

# ANNUAL FINANCIAL REPORT



**FREDERICK COMMUNITY COLLEGE  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2018**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Trustees  
Frederick Community College

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Frederick Community College (the College), a component unit of Frederick County, Maryland, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, 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 28, 2018

# **FREDERICK COMMUNITY COLLEGE**

## **Management's Discussion and Analysis June 30, 2018 and 2017**

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

This section of the Frederick Community College (the College) basic financial statements presents management discussion and analysis (MD&A), which provides an overview of its financial activities as of and for the years ended June 30, 2018 and 2017, with 2016 for comparative purposes. This should be read in conjunction with the financial statements, as well as the more detailed information in the related notes to the financial statements. The MD&A, financial statements, and the related notes are the responsibility of management.

### **Discretely Presented Component Units**

The College reporting entity includes the College and the Frederick Community College Foundation (the Foundation) as a component unit of the College, whose sole purpose is to serve the institution by providing resources for scholarships and other College projects. The financial statements of the Foundation as of and for the years ended June 30, 2018 and 2017, are displayed in the financial statements section of this report.

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

- An unreserved fund balance of \$3.3 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 \$0.3 million. These fund balances are included in the Unrestricted Net Position on the Statements of Net Position.
- The Reserve Policy and Procedures were revised and approved by the College Board of Trustees in May 2016. This policy created a goal of establishing a Contingency Fund Reserve (CFR) designated for fiscal stability equal to 5% of the current year operating budget. This policy also consists of a Strategic Fund Balance Reserve (SFBR) and a Budgeted Annual Operating Reserve (BAOR) equal to up to 2% and 1%, respectively, of the current approved operating budget. The SFBR may be used to provide a funding source for opportunities that cannot be funded in the current fiscal year through the operating budget and the BAOR is to provide a funding source for unexpected expenses that may occur. As of June 30, 2018, the CFR was \$2.7 million, and the SFBR was \$1.1 million and both reserves are fully funded.
- In-County tuition rates were increased by \$1 per credit hour, out-of-county rates increased by \$3 per credit hour and out-of-state rates increased by \$4 per credit hour in fiscal year 2018. The county and state share of unrestricted revenue for fiscal year 2018 was 33.7% and 25.7%, respectively.
- Bookstore had a net loss of \$76 thousand and Dining Services had a net loss of \$137 thousand for fiscal year 2018, mainly due to decreases in sales. A reorganization of the Bookstore and Dining Services occurred at the beginning of fiscal year 2018. The Children's Center had a net loss of less than \$1 thousand, which reflects an operating performance in line with budget.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2018 and 2017

### Significant Financial and Enrollment Highlights (continued)

- Full-time equivalent (FTE) enrollment increased by 115 students between fiscal year 2018 and fiscal year 2017. One of the factors affecting enrollment was changes to summer term dates, which shifted enrollment headcounts from fiscal year 2017 to fiscal year 2018. The following summarizes state-reimbursable FTE trends over the past five years:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Credit</b>	3,672	3,659	3,594	3,424	<b>3,534</b>
<b>Non-credit</b>	529	560	613	647	<b>652</b>
<b>Total</b>	<u>4,201</u>	<u>4,219</u>	<u>4,207</u>	<u>4,071</u>	<u><b>4,186</b></u>

### 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018/2017 Change</u>	<u>2017/2016 Change</u>
<b>Assets</b>					
Current assets	\$ 16,905,651	\$ 18,843,779	\$ 18,428,711	\$ (1,938,128)	\$ 415,068
Non-current assets	<b>82,352,964</b>	83,698,867	78,140,750	(1,345,903)	5,558,117
<b>Total Assets</b>	<u><b>99,258,615</b></u>	<u>102,542,646</u>	<u>96,569,461</u>	<u>(3,284,031)</u>	<u>5,973,185</u>
<b>Liabilities and Net Position</b>					
<b>Liabilities:</b>					
Current liabilities	<b>4,712,593</b>	6,868,314	5,564,529	(2,155,721)	1,303,785
Noncurrent liabilities	<b>5,801,080</b>	6,240,382	6,689,604	(439,302)	(449,222)
<b>Total Liabilities</b>	<u><b>10,513,673</b></u>	<u>13,108,696</u>	<u>12,254,133</u>	<u>(2,595,023)</u>	<u>854,563</u>
<b>Net Position:</b>					
Capital assets	<b>76,411,837</b>	77,478,405	71,650,952	(1,066,568)	5,827,453
Restricted	<b>735,370</b>	710,641	700,144	24,729	10,497
Unrestricted	<b>11,597,735</b>	11,244,904	11,964,232	352,831	(719,328)
<b>Total Net Position</b>	<u><b>\$ 88,744,942</b></u>	<u>\$ 89,433,950</u>	<u>\$ 84,315,328</u>	<u>\$ (689,008)</u>	<u>\$ 5,118,622</u>

Net position increased to \$88.7 million and \$89.4 million in fiscal year 2018 and fiscal year 2017, respectively. Current assets decreased by \$1.9 million in fiscal year 2018 due mainly to a decrease in County and State receivables for capital projects. Non-current assets decreased by \$1.3 million in fiscal year 2018 due mainly to depreciation of fixed assets and increased \$5.6 million in fiscal year 2017, due mainly to the reconfiguration of the Monroe building and Central Plant project. Unrestricted net position increased \$0.4 million in fiscal year 2018.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2018 and 2017

### 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.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018/2017 Change</u>	<u>2017/2016 Change</u>
<b>Operating Revenue</b>					
Tuition and fees, net	\$ 16,713,917	\$ 16,282,538	\$ 16,098,692	\$ 431,379	\$ 183,846
Grants and contracts	2,619,564	2,484,495	2,407,287	135,069	77,208
Auxiliary enterprises	3,700,575	4,173,506	4,487,076	(472,931)	(313,570)
Other revenue	2,824,961	2,772,486	3,964,391	52,475	(1,191,905)
<b>Total Operating Revenue</b>	<u>25,859,017</u>	<u>25,713,025</u>	<u>26,957,446</u>	<u>145,992</u>	<u>(1,244,421)</u>
<b>Operating Expenses</b>					
Education and general	55,447,885	52,432,935	53,865,578	3,014,950	(1,432,643)
Depreciation expense	3,672,051	3,647,145	3,363,260	24,906	283,885
Auxiliary enterprises	3,836,416	4,275,694	4,707,589	(439,278)	(431,895)
Other expenses	344,079	230,512	84,944	113,567	145,568
<b>Total Operating Expenses</b>	<u>63,300,431</u>	<u>60,586,286</u>	<u>62,021,371</u>	<u>2,714,145</u>	<u>(1,435,085)</u>
<b>Operating Loss</b>	(37,441,414)	(34,873,261)	(35,063,925)	(2,568,153)	190,664
<b>Nonoperating Revenue (Expenses)</b>					
Government appropriations	26,594,263	25,450,514	24,103,203	1,143,749	1,347,311
State retirement	2,587,278	2,488,343	2,282,158	98,935	206,185
Capital appropriations	2,988,550	7,623,872	3,986,671	(4,635,322)	3,637,201
Investment Income	114,692	51,464	25,221	63,228	26,243
Other	4,467,623	4,377,690	5,014,840	89,933	(637,150)
<b>Total Nonoperating Revenue</b>	<u>36,752,406</u>	<u>39,991,883</u>	<u>35,412,093</u>	<u>(3,239,477)</u>	<u>4,579,790</u>
<b>Change in Net Position</b>	<u>\$ (689,008)</u>	<u>\$ 5,118,622</u>	<u>\$ 348,168</u>	<u>\$ (5,807,630)</u>	<u>\$ 4,770,454</u>

County appropriations, including in-kind appropriations, in support of the operating budget increased 4.8% and 4.5% in fiscal year 2018 and 2017, respectively. State appropriations increased 4.0% and 7.4% in fiscal year 2018 and 2017, respectively.

Total educational and general expenses increased 5.8% in fiscal year 2018 and decreased 2.7% in fiscal year 2017, primarily related to increases in salary and benefit expenses and technology equipment purchases in fiscal year 2018. In fiscal year 2018, all College employees received a 2% cost of living increase.

# FREDERICK COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2018 and 2017

### Statements of Cash Flows

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018/2017</u> <u>Change</u>	<u>2017/2016</u> <u>Change</u>
<b>Cash and Cash Equivalents From</b>					
Operating activities	\$ (33,591,858)	\$ (27,640,011)	\$ (31,208,572)	\$ (5,951,847)	\$ 3,568,561
Non-capital financing activities	33,187,512	27,388,216	31,366,769	5,799,296	(3,978,553)
Capital and related financing activities	413,608	(1,819,951)	320,448	2,233,559	(2,140,399)
Investing activities	114,692	51,464	25,221	63,228	26,243
<b>Change in Cash and Cash Equivalents</b>	<u>\$ 123,954</u>	<u>\$ (2,020,282)</u>	<u>\$ 503,866</u>	<u>\$ 2,144,236</u>	<u>\$ (2,524,148)</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 \$383 thousand in fiscal year 2018 and \$668 thousand in fiscal year 2017. The county appropriation increased \$761 thousand and \$679 thousand in fiscal years 2018 and 2017, respectively. However, this is not guaranteed funding for future years. With no increase in enrollment expected, the College continues to work closely with the county government to maintain adequate funding for its operations.

### Contacting Frederick Community College Financial Management

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



# FREDERICK COMMUNITY COLLEGE

## Statements of Net Position As of June 30, 2018 and 2017

ASSETS	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
	2018	2017	2018	2017
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 13,120,416	\$ 12,996,462	\$ 414,385	\$ 1,446,514
Investments	-	-	15,720,289	13,787,423
Accounts receivable:				
Governmental	1,631,710	3,787,878	-	-
Student & third party, net of allowance	484,401	386,778	-	-
Pledges, net of discount	-	-	4,749	4,749
Other grants and accounts receivable	576,192	579,238	15,088	8,325
<b>Total accounts receivable</b>	<b>2,692,303</b>	<b>4,753,894</b>	<b>19,837</b>	<b>13,074</b>
Prepaid expenses and other assets	564,403	609,015	500	350
Inventory	528,529	484,408	-	-
<b>Total Current Assets</b>	<b>16,905,651</b>	<b>18,843,779</b>	<b>16,155,011</b>	<b>15,247,361</b>
<b>Noncurrent Assets:</b>				
Capital assets, net of accumulated depreciation	82,352,964	83,698,867	-	-
Total Noncurrent Assets	82,352,964	83,698,867	-	-
<b>TOTAL ASSETS</b>	<b>99,258,615</b>	<b>102,542,646</b>	<b>16,155,011</b>	<b>15,247,361</b>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	611,809	2,978,828	36,275	66,020
Accrued salaries	178,528	178,792	-	-
Accrued liabilities	623,159	540,023	-	-
Accrued leave	1,347,543	1,016,048	-	-
Bond Payable	295,000	285,000	-	-
Unearned revenue	1,509,579	1,705,907	-	-
Deposits held for others	146,975	163,716	-	-
<b>Total Current Liabilities</b>	<b>4,712,593</b>	<b>6,868,314</b>	<b>36,275</b>	<b>66,020</b>
<b>Noncurrent Liabilities:</b>				
Bonds payable, net of discount	5,646,126	5,935,462	-	-
Accrued Leave	154,954	304,920	-	-
<b>Total Noncurrent Liabilities</b>	<b>5,801,080</b>	<b>6,240,382</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>10,513,673</b>	<b>13,108,696</b>	<b>36,275</b>	<b>66,020</b>
<b>NET POSITION</b>				
Net investment in capital assets	76,411,837	77,478,405	-	-
Restricted for college purposes	-	-	-	-
Temporarily restricted	735,370	710,641	9,384,854	8,894,482
Permanently restricted	-	-	4,548,370	4,479,594
Unrestricted	11,597,735	11,244,904	2,185,512	1,807,265
<b>TOTAL NET POSITION</b>	<b>\$ 88,744,942</b>	<b>\$ 89,433,950</b>	<b>\$ 16,118,736</b>	<b>\$ 15,181,341</b>

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

# FREDERICK COMMUNITY COLLEGE

## Statements of Revenue, Expenses, and Change in Net Position For the Years Ended June 30, 2018 and 2017

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
	2018	2017	2018	2017
<b>Operating Revenue</b>				
Tuition and fees, net of scholarship allowances of \$1,614,166 and \$1,447,778	\$ 16,713,917	\$ 16,282,538	\$ -	\$ -
Grants and contracts	2,619,564	2,484,495	-	-
Auxiliary enterprises	3,700,575	4,173,506	-	-
Contributions	-	-	424,754	1,579,325
In-kind contributions	-	-	343,483	317,026
Pledge revenue, net of discounts	-	-	-	310
Other revenue	2,824,961	2,772,486	220,448	219,196
<b>Total Operating Revenue</b>	<b>25,859,017</b>	<b>25,713,025</b>	<b>988,685</b>	<b>2,115,857</b>
<b>Operating Expenses</b>				
Instruction				
Academic	21,181,255	20,423,939	-	-
Continuing education	4,486,730	4,088,085	-	-
Total Instruction	25,667,985	24,512,024	-	-
Academic support	1,167,080	1,207,907	-	-
Student services	7,269,941	6,876,150	-	-
Plant operations and maintenance	7,634,661	7,243,276	-	-
Institutional support	9,391,566	8,186,303	-	-
Scholarships	1,483,195	1,508,138	-	-
Student aid	2,833,457	2,899,137	-	-
Depreciation	3,672,051	3,647,145	-	-
Auxiliary enterprises	3,836,416	4,275,694	-	-
Program services	-	-	775,342	836,244
Support services	-	-	510,052	495,356
Other expenses	344,079	230,512	-	-
<b>Total Operating Expenses</b>	<b>63,300,431</b>	<b>60,586,286</b>	<b>1,285,394</b>	<b>1,331,600</b>
<b>Operating (Loss) Income</b>	<b>(37,441,414)</b>	<b>(34,873,261)</b>	<b>(296,709)</b>	<b>784,257</b>
<b>Nonoperating Revenue</b>				
State appropriations	10,026,810	9,643,621	-	-
County appropriations	16,567,453	15,806,893	-	-
State and County capital projects appropriations	2,988,550	7,623,872	-	-
Student aid	4,437,081	4,346,915	-	-
Investment income	114,692	51,464	92,783	44,006
Net unrealized and realized gain (loss) on investments	-	-	1,141,321	1,416,119
Change in the value of charitable remainder trusts	-	-	-	120,519
Other revenue	30,542	30,775	-	-
State paid benefits	2,587,278	2,488,343	-	-
<b>Nonoperating Revenue</b>	<b>36,752,406</b>	<b>39,991,883</b>	<b>1,234,104</b>	<b>1,580,644</b>
<b>Change in Net Position</b>	<b>(689,008)</b>	<b>5,118,622</b>	<b>937,395</b>	<b>2,364,901</b>
<b>Net Position - Beginning of year</b>	<b>89,433,950</b>	<b>84,315,328</b>	<b>15,181,341</b>	<b>12,816,440</b>
<b>Net Position - End of year</b>	<b>\$ 88,744,942</b>	<b>\$ 89,433,950</b>	<b>\$ 16,118,736</b>	<b>\$ 15,181,341</b>

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

**FREDERICK COMMUNITY COLLEGE**

**Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Tuition and fees received	\$ 16,439,025	\$ 16,567,001
Payments to suppliers	(17,693,587)	(14,253,022)
Payments to employees	(41,369,645)	(39,460,817)
Auxiliary enterprise charges	3,674,696	4,161,766
Other receipts	5,357,653	5,345,061
<b>Net Cash From Operating Activities</b>	<u>(33,591,858)</u>	<u>(27,640,011)</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Federal revenue	4,437,081	4,346,915
State and County appropriations	28,750,431	23,041,301
<b>Net Cash From Noncapital Financing Activities</b>	<u>33,187,512</u>	<u>27,388,216</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
State and County capital appropriations	2,988,550	7,623,872
Other revenue	30,542	30,775
Purchase of capital assets	(2,326,148)	(9,205,262)
Payments of bonds (net of amortization)	(279,336)	(269,336)
<b>Net Cash From Capital and Related Financing Activities</b>	<u>413,608</u>	<u>(1,819,951)</u>
<b>Cash Flows From Investing Activities</b>		
Investment income	114,692	51,464
<b>Change in Cash and Cash Equivalents</b>	123,954	(2,020,282)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>12,996,462</u>	<u>15,016,744</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 13,120,416</u>	<u>\$ 12,996,462</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, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
<b>Operating Loss</b>	<b>\$ (37,441,414)</b>	<b>\$ (34,873,261)</b>
<b>Adjustments to reconcile operating loss to net cash from operating activities:</b>		
Depreciation	3,672,051	3,647,145
State paid benefits	2,587,278	2,488,343
<b>Effect of changes in operating assets and liabilities:</b>		
Accounts receivable	(94,577)	83,181
Prepaid expenses	44,612	(106,664)
Inventory	(44,121)	(2,654)
Accounts payable	(2,367,019)	1,375,505
Accrued salaries	(264)	(87,172)
Accrued liabilities	83,136	(372,854)
Accrued leave	181,529	(122,725)
Unearned revenue	(196,328)	325,679
Deposits held for others	(16,741)	5,466
<b>Net Cash From Operating Activities</b>	<b><u>\$ (33,591,858)</u></b>	<b><u>\$ (27,640,011)</u></b>

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

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2018 and 2017**

### **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 operating budget of the College, 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 financial statements of the College. 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, 2018 and 2017**

### **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 the best estimate by management 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 \$162,645 and \$179,713, as of June 30, 2018 and 2017, 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, 2018 and 2017

### 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 policy of the College 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 additions for each year 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:

	<u>Number of Years</u>
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, 2018 and 2017.

#### 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, 2018.

#### Operating Revenue and Expenses

The principal ongoing operations of the College 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, 2018 and 2017

### 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, 2018	June 30, 2017
Salaries and benefits	\$ 41,532,910	\$ 39,232,532
Supplies and materials	1,736,023	1,859,110
Depreciation	3,672,051	3,647,145
Contracted services	3,072,243	3,078,858
Conferences and meetings	546,624	548,069
Communications	197,419	203,769
Utilities	1,061,579	1,071,656
Insurance	184,132	177,985
Scholarships	4,324,309	4,395,485
Campus projects and equipment	1,262,281	674,040
Cost of good sold (bookstore and food service)	1,727,886	2,055,655
Miscellaneous	1,395,696	1,153,639
Certain fringe benefits paid directly by the state of Maryland	2,587,278	2,488,343
<b>Total</b>	<b>\$ 63,300,431</b>	<b>\$ 60,586,286</b>

#### Reclassifications

Certain prior year amounts have been reclassified for consistency with the current presentation. These reclassifications did not affect the results of operations or net position.

#### Postemployment Benefits

The employees of the College participate in retirement plans as more fully discussed in Note 6.

#### Compensated Absences

Eligible full-time regular administrators, full-time regular support staff, and interpreter support staff on a full-time schedule will receive twenty (20) days (140 hours) of annual leave per year, which is earned monthly. All employees who are part-time regular administrators, part-time regular support staff, or interpreters on a part-time schedule and who work at least 17.5 hours per week are eligible for a prorated share of annual leave.



# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

#### Compensated Absences (continued)

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

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

All full-time regular administrators, full-time regular support staff, interpreter support staff on a full-time schedule, and full-time faculty are eligible for sick leave, earned at a rate of one (1) day (7 hours) of sick leave for each month worked. All employees who are part-time regular administrators, part-time regular support staff, or interpreters on a part-time schedule and who work at least 17.5 hours per week are eligible for sick leave earned on a prorated basis. Unlimited sick leave may be accumulated. Eligible 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 Board of Trustees. 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**

## **Notes to the Financial Statements June 30, 2018 and 2017**

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

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

##### **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 benefit 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). The financial statements of the Foundation have been prepared on the accrual basis of accounting.

##### **Revenue Recognition**

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

##### **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 have been discounted using a risk-free discount rate ranging from 0.3% to 0.7% and all pledges receivable are recorded at the estimated fair value. As of June 30, 2018 and 2017, the allowance was \$251 and the discount was zero, respectively for both years.

Charitable Remainder Trust – In 2007, the Foundation was named the beneficiary of a charitable remainder trust (Trust), in the amount of \$674,690. This qualifying charitable remainder trust was created to provide lifetime income to the donor and donor family members, in an amount equal to 6% of the net fair value of the assets, with the remaining Trust assets passing to the Foundation when the Trust ended. The Trust was created by the donors independently of the Foundation and was neither in the possession nor under the control of the Foundation. The Trust was administered by outside fiscal agents as designated by the donor. The value of the Trust was recognized as revenue when the Foundation was named as the beneficiary. During fiscal year 2017, the charitable remainder trust was terminated and the remaining value was distributed to the Foundation, totaling \$514,777.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

#### Endowment Fund Management Policy

The Foundation follows accounting principles generally accepted in the United States of America (GAAP). GAAP require 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 governing board of the organization, must be retained permanently consistent with the relevant law. GAAP also expand the disclosures required for both donor-restricted and board-designated endowment funds.

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as it relates to making a determination to appropriate or accumulate donor restricted endowment funds and as requiring the preservation of the fair value of the original gift absent explicit donor stipulations to the contrary.

#### Fair Value Measurement

GAAP 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).

The three levels of the fair value hierarchy are 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.

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2018 and 2017**

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

#### **Fair Value Measurement (continued)**

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

Realized and unrealized gains and losses are reflected in the Statements of Revenue, Expenses, and Change in Net Position. Investment income from money market funds is recognized on a monthly basis. Investment income from the University System of Maryland Foundation (USMF) is recorded on a monthly 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.

#### **Classification of Net Assets**

As required under generally accepted accounting principles in the 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.

Contributions not subject to donor imposed stipulations, or whose restrictions have been satisfied in the same reporting period, in which the contribution is received, are recorded as unrestricted net assets. For the years ended June 30, 2018 and 2017, unrestricted net assets were \$2,185,512 and \$1,807,265, respectively.

Temporarily restricted net assets are contributions subject to donor-imposed stipulations that will be met by the Foundation through the passage of time, conduct of service, or incurrence of expenditures. When donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets. 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.

Certain prior year amounts have been reclassified for consistency with the current presentation. These reclassifications have no impact on the financial statements.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

#### Classification of Net Assets (continued)

Temporarily restricted net assets were restricted for the following purposes:

	As of	
	June 30, 2018	June 30, 2017
Scholarships	\$ 3,735,094	\$ 3,436,076
Scholarship quasi-endowment	4,773,025	4,532,409
Program support	596,510	591,761
Academic purposes	280,225	334,236
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 9,384,854</b>	<b>\$ 8,894,482</b>

Net assets released from restrictions were as follows:

	As of	
	June 30, 2018	June 30, 2017
Scholarships	\$ 718,953	\$ 763,906
Program services	56,389	72,338
Support services	15,631	10,114
Administrative fees	67,751	74,712
<b>Total Net Assets Released from Restrictions</b>	<b>\$ 858,724</b>	<b>\$ 921,070</b>

Permanently restricted net assets are contributions subject to donor imposed restrictions that must be maintained in perpetuity by the Foundation. Permanently restricted net assets as of June 30, 2018, and 2017, were restricted for the following purposes:

	As of	
	June 30, 2018	June 30, 2017
Scholarships	\$ 4,456,913	\$ 4,388,137
Other program support	91,457	91,457
<b>Total Permanently Restricted Net Assets</b>	<b>\$ 4,548,370</b>	<b>\$ 4,479,594</b>

#### New Accounting Pronouncements

##### Frederick Community College

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

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

#### Frederick Community College Foundation, Inc.

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

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

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

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

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

### 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, 2018 and 2017, was \$8,200 and \$8,800, respectively.

#### Deposits

The carrying amount of the College deposits as of June 30, 2018 and 2017, was \$4,509,170 and \$4,491,411, respectively, and the bank balance was \$5,122,507 and \$4,731,981, respectively. All of the College bank balances are collateralized by federal agency securities held in safekeeping by the Federal Reserve.

#### MLGIP

Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the College investment policy, determines the allowable investments the College can make. The College may invest in certificates of deposit with commercial banks in the State of Maryland, direct U.S. obligations, U.S. government agency obligations, repurchase agreements, bankers acceptances from approved banks with acceptable credit ratings, commercial paper from entities with an acceptable credit rating, money market funds and the Maryland Local Government Investment Pool (MLGIP). The College investment balance in the MLGIP as of June 30, 2018 and 2017, was \$8,603,046 and \$8,496,251, respectively. This investment is considered to be a cash equivalent for financial statement purposes. The College has no unfunded commitments nor significant terms or conditions for redemption.

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

	As of	
	June 30, 2018	June 30, 2017
Cash on hand	\$ 8,200	\$ 8,800
Carrying amount of deposits	4,509,170	4,491,411
Carrying amount of MLGIP	8,603,046	8,496,251
<b>Total cash and cash equivalents per statement of net position</b>	<b>\$ 13,120,416</b>	<b>\$ 12,996,462</b>

Investment income includes net interest and dividends of \$114,692 and \$51,464, for the years ended June 30, 2018 and 2017, respectively.

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2018 and 2017**

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

#### ***Investment Rate Risk***

Fair value fluctuates with interest rates and increasing interest rates could cause fair value to decline below original cost. To limit the College exposure to fair value losses arising from increasing rates, the College investment policy limits the term of investment maturities. For the years ended June 30, 2018 and 2017, the College investments were limited to the MLGIP. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the College from having to sell investments below original cost for that purpose. The investments as of June 30, 2018 and 2017, met the College investment policy.

#### ***Credit Risk***

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

#### ***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover all or a portion of the value of its investments or collateral securities that are in possession of an outside party. The College investments were all invested in the MLGIP.

### **3. RELATIONS WITH FREDERICK COUNTY, MARYLAND**

#### **Frederick Community College**

Frederick County, Maryland provides approximately 31% of the operating budget of the College. The College budget is subject to the approval of the County Council. The County provided an in-kind appropriation for PeopleSoft and information technology support of \$453,119 and \$420,763, for the years ended June 30, 2018 and 2017, respectively. They also provided an in-kind appropriation for internal audit services and real estate appraisals of \$37,832 and \$9,628, for the years ended June 30, 2018 and 2017, respectively, which has been included in the County appropriation revenue and as part of Institutional Support expenses in the accompanying financial statements.



**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2018 and 2017**

**4. CAPITAL ASSETS**

**Frederick Community College**

Schedules of capital assets and accumulated depreciation for the years ended June 30, 2018 and 2017, were as follows:

	<u>July 1, 2017</u>	<u>Additions &amp; Transfers</u>	<u>Retirements &amp; Transfers</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 271,620	\$ -	\$ -	\$ 271,620
Construction in Progress	5,465	445,804	(5,465)	445,804
	<u>277,085</u>	<u>445,804</u>	<u>(5,465)</u>	<u>717,424</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Building and Improvements	116,160,049	1,070,524		117,230,573
Site Improvements	7,463,860	91,215	-	7,555,075
Furniture and Equipment	6,085,077	732,439	(305,909)	6,511,607
Library Collection	2,063,278	2,160	-	2,065,438
	<u>131,772,264</u>	<u>1,896,338</u>	<u>(305,909)</u>	<u>133,362,693</u>
Total capital assets being depreciated				
Less: Accumulated Depreciation				
Building and Improvements	(36,235,579)	(2,965,615)		(39,201,194)
Site Improvements	(5,854,044)	(140,701)	-	(5,994,745)
Furniture and Equipment	(4,306,203)	(542,760)	295,380	(4,553,583)
Library Collection	(1,954,656)	(22,975)	-	(1,977,631)
	<u>(48,350,482)</u>	<u>(3,672,051)</u>	<u>295,380</u>	<u>(51,727,153)</u>
Total accumulated depreciation				
Total assets being depreciated, net	<u>83,421,782</u>	<u>(1,775,713)</u>	<u>(10,529)</u>	<u>81,635,540</u>
<b>Capital assets, net</b>	<u>\$ 83,698,867</u>	<u>\$ (1,329,909)</u>	<u>\$ (15,994)</u>	<u>\$ 82,352,964</u>

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

### 4. CAPITAL ASSETS (continued)

#### Frederick Community College (continued)

	<u>July 1, 2016</u>	<u>Additions &amp; Transfers</u>	<u>Retirements &amp; Transfers</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 271,620	\$ -	\$ -	\$ 271,620
Construction in Progress	119,400	5,465	(119,400)	5,465
	<u>391,020</u>	<u>5,465</u>	<u>(119,400)</u>	<u>277,085</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Building and Improvements	107,481,753	8,698,744	(20,448)	116,160,049
Site Improvements	7,248,260	215,600	-	7,463,860
Furniture and Equipment	5,834,212	425,814	(174,949)	6,085,077
Library Collection	2,051,358	11,920	-	2,063,278
	<u>122,615,583</u>	<u>9,352,078</u>	<u>(195,397)</u>	<u>131,772,264</u>
Total capital assets being depreciated				
Less: Accumulated Depreciation				
Building and Improvements	(33,290,492)	(2,945,087)	-	(36,235,579)
Site Improvements	(5,719,423)	(134,621)	-	(5,854,044)
Furniture and Equipment	(3,928,249)	(540,470)	162,516	(4,306,203)
Library Collection	(1,927,689)	(26,967)	-	(1,954,656)
	<u>(44,865,853)</u>	<u>(3,647,145)</u>	<u>162,516</u>	<u>(48,350,482)</u>
Total accumulated depreciation				
Total assets being depreciated, net	<u>77,749,730</u>	<u>5,704,933</u>	<u>(32,881)</u>	<u>83,421,782</u>
<b>Capital assets, net</b>	<u>\$ 78,140,750</u>	<u>\$ 5,710,398</u>	<u>\$ (152,281)</u>	<u>\$ 83,698,867</u>

### 5. LONG-TERM LIABILITIES

#### Frederick Community College

The College records a liability for accrued annual leave for eligible employees and a liability for sick leave based on expected retirement age and to the extent payable to its employees at retirement according to College policy. Employees hired after June 30, 1985, must use their sick leave prior to termination. As those employees hired prior to June 30, 1985 retire, the College sick leave liability is declining, although the liability increases as eligible employees reach retirement age, therefore, the net impact from 2017 to 2018 was insignificant. The annual leave liability increased for fiscal year 2018 due to salary increases and less employees using leave.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

### 5. LONG-TERM LIABILITIES (continued)

#### Frederick Community College (continued)

	For the Years Ended June 30,				
	2016	Addition (Reduction) in Accrual	2017	Addition (Reduction) in Accrual	2018
Annual Leave Liability	\$ 1,223,348	\$ (110,539)	\$ 1,112,809	\$ 168,645	\$ 1,281,454
Sick Leave Liability	117,751	(3,464)	114,287	(17)	114,270
Estimated Payroll Taxes	102,594	(8,722)	93,872	12,901	106,773
<b>Total Liability</b>	<b>1,443,693</b>	<b>(122,725)</b>	<b>1,320,968</b>	<b>181,529</b>	<b>1,502,497</b>
Less: current portion	(968,887)	(47,161)	(1,016,048)	(331,495)	(1,347,543)
<b>Long-Term Portion</b>	<b>\$ 474,806</b>	<b>\$ (169,886)</b>	<b>\$ 304,920</b>	<b>\$ (149,966)</b>	<b>\$ 154,954</b>

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

	June 30, 2017	Principal Payment	Premium Discount Amortization	June 30, 2018	Current Portion	Long Term Portion
Bond payable	\$ 6,220,462	\$ (285,000)	\$ 5,664	\$ 5,941,126	\$ 295,000	\$ 5,646,126

### 6. PENSION AND RETIREMENT PLAN

#### 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.

#### Maryland State Teachers Retirement and Pension System

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

## FREDERICK COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2018 and 2017

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

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

*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 (1.818%) 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.

##### *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%.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

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

##### *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 60. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

##### *Cost of Living Adjustments*

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

*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*

In accordance with the parameters of generally accepted accounting standards, the College is not required to record its proportionate share of the unfunded pension liability since it is in a special funding situation. The Maryland Higher Education Commission (MHEC) makes the pension plan contribution directly to the Maryland State Retirement and Pension System (SRPS) on behalf of the College, and the College is not responsible for the contribution.

The College received State contributions toward retirement in the amount of \$2,587,278 and \$2,488,343, for the years ended June 30, 2018 and 2017, respectively. These amounts have been recorded as revenue and expenses in the financial statements.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

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

#### 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.

#### Summary of Pension and Retirement Plans

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

<u>Fiscal Years</u>	<u>MD State Teachers Retirement and Pension System Annual Cost</u>	<u>Percentage Contributed</u>	<u>Other Plans Annual Cost</u>	<u>Percentage Contributed</u>
2018	\$ 1,774,442	100%	\$ 1,033,429	100%
2017	1,733,480	100%	962,112	100%
2016	1,532,979	100%	934,949	100%
2015	1,479,245	100%	907,505	100%
2014	1,308,108	100%	881,572	100%

### 7. RISK MANAGEMENT

#### Frederick Community College

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

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

# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2018 and 2017**

### **8. CONTINGENT LIABILITIES AND COMMITMENTS**

#### **Frederick Community College**

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

Most grants and cost-reimbursable contracts specify the types of expenditure for which the grant or contract funds may be used. The expenditures made by the College under some of these grants and contracts are subject to audit. To date, the College has not been notified of any significant unallowable costs relating to its grants and contracts. In the opinion of management, the expenditures that have been made for grants and contracts were made in accordance with the provisions of such grants and contracts. In the opinion of management, any adjustments for unallowable costs that would result from audits will not have a material effect on the College financial statements.

##### **Commitments**

Total outstanding construction commitments as of June 30, 2018, were \$1.9 million.

### **9. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS**

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

In determining fair value, the Foundation uses various valuation approaches within the GAAP fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. The Foundation is invested in the University System of Maryland Foundation (USMF) investment pool which includes investments in three investment levels, as described in note 1. Because these level 3 investments in the pool are significant to the pool, the Foundation has classified its investment in the pool as level 3 as of June 30, 2018 and 2017.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while USMF believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2018 and 2017**

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

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2018 and 2017.

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investment in external investment pool	\$ -	\$ -	\$ 15,720,289	\$ 15,720,289

  

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investment in external investment pool	\$ -	\$ -	\$ 13,787,423	\$ 13,787,423

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, 2018 and 2017:

	USMF Pool		Charitable Remainder Trusts	
	(Level 3)	(Level 3)	(Level 3)	(Level 3)
	2018	2017	2018	2017
Balance, July 1,	\$ 13,787,423	\$ 11,728,585	\$ -	\$ 407,194
Realized/unrealized gains (loss), net	1,141,321	1,416,119	-	107,583
Purchases/(sales)	791,545	642,719	-	(514,777)
<b>Balance, June 30,</b>	<b>\$ 15,720,289</b>	<b>\$ 13,787,423</b>	<b>\$ -</b>	<b>\$ -</b>

On June 30, 2018, the Foundation had 403,297.4019 units of the USMF Unitized Investment Fund valued at \$38.9794 per unit with a total value of \$15,720,289. On June 30, 2017, the Foundation had 381,884.1727 units of the USMF Unitized Investment Fund valued at \$36.1037 per unit with a total value of \$13,787,423.

Investments are carried at cost and marked to market for financial statement presentation.

	As of June 30, 2018		
	Cost	Market	Unrealized Gain
Investment in external investment pool	\$ 15,360,648	\$ 15,720,289	\$ 359,641

  

	As of June 30, 2017		
	Cost	Market	Unrealized (Losses)
Investment in external investment pool	\$ 14,094,316	\$ 13,787,423	\$ (306,893)



# **FREDERICK COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2018 and 2017**

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

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 \$666,536 for the year ended June 30, 2018 and net unrealized gain on investments of \$392,705 for the year ended June 30, 2017.

### **10. ENDOWMENTS**

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

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

#### **Interpretation of Relevant Law**

The Board of Directors of the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Foundation classifies permanently restricted net assets as:

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

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

1. The duration and preservation of the fund,
2. the purpose of the Foundation and the donor-restricted endowment fund,
3. general economic conditions,
4. the possible effect of inflation and deflation,
5. the expected total return from income and the appreciation of investments,
6. other resources of the Foundation, and
7. the investment policies of the Foundation.

# FREDERICK COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2018 and 2017

### 10. ENDOWMENTS (continued)

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to preserve and enhance the principal value of the fund while protecting it from wide variations in market value.

#### Spending Policy

The Foundation has a policy of appropriating up to 5.0% of a twenty-quarter trailing market value average ending December 31, provided the donor contributions (principal) are not invaded. The Finance Committee recommends to the Foundation Board 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 the current spending policy will allow its endowment to retain the original fair value of the gift.

#### 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, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,810,625	\$ 4,548,370	\$ 6,358,995
Board designated quasi endowment for General & Erwin Scholarships	<u>4,773,025</u>	-	<u>4,773,025</u>
<b>Total Funds</b>	<u>\$ 6,583,650</u>	<u>\$ 4,548,370</u>	<u>\$ 11,132,020</u>

**FREDERICK COMMUNITY COLLEGE**

**Notes to the Financial Statements  
June 30, 2018 and 2017**

**10. ENDOWMENTS (continued)**

**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018:**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,023,277	\$ 4,479,594	\$ 10,502,871
Investment return:			
Investment income	58,198	-	58,198
Net appreciation	802,787	-	802,787
Total	<u>860,985</u>	<u>-</u>	<u>860,985</u>
Contributions collected	38,021	60,959	98,980
Reclassification	-	7,817	7,817
Release of endowment assets for expenditure	(338,633)	-	(338,633)
<b>Endowment net assets, end of year</b>	<u><u>\$ 6,583,650</u></u>	<u><u>\$ 4,548,370</u></u>	<u><u>\$ 11,132,020</u></u>

**Endowment Net Asset Composition by Type of Fund as of June 30, 2017:**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,490,868	\$ 4,479,594	\$ 5,970,462
Board designated quasi endowment for General & Erwin Scholarships	4,532,409	-	4,532,409
Total Funds	<u><u>\$ 6,023,277</u></u>	<u><u>\$ 4,479,594</u></u>	<u><u>\$ 10,502,871</u></u>

**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017:**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,284,452	\$ 4,306,441	\$ 9,590,893
Investment return:			
Investment income	31,273	-	31,273
Net appreciation	1,088,327	-	1,088,327
Total	<u>1,119,600</u>	<u>-</u>	<u>1,119,600</u>
Contributions collected	66,713	169,515	236,228
Reclassification	(1,471)	(1,362)	(2,833)
Release of endowment assets for expenditure	(446,017)	-	(446,017)
Endowment net assets, end of year	6,023,277	4,474,594	10,497,871
Pledges receivable	-	5,000	5,000
<b>Endowed Net Assets, Inclusive of Receivables, End of Year</b>	<u><u>\$ 6,023,277</u></u>	<u><u>\$ 4,479,594</u></u>	<u><u>\$ 10,502,871</u></u>

## **FREDERICK COMMUNITY COLLEGE**

### **Notes to the Financial Statements June 30, 2018 and 2017**

#### **11. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC.**

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

The College estimates the approximate value of services (including staff time) provided to the Foundation to be \$334,960 and \$314,879, for the years ended June 30, 2018 and 2017, 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 \$775,342 and \$836,244 for the years ended June 30, 2018 and 2017, respectively.

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

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

During the years ended June 30, 2018 and 2017, Foundation for the FCC Fund, Inc. received no gifts and incurred no expenses. As of June 30, 2018 and 2017, Foundation for the FCC Fund, Inc. had no assets or liabilities.

#### **13. SUBSEQUENT EVENTS**

The College and the Foundation evaluated the accompanying financial statements for subsequent events and transactions through September 28, 2018, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.