through the Teachers' Pension System of the State of Maryland (TPS) – a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of TPS to the MSRPS Board of Trustees. MSRPS issues a publicly available financial report that can be obtained at [www.sra.state.md.us/Agency/Downloads/CAFR](http://www.sra.state.md.us/Agency/Downloads/CAFR).

*Benefits provided.* A member of the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals  $1/55$  (1.8%) of the member's Average Final Compensation (AFC) multiplied by the number of years of accumulated creditable service.

An individual who is a member of the Teachers' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 6. PENSION AND RETIREMENT PLANS (continued)

#### **Maryland State Teachers Retirement and Pension System (continued)**

##### *Early Service Retirement*

A member of the Teachers' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' Retirement System member is 30.0%.

An individual who is a member of the Teachers' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' Pension System is 42.0%. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' Pension System is 30.0%.

##### *Disability and Death Benefits*

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

##### *Cost of Living Adjustments*

The benefit attributable to service on or after July 1, 2011, now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or the increase in the CPI, based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 6. PENSION AND RETIREMENT PLANS (continued)

#### **Maryland State Teachers Retirement and Pension System (continued)**

*Contributions. (TPS)* The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7.0% of their annual pay. The State of Maryland is responsible for the net pension liability of TPS. The Board's required contribution is for the normal cost and does not include any contribution for past service cost. As such, the State of Maryland is responsible for 100% of the net pension liability related to TPS and qualifies for as a special funding situation.

#### *Unfunded Pension Liability*

The College is not required to record its proportionate share of the unfunded pension liability because it is in a special funding situation as noted in the Governmental Accounting Standards Board's GASB Statement No. 68 entitled, "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27" and GASB Statement No. 71 entitled, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68. Because the Maryland Higher Education Commission (MHEC) makes the pension plan contribution directly to the Maryland State Retirement and Pension System (SRPS) on behalf of the College, the College has a special funding situation under the provisions of GASB No. 68, and is not required to record an unfunded pension liability.

The College received State contributions toward retirement in the amount of \$2,282,158 and \$2,203,032 for the years ended June 30, 2016 and 2015, respectively. These amounts have been recorded as revenue and expenses in the financial statements.

#### **Other Retirement Plans**

A retirement plan is provided through TIAA/CREF or Fidelity for permanent employees of the College who are not eligible for the Maryland State Teachers Retirement or Pension systems. The State also provides employer share funding for professional employees of the College who choose certain other retirement plans in lieu of participating in the State's retirement systems. These other plans include TIAA/CREF and Fidelity. The other plans are defined contribution plans requiring an employer contribution of 7.25% of the employee's base salary.

Employee contributions to a selected plan are not mandatory. Employees are 100% vested upon enrollment in a plan. All assets of the plan are held and managed by the other retirement plan providers who issue individual annuity contracts to each employee.

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**6. PENSION AND RETIREMENT PLANS (continued)**

**Summary of Pension and Retirement Plans**

The annual pension and retirement cost and the percentage of that amount contributed for the past four years for the aforementioned plans are as follow:

<b>Fiscal Years</b>	<b>MD State Teachers Retirement and Pension System Annual Cost</b>	<b>Percentage Contributed</b>	<b>Other Plans Annual Cost</b>	<b>Percentage Contributed</b>
2016	\$ 1,532,979	100%	\$ 934,949	100%
2015	1,479,245	100%	907,505	100%
2014	1,308,108	100%	881,572	100%
2013	1,163,276	100%	931,411	100%
2012	1,208,270	100%	885,977	100%

**7. POSTEMPLOYMENT HEALTHCARE PLAN**

**Frederick Community College**

*Plan Description.* The Frederick Community College Group Health Benefits are approved by the Board of Trustees and are defined the Employee Handbook. This policy provides for those retirees who are collecting benefits through either the Maryland State Retirement and Pension System (MSRPS) or one of the Optional Retirement Plans (ORPs) to continue their healthcare coverage at their expense indefinitely. The healthcare premiums charged have not been age adjusted and, as a result, the plan is deemed to provide an implied subsidy to retirees. Coverage for retirees will be governed by contracts in effect with the insurance carriers.

*Funding Policy.* The required contribution is based on projected pay-as-you-go financing requirements. For both fiscal years 2016 and 2015, retirees paid approximately \$35 thousand in premiums and approximately \$27 thousand in premiums, respectively.

*Annual OPEB Cost and Net OPEB Obligation.* The College annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years. The following table shows the components of the College annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College’s net OPEB obligation to the plan. The liability is included in accrued liabilities on the Statements of Net Position.

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)**

**Frederick Community College (continued)**

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 66,959	\$ 46,636
Interest on net OPEB obligation	5,220	4,785
Adjustment to annual required contribution	<u>(11,212)</u>	<u>(10,276)</u>
Annual OPEB cost	60,967	41,145
Contributions made	<u>(35,162)</u>	<u>(26,631)</u>
Increase in net OPEB obligation	25,805	14,514
Net OPEB obligation, July 1	<u>174,009</u>	<u>159,495</u>
Net OPEB obligation, June 30	<u>\$ 199,814</u>	<u>\$ 174,009</u>

The College annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended June 30, were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual</u> <u>OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2016	\$ 60,967	58%	\$ 199,814
2015	41,145	65%	174,009
2014	40,449	66%	159,495
2013	33,744	98%	145,677
2012	33,038	100%	144,918

Since the plan covers only retirees and current employees are not included, there is no covered payroll.

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

As of June 30, 2016, the plan was zero percent funded. The actuarial accrued liability was \$480,820, which is equivalent to the unfunded actuarial accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was \$23.8 million and the ratio of the UAAL to the covered payroll was 2.0% as the table on the next page reflects.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

#### Frederick Community College (continued)

Actuarial Valuation Date	Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	AAL as a Percentage of Payroll
June 30, 2016	\$ -	\$ 480,820	\$ 480,820	0%	\$ 23,801,152	2.0%
June 30, 2015	-	339,427	339,427	0%	23,229,822	1.5%
June 30, 2014	-	339,427	339,427	0%	22,326,743	1.5%
June 30, 2013	-	313,580	313,580	0%	22,562,946	1.4%
June 30, 2012	-	313,580	313,580	0%	21,542,902	1.5%

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

The assumptions for 2016 are consistent with the prior valuation. The projected unit cost method was used with unfunded actuarial accrued liability amortized as a level percentage of payroll over 15 years was used. Healthcare costs assumed a 10.0% increase, decreasing 1.0% per year to an ultimate rate of 5.0%. In the fiscal year 2016 actuarial valuation, the actuarial cost method was used.

### 8. RISK MANAGEMENT

#### Frederick Community College

The College is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The College carries commercial insurance to insure against major loss related to these risks. The College also carries commercial insurance for employee health, long-term disability, life and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. No significant reductions in insurance coverage have occurred.

The College is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The College is actively defending its position in all cases. In the opinion of the College, resolution of these matters will not have a material adverse effect on the financial statements.

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2016 and 2015**

### **9. CONTINGENT LIABILITIES AND COMMITMENTS**

#### **Frederick Community College**

##### **Grants and Contracts**

Most grants and cost-reimbursable contracts specify the types of expenditure for which the grant or contract funds may be used. The expenditures 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 and contracts. In the opinion of management, the expenditures that have been made for grants and contracts were made in accordance with the provisions of such grants and contracts. In the opinion of management, any adjustments for unallowable costs that would result from audits will not have a material effect on the College financial statements.

##### **Mt. Airy Center for Health Care Education**

The College entered into a joint-venture agreement with Howard Community College (HCC) and Carroll Community College (CCC) to form the Mt. Airy Center for Health Care Education (the Center) in fiscal year 2012. The Center offered both credit and noncredit courses. The three colleges shared both the revenue and expenses associated with the Center. HCC had the role of primary administrator for consolidating the financial information and invoicing the other colleges. During fiscal year 2016, 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. The College recorded accounts payable for its portion of the buy-out in the amount of \$278,000. The loss is recorded in other expenses on the Statements of Revenue, Expenses, and Change in Net Position.

For the year ended June 30, 2016 and 2015, the College recorded accounts payable to HCC and CCC in the amount of \$268,353 and \$15,240, respectively, for expenses related to operating the facility.

The College incurred \$99,864, and \$94,349 in rent expenses during the years ended June 30, 2016 and 2015, respectively.

##### **Commitments**

Total outstanding construction commitments as of June 30, 2016 and 2015, was \$0.3 million and \$2.5 million, respectively.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 10. CONTRIBUTIONS AND PLEDGES AND GRANTS RECEIVABLE

#### Frederick Community College Foundation, Inc.

Unrestricted contributions are recorded as Unrestricted Net Assets and are expended as approved by the Member-Directors of the Foundation. Donor restricted contributions are recorded as Temporarily Restricted or Permanently Restricted Net Assets consistent with donor restrictions.

Pledges are recorded as receivables and revenue upon receipt of signed pledge agreements. Pledges are shown at fair value, which was calculated using discount rates for United States of America Treasury Securities for the applicable terms. The unamortized discount will be accreted into revenue in the future. Accounting principles generally accepted in the United States of America establishes accounting standards for all contributions received or made.

The following schedule presents the anticipated date of receipt of recorded pledges:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Less than one year	\$ 10,000	\$ 5,225
One to five years	-	5,250
<b>Total</b>	<u>\$ 10,000</u>	<u>\$ 10,475</u>

Pledges receivable represent unconditional promises to give as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Unconditional promises to give	\$ 10,000	\$ 10,475
Less:		
unamortized discount	23	80
allowance for uncollectible	538	616
<b>Total</b>	<u>\$ 9,439</u>	<u>\$ 9,779</u>

### 11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS

#### Frederick Community College Foundation, Inc.

In determining fair value, the Foundation uses various valuation approaches within accounting principles generally accepted in the United States of America fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. The Foundation is invested in the University System of Maryland Foundation (USMF) investment pool which includes investments in three investment levels. Because these investments in the pool, that are level 3 are significant to the pool, the Foundation has classified its investment in the pool as level 3 as of June 30, 2016 and 2015.

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS**  
(continued)

**Frederick Community College Foundation, Inc. (continued)**

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2016 and 2015.

	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment in				
external investment pool	\$ -	\$ -	\$11,728,585	\$11,728,585
Investment in				
charitable remainder trusts	-	-	407,194	407,194
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,135,779</b>	<b>\$12,135,779</b>

  

	<b>June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment in				
external investment pool	\$ -	\$ -	\$12,089,274	\$12,089,274
Investment in				
charitable remainder trusts	-	-	434,335	434,335
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,523,609</b>	<b>\$12,523,609</b>

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30:

	<b>USMF Pool</b>		<b>Charitable Remainder Trusts</b>	
	<b>Level 3</b>	<b>Level 3</b>	<b>Level 3</b>	<b>Level 3</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Balance, July 1,	<b>\$12,089,274</b>	\$11,753,671	<b>\$ 434,335</b>	\$ 427,872
Realized/unrealized (losses) gains, net	<b>(280,321)</b>	419,389	<b>(27,141)</b>	6,463
Purchases/(sales)	<b>(80,368)</b>	(83,786)	-	-
<b>Balance, June 30,</b>	<b>\$11,728,585</b>	\$12,089,274	<b>\$ 407,194</b>	\$ 434,335

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS (continued)

#### Frederick Community College Foundation, Inc. (continued)

On June 30, 2016, the Foundation had 363,697.2468 units of the USMF Unitized Investment Fund valued at \$32.24821 per unit with a total value of \$11,728,585. On June 30, 2015, the Foundation had 366,209.1608 units of the USMF Unitized Investment Fund valued at \$33.0119 per unit with a total value of \$12,089,274.

	June 30, 2016			June 30, 2015		
	Cost	Market	Unrealized (Losses)	Cost	Market	Unrealized (Losses)
USMF Pool Participation	\$12,428,183	\$11,728,585	\$ (699,598)	\$12,309,040	\$12,089,274	\$ (219,766)
Interest in						
charitable remainder trust	479,043	407,194	(71,849)	479,043	434,335	(44,708)
Total	\$12,907,226	\$12,135,779	\$ (771,447)	\$12,788,083	\$12,523,609	\$ (264,474)

Financial statement presentation of unrealized investment gains and losses follows the recommendations of accounting principles generally accepted in the United States of America. Unrealized gains and losses are recognized as changes in the unrestricted and temporarily restricted classes of net assets. The Foundation reported a net unrealized loss on investments of \$539,200 for the year ended June 30, 2016 and a net unrealized gain of \$94,698 for the year ended June 30, 2015.

During the year ended June 30, 2007, donors (husband and wife) made a gift of \$674,690, in the form of a Charitable Remainder Annuity Trust. The Trust requires that the Trustee pay a Unitrust Amount equal to 6.0% of the net fair value of the assets of the Trust during the lifetime of the donors. The value of the trust was \$407,194 and \$434,335 as of June 30, 2016 and 2015, respectively, net of discount.

### 12. ENDOWMENTS

#### Frederick Community College Foundation, Inc.

The Foundation endowments consist of 120 funds established to support a variety of scholarships and programs at the College. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2016 and 2015

### 12. ENDOWMENTS (continued)

#### Frederick Community College Foundation, Inc. (continued)

##### Interpretation of Relevant Law

The Board of Directors of the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. Consequently, the Foundation classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation Board. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund,
2. the purpose of the Foundation and the donor-restricted endowment fund,
3. general economic conditions,
4. the possible effect of inflation and deflation,
5. the expected total return from income and the appreciation of investments,
6. other resources of the Foundation, and
7. 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 the programs supported by the endowments. The endowment assets are invested in a manner that is intended to preserve and enhance the principal value of the fund while protecting it from wide variations in market value.

##### Spending Policy

The Foundation has a policy of appropriating up to 5.0% of a twenty-quarter trailing market value average ending December 31, provided the donor contributions (principal) are not invaded. The Finance Committee determines the spending rate in the spring preceding the fiscal year in which the distribution is planned.

In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the Foundation expects that the current spending policy will allow its endowment to retain the original fair value of the gift.

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2016 and 2015**

**12. ENDOWMENTS (continued)**

**Frederick Community College Foundation, Inc. (continued)**

**Strategies Employed for Achieving Objectives**

The Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The Foundation targets a diversified asset allocation that emphasizes fixed income securities to achieve its long-term objectives within prudent risk constraints.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2016:**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,063,491	\$ 4,316,441	\$ 5,379,932
Board designated Quasi endowment for General & Erwin Scholarships	<u>4,220,961</u>	-	<u>4,220,961</u>
Total Funds	<u>\$ 5,284,452</u>	<u>\$ 4,316,441</u>	<u>\$ 9,600,893</u>

**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net assets, beginning of year	<u>\$ 5,771,956</u>	<u>\$ 4,152,694</u>	<u>\$ 9,924,650</u>
Investment return:			
Investment gain	1,655	-	1,655
Net appreciation/ depreciation	<u>(212,890)</u>	-	<u>(212,890)</u>
Total	<u>(211,235)</u>	-	<u>(211,235)</u>
Contributions collected	15,382	184,993	200,375
Reclassification	36,247	(31,246)	5,001
Depreciation of endowment assets for expenditure	<u>(327,898)</u>	-	<u>(327,898)</u>
Endowment Net assets, end of year	<u>5,284,452</u>	<u>4,306,441</u>	<u>9,590,893</u>
Pledges receivable	-	10,000	10,000
Endowed net assets, inclusive of receivables, end of year	<u>\$ 5,284,452</u>	<u>\$ 4,316,441</u>	<u>\$ 9,600,893</u>

## FREDERICK COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2016 and 2015

#### 12. ENDOWMENTS (continued)

##### Frederick Community College Foundation, Inc. (continued)

##### Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,333,212	\$ 4,162,694	\$ 5,495,906
Board designated Quasi endowment for General & Erwin Scholarships	4,438,744	-	4,438,744
Total Funds	<u>\$ 5,771,956</u>	<u>\$ 4,162,694</u>	<u>\$ 9,934,650</u>

##### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net assets, beginning of year	\$ 6,020,524	\$ 4,084,397	\$ 10,104,921
Investment return:			
Investment loss	(10,415)	-	(10,415)
Net appreciation	333,156	-	333,156
Total	<u>322,741</u>	<u>-</u>	<u>322,741</u>
Contributions collected	28,451	60,576	89,027
Reclassification	(323,781)	7,721	(316,060)
Depreciation of endowment assets for expenditure	<u>(275,979)</u>	<u>-</u>	<u>(275,979)</u>
Endowment Net assets, end of year	5,771,956	4,152,694	9,924,650
Pledges receivable	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Endowed net assets, inclusive of receivables, end of year	<u>\$ 5,771,956</u>	<u>\$ 4,162,694</u>	<u>\$ 9,934,650</u>

#### 13. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC.

The Foundation is a component unit of the College. The Foundation operates exclusively for charitable and educational purposes, including but not limited to receiving contributions, accepting holdings and investing and reinvesting any gifts or other donations for the benefit of the College, its students and faculty. The Foundation and the College have a written agreement specifying the details of their relationship. State regulations require that the Foundation reimburse the College for any costs or services provided to the Foundation, or that the cost of these services be offset, by the Foundation providing contributions or services to the College.

## **FREDERICK COMMUNITY COLLEGE**

### **Notes to the Financial Statements June 30, 2016 and 2015**

#### **13. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC. (continued)**

The College estimates the approximate value of services (including staff time) provided to the Foundation to be \$405,693 and \$456,790 for the years ended June 30, 2016 and 2015, respectively. These amounts have been included in the financial statements of the Foundation. The value of contributions and support provided by the Foundation to the College is \$694,700 and \$699,642 for the years ended June 30, 2016 and 2015, respectively.

#### **14. RELATIONSHIP BETWEEN FREDERICK COMMUNITY COLLEGE FOUNDATION, INC. AND FOUNDATION FOR THE FCC FOUNDATION, INC.**

The Foundation for the FCC Fund, Inc. (the Corporation) was established during fiscal year 2000 to handle non-cash gifts, where potential liability may be involved (i.e. Gifts of land or buildings). The Foundation board governs the operations of the Corporation and thus has been consolidated in accordance with the accounting principles generally accepted in the United States of America.

During the year ended June 30, 2016, Foundation for the FCC Foundation, Inc. received no gifts and incurred no expenses. As of June 30, 2016 and 2015, there were no assets or liabilities.

#### **15. SUBSEQUENT EVENTS**

The College and the Foundation evaluated the accompanying financial statements for subsequent events and transactions through September 23, 2016, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.