



Frederick Community College Annual Financial Report



June 30, 2015

**FREDERICK COMMUNITY COLLEGE
ANNUAL FINANCIAL REPORT
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

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, 2015 and 2014, 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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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, 2015 and 2014, and the respective changes in its financial position and its 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 29, 2015 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 29, 2015

A handwritten signature in black ink that reads "SB & Company, LLC".

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2015 and 2014

Overview and Basis of Presentation

This section of the Frederick Community College's (the College) basic financial statements presents management's discussion and analysis (MD&A), which provides an overview of its financial activities as of and for the years ended June 30, 2015 and 2014. 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's 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's financial statements as of and for the years ended June 30, 2015 and 2014, are displayed in the financial statements section of this report.

Significant Financial and Enrollment Highlights

- An unreserved fund balance of \$2.9 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 \$0.79 million.
- A policy approved by the College's Board of Trustees in March 2007 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 established 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 is to provide a funding source for multi-year initiatives and the BAOR is to provide a potential source for unexpected opportunities during the normal course of operations that would further the College's mission and vision. As of June 30, 2015, the CFR is \$2.5 million, and the SFBR is \$0.98 million and both reserves are fully funded. The SFBR in the amount of \$0.98 million is allocated for use in fiscal year 2016. The remaining balance relates to the \$3.2 million prior year unreserved balance which is used in the fiscal year 2016 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 2015. The county and state's share of unrestricted revenue was 32% and 24%, respectively.
- The Mt. Airy College Center for Health Care Education is 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. For the year ended June 30, 2015, the center had a net loss of \$608,280. The revenues and expenditures are shared among the three College's. FCC's share of the loss totaled \$157,317, which is reflected in the accompanying statements.

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2015 and 2014

Significant Financial and Enrollment Highlights (continued)

- Auxiliary expenses increased for the year ended June 30, 2015. It was primarily due to Bookstore expenses increasing due to changes in the recording of cost of goods sold related to the rental book inventory. This caused the profit from operations of the Bookstore to decrease. Dining Services operating performance increased \$11 thousand from the prior fiscal year due to increased sales. Children's Center operating performance decreased \$45 thousand from the prior fiscal year due to decreased enrollment.
- Academic headcount enrollment increased slightly between fiscal year 2015 and fiscal year 2014. The following summarizes state-reimbursable FTE trends over the past five years:

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Credit | 4,055 | 3,842 | 3,798 | 3,672 | 3,659 |
| Non-credit | <u>553</u> | <u>571</u> | <u>534</u> | <u>529</u> | 560 |
| Total | <u>4,608</u> | <u>4,413</u> | <u>4,332</u> | <u>4,201</u> | 4,219 |

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2015 and 2014

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>2015</u> | <u>2014</u> | <u>2013*</u> | <u>2015/2014 Change</u> | <u>2014/2013*</u> <u>Change</u> |
|-------------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------------|
| Assets | | | | | |
| Current assets | \$ 20,168,178 | \$ 19,795,261 | \$ 19,017,791 | \$ 372,917 | \$ 777,470 |
| Non-current assets | <u>77,976,741</u> | <u>70,013,198</u> | <u>69,189,990</u> | <u>7,963,543</u> | <u>823,208</u> |
| Total Assets | <u>98,144,919</u> | <u>89,808,459</u> | <u>88,207,781</u> | <u>8,336,460</u> | <u>1,600,678</u> |
| Liabilities and Net Position | | | | | |
| Liabilities: | | | | | |
| Current liabilities | 6,344,788 | 5,325,613 | 5,723,272 | 1,019,175 | (397,659) |
| Noncurrent liabilities | <u>7,832,971</u> | <u>8,189,400</u> | <u>8,407,976</u> | <u>(356,429)</u> | <u>(218,576)</u> |
| Total Liabilities | <u>14,177,759</u> | <u>13,515,013</u> | <u>14,131,248</u> | <u>662,746</u> | <u>(616,235)</u> |
| Net Position: | | | | | |
| Capital assets | 71,222,608 | 62,999,729 | 61,922,185 | 8,222,879 | 1,077,544 |
| Restricted | 570,333 | 558,343 | 480,969 | 11,990 | 77,374 |
| Unrestricted | <u>12,174,219</u> | <u>12,735,374</u> | <u>11,673,379</u> | <u>(561,155)</u> | <u>1,061,995</u> |
| Total Net Position | <u>\$83,967,160</u> | <u>\$ 76,293,446</u> | <u>\$ 74,076,533</u> | <u>\$ 7,673,714</u> | <u>\$ 2,216,913</u> |

*2013 restatement consisted of (\$720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

Net position increased to \$84.0 million and \$76.3 million in fiscal year 2015 and fiscal year 2014, respectively. Non-current assets increased by \$8.0 million and \$0.8 million in fiscal year 2015 and 2014, respectively, due mainly to the reconfiguration of Building B and the Wayfinding and Campus Signage projects in fiscal year 2015 and the expansion of Building C in fiscal year 2014. Unrestricted net position decreased \$0.6 million in fiscal year 2015 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, 2015 and 2014

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

| | 2015 | 2014 | 2013* | 2015/2014 Change | 2014/2013* Change |
|--|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Operating Revenue | | | | | |
| Tuition and fees, net | \$ 16,132,042 | \$ 16,224,781 | \$ 16,249,364 | \$ (92,739) | \$ (24,583) |
| Grants and contracts | 2,261,397 | 2,317,084 | 2,074,205 | (55,687) | 242,879 |
| Auxiliary enterprises | 4,733,601 | 4,432,509 | 4,406,528 | 301,092 | 25,981 |
| Other revenue | 3,830,757 | 3,045,029 | 2,510,042 | 785,728 | 534,987 |
| Total Operating Revenue | 26,957,797 | 26,019,403 | 25,240,139 | 938,394 | 779,264 |
| Operating Expenses | | | | | |
| Education and general | 52,766,392 | 50,456,539 | 49,572,192 | 2,309,853 | 884,347 |
| Depreciation expense | 3,326,538 | 3,046,773 | 2,952,110 | 279,765 | 94,663 |
| Auxiliary enterprises | 5,008,172 | 4,331,245 | 4,546,958 | 676,927 | (215,713) |
| Other expenditures | 764,246 | 679,276 | 1,023,774 | 84,970 | (344,498) |
| Total Operating Expenses | 61,865,348 | 58,513,833 | 58,095,034 | 3,351,515 | 418,799 |
| Operating Loss | (34,907,551) | (32,494,430) | (32,854,895) | (2,413,121) | 360,465 |
| Nonoperating Revenue (Expenses) | | | | | |
| Government appropriations | 23,520,198 | 23,044,899 | 22,112,522 | 475,299 | 932,377 |
| State retirement | 2,203,032 | 2,008,303 | 1,906,850 | 194,729 | 101,453 |
| Capital appropriations | 10,706,471 | 3,640,140 | 3,574,196 | 7,066,331 | 65,944 |
| County contribution | - | - | 4,206,398 | - | (4,206,398) |
| Investment income | 13,641 | 14,141 | 15,998 | (500) | (1,857) |
| Gain on disposal of assets | - | - | 1,247 | - | (1,247) |
| Other | 6,137,923 | 6,003,860 | 6,121,730 | 134,063 | (117,870) |
| Total Nonoperating Revenue | 42,581,265 | 34,711,343 | 37,938,941 | 7,869,922 | (3,227,598) |
| Adjustments to restate net position | - | - | (720,395) | - | 720,395 |
| Increase in Net Position | \$ 7,673,714 | \$ 2,216,913 | \$ 4,363,651 | \$ 5,456,801 | \$ (2,146,738) |

*2013 restatement consisted of (\$720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

County appropriations, including in-kind appropriations, in support of the operating budget increased 2.4% and 1.7% in fiscal year 2015 and 2014, respectively. State appropriations increased 1.5% and 8.5% in fiscal year 2015 and 2014, respectively.

Total educational and general expenditures increased 4.6% and 1.8% during fiscal years 2015 and 2014, respectively. In July of fiscal year 2015, all college employees received a 2% 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, 2015 and 2014

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 the College's ability to generate net cash flow and its ability to meet obligations as they come due.

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2015/2014</u> <u>Change</u> | <u>2014/2013</u> <u>Change</u> |
|--|------------------------------|----------------------------|------------------------------|-----------------------------------|-----------------------------------|
| Cash and Cash Equivalents From | | | | | |
| Operating activities | \$(28,405,985) | \$(27,956,194) | \$(31,049,665) | \$ (449,791) | \$ 3,093,471 |
| Non-capital financing activities | 27,552,142 | 28,991,338 | 26,845,708 | (1,439,196) | 2,145,630 |
| Capital and related financing activities | (167,669) | 191,100 | 2,852,379 | (358,769) | (2,661,279) |
| Investing activities | 13,641 | 14,141 | 15,998 | (500) | (1,857) |
| Net Change in Cash and Cash Equivalents | <u>\$ (1,007,871)</u> | <u>\$ 1,240,385</u> | <u>\$ (1,335,580)</u> | <u>\$ (2,248,256)</u> | <u>\$ 2,575,965</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 increased \$136 thousand in fiscal year 2015 and \$694 thousand in fiscal year 2014. The College's county appropriation increased \$339 thousand in fiscal year 2015 and \$239 thousand in fiscal year 2014. 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 Frederick Community College's finances. 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, 2015 and 2014

| | Frederick Community College | | Component Unit Frederick Community College Foundation, Inc. | |
|--|-----------------------------|----------------------|--|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 14,512,878 | \$ 15,520,749 | \$ 670,646 | \$ 630,576 |
| Investments | - | - | 12,089,274 | 11,753,671 |
| Accounts receivable: | | | | |
| Governmental | 3,752,772 | 2,322,071 | - | - |
| Student & third party, net of allowance | 429,028 | 378,461 | - | - |
| Pledges, net of discount | - | - | 9,779 | 58,639 |
| Other accounts receivable | 834,614 | 680,749 | - | - |
| Total accounts receivable | 5,016,414 | 3,381,281 | 9,779 | 58,639 |
| Prepaid expenses and other assets | 71,568 | 54,106 | - | - |
| Inventory | 567,318 | 839,125 | - | - |
| Total Current Assets | 20,168,178 | 19,795,261 | 12,769,699 | 12,442,886 |
| Noncurrent Assets: | | | | |
| Beneficial interest in charitable remainder trusts | - | - | 434,335 | 427,872 |
| Capital assets, net of accumulated depreciation | 77,976,741 | 70,013,198 | - | - |
| Total Noncurrent Assets | 77,976,741 | 70,013,198 | 434,335 | 427,872 |
| TOTAL ASSETS | 98,144,919 | 89,808,459 | 13,204,034 | 12,870,758 |
| LIABILITIES AND NET POSITION | | | | |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 2,319,379 | 1,905,426 | 97,694 | 13,605 |
| Accrued salaries | 198,940 | 373,810 | - | - |
| Accrued liabilities | 1,255,830 | 699,452 | - | - |
| Accrued leave | 158,121 | 48,103 | - | - |
| Bond payable | 270,000 | 265,000 | - | - |
| Unearned revenue | 1,903,516 | 1,795,034 | - | - |
| Deposits held for others | 239,002 | 238,788 | - | - |
| Total Current Liabilities | 6,344,788 | 5,325,613 | 97,694 | 13,605 |
| Noncurrent Liabilities: | | | | |
| Bond payable, net of discount | 6,484,133 | 6,748,469 | - | - |
| Accrued leave | 1,348,838 | 1,440,931 | - | - |
| Total Noncurrent Liabilities | 7,832,971 | 8,189,400 | - | - |
| TOTAL LIABILITIES | 14,177,759 | 13,515,013 | 97,694 | 13,605 |
| NET POSITION | | | | |
| Net investment in capital assets | 71,222,608 | 62,999,729 | - | - |
| Restricted – expendable | 570,333 | 558,343 | - | - |
| Temporarily restricted | - | - | 7,554,161 | 7,481,663 |
| Permanently restricted | - | - | 4,162,694 | 4,105,077 |
| Unrestricted | 12,174,219 | 12,735,374 | 1,389,485 | 1,270,413 |
| TOTAL NET POSITION | \$ 83,967,160 | \$ 76,293,446 | \$ 13,106,340 | \$ 12,857,153 |

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, 2015 and 2014

| | Frederick Community College | | Component Unit Frederick Community College Foundation, Inc. | |
|--|-----------------------------|----------------------|--|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating Revenue | | | | |
| Tuition and fees, net of scholarship allowances of \$1,912,442 and \$1,733,327 | \$ 16,132,042 | \$ 16,224,781 | \$ - | \$ - |
| Grants and contracts | 2,261,397 | 2,317,084 | - | 40,000 |
| Auxiliary enterprises | 4,733,601 | 4,432,509 | - | - |
| Contributions | - | - | 432,654 | 357,696 |
| In-kind contributions | - | - | 458,915 | 498,828 |
| Pledge revenue, net of discounts | - | - | 8,037 | 11,736 |
| Other revenue | 3,830,757 | 3,045,029 | 207,323 | 211,473 |
| Total Operating Revenue | 26,957,797 | 26,019,403 | 1,106,929 | 1,119,733 |
| Operating Expenses | | | | |
| Instruction: | | | | |
| Academic | 20,376,026 | 20,038,959 | - | - |
| Continuing education | 3,615,585 | 3,104,798 | - | - |
| Total Instruction | 23,991,611 | 23,143,757 | - | - |
| Academic support | 1,665,514 | 1,736,292 | - | - |
| Student services | 6,488,683 | 5,628,402 | - | - |
| Plant operations and maintenance | 6,888,346 | 5,829,662 | - | - |
| Institutional support | 8,757,992 | 8,998,191 | - | - |
| Scholarships | 1,424,042 | 1,524,980 | - | - |
| Student aid | 3,550,204 | 3,595,255 | - | - |
| Depreciation | 3,326,538 | 3,046,773 | - | - |
| Auxiliary enterprises | 5,008,172 | 4,331,245 | - | - |
| Program services | - | - | 699,642 | 684,738 |
| Support services | - | - | 571,856 | 558,555 |
| Other expenses | 764,246 | 679,276 | - | - |
| Total Operating Expenses | 61,865,348 | 58,513,833 | 1,271,498 | 1,243,293 |
| Operating Loss | (34,907,551) | (32,494,430) | (164,569) | (123,560) |
| Nonoperating Revenue | | | | |
| State appropriations | 8,975,284 | 8,839,216 | - | - |
| County appropriations | 14,544,914 | 14,205,683 | - | - |
| State and County capital projects appropriations | 10,706,471 | 3,640,140 | - | - |
| Student aid | 5,462,646 | 5,328,583 | - | - |
| Investment income | 13,641 | 14,141 | (12,096) | 28,069 |
| Net unrealized and realized gain on investments | - | - | 419,389 | 1,217,565 |
| Change in the value of Charitable Remainder Trusts | - | - | 6,463 | 62,142 |
| Gain on disposal of assets | - | - | - | - |
| Other revenue | 675,277 | 675,277 | - | - |
| State paid benefits | 2,203,032 | 2,008,303 | - | - |
| Nonoperating Revenue | 42,581,265 | 34,711,343 | 413,756 | 1,307,776 |
| Increase in Net Position | 7,673,714 | 2,216,913 | 249,187 | 1,184,216 |
| Net Position - Beginning of year | 76,293,446 | 74,076,533 | 12,857,153 | 11,672,937 |
| Net Position - End of year | \$ 83,967,160 | \$ 76,293,446 | \$ 13,106,340 | \$ 12,857,153 |

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Cash Flows From Operating Activities | | |
| Tuition and fees received | \$ 16,173,961 | \$ 15,995,346 |
| Payments to suppliers | (16,416,566) | (16,292,974) |
| Payments to employees | (38,887,194) | (37,458,345) |
| Auxiliary enterprise charges | 4,733,445 | 4,428,334 |
| Other receipts | 5,990,369 | 5,371,445 |
| Net Cash From Operating Activities | <u>(28,405,985)</u> | <u>(27,956,194)</u> |
| Cash Flows From Noncapital | | |
| Financing Activities | | |
| Federal revenue | 5,462,646 | 5,328,583 |
| Direct loan revenue | 3,774,516 | 3,856,349 |
| Direct loan expenditures | (3,774,516) | (3,856,349) |
| State and County appropriations | 22,089,496 | 23,662,755 |
| Net Cash From Noncapital Financing Activities | <u>27,552,142</u> | <u>28,991,338</u> |
| Cash Flows From Capital and Related | | |
| Financing Activities | | |
| State and County capital appropriations | 10,706,471 | 3,640,140 |
| Other revenue | 675,277 | 675,277 |
| Purchase of capital assets | (11,290,081) | (3,869,981) |
| Payments of bonds | (259,336) | (254,336) |
| Net Cash From Capital and Related Financing Activities | <u>(167,669)</u> | <u>191,100</u> |
| Cash Flows From Investing Activities | | |
| Investment income | 13,641 | 14,141 |
| Net (Decrease) Increase in Cash and Cash Equivalents | <u>(1,007,871)</u> | <u>1,240,385</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>15,520,749</u> | <u>14,280,364</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 14,512,878</u> | <u>\$ 15,520,749</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, 2015 and 2014

Reconciliation of Net Operating Loss To Net Cash From Operating Activities

| | <u>2015</u> | <u>2014</u> |
|---|-------------------------------|-------------------------------|
| Operating Loss | \$ (34,907,551) | \$ (32,494,430) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Depreciation | 3,326,538 | 3,046,773 |
| State paid benefits | 2,203,032 | 2,008,303 |
| Effect of the changes in non-cash operating assets and liabilities | | |
| Accounts receivable | (204,431) | (21,447) |
| Prepaid expenses | (17,462) | 167,200 |
| Inventory | 271,807 | (300,694) |
| Accounts payable | 413,953 | 278,769 |
| Accrued salaries | (174,870) | 8,759 |
| Accrued liabilities | 556,378 | (423,251) |
| Accrued leave | 17,925 | (16,440) |
| Unearned revenue | 108,482 | (204,352) |
| Deposits held for others | 214 | (5,384) |
| Net Cash From Operating Activities | <u>\$ (28,405,985)</u> | <u>\$ (27,956,194)</u> |

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

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

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's 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's 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, 2015 and 2014

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 \$207,932 and \$209,259 as of June 30, 2015 and 2014, 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, 2015 and 2014

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:

| | Number of Years |
|----------------------------|----------------------------|
| 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, 2015 and 2014.

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, 2015. Grant revenue received during the year that has restrictions on spending has been deferred until those restrictions are met.

Operating Revenue and Expenses

The College's principal ongoing operations 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, 2015 and 2014

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 type:

| | For the Years Ended | |
|--|----------------------|----------------------|
| | June 30, 2015 | June 30, 2014 |
| Salaries and benefits | \$ 38,700,258 | \$ 37,388,017 |
| Supplies and materials | 1,745,510 | 1,500,731 |
| Depreciation | 3,326,538 | 3,046,773 |
| Contracted services | 3,155,153 | 2,457,747 |
| Conferences and meetings | 615,443 | 585,115 |
| Communications | 222,726 | 237,341 |
| Utilities | 1,028,872 | 962,144 |
| Insurance | 155,367 | 147,593 |
| Scholarships | 5,091,907 | 5,137,675 |
| Campus projects and equipment | 946,123 | 1,091,627 |
| Cost of good sold (bookstore and food service) | 2,760,742 | 2,172,764 |
| Miscellaneous | 1,913,677 | 1,778,003 |
| Certain fringe benefits paid directly by the state of Maryland | 2,203,032 | 2,008,303 |
| Total | \$ 61,865,348 | \$ 58,513,833 |

Postemployment Benefits

The College's 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 administrative 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. Supportive staff employed on a 12-month basis in their first through third year earn annual leave at a rate of 10 days per year. Those with four through seven years of continuous employment accrue 15 days per year. Those with continuous employment greater than eight years accrue 20 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences (continued)

Qualified 12-month faculty, administrative, and supportive 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.

Vacation 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.

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, 2015 and 2014

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's financial information in the College's 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, 2015 and 2014

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. Interest 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, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Net Assets

As required under generally accepted accounting principles in United States, 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, 2015</u> | <u>June 30, 2014</u> |
|------------------------------|----------------------------|----------------------------|
| Scholarships | \$ 2,592,496 | \$ 2,555,509 |
| Scholarships Quasi-Endowment | 4,057,484 | 4,049,215 |
| Other Program Support | 904,181 | 876,939 |
| Total | <u><u>\$ 7,554,161</u></u> | <u><u>\$ 7,481,663</u></u> |

Net assets released from restrictions were as follows:

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|---------------------|--------------------------|--------------------------|
| Scholarships | \$ 441,143 | \$ 417,065 |
| Program Services | 180,940 | 182,393 |
| Support Services | 25,163 | 23,586 |
| Administrative Fees | 61,041 | 57,588 |
| Total | <u><u>\$ 708,287</u></u> | <u><u>\$ 680,632</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, 2015</u> | <u>June 30, 2014</u> |
|-----------------------|----------------------------|----------------------------|
| Scholarships | \$ 4,071,587 | \$ 4,013,970 |
| Other Program Support | 91,107 | 91,107 |
| Total | <u><u>\$ 4,162,694</u></u> | <u><u>\$ 4,105,077</u></u> |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

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, 2015 and 2014. As of June 30, 2015 and 2014, the allowance was \$616 and \$1,223, 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 2015 and 2014. 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, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Frederick Community College

New Accounting Pronouncements

In fiscal year ended June 30, 2014, the College implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to either (a) properly classify items that were previously reported as assets and liabilities as deferred outflows of resources and (b) recognize these items as outflows of resources (expenses) or inflows of resources (revenues). Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as an expense. This is recorded as a prior period adjustment for the fiscal year ended June 30, 2013.

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.

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, 2015 and 2014, was \$7,500 and \$7,500, respectively.

Deposits

The carrying amount of the College's deposits as of June 30, 2015 and 2014, was \$6,069,398 and \$7,081,385, respectively, and the bank balance was \$6,532,371 and \$7,077,674, respectively. All of the College's bank balances are collateralized by Federal agency securities held in safekeeping by the Federal Reserve.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP

Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the College's investment policy, determines the College's allowable investments. 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's investment balance in the MLGIP as of June 30, 2015 and 2014, was \$8,435,980 and \$8,431,864, respectively. This investment is considered to be a cash equivalent for financial statement purposes.

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

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|-----------------------------|-----------------------------|
| Cash on hand | \$ 7,500 | \$ 7,500 |
| Carrying amount of deposits | 6,069,398 | 7,081,385 |
| Carrying amount of MLGIP | <u>8,435,980</u> | <u>8,431,864</u> |
| Total cash and cash equivalents per statement of net position | <u>\$ 14,512,878</u> | <u>\$ 15,520,749</u> |

Investment income includes net interest and dividends of \$13,641 and \$14,141, for the years ended June 30, 2015 and 2014, respectively.

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's exposure to fair value losses arising from increasing rates, the College's investment policy limits the term of investment maturities. For the years ended June 30, 2015 and 2014, the College's 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, 2015 and 2014, met the College's investment policy.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP (continued)

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's investments were all invested in the MLGIP.

3. RELATIONS WITH FREDERICK COUNTY, MARYLAND

Frederick Community College

Frederick County, Maryland provides approximately 30% of the College's operating budget. The College's budget is subject to the approval of the County Commissioners. The County provided an in-kind appropriation for PeopleSoft software support of \$434,637 and \$371,502, for the years ended June 30, 2015 and 2014, respectively. They also provided an in-kind appropriation for internal audit services and real estate appraisals of \$60,775 and \$34,679, for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

4. CAPITAL ASSETS

Frederick Community College

Schedules of capital assets and accumulated depreciation for the years ended June 30, 2015 and 2014 were as follows:

| | July 1, 2014 | Additions & Transfers | Retirements & Transfers | June 30, 2015 |
|--|----------------------|--------------------------|----------------------------|----------------------|
| 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> |
| Capital assets, net | <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, 2015 and 2014

4. CAPITAL ASSETS (continued)

Frederick Community College (continued)

| | <u>July 1, 2013*</u> | <u>Additions & Transfers</u> | <u>Retirements & Transfers</u> | <u>June 30, 2014</u> |
|--|----------------------|--------------------------------------|--|----------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 271,620 | \$ - | \$ - | \$ 271,620 |
| Construction in Progress | <u>3,760,735</u> | <u>3,101,925</u> | <u>(3,353,643)</u> | <u>3,509,017</u> |
| Total capital assets not being depreciated | <u>4,032,355</u> | <u>3,101,925</u> | <u>(3,353,643)</u> | <u>3,780,637</u> |
| Capital assets being depreciated | | | | |
| Building and Improvements | 88,575,273 | 3,697,599 | (483,020) | 91,789,852 |
| Site Improvements | 6,031,146 | 40,597 | - | 6,071,743 |
| Furniture and Equipment | 4,301,095 | 460,108 | (62,609) | 4,698,594 |
| Library Collection | <u>1,975,831</u> | <u>37,372</u> | <u>-</u> | <u>2,013,203</u> |
| Total capital assets being depreciated | <u>100,883,345</u> | <u>4,235,676</u> | <u>(545,629)</u> | <u>104,573,392</u> |
| Less: Accumulated Depreciation | | | | |
| Building and Improvements | (26,008,210) | (2,346,898) | 369,043 | (27,986,065) |
| Site Improvements | (4,948,483) | (313,945) | - | (5,262,428) |
| Furniture and Equipment | (2,948,467) | (345,877) | 62,609 | (3,231,735) |
| Library Collection | <u>(1,820,550)</u> | <u>(40,053)</u> | <u>-</u> | <u>(1,860,603)</u> |
| Total accumulated depreciation | <u>(35,725,710)</u> | <u>(3,046,773)</u> | <u>431,652</u> | <u>(38,340,831)</u> |
| Total assets being depreciated, net | <u>65,157,635</u> | <u>1,188,903</u> | <u>(113,977)</u> | <u>66,232,561</u> |
| Capital assets, net | <u>\$ 69,189,990</u> | <u>\$ 4,290,828</u> | <u>\$ (3,467,620)</u> | <u>\$ 70,013,198</u> |

*2013 restatement consisted of \$34,305 to write off unamortized bond issuance cost accumulated depreciation expense as required by GASB Statement No. 65.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

5. LONG-TERM LIABILITIES

Frederick Community College

The College records a liability for accrued vacation pay 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's sick leave liability is declining. The vacation liability increased for fiscal year 2015 due to fewer employees using leave.

| | 2013 | Addition (Reduction) in Accrual | 2014 | Addition (Reduction) in Accrual | 2015 |
|---------------------------------|---------------------|--|---------------------|--|---------------------|
| Accrued Vacation Liability | \$ 1,186,930 | \$ 7,297 | \$ 1,194,227 | \$ 28,227 | \$ 1,222,454 |
| Sick Leave Retirement Liability | 211,560 | (22,568) | 188,991 | (11,576) | 177,415 |
| Estimated Payroll Taxes | 106,984 | (1,168) | 105,816 | 1,274 | 107,090 |
| Total Liability | 1,505,474 | (16,440) | 1,489,034 | 17,925 | 1,506,959 |
| Less: current portion | (105,303) | 57,200 | (48,103) | (110,018) | (158,121) |
| Long-Term Portion | \$ 1,400,171 | \$ 40,760 | \$ 1,440,931 | \$ (92,093) | \$ 1,348,838 |

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, 2014 | Principal Payment | Premium Discount Amortization | June 30, 2015 | Current Portion | Long Term Portion |
|---------------------|--------------------------|------------------------------|--|--------------------------|----------------------------|------------------------------|
| Bond payable | \$ 7,013,469 | \$ (265,000) | \$ 5,664 | \$ 6,754,133 | \$ 270,000 | \$ 6,484,133 |

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, 2015 and 2014

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.

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 (1.81%) 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, 2015 and 2014

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%.

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%. 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%.

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 1.0% 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, 2015 and 2014

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% 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 the College's behalf, 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 \$2,203,032 and \$2,008,303 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014**

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 three years for the aforementioned plans are as follow:

| Fiscal Years | MD State Teachers Retirement and Pension System Annual Cost | Percentage Contributed | Other Plans Annual Cost | Percentage Contributed |
|---------------------|--|-----------------------------------|------------------------------------|-----------------------------------|
| 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% |
| 2011 | 1,192,413 | 100% | 882,971 | 100% |

7. POSTEMPLOYMENT HEALTHCARE PLAN

Frederick Community College

Plan Description. The Frederick Community College Healthcare Plan is approved by the Board of Trustees and is defined in Policy 3.20. This policy provides for those retirees who are collecting benefits through either the Maryland State System or one of the state-approved 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 2015 and 2014, retirees paid approximately \$27,000 in premiums.

Annual OPEB Cost and Net OPEB Obligation. The College’s 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’s 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, 2015 and 2014**

7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

Frederick Community College (continued)

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|----------------------|----------------------|
| Annual Required Contribution | \$ 46,636 | \$ 45,465 |
| Interest on net OPEB obligation | 4,785 | 4,370 |
| Adjustment to annual required contribution | <u>(10,276)</u> | <u>(9,386)</u> |
| Annual OPEB cost | 41,145 | 40,449 |
| Contributions made | <u>(26,631)</u> | <u>(26,631)</u> |
| Increase in net OPEB obligation | 14,514 | 13,818 |
| Net OPEB obligation, July 1 | <u>159,495</u> | <u>145,677</u> |
| Net OPEB obligation, June 30 | <u>\$ 174,009</u> | <u>\$ 159,495</u> |

The College's 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 Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| 6/30/2015 | \$ 41,145 | 65% | \$ 174,009 |
| 6/30/2014 | 40,449 | 66% | 159,495 |
| 6/30/2013 | 33,744 | 98% | 145,677 |
| 6/30/2012 | 33,038 | 100% | 144,918 |
| 6/30/2011 | 71,546 | 9% | 144,865 |

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

Funded Status and Funding Progress. Frederick Community 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 2015, the plan was zero percent funded. The actuarial accrued liability was \$339,427, which is equivalent to the unfunded actuarial accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was \$23.2 million and the ratio of the UAAL to the covered payroll was 1.5% as the table on the next page reflects.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

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, 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% |
| June 30, 2011 | - | 870,921 | 870,921 | 0% | 20,982,339 | 4.2% |

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 fiscal year 2015 are consistent with prior valuation with the exception of the removal of employees who elected to receive a voluntary termination benefit of a 3 year, \$500/month subsidy toward the cost of health insurance. In fiscal year 2015, employees retiring who elected to waive health insurance received a lump sum payment of \$18,000. These retirement incentives have now been accrued separately from this valuation. For these voluntary termination benefits, in accordance with GASB 47, the College has recognized a liability and expense for \$252,000, which is the amount of the remaining benefit to be provided to those who elected this voluntary termination benefit. The projected unit credit cost method with unfunded actuarial accrued liability amortized as a level percentage of payroll was used.

Healthcare costs assumed a 10.0% increase, decreasing 1% per year to an ultimate rate of 5.0%. In the fiscal year 2015 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 of, damage to, 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

8. RISK MANAGEMENT (continued)

Frederick Community College (continued)

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.

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, Frederick Community 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's 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 offers both credit and noncredit courses. The three colleges share both the revenue and expenses associated with the Center. HCC has the role of primary administrator for consolidating the financial information and invoicing the other colleges. For the year ended June 30, 2015 and 2014, the College recorded accounts payable to HCC in the amount of \$15,240 and \$60,424, respectively, for expenses related to operating the facility.

As part of the joint-venture agreement, the colleges entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease has an initial term of ten years starting in August 2012 and concluding July 2022. The College incurred \$94,349 and \$94,032 in rent expenses during the years ended June 30, 2015 and 2014, respectively.

Commitments

Total outstanding construction commitments as of June 30, 2015 and 2014, was \$2.5 million and \$6.5 million, respectfully.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

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 Foundation's Member-Directors. 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, 2015</u> | <u>June 30, 2014</u> |
|--------------------|----------------------|----------------------|
| Less than one year | \$ 5,225 | \$ 48,070 |
| One to five years | 5,250 | 12,030 |
| Total | <u>\$ 10,475</u> | <u>\$ 60,100</u> |

Pledges receivable represent unconditional promises to give as follows:

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--------------------------------|----------------------|----------------------|
| Unconditional promises to give | \$ 10,475 | \$ 60,100 |
| Less: | | |
| unamortized discount | 80 | 238 |
| allowance for uncollectible | 616 | 1,223 |
| Total | <u>\$ 9,779</u> | <u>\$ 58,639</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 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, 2015 and 2014.

FREDERICK COMMUNITY COLLEGE

**Notes to the Financial Statements
June 30, 2015 and 2014**

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, 2015 and 2014.

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

| | June 30, 2014 | | | |
|-----------------------------|----------------------|----------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment in | | | | |
| external investment pool | \$ - | \$ - | \$11,753,671 | \$11,753,671 |
| Investment in | | | | |
| charitable remainder trusts | - | - | 427,872 | 427,872 |
| Total | \$ - | \$ - | \$12,181,543 | \$12,181,543 |

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:

| | USMF Pool | | Charitable Remainder Trusts | |
|--------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|
| | Level 3 2015 | Level 3 2014 | Level 3 2015 | Level 3 2014 |
| Balance, July 1, | \$11,753,671 | \$10,644,141 | \$ 427,872 | \$ 365,730 |
| Realized/unrealized gains, net | 419,389 | 1,217,565 | 6,463 | 62,142 |
| Purchases/(sales) | (83,786) | (108,035) | - | - |
| Balance, June 30, | \$12,089,274 | \$ 11,753,671 | \$ 434,335 | \$ 427,872 |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS

(continued)

Frederick Community College Foundation, Inc. (continued)

On June 30, 2015, the Foundation had 366,209.1608 units of the USMF Unitized Investment Fund valued at \$33.01194 per unit with a total value of \$12,089,274. On June 30, 2014, the Foundation had 368,875.28 units of the USMF Unitized Investment Fund valued at \$31.86353 per unit with a total value of \$11,753.671.

| | June 30, 2015 | | | June 30, 2014 | | |
|----------------------------|---------------|--------------|---------------------|---------------|--------------|---------------------|
| | Cost | Market | Unrealized (Losses) | Cost | Market | Unrealized (Losses) |
| USMF Pool Participation | \$12,309,040 | \$12,089,274 | \$ (219,766) | \$ 12,068,135 | \$11,753,671 | \$ (314,464) |
| Interest in | | | | | | |
| charitable remainder trust | 479,043 | 434,335 | (44,708) | 479,043 | 427,872 | (51,171) |
| Total | \$12,788,083 | \$12,523,609 | \$ (264,474) | \$12,547,178 | \$12,181,543 | \$ (365,635) |

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 gain on investments of \$94,698 for the year ended June 30, 2015 and a net unrealized gain of \$262,176 for the year ended June 30, 2014.

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 6.00% of the net fair value of the assets of the Trust during the lifetime of the donors. The value of the trust was \$434,335 and \$427,872 as of June 30, 2015 and 2014, respectively, net of discount.

12. ENDOWMENTS

Frederick Community College Foundation, Inc.

The Foundation's endowments consist of 118 funds established to support a variety of scholarships and programs at Frederick Community 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, 2015 and 2014

12. ENDOWMENTS (continued)

Frederick Community College Foundation, Inc. (continued)

Interpretation of Relevant Law

The Board of the Foundation has 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's 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 5.00% of a twenty-quarter trailing market value average ending December 31st, 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, 2015 and 2014

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, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------------|
| 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>\$ -</u> | <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:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------------|
| 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/depreciation | - | 333,156 | - | 333,156 |
| Total | <u>-</u> | <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) |
| Appropriation of endowment assets for expenditure | - | (275,979) | - | (275,979) |
| Endowment net assets, end of year | <u>-</u> | <u>5,771,956</u> | <u>4,152,694</u> | <u>9,924,650</u> |
| Pledges receivable | - | - | 10,000 | 10,000 |
| Endowment net assets, inclusive of receivables, end of year | <u>\$ -</u> | <u>\$ 5,771,956</u> | <u>\$ 4,162,694</u> | <u>\$ 9,934,650</u> |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2015 and 2014

12. ENDOWMENTS (continued)

Frederick Community College Foundation, Inc. (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor restricted endowment funds | \$ - | \$ 1,622,112 | \$ 4,105,077 | \$ 5,727,189 |
| Board designated Quasi endowment for General & Erwin Scholarships | - | 4,398,612 | - | 4,398,612 |
| Total Funds | <u>\$ -</u> | <u>\$ 6,020,724</u> | <u>\$ 4,105,077</u> | <u>\$ 10,125,801</u> |

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ - | \$ 5,169,454 | \$ 4,019,421 | \$ 9,188,875 |
| Investment return: | | | | |
| Investment income | - | 21,676 | - | 21,676 |
| Net appreciation/depreciation | - | 981,602 | - | 981,602 |
| Total | <u>-</u> | <u>1,003,278</u> | <u>-</u> | <u>1,003,278</u> |
| Contributions collected | - | 131,383 | 65,980 | 197,363 |
| Reclassification | - | 5,862 | (1,004) | 4,858 |
| Appropriation of endowment assets for expenditure | - | (289,453) | - | (289,453) |
| Endowment net assets, end of year | <u>-</u> | <u>6,020,524</u> | <u>4,084,397</u> | <u>10,104,921</u> |
| Pledges receivable | - | 200 | 20,680 | 20,880 |
| Endowment net assets, inclusive of receivables, end of year | <u>\$ -</u> | <u>\$ 6,020,724</u> | <u>\$ 4,105,077</u> | <u>\$ 10,125,801</u> |

13. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC.

The Frederick Community College Foundation, Inc. (the Foundation) is a component unit of Frederick Community 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 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, 2015 and 2014

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

The College estimates the approximate value of services (including staff time) provided to the Foundation to be \$456,790 and \$457,445 for the years ended June 30, 2015 and 2014, 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 \$699,642 and \$684,738 for the years ended June 30, 2015 and 2014, respectively.

14. RELATIONSHIP BETWEEN FREDERICK COMMUNITY COLLEGE FOUNDATION, INC. & FOUNDATION FOR THE FCC FOUNDATION, INC.

During the year ended June 30, 2015, Foundation for the FCC Foundation, Inc. received no gifts and incurred no expenses. As of June 30, 2015 and 2014, 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 29, 2015, 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.