

**HARFORD COMMUNITY COLLEGE**  
**COMPONENT UNIT FINANCIAL STATEMENTS AND**  
**SINGLE AUDIT COMPLIANCE REPORTS**  
**YEAR ENDED JUNE 30, 2018**

**HARFORD COMMUNITY COLLEGE  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2018**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)</b>	<b>4</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>14</b>
<b>STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>16</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>18</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>20</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)</b>	
<b>SCHEDULE OF CHANGES IN THE COLLEGE'S NET OPEB LIABILITY AND RELATED RATIOS</b>	<b>50</b>
<b>SCHEDULE OF THE COLLEGE'S OPEB CONTRIBUTIONS</b>	<b>51</b>
<b>SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	<b>52</b>
<b>SCHEDULE OF THE COLLEGE'S PENSION CONTRIBUTIONS</b>	<b>53</b>
<b>NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>54</b>
<b>BUDGETARY COMPARISON – SCHEDULE GENERAL OPERATING FUND (UNAUDITED)</b>	<b>55</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>56</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	<b>58</b>
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>61</b>
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>62</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>63</b>
<b>SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS</b>	<b>66</b>

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Harford Community College  
Bel Air, Maryland

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

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

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of The Harford Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

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

**Emphasis of a Matter**

During fiscal year ended June 30, 2018, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, the College reported a restatement for the change in accounting principle (see Note 18). Our auditors' opinion was not modified with respect to the restatement.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the College's Net OPEB Liability and Related Ratios, the Schedule of the College's OPEB Contributions, the Schedule of the College's Proportionate Share of the Net Pension Liability and the Schedule of the College's Pension Contributions 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the Budgetary Comparison Schedule – General Operating Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Budgetary Comparison Schedule – General Operating Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the budget information in the Budgetary Comparison Schedule- General Operating Fund marked "unaudited" in which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

Board of Trustees  
Harford Community College

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 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 result of that testing, and not to provide an opinion on the effectiveness of Harford Community College's 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.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 19, 2018

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Overview of the Financial Statements and Financial Analysis***

The discussion and analysis of Harford Community College's (the College or HCC) financial statements provides an overview of the College's financial activities for the year ended June 30, 2018. Management has prepared this discussion along with the financial statements and related footnote disclosures. *Management's Discussion and Analysis* should be read in conjunction with the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

The entity-wide financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public. This report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and, the statement of cash flows. These statements provide an overall view of the College's financial activities, both current and long-term. Notes to the financial statements are required to complete the entity-wide statements and are an integral component of the basic financial statements.

***Statement of Net Position***

The statement of net position is a financial statement that provides a fiscal snapshot of the institution's financial position at a selected point in time. Total net position represents the difference between total assets, total liabilities, and deferred inflows and outflows of resources and is one of the indicators of the current financial condition of the College. Readers of the statement of net position are able to determine the assets available to continue the operations of the College. Over time, changes in net position are indicators of the improvement or erosion of the College's financial health when considered along with nonfinancial facts, such as enrollment changes and the condition of facilities.

The assets and liabilities are categorized between current and noncurrent. Current assets and current liabilities mature or become payable within the normal 12-month accounting cycles while noncurrent assets and liabilities mature or become payable after 12 months. For June 30, 2018, the College's current assets consist primarily of cash and cash equivalents and accounts receivable while noncurrent assets consist primarily of capital assets, including property, plant, and equipment maintained by the College. All of the College's liabilities except compensated absences and net pension liability are considered short-term in nature.

Net position is divided into four major categories:

- Unrestricted - available to the College for any lawful purpose.
- Net investment in capital assets – the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted – available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time.
- Nonexpendable restricted – result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or removed by the College's actions.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Statement of Net Position (Continued)**

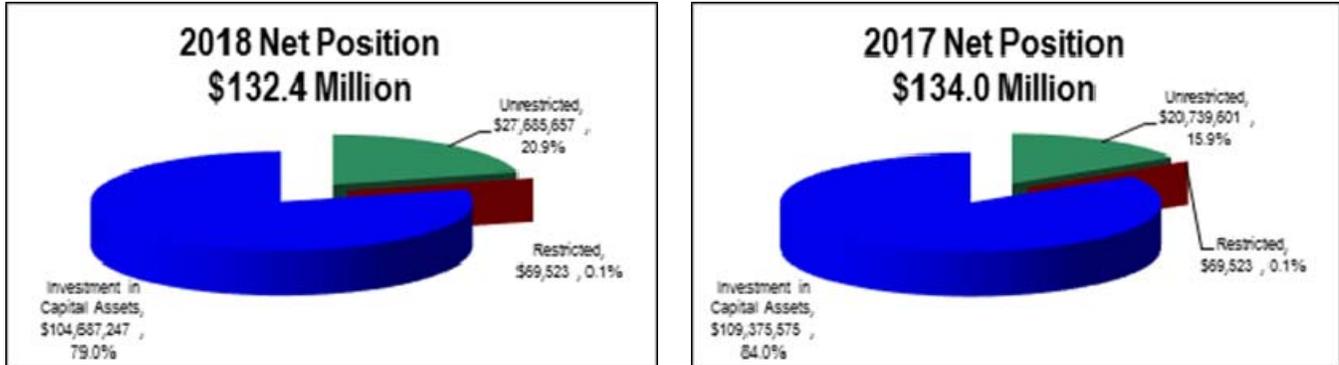
**CONDENSED STATEMENT OF NET POSITION**

	<u>June 30, 2018</u>	<u>% of Total</u>	<u>June 30, 2017</u>	<u>% of Total</u>
<b>ASSETS</b>				
Current Assets	\$ 37,365,465	25.6%	\$ 34,148,037	23.2%
Noncurrent Assets:				
Capital Assets	104,687,247	71.7	109,375,575	74.2
Other Assets	<u>3,960,222</u>	2.7	<u>3,816,438</u>	2.6
Total Noncurrent Assets	<u>108,647,469</u>	74.4	<u>113,192,013</u>	76.8
 Total Assets	 146,012,934	 100.0	 147,340,050	 100.0
 <b>DEFERRED OUTFLOWS</b>	 <u>316,020</u>	 0.2	 <u>460,497</u>	 0.3
 <b>LIABILITIES</b>				
Current Liabilities	11,653,543	8.0	10,796,172	7.3
Noncurrent Liabilities	<u>2,095,238</u>	1.4	<u>2,578,491</u>	1.8
Total Liabilities	<u>13,748,781</u>	9.4	<u>13,374,663</u>	9.1
 <b>DEFERRED INFLOWS</b>	 <u>162,742</u>	 0.1	 <u>64,995</u>	 0.0
 <b>NET ASSETS</b>				
Net Investment in Capital Assets	104,687,247	71.7	109,375,575	74.2
Restricted	69,523	0.0	69,523	0.0
Unrestricted	<u>27,660,661</u>	18.9	<u>24,915,791</u>	16.9
Total Net Assets	<u>\$ 132,417,431</u>	90.7	<u>\$ 134,360,889</u>	91.2

*Fiscal Year 2018 compared to 2017.* Net position decreased by 1.4% or \$1.9 million from \$134.3 million in fiscal year 2017 to \$132.4 million in 2018. Current assets increased by \$3.2 million. Current assets consist primarily of cash and cash equivalents and accounts receivable, which include funds due for federal aid and for state funding of capital project expenses. Cash increased \$1.6 million due to favorable operating performance within the general fund. Accounts receivable increased \$2.3 million largely due to the due date for fall tuition being changed from June 22<sup>nd</sup> in 2017 to July 16<sup>th</sup> in 2018. The College is self-insured, and the \$.6 million decrease in the deposit with trustee (Harford County) is a result of both an estimated unfavorable healthcare experience in fiscal year 2018 as well as a withdrawal to fund part of the implementation of a two-week payroll lag for employees. Prepaid expenses increased \$0.03 million while the receivable due from the HCC Foundation decreased \$0.2 million due to the timing of payments. Current liabilities increased by \$.8 million. The key components of the College's current liabilities are accounts payable, accrued liabilities and unearned revenue. Accounts payable due to vendors increased \$.1 million due to the timing of invoices. Accrued payroll liabilities increased by \$.7 million due to the implementation of a two-week payroll lag for all full-time employees which required an accrual of the last payroll period of 2018.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Statement of Net Position (Continued)**



The unrestricted net position includes the fund balances contained within the College's plant fund budgets for projects that are anticipated or in progress along with auxiliary service fund balances generated through operations. Currently, designations of \$4.5 million are budgeted within the plant funds for various capital projects such as the completion of the Maryland Hall conversion and the Chesapeake Welcome Center conversion. Other plant fund balances are also internally designated for deferred projects, roof replacements, parking lot improvements and computer equipment and technology expenditures.

Restricted net position consists of Russell Hudson student loans. The increase in unrestricted net position is a result of the favorable performance of expenditures within the operating fund coupled with the net income generated by the auxiliaries.

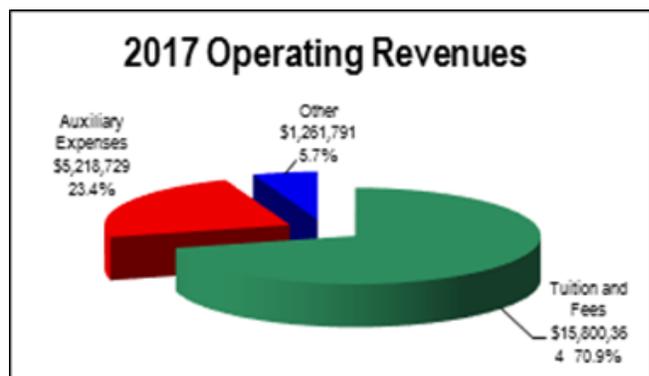
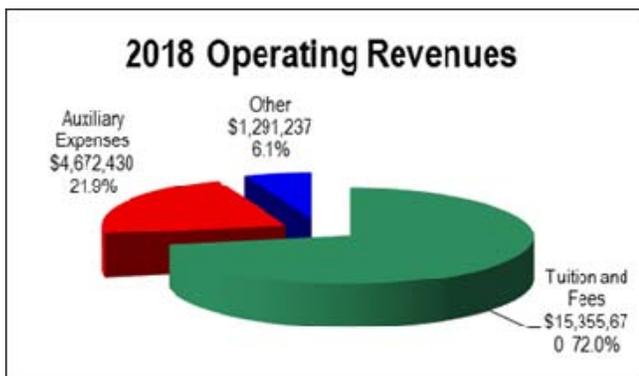
**Statement of Revenues, Expenses, and Changes in Net Position**

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses received or spent by the institution, over a period of time.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

	Years Ended June 30, 2018	2017	Percent Change
<b>OPERATING REVENUE</b>			
Tuition and Fees	\$ 15,355,670	\$ 15,800,364	-2.8%
Auxiliary Enterprises	4,672,430	5,218,729	-10.5%
Other	1,291,237	1,261,791	2.3%
Total Operating Revenue	<u>21,319,337</u>	<u>22,280,884</u>	-4.3%
<b>OPERATING EXPENSES</b>	<u>64,118,084</u>	<u>64,311,375</u>	-0.3%
<b>NET OPERATING LOSS</b>	(42,798,747)	(42,030,491)	1.8%
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Certain Fringe Benefits Paid Directly by the State of Maryland	2,550,263	2,627,547	-2.9%
Federal Grants and Contracts	6,541,984	6,071,615	7.7%
State Grants and Contracts	13,223,357	13,135,440	0.7%
Local Grants and Contracts	17,237,790	16,350,767	5.4%
Contributions	607,977	743,812	-18.3%
Interest Income	398,290	134,766	195.5%
Loss on Disposal of Assets	(88,658)	(564,591)	-84.3%
Total Nonoperating Revenues	<u>40,471,003</u>	<u>38,499,356</u>	5.1%
<b>LOSS BEFORE OTHER REVENUES</b>	(2,327,744)	(3,531,135)	-34.1%
State Capital Grants	308,677	3,425,649	-91.0%
Harford County Capital Grants	500,340	488,099	2.5%
<b>INCREASE (DECREASE) IN NET POSITION</b>	(1,518,727)	382,613	-496.9%
Net Position - Beginning of Year	134,360,889	133,978,276	0.3%
Restatement for July 1, 2017 OPEB liability and related expense	(424,731)	-	
Net Position - Beginning of Year, Restated	<u>133,936,158</u>	<u>133,978,276</u>	
<b>NET POSITION - END OF YEAR</b>	<u>\$ 132,417,431</u>	<u>\$ 134,360,889</u>	-1.5%



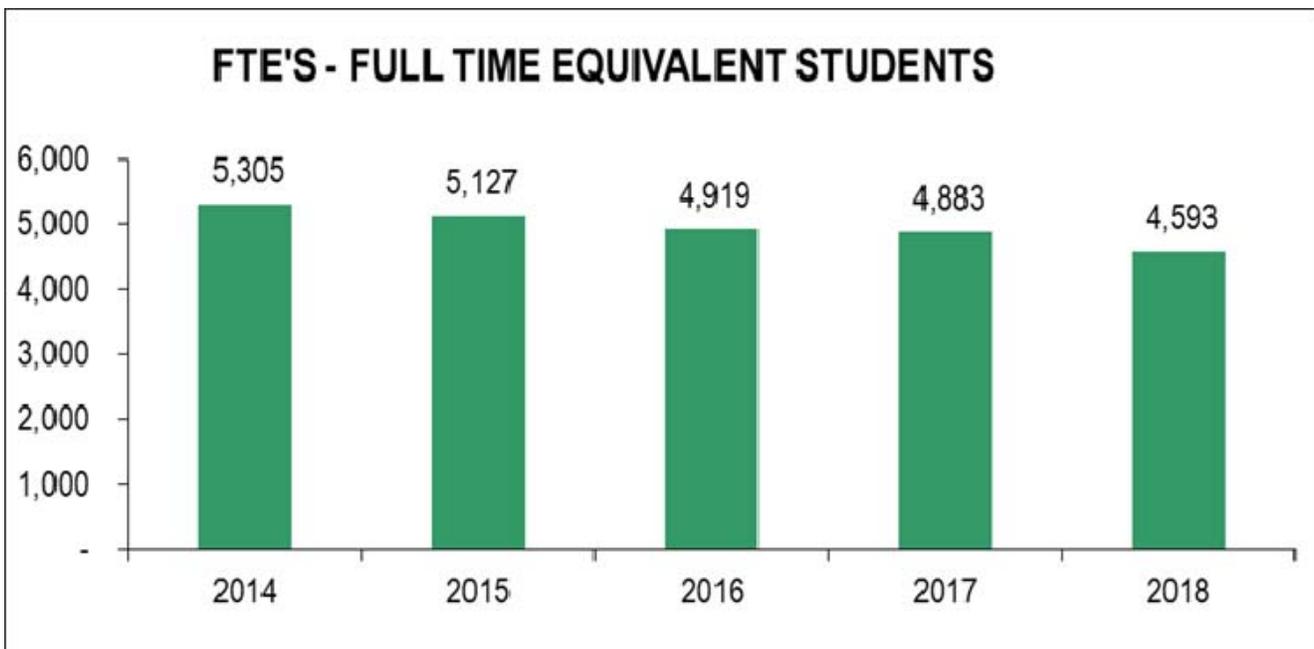
**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Statement of Revenues, Expenses, and Changes in Net Position (Continued)***

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out the mission of the College. Nonoperating revenues are receipts for which goods and/or services are not provided. For example, state and local appropriations are considered nonoperating because they are provided to the College by the appropriate governmental entity without it directly receiving commensurate goods and/or services.

*Fiscal Year 2018 compared to 2017.* Net position decreased \$1.9 million or 1.4% for 2018. This decrease can primarily be attributed to a decrease in capital grant funding from the state and county and a decrease in auxiliary enterprise revenue. The state and county provided a total of \$.8 million in revenues for investment in capital assets in 2018 versus \$3.9 million in 2017. This revenue decrease did not offset the \$4.9 million in depreciation expense recorded on the College's capital assets.

Net tuition and fees decreased 2.8% primarily due to a decrease in enrollment. Scholarship allowances in 2018 are \$6.4 million or 29.4% of gross tuition and fee revenue, which is an increase of 2.2% from 2017 scholarship allowances of \$5.9 million or 27.2% of gross tuition and fee revenue. This analysis continues to show that a significant portion of the College's students receive federal or some other form of financial assistance.



In FY 2018 the full-time equivalent (FTE) student enrollment decreased by 290 or 6.0%. Credit FTE students decreased by 228 while noncredit FTE students decreased by 62.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Statement of Revenues, Expenses, and Changes in Net Position (Continued)***

Analyzing operating and nonoperating revenues together for 2018, tuition and fees net of scholarship allowances, comprise 24.5% of total revenues. State and county funding, including the state payment for retirement, provided an additional 54.0% of operating and nonoperating revenues. Federal funding accounts for 10.4% of total 2018 revenues. The revenue from auxiliary enterprises accounts for 7.4% of total 2018 revenues.

The statement of operating expenses provides more detail on the operating expenses from the previous table. The expenses include the functional classifications of all funds.

**OPERATING EXPENSES**

	Years Ended June 30, 2018	2017	Percent Change
<b>OPERATING EXPENSES</b>			
Instruction	\$ 19,465,831	\$ 19,361,707	0.5%
Academic Support	6,692,006	5,996,479	11.6%
Student Services	7,730,125	7,222,886	7.0%
Institutional Support	10,714,991	9,839,798	8.9%
Operations and Maintenance of Plant	6,457,747	8,260,273	-21.8%
Scholarships	1,180,830	1,196,951	-1.3%
Sub-Total	<u>52,241,530</u>	<u>51,878,094</u>	0.7%
Auxiliary Enterprises	4,344,757	4,898,039	-11.3%
Certain Fringe Benefits Paid Directly by the State of Maryland	2,550,263	2,627,547	-2.9%
Depreciation	<u>4,981,534</u>	<u>4,907,695</u>	1.5%
Total	<u><u>\$ 64,118,084</u></u>	<u><u>\$ 64,311,375</u></u>	-0.3%

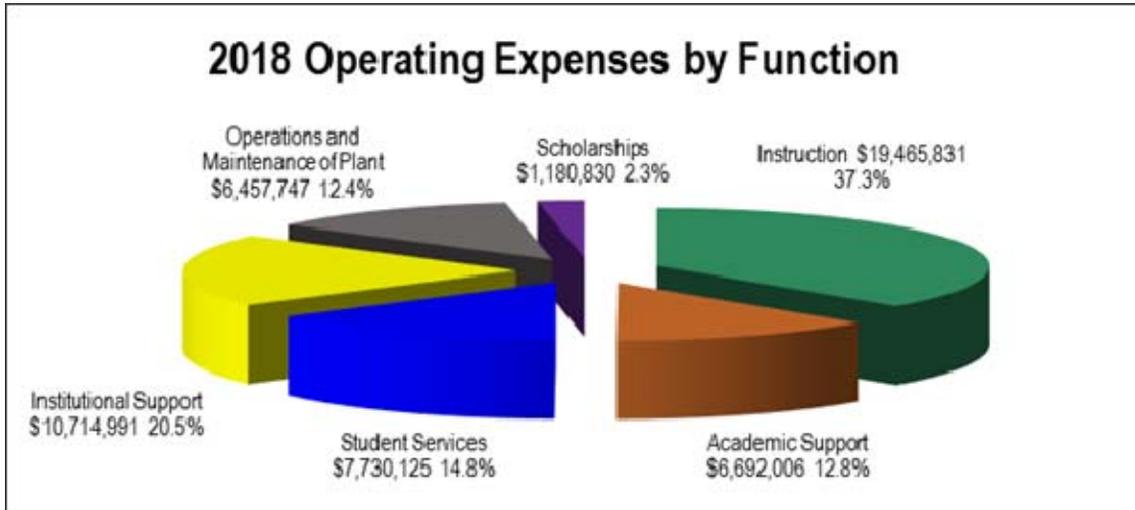
Instruction accounts for 30.3% of the total operating expense of the College. This figure does not include the state payment for retirement benefit associated with instruction. The instruction function increased .4% primarily due to the 2% base salary adjustment that occurred, partially offset by the vacant positions that existed in 2018.

Academic support expenses increased 11.6% in fiscal year 2018. This increase is primarily due to investments in technology supporting instruction that support our strategic plan objectives.

The increase in student services expenditures can be primarily attributed to the increase in financial aid refunds paid directly to students for awarded Pell grants. This increase in refunds to students occurred in addition to an increase of approximately \$0.5 million in total Pell grant expenditures in 2018. The portion of Pell grant awards applied to tuition and fees is netted against tuition and fee revenue on the statement of revenues, expenses, and changes in net position.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Statement of Revenues, Expenses, and Changes in Net Position (Continued)***



Institutional support increased 8.9% in 2018 mainly due to an increase in additional technology costs.

Operations and maintenance of plant decreased significantly in 2018 due to energy savings in 2018 as well as the absence of the Edgewood capital project that occurred in 2017.

Scholarships slightly decreased \$0.01 million or 1.3%. This line includes state mandated and college tuition waivers to credit and non-credit students.

The decrease in auxiliary enterprise expenditures of \$.6 million or 11.3% is driven largely by the decrease in auxiliary enterprise revenues resulting from industry trends in textbook sales.

Other major components of operating expenses include: the \$2.6 million that represents the state's contribution for college employees to the Maryland state retirement system and the recognition of \$5 million in depreciation on capital assets.

***Statement of Cash Flows***

The statement of cash flows presents detailed information about cash receipts and cash payments of the College. This statement helps users assess the College's ability to generate future cash flows, the ability to meet obligations as they come due, and its needs for external financing.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used for the operating activities of the College. The second section reflects the cash received and spent for nonoperating, noninvesting and other noncapital financing purposes. The third section deals with cash flows from capital and related financing activities, providing information on the cash used for the acquisition and construction of capital and related items. The fourth part reflects the cash flows from investing activities and shows the purchases, proceeds, interest received and investment income from such activities. The fifth section reconciles the net cash used for operating activities to the operating income or loss reflected on the statement of revenues, expenses and changes in net position.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Statement of Cash Flows (Continued)***

	Years Ended June 30,		Percent Change
	2018	2017	
Cash Provided (Used) by:			
Operating Activities	\$ (36,650,027)	\$ (38,176,454)	-4.0%
Noncapital Financing Activities	38,007,892	36,436,271	4.3%
Capital and Related Financing Activities	19,267	5,218,333	-99.6%
Investing Activities	398,290	134,766	195.5%
Net Increase in Cash	<u>1,775,422</u>	<u>3,612,916</u>	-50.9%
Cash - Beginning of Year	<u>30,375,946</u>	<u>26,763,030</u>	13.5%
<b>CASH - END OF YEAR</b>	<u><u>\$ 32,151,368</u></u>	<u><u>\$ 30,375,946</u></u>	5.8%

The primary cash receipts from operating activities consist of \$13.1 million from tuition and fees and \$4.6 million from auxiliary enterprises. Major cash outlays in operating activities consist of salaries and benefits of \$32.2 million and payments to suppliers of \$23.4 million. The decrease in tuition and fees and auxiliary enterprise receipts coupled with a decrease in payments to employees due to vacancies is driving the decrease in net cash used by operating activities.

Federal, state and local funding is the primary source of noncapital financing. The accounting standards require that the College reflect this source of revenue as nonoperating even though the College's budget depends on this funding to continue, or expand, the existing level of operations. Cash provided by noncapital financing activities increased 4.3%. The increase in cash receipts from the county and state provided to the College for operations leads to this overall increase in noncapital financing activities.

The primary financing activities included within the report are associated with capital appropriations for the College's commitment to expansion of new facilities and the continued renovation of its older facilities. Net cash flows provided by capital financing activities decreased from \$5.2 million in 2017 to \$.02 million in 2018. The College completed significant capital renovations in 2017 primarily with the renovation of Edgewood Hall.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Capital Asset and Debt Administration***

**Capital Assets**

At June 30, 2018, the College had \$157.8 million invested in capital assets, less accumulated depreciation of \$53.1 million. Depreciation charges for the current year totaled \$5 million.

**CAPITAL ASSETS, NET**

	June 30,		Percent Change
	2018	2017	
<b>CAPITAL ASSETS</b>			
Land and Land Improvements	\$ 21,675,597	\$ 21,887,374	-1.0%
Buildings	123,088,441	123,088,441	0.0%
Furniture and Equipment	6,331,871	6,279,395	0.8%
Computer Technology	4,252,025	4,217,880	0.8%
Vehicles	877,615	840,183	4.5%
Library Books	1,523,660	1,634,651	-6.8%
Total	<u>157,749,209</u>	<u>157,947,924</u>	-0.1%
Less: Accumulated Depreciation	<u>53,061,962</u>	<u>48,572,349</u>	9.2%
Net Capital Assets	<u>\$ 104,687,247</u>	<u>\$ 109,375,575</u>	-4.3%

Major renovations to Edgewood Hall were completed and capitalized in 2017. Capital assets totaling \$.4 million were added in 2018 which consisted of plant services equipment, communication technology and equipment in the visual and performing arts department.

**Debt**

The College has no long-term debt as of June 30, 2018.

***Economic Factors That Will Affect the Future***

The College's general operations are funded through three primary revenue sources: tuition and fee payments from students, funding appropriations from Harford County, and funding appropriations from the state of Maryland. Prior to 2009, tuition and fees accounted for approximately one-third of the College's total operating revenues. Credit enrollment increased at very high rates during fiscal years 2009-2011. This enrollment increase aligned with the theory that during economic recessions, community college enrollments generally rise. During this same period, there was a decrease in the percentage of public funding with county appropriations remaining flat for four years. As a result, tuition and fee revenues eclipsed county appropriations as the leading revenue source for the College in 2011. This trend has continued although we have seen increases in county and state funding in recent years.

**HARFORD COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Economic Factors That Will Affect the Future (Continued)***

As the College cannot influence the various economic variables which correlate to the public support it receives, HCC administration continues to develop strategies to ensure the College generates necessary operating revenues in future years. The College's board of trustees approved a 2% tuition increase per credit hour for fiscal year 2019. This increase qualified the College for a state supplemental grant of approximately \$96,000 for approving a tuition rate increase measured at or below 2%. As a result of the actions taken to increase tuition and fee revenue coupled with the effective management of operating expenditures, the College has been able to balance the budget in each of the past four fiscal years.

A great deal of uncertainty continues to exist surrounding future credit enrollments. Fiscal years 2014-2018 have featured annual enrollment declines averaging 4%. Community colleges across the state have experienced a similar trend of declining enrollment during declining unemployment. This economic reality has challenged the College to implement strategies to increase enrollment and improve retention. These strategies coupled with historically favorable out-of-county and out-of-state enrollment led the College to assume that billable credit hours would remain flat in fiscal year 2019.

The College continues to face an environment of rising costs with limited resources. Healthcare costs continue to rise, deferred maintenance costs of our large and aging campus increase yearly as well as the overall rising costs-of-doing-business. The College is challenged to meet the needs of an evolving institution while balancing the budget. As we plan for these challenges, the College is evaluating and exploring opportunities that not only improve the services we provide the community but will also offer additional funding sources to ensure the future viability of our institution.

***Requests for Information***

The financial report is designed to provide a general overview of the College's finances. Questions concerning any of the information provided in this report or other requests for additional information should be addressed to the Harford Community College Finance Office.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Harford Community College	Component Unit Harford Community College Foundation
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 28,191,146	\$ 440,954
Accounts Receivable, Net	7,216,939	-
Promises to Give, Net	-	624,500
Inventories	402,531	-
Prepaid Expenses and Other Assets	430,597	57,210
Due from Foundation	95,435	-
Deposit with Trustee	1,028,817	-
Total Current Assets	37,365,465	1,122,664
Noncurrent Assets:		
Cash and Cash Equivalents, Capital Projects	3,960,222	-
Investments	-	9,998,876
Land and Construction in Progress	3,741,759	-
Capital Assets being Depreciated	154,007,450	-
Less: Accumulated Depreciation	(53,061,962)	-
Total Noncurrent Assets	108,647,469	9,998,876
Total Assets	146,012,934	11,121,540
<b>DEFERRED OUTFLOWS - PENSION</b>	316,020	-

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2018**

	<u>Harford Community College</u>	<u>Component Unit Harford Community College Foundation</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 1,684,439	\$ -
Accrued Liabilities	1,542,389	-
Deposits Held for Students	40,824	-
Unearned Revenue	8,141,083	32,950
Compensated Absences, Current	163,783	-
Due to College	-	97,435
Other Liabilities	81,025	-
Total Current Liabilities	<u>11,653,543</u>	<u>130,385</u>
Noncurrent Liabilities:		
Net Pension Liability	1,110,420	-
Compensated Absences, Net of Current Portion	984,818	-
Total Noncurrent Liabilities	<u>2,095,238</u>	<u>-</u>
Total Liabilities	<u>13,748,781</u>	<u>130,385</u>
<b>DEFERRED INFLOWS - PENSION</b>	<u>162,742</u>	<u>-</u>
<b>NET POSITION</b>		
Unrestricted	27,660,661	733,495
Net Investment in Capital Assets	104,687,247	-
Restricted:		
Expendable	69,523	6,054,159
Nonexpendable	-	4,203,501
Total Net Position	<u>\$ 132,417,431</u>	<u>\$ 10,991,155</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2018**

	<u>Harford Community College</u>	<u>Component Unit Harford Community College Foundation</u>
<b>OPERATING REVENUES</b>		
Student Tuition and Fees (Net of Scholarship Allowances of \$6,404,465)	\$ 15,355,670	\$ -
Gifts and Contributions	-	1,274,150
Auxiliary Enterprises	4,672,430	-
Other Operating Revenues	1,291,237	-
Total Operating Revenues	<u>21,319,337</u>	<u>1,274,150</u>
<b>OPERATING EXPENSES</b>		
Instruction	19,465,831	-
Academic Support	6,692,006	-
Student Services	7,730,125	-
Institutional Support	10,714,991	-
Operations and Maintenance of Plant	6,457,747	-
Scholarship Expense	1,180,830	-
Certain Fringe Benefits Paid Directly by the State of Maryland	2,550,263	-
Other Operating Expenses	-	276,192
Depreciation	4,981,534	-
Auxiliary Enterprises	4,344,757	-
Total Operating Expenses	<u>64,118,084</u>	<u>276,192</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(42,798,747)</u>	<u>997,958</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)**  
**YEAR ENDED JUNE 30, 2018**

	<u>Harford Community College</u>	<u>Component Unit Harford Community College Foundation</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Certain Fringe Benefits Paid Directly by the State of Maryland	\$ 2,550,263	\$ -
Federal Grants and Contracts	6,541,984	-
State of MD Grants and Contracts	13,223,357	-
Harford County Grants and Contracts	17,237,790	-
Contributions from HCC Foundation	607,977	(607,977)
Investment Income	398,290	748,520
Loss on Disposal of Assets	(88,658)	-
Net Nonoperating Revenues (Expenses)	<u>40,471,003</u>	<u>140,543</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND ADDITIONS TO ENDOWMENTS</b>	(2,327,744)	1,138,501
State Capital Grants	308,677	-
Harford County Capital Grants	500,340	-
	<u>809,017</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(1,518,727)	1,138,501
Net Position - Beginning of Year	134,360,889	9,852,654
Restatement for July 1, 2017 OPEB Liability and Related Expense	(424,731)	-
Net Position - Beginning of Year, Restated	<u>133,936,158</u>	<u>9,852,654</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 132,417,431</u>	<u>\$ 10,991,155</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2018**

	<u>Harford Community College</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 13,079,647
Payments to Suppliers	(23,443,033)
Payments to Employees	(32,201,137)
Auxiliary Enterprise Charges	4,623,259
Other Receipts	1,291,237
Net Cash Used by Operating Activities	<u>(36,650,027)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal Student Loan Programs Receipts	3,881,316
Federal Student Loan Programs Disbursements	(3,881,316)
Federal Grants and Appropriations	6,344,255
State Grants and Appropriations	13,567,277
County Grants and Appropriations	17,236,692
Private Grants and Contributions	859,668
Net Cash Provided by Noncapital Financing Activities	<u>38,007,892</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants Received	401,132
Purchase of Capital Assets	(391,418)
Proceeds from the Sale of Capital Assets	9,553
Net Cash Provided by Capital and Related Financing Activities	<u>19,267</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	<u>398,290</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	
	1,775,422
Cash and Cash Equivalents - Beginning of Year	<u>30,375,946</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	
	<u>\$ 32,151,368</u>
Cash and Cash Equivalents - Current	\$ 28,191,146
Cash and Cash Equivalents - Capital Projects	3,960,222
Total	<u>\$ 32,151,368</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

	<u>Harford Community College</u>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (42,798,747)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,981,534
Certain Fringe Benefits Paid Directly to the State of Maryland	2,550,263
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	(1,518,959)
Inventories	(8,647)
Prepaid Expenses	(31,234)
Due from Foundation	184,756
Deferred Outflows	76,752
Accounts Payable	90,957
Accrued Salaries	713,369
Deposits Held for Students	(8,647)
Unearned Revenue	(180,217)
Accrued Compensated Absences	8,217
Other Accrued Liabilities	(654,448)
Net Pension Liability	(220,448)
Deferred Inflows	165,472
Net Cash Used by Operating Activities	<u>\$ (36,650,027)</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

Harford Community College (the College) is considered a “body politic” under Maryland State law as an instrumentality of the state of Maryland (the State). The College is governed by a nine-member board of trustees, who are appointed for five-year terms by the Governor of the State.

Funding is received from both the State and Harford County (the County). The State portion is based on a formula established by statute, which includes a portion of funds based upon full-time equivalent students as reported two years earlier.

Although the College is not an agency of the County, as a result of the College’s relationship with the County, the College’s financial statements are considered component unit financial statements and are included in the Comprehensive Annual Financial Report of the County in accordance with accounting principles generally accepted in the United States of America.

The Harford Community College Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a board of directors. Although the College does not control the timing of receipts from the Foundation, all of the resources, or income thereon, which the Foundation holds and invests, is 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. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Harford Community College Foundation, Inc. is presented in a discrete format.

The Foundation is a private nonprofit organization that follows standards for financial statements for not for profit organizations. 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 reporting entity for these differences.

A summary of the College’s and Foundation’s significant accounting policies follows:

**Basis of Presentation**

The College presents its financial statements in accordance with GASB Statement No. 34, Basic Financial Statements and Management’s Discussion Analysis for State and Local Governments, and No. 35, Basic Financial Statements and Management’s Discussion Analysis for Public Colleges and Universities. The financial statement presentation provides a comprehensive one-line look at the total entity and requires capitalization of assets and recording of depreciation. GASB Statement No. 34 identified three types of special purpose governments (SPG): (1) those engaged only in governmental activities; (2) those engaged only in business-type activities (BTA); and (3) those engaged in both governmental and business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the College adopted the financial reporting model required by SPG's engaged in business-type activities. The BTA model requires the following in component unit financial statements:

- Management's discussion and analysis
- Statement of net position
- Statement of revenues, expenses and changes in net position
- Statement of cash flows
- Notes to the financial statements

The College's financial statements are prepared using the format of an SPG engaged only in business-type activities, with an economic resources measurement focus, under the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred (when there is a legal contractual obligation to pay). The statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution.

The statement of revenues, expenses and changes in net position for SPG's engaged in business-type activities requires an operating/nonoperating format to be used. The College has elected to report its operating expenses by functional classification. The statement of cash flows is presented using the direct method, which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income/loss.

Colleges engaged in business-type activities and reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds.

One of the primary purposes of financial reporting is to account for resources received and used, as well as accounted for and reported. In certain situations, both restricted and unrestricted net position may be available to cover an expense incurred. In those few cases, as long as the expense meets all of the requirements of the restricted net position, restricted resources would be applied first.

**Operating and Nonoperating Components**

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The College's principal ongoing operations determine operating flow activities. Ongoing operations in 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 revenues of the College primarily consist of tuition and fees, grants and contracts, and auxiliary enterprise revenues.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating and Nonoperating Components (Continued)**

Financial statement nonoperating components include transactions and other events that are defined as noncapital financial activities, capital and related financing activities, and investing activities. Noncapital financing activities include borrowing money for purposes other than to acquire, construct or improve capital assets and repaying those amounts borrowed, including interest. Also included are certain inter-fund and intergovernmental receipts and payments such as state appropriations and student organization transactions. Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods; (b) borrowing money for acquiring, constructing or improving capital assets and repaying the amounts borrowed, including interest; (c) paying for capital assets obtained from vendors on credit; and (d) obtaining local, state, and federal grants for acquiring, constructing, or improving capital assets. Investing activities include acquiring and disposing of debt or equity instruments.

**Cash and Cash Equivalents**

Cash and cash equivalents include debt instruments with a maturity at acquisition of three months or less and funds invested in the Maryland Local Government Investment Pool (MLGIP), which provides local governmental units of the State an investment vehicle for the short-term investment of funds. The College considers this investment to be a cash equivalent. Cash held for capital projects is unrestricted as to use; however, the amounts have been set aside to cover expenditures related to capital projects.

**Accounts Receivable**

The College has accounts receivable related to tuition and fees and other grant and contractual relationships. Tuition receivables are obligations of students resulting from course registrations. Amounts that remain uncollected are considered delinquent and may be referred to a collection agency. The allowance for doubtful accounts for the College was \$284,273 at June 30, 2018.

The College's tuition and fee revenue is reported net of any scholarship allowance. A scholarship allowance is defined as the difference between the stated charges for tuition, goods and services provided by the College, and the amount that is paid by the student and/or third parties making payments on behalf of the student. The scholarship allowance represents the amount of dollars the College receives as tuition from outside resources such as the Title IV Federal Grant Program, restricted grants and the College's own board of trustees grants. Funds received for tuition costs from outside resources are reported in the appropriate revenue classification. Certain aid, such as loans and third-party payments, is credited to the student's account as if the student made the payment. The College netted student aid expense against tuition revenue in the amount of \$6,404,465 for fiscal year 2018.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted (expendable), or permanently restricted (nonexpendable) support depending on the existence and/or nature of any donor restrictions.

Promises to give to be received in a future period are discounted to their net present value at the time the revenue is recorded. The Foundation's promises to give are discounted at a rate of 3%.

The Foundation uses the specific identification method to determine uncollectible promises to give. As of June 30, 2018, management determined there were no uncollectible promises to give.

**Investments**

College and Foundation investments are carried at fair value. The College's investments in the MLGIP are reported at cost, which approximates fair value. Fair value is the quoted market price of the investment or the net asset value for mutual funds. The change in unrealized appreciation or depreciation of the Foundation's marketable securities for the year is reflected in the statement of revenues, expenses and changes in net position. Realized gains and losses on sales of investments are computed on a specific identification basis and are recorded on the settlement date of the transaction. Certain investments are effectively restricted as to use to the extent of permanently and temporarily restricted net assets.

The Foundation invests with the University System of Maryland Foundation (USMF) in a comingled investment fund. These investments are recorded at fair value. Prior to then, the Foundation invested in a professionally managed portfolio of equities, mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**Inventories**

Inventories are stated at the lower of cost or market and consist primarily of items held for sale in the College Store and consumable supplies. The cost of these items is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

Capital assets are recorded at cost or fair value at the date of donation in the case of gifts. The College's policy is to include only those capital assets with a purchase price or fair value at donation of at least \$5,000. The entire library collection is recorded and valued at cost or estimated cost. Additions constructed via funds from state or county governmental agencies are stated at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Depreciation is provided over the estimated economic life of the item on a straight-line basis as follows:

Buildings	30 – 45 Years
Computer Technology	5 Years
Library Books	10 Years
Furniture and Equipment	10 – 20 Years
Land Improvements	7 – 20 Years
Vehicles	7 Years

**Encumbrances**

The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not received during the year. Encumbrances at year-end represent the estimated amount of expenses ultimately to result if unperformed contracts in process are completed. It primarily consists of encumbrances related to capital project spending and various contracts for services within the general operating fund. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these component unit financial statements. Encumbrances at June 30, 2018 were \$1,777,708.

**Deferred Outflows and Inflows of Resources**

Deferred outflows and inflows of resources are presented in separate sections on the Statement of Net Position as required by GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Deferred Outflows of Resources are defined as the consumption of net assets applicable to a future reporting period, and have a positive effect on net position, similar to assets. Deferred Inflows of Resources are defined as an acquisition of net assets applicable to a future reporting period, and have a negative effect on net position, similar to liabilities. The implementation of GASB 68 resulted in deferred inflows and outflows of resources related to differences between expected and actual experience, changes in pension actuarial assumptions, differences between projected and actual earnings on pension plan investments, changes in the College's proportional share of the net pension liability, and pension contributions made subsequent to the measurement date.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

It is the College's policy to allow employees to bank unused annual vacation leave up to a maximum of 10 days. Employees are allowed four months subsequent to fiscal year-end to utilize any vacation leave which exceeds this bank amount. Sick leave days carry over is not subject to limitation. Sick leave days are not paid out at termination except in the case of retirement and 10 years of serviceable employment where a maximum of 360 days can be paid out at a per diem rate of \$30.

**Unearned Revenue**

Tuition and fees are recognized in the academic period that they are earned. Amounts received for future semesters are deferred until earned in the related academic period. Tuition received for the summer semester is recognized equally over two periods as approximately half the semester relates to the current fiscal year and half of the semester occurs during the next fiscal year. The Foundation's deferred revenue represents amounts received for fundraising events held subsequent to fiscal year-end.

**Net Position**

Net position is classified as follows:

Net Investment in Capital Assets – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position – Expendable – Expendable restricted net position includes resources for which the College and Foundation are legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Restricted Net Position – Nonexpendable – Nonexpendable restricted net position includes resources for which the donor has stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income.

Unrestricted Net Position – Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

**County Appropriations**

County appropriations are provided to the College to fund general operations and certain construction projects.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the College's retirement plans and additions to/deductions from the retirement plans' fiduciary net position have been determined on the same basis as they are reported by the retirement plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the College's OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the Maryland Association of Counties Pooled OPEB Trust for Harford Community College (the OPEB trust). For this purpose, member contributions are recognized as revenue in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment has been made to provide the contributions. Investments are reported at fair value, except for money market investments which cost approximates fair value.

**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 pursuant to Internal Revenue Code Section 501(c)(3). The Foundation follows the accounting standard covering uncertain tax positions. The standard had no financial effect on the Foundation.

**Fair Value Measurements**

The College and Foundation account for their financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability. Fair value is a market based measurement, not an entity-specific measurement, and should therefore be determined based on the assumptions that market participants would use in pricing the asset or liability.

The Foundation is required by generally accepted accounting principles to categorize its financial instruments based on a three-level fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (continued)**

Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include among others, quoted prices for similar assets or liabilities in active market or nonactive market.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**Use of Estimates**

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

**NOTE 2 CASH AND CASH EQUIVALENTS**

State statutes authorize the College to invest in obligations of the United States Government, federal government agency obligations, secured time deposits in Maryland banks, bankers' acceptances, the Maryland Local Government Investment Pool (MLGIP), money market mutual funds, commercial paper and repurchase agreements secured by direct government or agency obligations.

The College is a participant of the MLGIP. The MLGIP was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. It is maintained exclusively to assist eligible participants, as defined in Articles 95 and 22 of the Annotated Code of Maryland. The MLGIP may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the MLGIP are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

The fair value of the position in the MLGIP is the same as the value of the MLGIP net assets (shares). The MLGIP is a 2a-7 like external investment pool, which issues a publicly-available financial report that includes financial statements and required supplementary information for the MLGIP. This report can be obtained by writing: PNC Institutional Investments, Maryland Local Government Investment Pool, 2 Hopkins Plaza, 4th Floor, and Baltimore, Maryland, 21201.

At June 30, 2018, the carrying amount of the College deposits, including petty cash of \$13,935, was \$4,275,247 and the bank balance was \$6,007,981.

At June 30, 2018, the College had \$27,876,121 invested in MLGIP.

Cash and cash equivalents of the Foundation include money market funds which are available for current operations. Money market funds included therein are stated at fair value, which approximates cost. The Foundation maintains its cash in bank deposits, which at times may be uninsured, and in money market funds which are uninsured. The Foundation has not experienced any losses in such accounts.

**Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the College's deposits may not be recoverable. The College's deposit policy for custodial credit risk is to have uninsured deposits collateralized. Cash and cash equivalents are collateralized by federal agency securities held in the College's name at a rate of 102%.

**Interest Rate Risk – Investments**

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing interest rates, the College's investment policy limits the term of investment maturities. 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. At June 30, 2018, the MLGIP funds had a weighted average maturity of 31 days.

**Credit Risk – Investments**

The College invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP is rated AAAM by Standard & Poor's. 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.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Custodial Credit Risk – Investments**

The College does not have a formal investment policy for custodial credit risk. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2018, the College's investments in the MLGIP are not subjected to custodial credit risk.

**Foreign Currency Risk – Investments**

The College's investment policy does not allow for investments denominated in foreign currencies.

**NOTE 3 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – INVESTMENTS**

Investments of the Foundation are presented in the financial statements at fair value and consist of the following as of June 30, 2018:

	Fair Value	Cost
Investments	\$ 9,998,876	\$ 9,583,329

Investment income consists of interest and dividends of \$36,653 net of fees and net realized and unrealized gains of \$711,867 for the year ended June 30, 2018.

**NOTE 4 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – PROMISES TO GIVE**

Promises to give consist of the following at June 30, 2018:

Promises to Give	\$ 691,171
Discount	(66,671)
Total	\$ 624,500

Amounts Due in:	
Less than One Year	\$ 249,171
One to Five Years	282,000
More than Five Years	160,000
Total	\$ 691,171

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 RECEIVABLES AND PAYABLES**

Receivables and payables of the College consist of the following at June 30, 2018:

Accounts Receivable:	
Federal Government	\$ 200,691
State of Maryland	47,734
Harford County	679,089
Student Receivables and Other	<u>6,289,425</u>
Total	<u><u>\$ 7,216,939</u></u>
Accounts Payable:	
Vendors	<u><u>\$ 1,684,439</u></u>
Accrued Liabilities:	
Payroll and Payroll Taxes	<u><u>\$ 1,542,389</u></u>

**NOTE 6 CAPITAL ASSETS AND RELATED ACCUMULATED DEPRECIATION**

The following is a summary of capital asset activity of the college for the year ended June 30, 2018:

	Balance June 30, 2017	Addition	Retirement	Transfer	Balance June 30, 2018
Capital Assets Not Being Depreciated:					
Land	\$ 3,741,759	\$ -	\$ -	\$ -	\$ 3,741,759
Total Capital Assets Not Being Depreciated	3,741,759	-	-	-	3,741,759
Capital Assets Being Depreciated:					
Land Improvements	18,145,614	-	(211,776)	-	17,933,838
Buildings	123,088,441	-	-	-	123,088,441
Furniture and Equipment	6,279,395	149,091	(96,615)	-	6,331,871
Computer Technology	4,217,880	66,320	(32,175)	-	4,252,025
Vehicles	840,183	71,985	(34,553)	-	877,615
Library Books	1,634,651	104,022	(215,013)	-	1,523,660
Total Capital Assets Being Depreciated	154,206,164	391,418	(590,132)	-	154,007,450
Less: Accumulated Depreciation:					
Land Improvements	5,527,439	595,416	(121,771)	-	6,001,084
Buildings	34,302,257	3,487,162	-	-	37,789,419
Furniture and Equipment	3,940,706	437,665	(89,579)	-	4,288,792
Computer Technology	3,191,311	267,565	(31,005)	-	3,427,871
Vehicles	508,814	93,053	(34,553)	-	567,314
Library Books	1,101,822	100,673	(215,013)	-	987,482
Total Accumulated Depreciation	<u>48,572,349</u>	<u>4,981,534</u>	<u>(491,921)</u>	<u>-</u>	<u>53,061,962</u>
Total Capital Assets, Net	<u><u>\$ 109,375,574</u></u>	<u><u>\$ (4,590,116)</u></u>	<u><u>\$ (98,211)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 104,687,247</u></u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7 COMPENSATED ABSENCES**

Compensated absences activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Change	Balance June 30, 2018	Balance Due Within Year
Compensated Absences	<u>\$ 1,140,384</u>	<u>\$ 8,217</u>	<u>\$ 1,148,601</u>	<u>\$ 163,783</u>

**NOTE 8 OPERATING LEASES**

The College has entered into lease agreements for office equipment and office space that are accounted for as operating leases. Minimum future lease payments under these agreements as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 386,260
2020	165,353
2021	165,353

Total rent expense for the year ended June 30, 2018 was \$386,260.

**NOTE 9 RETIREMENT PLANS**

The employees of the College are covered by one of the following defined benefit pension plans affiliated with the State Retirement and Pension System of Maryland (the System), a public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland
- The Pension System for Teachers of the State of Maryland
- The Employees' Retirement System of the State of Maryland
- The Pension System for Employees of the State of Maryland

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, The Pension System for Teachers of the State of Maryland and The Pension System for Employees of the State of Maryland. Prior to this date, all teachers and related positions were required to be members of The Teachers' Retirement System of the State of Maryland, and noncertified positions were members of The Employees' Retirement System of the State of Maryland. All College employees who were members of the "Retirement System" at January 1, 1980 could remain in that System, or elect to join the "Pension System". All teachers hired within the state after December 31, 1979 must join the "Pension System for Teachers". All noncertified employees hired within the state after December 31, 1979 must join the "Pension System for Employees". The "Employees' Retirement System" cover those employees not covered by the teachers' plans. The state of Maryland is able to modify these plans. The plans are classified as cost-sharing, multiple-employer defined benefit plans.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

**Benefits Provided**

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension System. Members enrolled prior to July 1, 2011 are vested after accumulating at least 5 years of eligibility service. Members enrolled on or after July 1, 2011 are vested after accumulating at least 10 years of eligibility service.

**Funding Policy**

Both the "Retirement System" and the "Pension System" for teachers and noncertificated employees are jointly contributory. Under the "Retirement System" employees contribute 5% – 7% of their total gross salary and under the "Pension System" employees contribute 7% of their gross salary. Effective January 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

**Contributions**

College contributions totaling \$120,048 and contributions by the state of Maryland to the Maryland Retirement Pension Plan on behalf of the College totaling \$2,043,618, or 15.79% of covered payroll for fiscal year 2018, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2017. Additional contributions were made by the state of Maryland to the Optional Retirement System on behalf of the College totaling \$506,645, or 7.25% of covered payroll for fiscal year 2018. Total annual pension costs contributed by the state of Maryland were \$2,550,263 for fiscal year 2018. The contributions made by the state of Maryland on behalf of the College were recognized as both revenue and expenses as required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

The College has a responsibility for funding employees' contributions that are members of the Employees' Retirement System of the State of Maryland. Therefore, the College has been instructed to treat this plan as a cost-sharing multi-employer defined benefit pension plan.

**Pension Costs**

At June 30, 2018, the College reported a liability of \$1,110,420 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's contributions to the System in relation to total system contributions including direct aid from the state of Maryland. At June 30, 2018, the College's proportionate share was .0051%.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

**Pension Costs (Continued)**

The pension liability amount reflected a reduction due to direct aid provided to the System. The amount recognized by the College as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the College were as follows:

Description	Amount
College's Proportionate Share of the Net Pension Liability	\$ 1,110,420
State's Proportionate Share of the Net Pension Liability Associated with the College	22,563,447

For the year ended June 30, 2018, the College recognized pension expense of \$141,824. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 42,640	\$ -
Differences Between Expected and Actual Experience	-	79,307
Change in Proportion	61,876	83,435
Net Difference Between Projected and Actual Investment Earnings	82,079	-
Changes in Proportionate Share of Contributions	9,377	-
College Contributions Subsequent to the Measurement Date	120,048	-
Total	<u>\$ 316,020</u>	<u>\$ 162,742</u>

\$120,048 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2019	\$ 28,642
2020	48,916
2021	19,510
2022	(40,432)
2023	(23,406)
Total	<u>\$ 33,230</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability as of June 30, 2018 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2017 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry age normal
- Amortization method – Level percent closed
- Inflation – 2.65% general, 3.15% to 9.15%, including inflation
- Investment rate of return – 7.50%
- Mortality – RP-2014 Mortality Table

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the System after considering input from the System's investment consultant and actuary. For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	36.0%	5.3%
Private Equity	11.0%	7.0%
Rate Sensitive	21.0%	1.2%
Credit Opportunity	9.0%	3.6%
Real Assets	15.0%	5.7%
Absolute Return	8.0%	3.1%
Total	100.0%	

**Discount Rate**

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

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 RETIREMENT PLANS (CONTINUED)**

**Pension Liability Sensitivity**

The following presents the College's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

<u>Description</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount Rate	6.50%	7.50%	8.50%
College's Proportionate Share of the Net Pension Liability	\$ 1,573,685	\$ 1,110,420	\$ 726,041

**Pension Plan Fiduciary Net Position**

Detailed information about the System's fiduciary's net position is available in a separately-issued System financial report which may be requested by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202 or by calling 410-625-5555.

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

***General Information about the OPEB Plan***

*Plan Description and Benefits Provided.* The College sponsors postemployment medical benefits under a single employer defined benefit plan. Any full-time employee of Harford Community College is eligible to participate in the plan. The College allows access to the plan if the retiree: (a) retires or becomes disabled with an immediate benefit from the State Retirement and Pension System of Maryland or (b) meets the minimum age eligibility requirement to begin distribution from the Maryland Optional Retirement Plan (ORP) and (c) has been actively participating within the College sponsored health plan for at least the most recent ten (10) full consecutive years and (d) has at least 10 years of employment service. Disabled participants must reach retirement eligibility. Dependents and surviving spouses of participants are allowed access to the plan but must also pay the full premium. The Plan does not issue a stand-alone financial report.

A closed group of retirees receives an annual subsidy of \$4,800 or less as part of a retirement window benefit program. The window benefit ceases at 65 for some participants and continues for life for other participants. As of June 30, 2018, there were 6 eligible and participating retirees receiving an annual subsidy.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

Except for the closed group mentioned above, continuation in the College's group program following retirement is at the retiree's own expense. There is no explicit subsidy. This is an implicit subsidy plan only.

*Retirement Eligibility:* Under the State of Maryland Employees' Pension System (EPS), members hired on or after July 1, 2011 are in the Reformed Contributory Pension System. The earliest retirement eligibility under the Reformed Contributory Pension System is the earliest of

- Rule of 90 (age plus service is at least 90),
- Age 65 with 10 years of service, or
- Age 60 with 15 years of service.

For members of EPS hired before July 1, 2011, the earliest retirement eligibility is the earliest of:

- Age 55 with 15 years of service,
- Age 62 with 5 years of service,
- Age 63 with 4 years of service,
- Age 64 with 3 years of service
- Age 65 with 2 years of service, or
- 30 years of service (regardless of age).

There have been no changes in plan provisions (eligibility or cost-sharing) since the prior valuation.

*Employees Covered by Benefit Terms.* At June 30, 2018, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently	
Receiving Benefit Payments	36
Inactive Plan Members Entitled to but not yet	
Receiving Benefit Payments	0
Active Plan Members	291
Total Participants	327

*Contributions and Funding Policy.* The College has historically funded plan benefits on a pay-as-you-go basis. The College fully funded its total OPEB liability at June 30, 2018 by investing \$652,000 in a qualified Trust. The College has not adopted a funding policy for this Plan and will make future contributions if sufficient excess resources are available.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

***Net OPEB Liability***

The College's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018.

*Actuarial assumptions.* The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary Increases	2.50%
Investment Rate of Return	7.0%, net of OPEB plan investment expense, including inflation
Healthcare Cost Trend Rates	6.5% initially, grading down to 4.50% ultimate

***Mortality Rates***

Pre-Retirement:	RP-2014 White Collar Employee table for males and females, with generational mortality projected using scale MP-2017
Post-Retirement:	RP-2014 White Collar Healthy Annuitant table for males and females, with generational mortality projected using scale MP-2017
Post-Disablement:	RP-2014 Disabled Retiree table for males and females.

There have been no changes in assumptions during fiscal year 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2018, and the final investment return assumption, are summarized in the following table:

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

<u>Asset Class</u>	<u>Portfolio Weight</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	65.00 %	5.75 %
Fixed Income	35.00	2.75
Cash & Equivalents	-	0.85
Total Weighted Average Real Return	<u>100.0 %</u>	

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that College's contributions will be made equal to the actuarially determined contribution each year. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Changes in the Net OPEB Liability***

	<u>Total OPEB Liability (a)</u>	<u>Increase (Decrease) Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance - June 30, 2017	\$ 649,953	\$ -	\$ 649,953
Changes for the Year:			
Service Cost	11,920	-	11,920
Interest	44,119	-	44,119
Differences Between Expected and Actual Experience	-	-	-
Assumption Changes	-	-	-
Contributions—Employer	-	705,992	(705,992)
Contributions—Employee	-	-	-
Net Investment Income	-	-	-
Benefit Payments	(53,992)	(53,992)	-
Administrative Expense	-	-	-
Net Changes	<u>2,047</u>	<u>652,000</u>	<u>(649,953)</u>
Balance - June 30, 2018	<u>\$ 652,000</u>	<u>\$ 652,000</u>	<u>\$ -</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the College, as well as what the College's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.0%) than the current discount rate:

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

	1% Decrease	Current Discount Rate	1% Increase
<b>June 30, 2018</b>	6.00%	7.00%	8.00%
Total OPEB Liability	\$ 705,845	\$ 652,000	\$ 607,403
Plan Fiduciary Net Position	652,000	652,000	652,000
Net OPEB Liability	<u>\$ 53,845</u>	<u>\$ -</u>	<u>\$ (44,597)</u>

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the College, calculated using healthcare trend rates ranging from 6.50% to an ultimate rate of 4.50%, as well as what the College's net OPEB liability would be if it were calculated using trend rates that are 1.0% lower or 1.00% higher than the current rates.

	1% Decrease	Current Ultimate Trend Rate	1% Increase
<b>June 30, 2018</b>	3.50%	4.50%	5.50%
Total OPEB Liability	\$ 591,800	\$ 652,000	\$ 726,497
Plan Fiduciary Net Position	652,000	652,000	652,000
Net OPEB Liability	<u>\$ (60,200)</u>	<u>\$ -</u>	<u>\$ 74,497</u>

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Maryland Association of Counties Pooled OPEB Trust financial report available at [www.mdcounties.org/250/OPEB-Trust](http://www.mdcounties.org/250/OPEB-Trust).

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended June 30, 2018, the College recognized OPEB expense of \$56,039. At June 30, 2018, the College reported \$0 for deferred outflows of resources and deferred inflows of resources related to OPEB.

**NOTE 11 RISK MANAGEMENT**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The College purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. The College is a member of the Harford County Health Care Consortium. Health benefits are administered through CareFirst Blue Cross Blue Shield. The Consortium was formed for the purpose of pooling resources to purchase health insurance thereby reducing administrative expenses and expanding the provider network. At June 30, 2018, the College had estimated amounts on deposit with the trustee of the Consortium totaling \$1,028,817. To the extent that claims and administration costs exceed premiums paid, the College is responsible for the excess but not more than 7% of premiums paid. Any claims in excess of 107% of premiums are covered by additional insurance. Included within amounts on deposit with the trustee of the Consortium is a reserve for the self-insured portion of \$338,405.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 11 RISK MANAGEMENT (CONTINUED)**

A reconciliation of the activity of the deposit is set forth as follows:

Fiscal Year Ended June 30,	Beginning Balance (Net)	Premium	Incurred/ Estimated Expenses	Interest/ Other Income	Withdrawals	Changes in Liability for 7% of Premiums Paid	Ending Balance (Net)
2018	\$ 1,646,186	\$ 4,834,363	\$ 5,030,015	\$ -	\$ 415,000	\$ 6,717	\$ 1,028,817
2017	964,843	4,738,398	4,056,493	6,866	-	7,428	1,646,186

**NOTE 12 RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2018, the Foundation distributed \$607,977 to the College for both restricted and unrestricted purposes. The Foundation paid the College \$45,938 for management fees for the fiscal year 2018. In addition, the College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately \$35,189 for the year ended June 30, 2018.

Complete financial statements for the Foundation can be obtained at 401 Thomas Run Road, Bel Air, Maryland, 21015.

**NOTE 13 HARFORD COMMUNITY COLLEGE – RESTRICTED NET POSITION**

Restricted (expendable) net position is restricted for the following purposes as of June 30, 2018:

Loans	<u>\$ 69,523</u>
-------	------------------

**NOTE 14 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30, 2018:

Endowment Investments and Earnings Restricted for:	
Scholarships	\$ 3,292,524
Other	171,498
Contributions Restricted for:	
Equipment and Programs	948,849
Scholarships	<u>1,641,288</u>
Total	<u>\$ 6,054,159</u>

Permanently restricted net assets at June 30, 2018 are restricted in perpetuity with income available to support the following purposes:

Scholarships	\$ 3,890,351
General Purpose	310,000
Specific Programs	<u>3,150</u>
Total	<u>\$ 4,203,501</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 15 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – ENDOWMENT**

The Foundation’s endowment consists of approximately 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and are reported based on the existence or absence of donor-imposed restrictions.

**Maryland Uniform Prudent Management of Institutional Funds Act**

The Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA), enacted April 14, 2009, establishes a standard of conduct for managing and investing institutional funds. Foundation policies require the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the MUPMIFA.

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

- (I) The duration and preservation of the endowment fund
- (II) The purposes of the foundation and the endowment fund
- (III) General economic conditions
- (IV) The possible effect of inflation or deflation
- (V) The expected total return from income and the appreciation of investments
- (VI) Other resources of the foundation
- (VII) The investment policy of the foundation

Endowment funds as of June 30, 2018 are composed as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 3,464,022	\$ 4,203,501	\$ 7,667,523
Board-Designated Endowment Funds	92,890	-	-	92,890
Total	<u>\$ 92,890</u>	<u>\$ 3,464,022</u>	<u>\$ 4,203,501</u>	<u>\$ 7,760,413</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 15 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – ENDOWMENT (CONTINUED)**

Changes in endowment funds for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 87,201	\$ 3,010,498	\$ 3,906,570	\$ 7,004,269
Contributions	-	-	296,931	296,931
Investment Income:				
Income on Long-Term Investments, Net	300	26,146	-	26,446
Net Realized and Unrealized Losses on Long-term Investments	6,954	557,586	-	564,540
Reclassification of Underwater Loss	315	(315)	-	-
Appropriation of Endowment Assets for Expenditure	(1,880)	(129,893)	-	(131,773)
Endowment Net Assets - End of Year	<u>\$ 92,890</u>	<u>\$ 3,464,022</u>	<u>\$ 4,203,501</u>	<u>\$ 7,760,413</u>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the MUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no funds with deficiencies as of June 30, 2018.

**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 scholarships and programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Beginning in February 2017 the Foundation has adopted investment policies employed by USMF for the Foundation's Endowment which are consistent with the Foundation's investment policy objectives. USMF governs according to fundamental investment principles approved by its Investment Committee and board of directors, with the objective of achieving superior risk adjusted returns in order to grow the corpus of the capital base and provide capital for spending distributions. Specifically, the goal of the Endowment is to achieve returns in excess of inflation plus spending plus fees. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (liquid investments), private risk assets (illiquid portion of the portfolio), and safe assets (cash and U.S. Government securities). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overly class (liquid, exchange traded instruments that aim to hedge against undesired risks).

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 15 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – ENDOWMENT (CONTINUED)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

Except for funds with an explicit donor defined distribution requirement, the Foundation has a policy of appropriating for distribution each year 3% of its endowment fund's average fair value over the most recent 16 fiscal quarters calculated at December 31st of the year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**NOTE 16 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – FAIR VALUE MEASUREMENTS**

The Foundation accounts for its financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability. Fair value is a market based measurement, not an entity-specific measurement, and should therefore be determined based on the assumptions that market participants would use in pricing the asset or liability.

The Foundation is required by generally accepted accounting principles to categorize its financial instruments based on a three-level fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include among others, quoted prices for similar assets or liabilities in active market or nonactive market.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 16 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – FAIR VALUE  
MEASUREMENTS (CONTINUED)**

***The Foundation's Investment in USMF***

The Foundation's USMF investment is held in a commingled investment fund. The Foundation owns an undivided interest in the whole of USMF and does not have the ability to dispose of individual assets and liabilities at USMF, and there are no restrictions on redemptions such as lockup or gate provisions. Therefore, the Foundation reports the fair value of its investment in USMF using the net asset value as reported by USMF. In calculating the net asset value there are a significant amount of USMF's investments that have Level 3 inputs, and as such, the Foundation's investment in USMF is considered a Level 3 investment.

***University System of Maryland Foundation***

The following describes the investment valuation methodologies used by USMF to arrive at their net asset value which is used to value the Foundation's investment in USMF. Some of USMF's investments may be illiquid and USMF may not be able to vary the portfolio in response to changes in economic and other conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if USMF is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

Money market funds and short-term investments include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. USMF invests in these assets to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore bear a risk of loss. USMF has not experienced such losses on these funds.

For investments in U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage-backed securities, fair value is based upon quotes for similar securities.

The value, liquidity, and related income of the investments are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. USMF invests in these assets to protect in the event of sudden interest rate changes as well as to maintain liquidity for spending needs and unfunded commitment liability.

In general, equity securities traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the NASDAQ Stock Market, Inc. (NASDAQ), which are valued in accordance with the NASDAQ Official Closing price. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. USMF invests in equities to gain exposure to the overall direction of global equity markets.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 16 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – FAIR VALUE MEASUREMENTS (CONTINUED)**

***University System of Maryland Foundation (Continued)***

Absolute return assets consist of investments that involve the purchase and sale of shares in companies that are the subject of publicly announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments is estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year, notice period for redemption of investments range from one-month to six-months. There are no outstanding unfunded commitments to this asset category.

Long/short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles. The investment managers, as noted in the audited financial statements, value the assets held in the fund at all hierarchy levels. However, USMF's subscription agreement locks up its investment for a period of time and does not allow for sale to another. Also, early withdrawal carries a penalty. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one-month to six-months. There are no outstanding commitments to this asset category.

Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in nonmarketable securities of new companies or companies considered to be in the early stages of growth.

Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. Investments in private equity investment companies and funds are presented at fair value as approved by USMF's management, based in part, on information and valuations provided by the general partner of the partnerships or investment manager.

The general partner or manager generally values the investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by USMF's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant.

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 16 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – FAIR VALUE MEASUREMENTS (CONTINUED)**

***University System of Maryland Foundation (Continued)***

Such value represents USMF's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments, and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2018, unfunded commitments within the private capital category and the real estate and energy and natural resources category equal approximately 42.94% and 24.26% of the assets in those categories, respectively.

The methods 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 the Foundation believes its valuation methods are 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.

The tables below present the balances of assets measured at fair value on a recurring basis within the hierarchy at June 30.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
USMF	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,998,876</u>	<u>\$ 9,998,876</u>

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 year ended June 30, 2018:

Balance - July 1	\$ 8,910,187
Dividends (Net of Fees)	33,083
Realized Gains (Losses)	296,631
Unrealized Gains (Losses)	415,547
Net Purchased (Sales)	343,428
Total	<u>\$ 9,998,876</u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 17 COMMITMENTS AND CONTINGENCIES**

The College has outstanding commitments for ongoing capital projects and deferred maintenance of \$547,319 as of June 30, 2018.

The College is party to certain claims and litigation arising in the ordinary course of business. In the opinion of management, the resolution of such claims and litigation will not materially affect the College's net position.

In July 2012, the College entered into a 20-year solar power purchase agreement with Tecta Solar Harford, LLC (Tecta). Tecta will furnish, install, maintain and own four roof mounted solar electric generating facilities at the College. The College has agreed to purchase all of the electricity produced by these solar facilities according to the terms as set forth in the agreement with Tecta. In the event of default by the College, Tecta is entitled to terminate the agreement and recover a prescribed termination payment for the applicable billing year. The termination payment that would be required in year 5 would be \$1,833,926.

**NOTE 18 CHANGE IN ACCOUNTING PRINCIPLE**

During fiscal year ended June 30, 2018, the College adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This pronouncement requires the restatement of the June 30, 2017 liability and net position of the College as follows:

OPEB Liability as of June 30, 2017, under GASB 45	\$ 225,221
Cumulative effect of application of GASB 75, net OPEB liability	<u>424,731</u>
OPEB Liability as of June 30, 2017, under GASB 75	<u><u>\$ 649,952</u></u>
Net Position, June 30, 2017, as previously reported	\$ 134,360,889
Cumulative effect of application of GASB 75, net OPEB liability	<u>(424,731)</u>
	<u><u>\$ 133,936,158</u></u>

**HARFORD COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 19 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
PRONOUNCEMENTS**

The following GASB pronouncements have been issued but not yet implemented by the College:

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement is in effect for fiscal years beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is in effect for fiscal years beginning after December 15, 2018.

In June 2017, GASB issued Statement No. 87 Leases. The primary objective of this Statement is to require recognition of certain lease assets and liabilities for leases that were previously classified as operating leases, and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is in effect for fiscal years beginning after December 15, 2019.

The College has not yet completed the process of evaluating the impact of GASB Statements Nos. 83, 84, and 87 on its financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HARFORD COMMUNITY COLLEGE**  
**SCHEDULE OF CHANGES IN THE COLLEGE'S NET OPEB LIABILITY AND RELATED RATIOS**  
**YEAR ENDED JUNE 30, 2018**  
**(UNAUDITED)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total OPEB Liability</b>										
Service cost	\$ 11,920									
Interest cost	44,119									
Changes of benefit terms	-									
Differences between expected and actual experiences	-	Information prior to fiscal year 2018 was not available and the College will accumulate each year until 10 years of data becomes available.								
Changes of assumptions	-									
Benefit payments	(53,992)									
Net change in total OPEB Liability	2,047									
Total OPEB liability - beginning of year	649,953									
Total OPEB liability - end of year	<u>\$ 652,000</u>									
<b>Plan Fiduciary Net Position</b>										
Contributions- employer	\$ 705,992									
Contributions- member	-									
Net investment income	-									
Benefit payments	(53,992)									
Administrative expense	-									
Other	-									
Net change in plan fiduciary net position	652,000									
Plan fiduciary net position - beginning of year	-									
Plan fiduciary net position - end of year	<u>\$ 652,000</u>									
Net OPEB Liability	<u>\$ -</u>									
Net position as a percentage of OPEB liability	100.00%									
Covered-employee payroll	\$ 16,961,828									
Net OPEB liability as a percentage of payroll	0.00%									

Notes to Schedule

Benefit changes - None

Changes in assumptions- None

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF THE COLLEGE'S OPEB CONTRIBUTIONS  
YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 71,412	\$ 95,000	\$ 95,000	\$ 98,000	\$ 97,000	\$ 94,000	\$ 92,000	\$ 67,000	\$ 67,000	\$ 67,000
Contributions in relation to the actuarially determined contribution	705,992	74,955	\$ 74,955	\$ 70,952	\$ 71,974	\$ 81,028	\$ 86,000	\$ 36,013	\$ 35,987	\$ 37,796
Contribution deficiency (excess)	\$ (634,580)	\$ 20,045	\$ 20,045	\$ 27,048	\$ 25,026	\$ 12,972	\$ 6,000	\$ 30,987	\$ 31,013	\$ 29,204
Covered employee payroll	\$ 16,961,828	\$ 14,877,295	\$ 14,877,295	\$ 14,877,295	\$ 14,877,295	\$ 14,877,295	\$ 14,877,295	\$ 14,877,295	\$ 15,076,279	\$ 15,076,279
Contributions as a % of payroll	4.16%	0.50%	0.50%	0.48%	0.48%	0.54%	0.58%	0.24%	0.24%	0.25%

**Notes to Schedule:**

Valuation Date: Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, closed
Amortization period	30 years (20 years remaining)
Asset valuation method	Market value
Inflation	2.75%
Healthcare cost trend rates	6.50% initially, grading down to 4.50% ultimately
Salary increases	2.50%
Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation
Retirement age	Participants are assumed to retire at various likelihoods, depending upon retirement plan eligibilities, ranging from age 50 to age 75.
Mortality	RP 2014 Generational Mortality Table with Scale MP-2017

**HARFORD COMMUNITY COLLEGE**  
**SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2018**  
**(UNAUDITED)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b><u>Employees' Retirement and Pension System:</u></b>			
College's Proportionation of the Net Pension Liability	0.0051352%	0.0056407%	0.0550000%
College's Proportionate Share of the Net Pension Liability	\$ 1,110,420	\$ 1,330,868	\$ 1,153,385
College's Covered Employee Payroll	\$ 1,375,456	\$ 1,213,529	\$ 1,271,818
College's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	80.73%	109.67%	90.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.71%	62.97%	66.26%
<b><u>Teacher's Retirement and Pension System:</u></b>			
College's Proportionation of the Net Pension Liability	0.0%	0.0%	0.0%
College's Proportionate Share of the Net Pension Liability	\$ -	\$ -	\$ -
State's Proportionate Share of the Net Pension Liability of the College	22,563,447	24,662,847	20,566,562
Total	<u>\$ 22,563,447</u>	<u>\$ 24,662,847</u>	<u>\$ 20,566,562</u>
College's Covered Employee Payroll	\$ 12,830,864	\$ 12,399,645	\$ 12,235,432
College's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.40%	67.95%	70.76%

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS  
YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

	<u>2018**</u>	<u>2017**</u>	<u>2016**</u>	<u>2015**</u>	<u>2014**</u>
<b><u>Employees' Retirement and Pension System</u></b>					
Contractually Required Contribution	\$ 120,048	\$ 104,519	\$ 109,885	\$ 116,977	\$ 112,101
Contributions in Relation to the Contractually Required Contribution	(120,048)	(104,519)	(109,885)	(116,977)	(112,101)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
College's Covered-Employee Payroll	\$ 1,334,702	\$ 1,375,456	\$ 1,213,529	\$ 1,271,818	\$ 1,159,093
Contributions as a Percentage of Covered-Employee Payroll	8.99%	7.60%	9.05%	9.20%	9.67%

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
<b><u>Teachers' Retirement and Pension System</u></b>					
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
College's Covered-Employee Payroll	\$ 12,924,395	\$ 12,830,684	\$ 12,399,645	\$ 12,235,432	\$ 12,230,229
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	0.00%	0.00%

\* The College is not contractually required to contribute to the Teachers' Retirement and Pension System.

\*\* Information prior to fiscal year 2014 was not available and the College will accumulate each year until ten years of data becomes available.

**HARFORD COMMUNITY COLLEGE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

State of Maryland Retirement and Pension System

**NOTE 1 CHANGES IN BENEFIT TERMS**

There were no benefit changes during the year.

**NOTE 2 CHANGES IN ASSUMPTIONS**

Adjustments to the roll forward liabilities were made to reflect the following assumption change in the 2017 valuation:

- Inflation assumption changed from 2.70% to 2.65%
- Investment return assumption changed from 7.55% to 7.50%

**HARFORD COMMUNITY COLLEGE  
BUDGETARY COMPARISON – SCHEDULE GENERAL OPERATING FUND  
YEAR ENDED JUNE 30, 2018**

	Original Budgeted Amounts (Unaudited)	Actual	Variance with Budget Positive (Negative)
<b>REVENUES</b>			
Tuition and Fees	\$ 20,363,369	\$ 20,540,991	\$ 177,622
State of Maryland	11,667,029	11,676,789	9,760
Harford County, MD	16,411,612	16,411,612	-
Other Revenue	581,623	1,208,363	626,740
Total Revenues	<u>49,023,633</u>	<u>49,837,755</u>	<u>814,122</u>
<b>EXPENDITURES</b>			
Instruction	18,685,441	17,772,752	912,689
Academic Support	6,615,898	6,710,229	(94,331)
Student Services	5,931,287	5,560,532	370,755
Institutional Support	10,662,511	10,586,510	76,001
Operations of Plant	4,994,501	4,547,550	446,951
Scholarships and Fellowships	1,059,574	1,180,554	(120,980)
Transfers	1,074,421	1,911,774	(837,353)
Total Expenditures	<u>49,023,633</u>	<u>48,269,901</u>	<u>753,732</u>
<b>OPERATING SURPLUS (DEFICIT)</b>	<u>\$ -</u>	<u>\$ 1,567,854</u>	<u>\$ 1,567,854</u>

This General Operating Fund Budgetary Comparison Schedule does not include fiscal 2018 encumbrances that represent commitments in the amount of \$1,074,252



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Harford Community College  
Bel Air, Maryland

We have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of Harford Community College (the College), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 19, 2018. The financial statements of The Harford Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Harford Community College Foundation, Inc.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 19, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Harford Community College  
Bel Air, Maryland

**Report on Compliance for Each Major Federal Program**

We have audited Harford Community College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2018. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. The College's basic financial statements include the operations of the Harford Community College Foundation, Inc., a discretely presented component unit. Federal awards received by the discretely presented component unit are not included in the College's schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the discretely presented component unit because they did not receive federal awards.

***Management's Responsibility***

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the College's major federal program. However, our audit does not provide a legal determination of the College's compliance.

### **Opinion on Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

The College's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

Board of Trustees  
Harford Community College

The College's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 19, 2018

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA* Number	Grant Number	Total Grant Award	Passed Through to Subrecipients	Grant Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<b>Direct Awards:</b>					
Student Financial Assistance Cluster:					
Federal Supplemental Educational Opportunity Grant	84.007	07A161752	-	-	\$ 91,760
Federal Supplemental Educational Opportunity Grant	84.007	07A151752	-	-	13,232
Federal Work-Study Program	84.033	033A141752	-	-	93,021
Federal Work-Study Program	84.033	033A151752	-	-	-
Federal Pell Grant Program	84.063	63P162923	-	-	5,601,305
Federal Pell Grant Program	84.063	63P152923	-	-	(4,281)
Federal Direct Loan Program	84.268	P268K161554	-	-	3,881,316
Total Student Financial Assistance Cluster				-	9,676,353
First in World	84.116	P116F150201			68,486
<b>Administered through the Maryland State Department of Education (MSDE):</b>					
Voc. Ed. Act - Adult Education Title IIA:					
Title 1C Program Improvement	84.048	180594	-	-	110,883
Title 1C Program Improvement	84.048	170545	-	-	2,206
Total Voc. Ed. Act - Adult Education Title IIA				-	113,089
Child and Career and Professional Development	93.575	180287	-	-	49,075
Total Child Care and Development Cluster				-	49,075
Total Federal Programs Administered through the MSDE				-	162,164
<b>Administered through the Maryland State Department of Labor, Licensing, and Regulation (MSDLLR):</b>					
Adult Basic Education Act:					
Adult Basic Education	84.002A	P00P8400052	-	-	151,060
Total Federal Programs Administered through the MSDLLR				-	151,060
Total U.S. Department of Education				-	10,058,063
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>					
Administered through Maryland Small Business Development:					
Small Business Development Centers	59.037	Z9287004	-	-	98,908
Small Business Development Centers	59.037	Z9287004	-	-	53,815
Total U.S. Small Business Administration				-	152,723
<b>U.S. DEPARTMENT OF LABOR</b>					
Administered through Susquehanna Workforce:					
Susquehanna Workforce Network Youth Program	17.259	AA-28321-17-55-A-24	-	-	84,138
Susquehanna Workforce Network Youth Program	17.259	AA-28321-16-55-A-24	-	-	4,736
Susquehanna Workforce Network Youth Program	17.259	AA-26784-15-15-A-24	-	-	(260)
Total Workforce Innovation and Opportunity Act Cluster				-	88,614
Administered through Montgomery College:					
TAACCCT Grant	17.282	TC-26466-14-60-A-24	-	-	209,299
Total U.S. Department of Labor				-	297,913
<b>NATIONAL SCIENCE FOUNDATION</b>					
Cyber Security Education	47.076	1241748	-	-	-
High Intensity Student Engagement Model	47.076	1643498	-	-	58,532
Regional Additive Manufacturing Pathways (RAMP)	47.076	1700603	-	-	5,548
WBHR-L SAMP Grant	47.076	0008749-1000065725	-	-	20,111
Total National Science Foundation				-	84,191
Total Research & Development Cluster				-	84,191
Total Federal Awards Expended				\$ -	\$ 10,592,890

\*CFDA - Catalog of Federal Domestic Assistance

**HARFORD COMMUNITY COLLEGE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2018**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Harford Community College (the College) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The College has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

---

**Section I – Summary of Auditors’ Results**

---

**Financial Statements**

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_ yes    x    no
  - Significant deficiency(ies) identified? \_\_\_\_\_ yes    x    none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes    x    no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified? \_\_\_\_\_ yes    x    no
  - Significant deficiency(ies) identified?    x    yes \_\_\_\_\_ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?    x    yes \_\_\_\_\_ no

**Identification of Major Federal Programs**

**CFDA Number(s)**

84.063, 84.007  
84.033, 84.268

**Name of Federal Program or Cluster**

Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$    750,000   

Auditee qualified as low-risk auditee?

   x    yes \_\_\_\_\_ no

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

---

**Section II – Financial Statement Findings**

---

None

---

**Section III – Findings and Questioned Costs – Major Federal Programs**

---

**2018 – 001**

Federal agency: U.S. Department of Education

Federal program title: Student Financial Assistance Cluster

CFDA Number: 84.007, 84.033, 84.063, 84.268

Award Period: July 1, 2017 – June 30, 2018

Type of Finding:

- Significant Deficiency in Internal Control over Compliance, Noncompliance

**Criteria or specific requirement:** The Code of Federal Regulations, 34 CFR 668.34, states that the student must progress through his or her educational program to ensure that the student will complete the program within the maximum timeframe, as defined as 150% of the published length of the program.

**Condition/Context:** For 1 of 40 students selected for testing, the student was awarded student financial aid assistance for the Spring 2018 semester. During the semester, the student completed credits such that by the end of the Spring semester, their total credits exceeded the 150% maximum timeframe and they became ineligible for future aid. Per the Federal Student Aid Handbook (Chapter 1) the student becomes ineligible for aid via the maximum timeframe element when it is mathematically impossible to complete the program within 150% of its length. This student could not mathematically finish their program within the timeframe and did not file an appeal and should have been ineligible for awards in Spring 2018.

**Questioned costs:** \$1,168 calculated as the amount awarded to the student past the point at which the student became ineligible.

**Cause:** The College began a new process in the Spring of 2017 in which every Student Academic Progress is manually reviewed to ensure compliance with the Federal Student Aid Handbook. In the month that this student exception was discovered, the College had reviewed over 2,000 students. This exception occurred due to human error. The error was immediately corrected in the middle of the Spring semester, when it was discovered, and made effective for the fall semester. The College is currently working on ways to automate this process in the future.

**Effect:** The College awarded financial aid assistance for which the student is not eligible.

**Repeat Finding:** No

**HARFORD COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**Recommendation:** We recommend that the College review their awarding procedures and improve procedures to ensure that all students who become ineligible for financial aid are denied aid upon the point in time at which it is no longer mathematically possible for the student to complete the program within the 150% timeframe.

**Views of responsible officials and planned corrective actions:** Refer to the College's response on their letterhead as attached.

**HARFORD COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

---

**Financial Statement Findings**

---

There were no financial statement findings in the prior year.

---

**Findings and Questioned Costs – Major Federal Programs**

---

There were no federal award program audit findings in the prior year.



# HARFORD

COMMUNITY COLLEGE

September 10, 2018

Christina Bowman, CPA, Principal  
CliftonLarsonAllen LLP  
1966 Greenspring Drive, Suite 300  
Timonium, MD 21093

Dear Christina:

Below is our response to the single audit finding for 2018:

**2018 - 001: Satisfactory Academic Progress**

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with the audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** A new report was created so that SAP would be calculated every time the college received a FAFSA for a student. This is important for students who have stopped attending and then subsequently return. In the short term, this report will be double checked, manually, to ensure every student has been evaluated. However, the College is working with an outside consultant on a way to get the SAP GPA into our student information system in order for the process to be more automated and less susceptible to human error.

**Responsible party:** Amy Spinnato, Director for Financial Aid

**Planned completion date for corrective action plan:** June 2019

**Plan to monitor completion of correction action plan:** The College's Executive Leadership Team will receive updates on the progress of the corrective action plan

Sincerely,

Beth Fetcho  
Director for Finance