

HARFORD COMMUNITY COLLEGE
COMPONENT UNIT FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEAR ENDED JUNE 30, 2016

**HARFORD COMMUNITY COLLEGE
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2016**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)	4
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	14
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	15
STATEMENT OF CASH FLOWS	16
NOTES TO FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTRETIREMENT BENEFITS	46
SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	47
SCHEDULE OF COLLEGE'S CONTRIBUTIONS	48
BUDGETARY COMPARISON SCHEDULE - GENERAL OPERATING FUND (UNAUDITED)	49
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>	50
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	52
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	55
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	56
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	57
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS	62

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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 opinions.

Opinions

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, 2016, 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.

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 Funding Progress for Other PostRetirement Benefits, the Schedule of the College's Proportionate Share of the Net Pension Liability and Schedule of College's 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 schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 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.

The Budgetary Comparison Schedule – General Operating Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Harford Community College

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 1, 2016

HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016

Overview of the Financial Statements and Financial Analysis

The discussion and analysis of Harford Community College's (the College) financial statements provides an overview of the College's financial activities for the year ended June 30, 2016. 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 and total liabilities 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 non-financial 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, 2016, the College's current assets consist primarily of cash and short-term investments while noncurrent assets consist primarily of capital assets, including property, plant, and equipment maintained by the College. All of College's liabilities except compensated absences, net pension liability and other postemployment benefits are considered short-term in nature.

Net position is divided into four major categories:

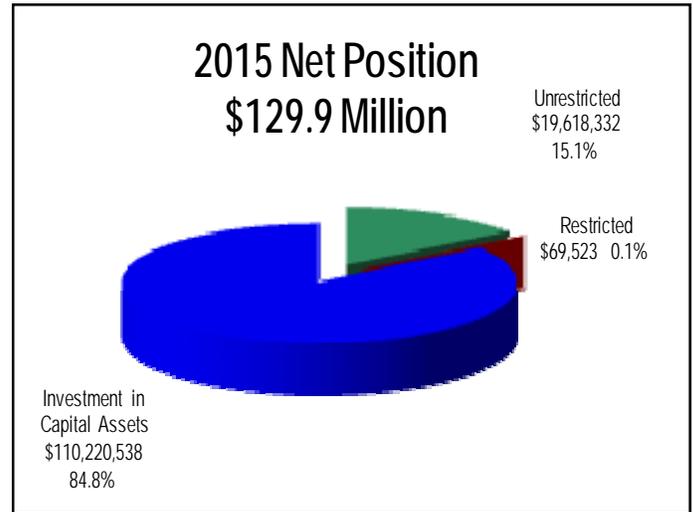
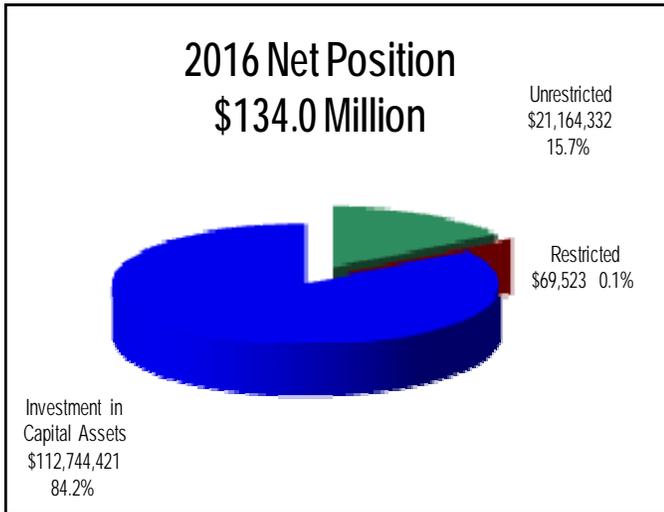
- Unrestricted - available to the College for any lawful purpose.
- Net investment in capital assets - the College's ownership equity in property, plant and equipment, net of related debt.
- Expendable restricted - available to be spent by the College after externally imposed stipulations have been fulfilled 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 DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

	June 30, 2016	% of total	June 30, 2015	% of total
Assets				
Current Assets	\$ 35,239,958	23.6%	\$ 29,002,660	20.0%
Noncurrent Assets:				
Capital Assets	112,744,421	75.4%	110,220,538	76.1%
Other Assets	1,552,509	1.0%	5,561,526	3.8%
Total Noncurrent Assets	114,296,930	76.4%	115,782,064	80.0%
Total Assets	149,536,888	100.0%	144,784,724	100.0%
Deferred Outflows	394,527	100.0%	129,326	100.0%
Liabilities				
Current Liabilities	13,481,692	85.0%	12,783,222	85.7%
Noncurrent Liabilities	2,377,744	15.0%	2,128,992	14.3%
Total Liabilities	15,859,436	100.0%	14,912,214	100.0%
Deferred Inflows	93,703	100.0%	93,443	100.0%
Net Position				
Net Investment in Capital Assets	112,744,421	84.2%	110,220,538	84.8%
Restricted	69,523	0.1%	69,523	0.1%
Unrestricted	21,164,332	15.7%	19,618,332	15.1%
Total Net Position	\$ 133,978,276	100.0%	\$ 129,908,393	100.0%

Fiscal Year 2016 compared to 2015. Net position increased \$4.1 million from \$129.9 million in fiscal year 2015 to \$134.0 million in 2016. Current assets increased by \$6.2 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 decreased \$1.5 million primarily due to our Construction in Progress expenditures. As of June 30, 2015, the College had a cash and cash equivalents balance related to capital projects of \$5.6 million. This amount decreased to \$1.6 million as of June 30, 2016 due to the College utilizing these internal cash balances that were previously designated internally for capital project expenditures. Accounts receivable increased \$3.0 million which was driven by a large increase in receivables due from the state and county for capital projects. The \$0.6 million increase in the deposit with trustee resulted from favorable healthcare experience in fiscal year 2016. Current liabilities increased by \$0.7 million. The key components of the College's current liabilities are accounts payable, retainage payable, accrued liabilities and unearned revenue. The primary driver of the increase in current liabilities is an increase of \$1.0 million in accounts payable due to vendors. This increase was partially offset by a \$0.8 million reduction in unearned revenue which is largely driven by the timing of student registrations for the fall semester of the subsequent fiscal year.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**



The unrestricted net position includes the fund balances transferred to plant fund budgets for existing programs that are anticipated or in progress along with auxiliary service fund balances generated through operations. Currently, designations of \$1.9 million are budgeted within the plant funds for various capital projects such as the Maryland Hall conversion, Belcamp Hall renovations, roof replacements, 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.

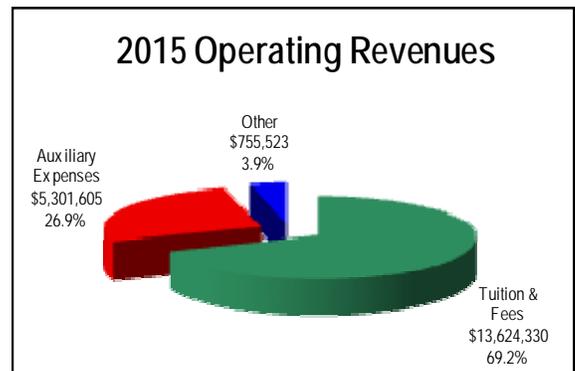
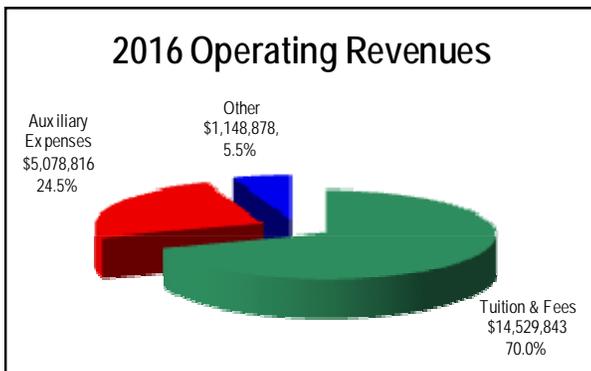
Statement of Revenues, Expenses and Changes in Net Position

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 DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,		Percent
	2016	2015	Change
OPERATING REVENUE			
Tuition and Fees	\$ 14,529,843	\$ 13,624,330	6.6%
Auxiliary Enterprises	5,078,816	5,301,605	-4.2%
Other	1,148,878	755,523	52.1%
Total Operating Revenue	<u>20,757,537</u>	<u>19,681,458</u>	5.5%
OPERATING EXPENSES	<u>59,398,011</u>	<u>61,443,497</u>	-3.3%
Net Operating Loss	<u>(38,640,474)</u>	<u>(41,762,039)</u>	-7.5%
NONOPERATING REVENUES (EXPENSES)			
Certain Fringe Benefits Paid Directly by the State of Maryland	2,520,472	2,550,875	-1.2%
State Grants and Contracts	12,782,261	13,016,662	-1.8%
Federal Grants and Contracts	6,262,283	7,366,107	-15.0%
Local Grants and Contracts	16,051,224	15,713,315	2.2%
Contributions	851,055	746,496	14.0%
Interest Income	42,243	10,492	302.6%
Loss on Disposal of Assets	(258,227)	(105,343)	145.1%
Total Nonoperating Revenues	<u>38,251,311</u>	<u>39,298,604</u>	-2.7%
Loss Before Other Revenues	<u>(389,163)</u>	<u>(2,463,435)</u>	-84.2%
State Capital Grants	1,482,386	4,290,175	-65.4%
Harford County Capital Grants	<u>2,976,660</u>	<u>907,523</u>	228.0%
INCREASE IN NET POSITION	4,069,883	2,734,263	48.8%
NET POSITION, BEGINNING OF YEAR	<u>129,908,393</u>	<u>127,174,130</u>	2.2%
NET POSITION, END OF YEAR	<u>\$ 133,978,276</u>	<u>\$ 129,908,393</u>	3.1%



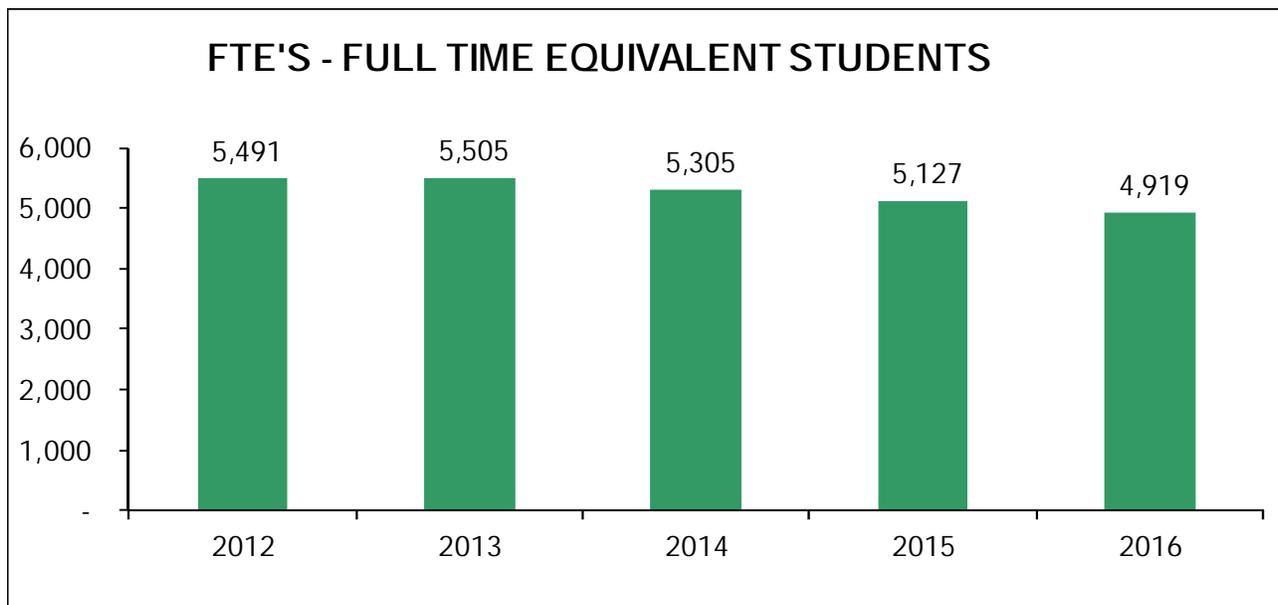
Generally speaking, operating revenues are received for providing goods and services to students and other various constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out the mission of the College. Non-operating

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

revenues are receipts for which goods and/or services are not provided. For example, state and local appropriations are considered non-operating because they are provided to the College by the appropriate governmental entity without it directly receiving commensurate goods and/or services.

Fiscal Year 2016 compared to 2015. Net position increased \$4.1 million or 3.0% for 2016. This increase is attributed to the surplus realized within the operating fund due to favorable performance versus the budget as well as state and county revenue invested in capital of \$1.5 and \$3.0 million, respectively. Auxiliary enterprise revenues and expenditures decreased \$0.2 and \$0.5 million, respectively. The decrease in both revenue and expenditures was driven by the College Store selling and renting a lower volume of textbooks, but favorably managing their inventory in connection with their textbook rental program.

Net tuition and fees increased 6.6% primarily due to the \$12 increase in tuition per credit hour. Scholarship allowances in 2016 are \$6.7 million or 31.4% of gross tuition and fee revenue, which is a slight increase of 1.6% from 2015 scholarship allowances of \$6.6 million or 32.5% 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.



The full-time equivalent (FTE) student enrollment decreased by 208 or 4.1%. Credit FTE students decreased by 163 while non-credit FTE students decreased by 45.

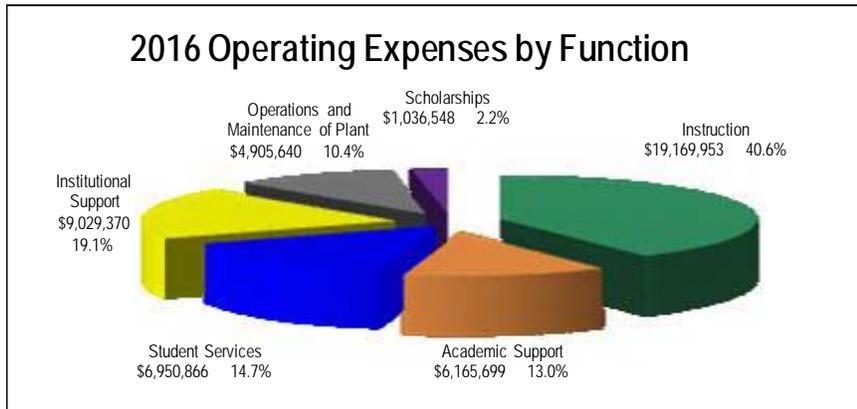
Analyzing operating and non-operating revenues together for 2016, tuition and fees net of scholarship allowances, comprise 24.5% of total revenues. State and county funding, including the state payment for retirement, provided an additional 52.9% of operating and non-operating revenues. Federal funding accounts for 10.6% of total 2016 revenues. The revenue from auxiliary enterprises accounts for 8.6% of total 2016 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.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

OPERATING EXPENSES

	Years Ended June 30,		Percent Change
	2016	2015	
OPERATING EXPENSES			
Instruction	\$ 19,169,953	\$ 20,030,340	-4.3%
Academic Support	6,165,699	6,014,895	2.5%
Student Services	6,950,866	7,874,823	-11.7%
Institutional Support	9,029,370	9,356,621	-3.5%
Operations and Maintenance of Plant	4,905,640	4,862,144	0.9%
Scholarships	1,036,548	961,080	7.9%
Sub-Total	<u>47,258,076</u>	<u>49,099,903</u>	<u>-3.8%</u>
Auxiliary Enterprises	4,825,754	5,345,862	-9.7%
Certain Fringe Benefits Paid Directly by the State of Maryland	2,520,472	2,550,875	-1.2%
Depreciation	<u>4,793,709</u>	<u>4,446,857</u>	<u>7.8%</u>
TOTAL	<u><u>\$ 59,398,011</u></u>	<u><u>\$ 61,443,497</u></u>	<u><u>-3.3%</u></u>



Instruction accounts for 32.3% 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 decreased 4.3% due to vacant positions in 2016 and a “one-time” 3.0% service recognition payment made to qualifying employees in 2015. The decrease in institutional support expenditures is also driven by the 2015 service recognition payments.

Academic Support expenses increased 2.5% in fiscal year 2016. This increase is largely associated with the marketing research study that was performed by SimpsonScarborough.

The decline in student services expenditures can be primarily attributed to the decrease in Pell grants provided to students in fiscal year 2016. HCC had \$5.5 million in Pell grant expenditures this fiscal year compared with \$6.6 million in 2015. 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 DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

Scholarships increased as a result of the 63% surge in the tuition and fees expensed for the high school waiver for certain math classes that are taught at the high schools.

The decrease in auxiliary enterprise expenditures is primarily due to the College Store favorably managing inventory associated with the textbook rental program, and a decrease of maintenance and contracted services expenditures at the Harford Sports Complex.

Other major components of operating expenses include: the \$2.5 million that represents the state's contribution for college employees to the Maryland state retirement system and the recognition of \$4.8 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 non-operating, non-investing and other non-capital 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, and interest received 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.

	CASH FLOWS		Percent Change
	Years Ended June 30, 2016	2015	
Cash Provided By (Used In):			
Operating Activities	\$ (30,805,504)	\$ (33,510,796)	-8.1%
Noncapital Financing Activities	35,667,295	36,722,985	-2.9%
Capital and Related Financing Activities	(6,423,341)	518,450	-1339.0%
Investing Activities	42,243	10,492	302.6%
Net Increase (Decrease) in Cash	(1,519,307)	3,741,131	-140.6%
CASH, BEGINNING OF YEAR	28,282,337	24,541,206	15.2%
CASH, END OF YEAR	\$ 26,763,030	\$ 28,282,337	-5.4%

The primary cash receipts from operating activities consist of \$14.2 million from tuition and fees and \$5.2 million from auxiliary enterprises. Major cash outlays in operating activities consist of salaries and benefits of \$33.9 million and payments to suppliers of \$17.5 million. The decrease in payments to suppliers and payments to employees is driving the decrease in cash used in operating activities. This decrease in cash outlays is partially

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

offset by a \$2.0 million decrease in cash receipts from tuition and fee payments due to the timing of the payment deadline for the fall 2014 semester.

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 non-operating 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 decreased 2.9%. The decline in cash receipts from federal funding, specifically related to Pell grants, leads to this overall decrease 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/used in capital financing activities decreased from \$0.5 million in 2015 to \$(6.4) million in 2016. The College makes significant capital purchases with the understanding that reimbursement by the state and county will follow, sometimes in the subsequent fiscal year. These reimbursable capital expenditures incurred in the renovation of Edgewood Hall are responsible for a sizable cash outlay in 2016. The College also received reimbursement in fiscal year 2015 for a large portion of the capital expenditures related to the building of the new Nursing and Allied Health building.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the College had \$158.0 million invested in capital assets, including \$5.0 million in construction in progress, less accumulated depreciation of \$45.3 million. Depreciation charges for the current year totaled \$4.8 million.

CAPITAL ASSETS, NET

	<u>June 30,</u> <u>2016</u>	<u>2015</u>	<u>Percent</u> <u>Change</u>
CAPITAL ASSETS			
Land and Land Improvements	\$ 21,415,671	\$ 20,492,212	4.5%
Buildings	118,926,275	116,344,590	2.2%
Furniture and Equipment	6,238,045	6,185,626	0.8%
Computer Technology	4,064,812	4,017,026	1.2%
Vehicles	822,857	807,136	1.9%
Library Books	1,584,405	1,654,271	-4.2%
Construction in Progress	4,968,743	2,256,824	120.2%
Total	<u>158,020,808</u>	<u>151,757,685</u>	<u>4.1%</u>
Less: Accumulated Depreciation	<u>45,276,387</u>	<u>41,537,147</u>	<u>9.0%</u>
NET CAPITAL ASSETS	<u>\$ 112,744,421</u>	<u>\$ 110,220,538</u>	<u>2.3%</u>

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

The capitalization of the "T Lot" roadwork improvement resulted in the 4.5% increase in land and land improvements. The new Hickory building was also capitalized in 2016, leading to the 2.2% increase in buildings. Construction in progress increased significantly in 2016 due to the expenditures related to the renovation of the Edgewood Hall building.

Debt

The College has no long-term debt as of June 30, 2016.

Economic Factors That Will Affect the Future

The College's operating funds come primarily from three revenue sources: tuition and fee payments from students, and funding appropriations from Harford County and the State of Maryland. Historically, tuition has covered approximately one-third of operating costs. In fiscal year 2009, budgeted tuition and fees revenue and unrestricted county and state appropriations accounted for 32% and 64%, respectively, of revenues within the College's general fund. This strong financial support from both the county and the state enabled the College to provide higher education at a substantially lower tuition than many other colleges in the state.

Economic pressures at both the state and county level have resulted in public funding reductions beginning in fiscal year 2008. In fiscal year 2017, the budgeted general fund revenue is comprised of 43.1% tuition and fees revenue and 56.0% county and state appropriations. Total county funding budgeted in fiscal year 2017 is approximately \$0.4 million below the funding received in 2009, despite significant increases in enrollment that occurred during the period.

As the College cannot influence the various economic variables which ultimately affect the public support it receives, HCC administration began taking appropriate action to develop a strategy to ensure the College receives the necessary operating revenue in future years. The College's Board of Trustees approved a \$12 and \$8 tuition increase for fiscal years 2016 and 2017, respectively. As a result of this additional tuition and fee revenue coupled with austerity measures on the expenditure side, the College has been able to produce an operating surplus in each of the past two fiscal years without any "transfer-in" from the fund balance. The College Board of Trustees recently approved another balanced budget with no "transfer-in" from fund balance for fiscal year 2017. The College will continue to evaluate the need for future tuition increases through a strong budgeting tool developed in-house that produces plan data for 10 years.

Credit enrollment increased at very high rates during the period fiscal year 2009 through 2011. This enrollment increase aligned with the theory that during economic recessions, community college enrollments generally rise. The College experienced relatively flat enrollment numbers in both fiscal year 2012 and 2013. In 2014 through 2016, credit hours that were recognized in tuition and fee revenue have decreased in the range of 3.0% to 4.5% each year. Early indications are that it will continue to be a challenge to maintain prior year enrollment levels in 2017. Therefore, the College budgeted a 1% decline in in-county credit hours for the upcoming fiscal year.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2016**

Deferred maintenance will continue to be a very important issue in future years due to the age of buildings and other capital assets on campus. The College currently has certain unrestricted funds designated for improvements such as roof replacements and the resurfacing of parking lots. Further, the College began designating a portion of the unrestricted fund balance for general deferred maintenance costs. As we continue to plan for these forthcoming expenses, the College will evaluate and explore other revenue opportunities which would have the potential to provide additional funding resources.

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, 2016

	Harford Community College	Component Unit Harford Community College Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 25,210,521	\$ 412,936
Accounts Receivable, Net	7,974,182	-
Promises to Give, Net	-	-
Inventories	427,822	582,167
Prepaid Expenses and Other Assets	648,950	60,158
Due from Foundation	13,640	-
Deposit with Trustee	964,843	-
Total Current Assets	35,239,958	1,055,261
Noncurrent Assets:		
Cash and Cash Equivalents, Capital Projects	1,552,509	-
Investments	-	7,576,482
Land and Construction in Progress	8,710,503	-
Capital Assets being Depreciated	149,310,305	-
Less: Accumulated Depreciation	(45,276,387)	-
Total Noncurrent Assets	114,296,930	7,576,482
Total Assets	149,536,888	8,631,743
Deferred Outflows- Pension	394,527	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,897,899	-
Retainage Payable	126,965	-
Accrued Liabilities	1,959,363	-
Deposits Held for Students	34,949	-
Unearned Revenue	8,237,728	27,748
Compensated Absences, Current	100,573	-
Due to College	-	13,640
Other Liabilities	124,215	-
Total Current Liabilities	13,481,692	41,388
Noncurrent Liabilities:		
Other Post-Employment Benefits	205,221	-
Net Pension Liability	1,153,385	-
Compensated Absences, Net of Current Portion	1,019,138	-
Total Noncurrent Liabilities	2,377,744	-
Total Liabilities	15,859,436	41,388
Deferred Inflows- Pension	93,703	-
NET POSITION		
Unrestricted	21,164,332	314,114
Net Investment in Capital Assets	112,744,421	-
Restricted:		
Expendable	69,523	4,903,163
Nonexpendable	-	3,373,078
Total Net Position	\$ 133,978,276	\$ 8,590,355

See accompanying Notes to Financial Statements.

HARFORD COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2016

	Harford Community College	Component Unit Harford Community College Foundation
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowances of \$6,658,813)	\$ 14,529,843	\$ -
Gifts and Contributions	-	691,868
Auxiliary Enterprises	5,078,816	-
Other Operating Revenues	1,148,878	-
Total Operating Revenues	20,757,537	691,868
OPERATING EXPENSES		
Instruction	19,169,953	-
Academic Support	6,165,699	-
Student Services	6,950,866	-
Institutional Support	9,029,370	-
Operations and Maintenance of Plant	4,905,640	-
Scholarship Expense	1,036,548	-
Certain Fringe Benefits Paid Directly by the State of Maryland	2,520,472	-
Other Operating Expenses	-	235,564
Depreciation	4,793,709	-
Auxiliary Enterprises	4,825,754	-
Total Operating Expenses	59,398,011	235,564
OPERATING INCOME (LOSS)	(38,640,474)	456,304
NONOPERATING REVENUES (EXPENSES)		
Certain Fringe Benefits Paid Directly by the State of Maryland	2,520,472	-
Federal Grants and Contracts	6,262,283	-
State of MD Grants and Contracts	12,782,261	-
Harford County Grants and Contracts	16,051,224	-
Contributions from HCC Foundation	851,055	(851,055)
Investment Income (Loss)	42,243	(218,976)
Loss on disposal of assets	(258,227)	-
Net Nonoperating Revenues (Expenses)	38,251,311	(1,070,031)
LOSS BEFORE CAPITAL CONTRIBUTIONS AND ADDITIONS TO ENDOWMENTS	(389,163)	(613,727)
State Capital Grants	1,482,386	-
Harford County Capital Grants	2,976,660	-
Contributions for Permanent Endowments	-	52,536
INCREASE (DECREASE) IN NET POSITION	4,069,883	(561,191)
Net Position - Beginning of Year	129,908,393	9,151,546
NET POSITION - END OF YEAR	\$ 133,978,276	\$ 8,590,355

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

	Harford Community College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 14,232,259
Payments to Suppliers	(17,521,301)
Payments to Employees	(33,904,228)
Auxiliary Enterprise Charges	5,238,888
Other Receipts	1,148,878
Net Cash Used by Operating Activities	(30,805,504)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal Student Loan Programs Receipts	3,189,912
Federal Student Loan Programs Disbursements	(3,189,912)
Federal Grants and Appropriations	6,153,446
State Grants and Appropriations	12,492,244
County Grants and Appropriations	16,193,338
Private Grants and Contributions	828,267
Net Cash Provided by Noncapital Financing Activities	35,667,295
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants Received	1,152,478
Purchase of Capital Assets	(7,586,302)
Proceeds from the Sale of Capital Assets	10,483
Net Cash Used by Capital and Related Financing Activities	(6,423,341)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	42,243
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,519,307)
Cash and Cash Equivalents - Beginning of Year	28,282,337
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 26,763,030
Cash and Cash Equivalents - Current	\$ 25,210,521
Cash and Cash Equivalents - Capital Projects	1,552,509
Total	\$ 26,763,030

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

	<u>Harford Community College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (38,640,474)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,793,709
Certain Fringe Benefits Paid Directly to the State of Maryland	2,520,472
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	(166,307)
Inventories	75,437
Prepaid Expenses	(264,197)
Due from Foundation	39,815
Deferred Outflows	(265,201)
Accounts Payable	955,932
Retainage Payable	(35,094)
Accrued Salaries	486,024
Deposits Held for Students	(9,443)
Unearned Revenue	(575,321)
Accrued Compensated Absences	(68,673)
Other Accrued Liabilities	47,871
Net Pension Liability	299,686
Deferred Inflows	260
Net Cash Used by Operating Activities	<u>\$ (30,805,504)</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 FINANCIAL REPORTING ENTITY AND 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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Financial Reporting Entity (Continued)

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. 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
- Statements 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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Presentation (Continued)

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.

Financial statement non-operating 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.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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 \$673,633 at June 30, 2016.

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 \$6,658,813 for fiscal year 2016.

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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

**NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Promises to Give (Continued)

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, 2016, 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.

The Foundation invests 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.

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 the 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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

<u>Category</u>	<u>Years</u>
Buildings	45
Computer Technology	5
Library Books	10
Furniture and Equipment	10 – 20
Land Improvements	7 – 20
Vehicles	7

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. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these component unit financial statements. Encumbrances at June 30, 2016 were \$3,692,021.

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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Other Postemployment Benefits

The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. The cumulative difference between amounts expensed and paid creates a liability (asset) similar to net pension obligations.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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 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 non-active 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 (CONTINUED)
JUNE 30, 2016

NOTE 1 FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, Baltimore, Maryland, 21201.

At June 30, 2016, the carrying amount of the College deposits, including petty cash of \$14,035, was \$7,389,262 and the bank balance was \$8,735,384.

At June 30, 2016, the College had \$19,373,768 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.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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. As of June 30, 2016, \$8,485,384 of the College's bank balances of \$8,735,384 was being held by the Bank of New York Mellon as collateral in the College's name.

Interest Rate Risk – Investments

The fair value of the investment in MLGIP may fluctuate 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, 2016, the MLGIP funds had a weighted average maturity of 37 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.

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, 2016, 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, 2016:

	<u>Fair Value</u>	<u>Cost</u>
Cash Equivalents	\$ 266,046	\$ 266,046
Fixed Income Funds	1,371,269	1,376,246
Equity Funds	3,645,162	3,669,656
Equities	<u>2,294,005</u>	<u>2,043,130</u>
Total	<u>\$ 7,576,482</u>	<u>\$ 7,355,078</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 3 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – INVESTMENTS (CONTINUED)

Investment income consists of interest and dividends of \$217,740 net of fees and realized and unrealized losses of \$(436,716) for the year ended June 30, 2016.

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

Promises to give consist of the following at June 30, 2016:

Promises to Give	\$ 685,852
Discount	<u>(103,685)</u>
Total	<u><u>\$ 582,167</u></u>
Amounts Due in:	
Less than One Year	\$ 103,074
One to Five Years	318,665
More than Five Years	<u>264,113</u>
Total	<u><u>\$ 685,852</u></u>

NOTE 5 RECEIVABLES AND PAYABLES

Receivables and payables of the College consist of the following at June 30, 2016:

Accounts Receivable:	
Federal Government	\$ 548,460
State of Maryland	1,083,712
Harford County	2,387,710
Student Receivables and Other	<u>3,954,300</u>
Total	<u><u>\$ 7,974,182</u></u>
Accounts Payable:	
Vendors	\$ 2,792,869
Retainage	126,965
Due to Students	<u>105,030</u>
Total	<u><u>\$ 3,024,864</u></u>
Accrued Liabilities:	
Payroll and Payroll Taxes	<u><u>\$ 1,959,363</u></u>

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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, 2016:

	Balance June 30, 2015	Addition	Retirement	Transfer	Balance June 30, 2016
Capital Assets Not Being Depreciated:					
Land	\$ 3,741,760	\$ -	\$ -	\$ -	\$ 3,741,760
Construction in Progress	2,256,824	4,605,430	-	(1,893,511)	4,968,743
Total Capital Assets Not Being Depreciated	5,998,584	4,605,430	-	(1,893,511)	8,710,503
Capital Assets Being Depreciated:					
Land Improvements	16,750,452	1,253,266	(351,577)	21,770	17,673,911
Buildings	116,344,590	845,294	(135,350)	1,871,741	118,926,275
Furniture and Equipment	6,185,626	249,357	(196,938)	-	6,238,045
Computer Technology	4,017,026	450,360	(402,574)	-	4,064,812
Vehicles	807,136	72,640	(56,919)	-	822,857
Library Books	1,654,271	109,956	(179,822)	-	1,584,405
Total Capital Assets Being Depreciated	145,759,101	2,980,873	(1,323,180)	1,893,511	149,310,305
Less Accumulated Depreciation:					
Land Improvements	5,282,099	527,324	(126,227)	-	5,683,196
Buildings	27,947,453	3,368,848	(100,554)	-	31,215,747
Furniture and Equipment	3,344,973	480,264	(190,149)	-	3,635,088
Computer Technology	3,289,681	263,763	(400,798)	-	3,152,646
Vehicles	506,981	73,971	(56,919)	-	524,033
Library Books	1,165,960	79,539	(179,822)	-	1,065,677
Total Accumulated Depreciation	41,537,147	4,793,709	(1,054,469)	-	45,276,387
Total Capital Assets, Net	<u>\$ 110,220,538</u>	<u>\$ 2,792,594</u>	<u>\$ (268,711)</u>	<u>\$ -</u>	<u>\$ 112,744,421</u>

NOTE 7 COMPENSATED ABSENCES

Compensated absences activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Retirement	Balance June 30, 2016	Balance Due Within Year
Compensated Absences	\$ 1,188,384	\$ (68,673)	\$ 1,119,711	\$ 100,573

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

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, 2016 are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2017	\$ 383,338
2018	383,338
2019	157,476
2020	157,476
2021	144,353

Total rent expense for the year ended June 30, 2016 was \$406,314.

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 non-certified 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 non-certified 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.

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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 9 RETIREMENT PLANS (CONTINUED)

Funding Policy

Both the "Retirement System" and the "Pension System" for teachers and non-certificated 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 \$109,885 and contributions by the State of Maryland to the Maryland Retirement Pension Plan on behalf of the College totaling \$2,036,332, or 16.38% of covered payroll for fiscal year 2016, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2015. Additional contributions were made by the State of Maryland to the Optional Retirement System on behalf of the College totaling \$484,140, or 7% of covered payroll for fiscal year 2016. Total annual pension costs contributed by the State of Maryland were \$2,520,472 for fiscal year 2016. 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, 2016, the College reported a liability of \$1,153,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's contributions to the System in relation to total system contributions including direct aid from the State of Maryland. At June 30, 2015, the College's proportionate share was .56%.

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:

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Description	Amount
College's Proportionate Share of the Net Pension Liability	\$ 1,153,385
State's Proportionate Share of the Net Pension Liability Associated with the College	20,566,562

For the year ended June 30, 2016, the College recognized pension expense of \$144,630.

At June 30, 2016, 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	\$ 66,998	\$ -
Differences between expected and actual experience	-	23,620
Change in proportion	104,996	-
Net difference between projected and actual investment earnings	101,589	70,083
Changes in proportionate share of contributions	11,059	-
Contributions subsequent to the measurement date	109,885	-
	<u>\$ 394,527</u>	<u>\$ 93,703</u>

\$109,885 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2017	\$ 35,959
2018	35,959
2019	35,959
2020	56,233
2021	26,829
Thereafter	-
	<u>\$ 190,939</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2015 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 9 RETIREMENT PLANS (CONTINUED)

- Actuarial cost method – Entry Age Normal
- Amortization method – Level Percentage of Payroll, Closed
- Inflation – 2.70% general, 3.20% wage
- Salary increases – 3.20% to 8.95%, including inflation
- Discount rate – 7.55%
- Investment rate of return – 7.55%
- 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	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.55%. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. 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 (CONTINUED)
JUNE 30, 2016**

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	6.55%	7.55%	8.55%
College's Proportionate Share of the Net Pension Liability	\$ 1,630,133	\$ 1,153,385	\$ 758,066

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

Plan Description

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. A closed group of retirees receives an annual subsidy of \$4,800 or less as part of a retirement window benefit program. As of June 30, 2016, there were 7 eligible and participating retirees receiving an annual subsidy. The Plan does not issue a stand-alone financial report.

As of June 30, 2016, there were 42 participants out of 319 total participants receiving benefits.

Funding Policy

The College is funding plan benefits on a pay-as-you-go basis.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net obligation.

Annual Required Contribution	\$	95,000
Interest on Net OPEB Obligation		5,000
Adjustment to Annual Required Contribution		<u>(5,000)</u>
Annual OPEB Cost (Expense)		95,000
Contributions Made		<u>(75,000)</u>
Increase in Net OPEB Obligation		20,000
Net OPEB Obligation - Beginning of Year		<u>185,221</u>
Net OPEB Obligation - End of Year	\$	<u><u>205,221</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2016, 2015 and 2014 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 95,000	78.9%	\$ 205,221
2015	98,000	72.4%	185,221
2014	97,000	74.2%	158,221

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$1,016,000. The covered payroll (annual payroll of active employees covered by the plan) was \$14,877,295, and the ratio of the UAAL to the covered payroll was 6.8%.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 10 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the Projected Unit Credit method, with linear pro-rata to assumed benefit commencement, was used. The actuarial assumption includes a 4.0% investment rate of return based upon the continuation of funding on a pay-as-you-go basis and the general fund investments can earn 4.0% over the long term. The UAAL is being amortized over 30 years beginning July 1, 2007 using a 30-year amortization as a level dollar amount. The remaining amortization period at July 1, 2015 was 22 years.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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, 2016, the College had amounts on deposit with the trustee of the Consortium totaling \$964,843. 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. Claims exceeded coverage by approximately \$650,000 for the year ended June 30, 2013; however coverage exceeded claims for the years ended June 30, 2014 and 2015. An accrual of \$324,260 for the self-insured portion is netted against the deposit in the statement of net position. 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	Change in Liability for 7% of Premiums Paid	Ending Balance (Net)
2016	\$ 351,284	\$ 4,632,284	\$ 4,012,931	\$ 1,611	\$ 7,405	\$ 964,843
2015	50,495	4,691,166	4,419,920	191	(29,352)	351,284

NOTE 12 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, the Foundation distributed \$851,055 to the College for both restricted and unrestricted purposes. The Foundation paid the College \$43,391 for management fees for the fiscal year 2016. In addition, the College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately \$26,100 for the year ended June 30, 2016.

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, 2016:

Loans	<u>\$ 69,523</u>
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**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

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

Temporarily restricted net assets consist of the following as of June 30, 2016:

Endowment Investments and Earnings Restricted for:	
Scholarships	\$ 2,319,358
Other	108,200
Contributions Restricted for:	
Equipment and Programs	1,045,304
Scholarships	<u>1,430,301</u>
Total	<u><u>\$ 4,903,163</u></u>

Permanently restricted net assets at June 30, 2016 are restricted in perpetuity with income available to support the following purposes:

Scholarships	\$ 3,059,928
General Purpose	310,000
Specific Programs	<u>3,150</u>
Total	<u><u>\$ 3,373,078</u></u>

NOTE 15 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – ENDOWMENT

The Foundation’s endowment consists of approximately fifty 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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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

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, 2016 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (266)	\$ 2,427,560	\$ 3,373,078	\$ 5,800,372
Board-Designated Endowment Funds	<u>79,823</u>	<u>-</u>	<u>-</u>	<u>79,823</u>
Total	<u>\$ 79,557</u>	<u>\$ 2,427,560</u>	<u>\$ 3,373,078</u>	<u>\$ 5,880,195</u>

Changes in endowment funds for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 83,921	\$ 2,737,351	\$ 3,320,542	\$ 6,141,814
Contributions	-	-	52,536	52,536
Investment Income:				
Income on Long-Term Investments, Net	2,311	166,351	-	168,662
Net Realized and Unrealized Losses on Long-term Investments	(4,669)	(335,179)	-	(339,848)
Reclassification of Underwater Loss	(266)	266	-	-
Appropriation of Endowment Assets for Expenditure	<u>(1,740)</u>	<u>(141,229)</u>	<u>-</u>	<u>(142,969)</u>
Endowment Net Assets, End of Year	<u>\$ 79,557</u>	<u>\$ 2,427,560</u>	<u>\$ 3,373,078</u>	<u>\$ 5,880,195</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

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

Endowment funds as of June 30, 2015 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Finds	\$ -	\$ 2,737,351	\$ 3,320,542	\$ 6,057,893
Board-Designated Endowment Funds	<u>83,921</u>	<u>-</u>	<u>-</u>	<u>83,921</u>
Total	<u>\$ 83,921</u>	<u>\$ 2,737,351</u>	<u>\$ 3,320,542</u>	<u>\$ 6,141,814</u>

Changes in endowment funds for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 82,751	\$ 2,697,356	\$ 3,254,217	\$ 6,034,324
Contributions	-	-	66,325	66,325
Investment Income:				
Income on Long-Term Investments, Net	1,900	136,706	-	138,606
Net Realized and Unrealized Gains on Long-term Investments	315	23,218	-	23,533
Appropriation of Endowment Assets for Expenditure	<u>(1,045)</u>	<u>(119,929)</u>	<u>-</u>	<u>(120,974)</u>
Endowment Net Assets, End of Year	<u>\$ 83,921</u>	<u>\$ 2,737,351</u>	<u>\$ 3,320,542</u>	<u>\$ 6,141,814</u>

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the MUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of \$266 resulting from unfavorable market fluctuations existed at June 30, 2016. No such deficiencies existed as of June 30, 2015.

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. Endowment assets include those donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board designated funds. Under this policy, as approved by the Foundation Board, the endowment assets are invested in a diversified mix of high quality fixed income and equity securities that are projected to produce above average real returns over a full market investment cycle of 3 to 5 years without exposing the portfolio to excess risk. Investment risk is mitigated by allocating funds among various capital markets. The Foundation expects its endowment funds, over time, to provide an average rate of return approximately 6 percent annually. 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, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that emphasizes quality when making bond and equity selections to achieve its long term return objectives within prudent risk constraints.

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 percent 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 percent 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.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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

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

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Fixed Income Funds	\$ 1,371,269	\$ -	\$ -	\$ 1,371,269
Equity Funds	<u>5,939,167</u>	<u>-</u>	<u>-</u>	<u>5,939,167</u>
Total	<u>\$ 7,310,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,310,436</u>

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Fixed Income Funds	\$ 983,065	\$ -	\$ -	\$ 983,065
Equity Funds	<u>6,629,915</u>	<u>-</u>	<u>-</u>	<u>6,629,915</u>
Total	<u>\$ 7,612,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,612,980</u>

NOTE 17 COMMITMENTS AND CONTINGENCIES

The College has outstanding commitments for the following ongoing capital projects as of June 30, 2016:

Edgewood Hall Renovation	\$ 2,806,532
Computer Equipment and Other Technology	180,009
Public Road Improvement	144,209
Parking Lot Improvements	100,282
Other Projects	<u>213,185</u>
Total	<u>\$ 3,444,217</u>

The Edgewood Hall Renovation and a portion of the Public Road Improvement projects are being funded through State and County grants. The other projects with outstanding commitments are being funded internally.

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 4 would be \$2,449,805.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 18 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The following GASB pronouncements were implemented by the College during fiscal year 2016:

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. The objectives of this Statement are to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures around fair value measurements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2015. The College has no assets carried at fair value therefore the provisions of this Statement had no impact on the College's financial statements.

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement had no impact on the College's financial statements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The provisions of this Statement had no impact on the College's financial statements.

HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 18 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS (CONTINUED)

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

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2017.

The College has not yet completed the process of evaluating the impact of GASB Statements Nos. 74 and 75 on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FUNDING PROGRESS
FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016
(UNAUDITED)**

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
2007	\$ -	\$ 905,610	\$ 905,610	0%	\$ 15,076,279	6.0%
2011	-	1,016,000	1,016,000	0%	14,877,295	6.8%

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

	2016	2015
<u>Employees' Retirement and Pension System:</u>		
College's proportionation of the net pension liability	0.0550000000000000%	0.481045651542534%
College's proportionate share of the net pension liability	\$ 1,153,385	\$ 853,699
College's covered employee payroll	\$ 1,213,529	\$ 1,271,818
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	95.04%	67.12%
Plan fiduciary net position as a percentage of the total pension liability	66.26%	73.65%
<u>Teacher's Retirement and Pension System:</u>		
College's proportionation of the net pension liability	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	20,566,562	5,354,388
Total	\$ 20,566,562	\$ 5,354,388
College's covered employee payroll	\$ 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%
Plan fiduciary net position as a percentage of the total pension liability	70.76%	69.53%

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

	2016**	2015**	2014**
<u>Employees' Retirement and Pension System</u>			
Contractually required contribution	\$ 109,885	\$ 116,977	\$ 112,101
Contributions in relation to the contractually required contribution	<u>(109,885)</u>	<u>(116,977)</u>	<u>(112,101)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 1,213,529	\$ 1,271,818	\$ 1,159,093
Contributions as a percentage of covered-employee payroll	9.05%	9.20%	9.67%

	2016*	2015*	2014*
<u>Teachers Retirement and Pension System</u>			
Contractually required contribution	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 12,399,645	\$ 12,235,432	\$ 12,230,229
Contributions as a percentage of covered-employee payroll	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
BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATING FUND
YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

	Original Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
REVENUES			
Tuition and Fees	\$ 20,130,997	\$ 20,043,860	\$ (87,137)
State of Maryland	10,865,634	10,865,633	(1)
Harford County, MD	15,260,844	15,261,612	768
Other Revenue	<u>376,737</u>	<u>788,187</u>	<u>411,450</u>
Total Revenues	46,634,212	46,959,292	325,080
EXPENDITURES			
Instruction	17,964,969	17,360,252	604,717
Academic Support	6,741,025	6,168,899	572,126
Student Services	5,634,462	5,269,658	364,804
Institutional Support	9,547,883	8,884,599	663,284
Operations of Plant	4,957,114	4,316,675	640,439
Scholarships and Fellowships	885,338	1,029,088	(143,750)
Transfers	<u>903,421</u>	<u>1,368,298</u>	<u>(464,877)</u>
Total Expenditures	<u>46,634,212</u>	<u>44,397,469</u>	<u>2,236,743</u>
OPERATING SURPLUS (DEFICIT)	<u>\$ -</u>	<u>\$ 2,561,823</u>	<u>\$ 2,561,823</u>

This General Operating Fund Budgetary Comparison Schedule does not include fiscal year 2016 encumbrances that represent commitments in the amount of \$215,675.

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, 2016, 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 1, 2016. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 1, 2016

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, 2016. 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 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, 2016. 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, 2016.

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 items 2016-001 through 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

Harford Community College's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Harford Community College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

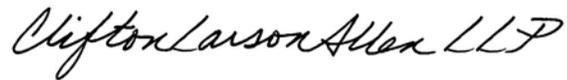
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-003 that we consider to be significant deficiencies.

Board of Trustees
Harford Community College

Harford Community College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Harford Community College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 1, 2016

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA* Number	Grant Number	Total Grant Award	Passed Through to Subrecipients	Grant Expenditures
U.S. DEPARTMENT OF EDUCATION					
Direct Awards:					
Student Financial Assistance Cluster:					
Federal Supplemental Educational Opportunity Grant	84.007	07A141752	97,333	\$ -	\$ 11,445
Federal Supplemental Educational Opportunity Grant	84.007	07A151752	97,333	-	83,431
Federal Work-Study Program	84.033	033A141752	108,865	-	(3,397)
Federal Work-Study Program	84.033	033A151752	108,215	-	98,106
Federal Pell Grant Program	84.063	63P142923	6,292,503	-	(10,969)
Federal Pell Grant Program	84.063	63P152923	6,620,015	-	5,465,711
Federal Direct Loan Program	84.268	P268K14554	2,244,750	-	773
Federal Direct Loan Program	84.268	P268K151554	2,359,737	-	3,189,912
Total Student Financial Assistance Cluster				-	8,835,012
First In the World	84.116F	P116F150201	32,400	-	9,074
Administered through the Maryland State Department of Education (MSDE):					
Voc. Ed. Act - Adult Education Title IIA:					
Title 1C Program Improvement	84.048	165019-01	13,300	-	13,300
Title 1C Program Improvement	84.048	165072	181,242	-	181,120
Total Voc. Ed. Act - Adult Education Title IIA				-	194,420
Child and Career and Professional Development	93.575	164658	54,964	-	43,630
Total Federal Programs Administered through the MSDE				-	238,050
Administered through the Maryland State Department of Labor, Licensing and Regulation (MSDLLR):					
Adult Basic Education Act:					
Adult Basic Education	84.002A	P00P6400218	166,172	-	165,222
Total Federal Programs Administered through the MSDLLR				-	165,222
Total U.S. Department of Education				-	9,247,358
U.S. SMALL BUSINESS ADMINISTRATION					
Administered through Maryland Small Business Development:					
Small Business Development Centers	59.037	Z9287004	126,766	-	54,318
Small Business Development Centers	59.037	Z9287004	126,766	-	65,509
Total U.S. Small Business Administration				-	119,827
U.S. DEPARTMENT OF LABOR					
Administered through Susquehanna Workforce:					
Susquehanna Workforce Network Youth Program	17.259	HY15-1	100,279	46,655	97,829
Susquehanna Workforce Network Youth Program	17.259	HY14	12,150	6,678	15,783
Susquehanna Workforce Network Youth Program	17.259	HY13-Z	602	-	602
TAACCCT Grant	17.282	TC-26466-14-60-A-24	738,320	-	157,258
Total U.S. Department of Labor				53,333	271,472
NATIONAL SCIENCE FOUNDATION					
Cyber Security Education	47.076	1241748	74,000	-	13,731
Total National Science Foundation				-	13,731
Total Federal Awards Expended				\$ 53,333	\$ 9,652,388

*CFDA - Catalog of Federal Domestic Assistance

HARFORD COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Harford Community College under programs of the federal government for the year ended June 30, 2016. 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 Harford Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Harford Community 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. Harford Community 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, 2016**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statement noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
Various	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, 2016**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

CURRENT YEAR

2016-001: NSLDS Reporting

Federal Agency: U.S. Department of Education

Federal Program: Student Financial Assistance Cluster

Type of Finding: Significant Deficiency in Internal Control, Noncompliance

Condition:

National Student Loan Data System (NSLDS) rosters yielded error records that were not corrected and resubmitted within the required 10 days.

Criteria:

Federal regulation requires enrollment status for each student be reported accurately to NSLDS. In addition, regulations require that an institution make necessary corrections and return the records within 10 days for any roster files that do not pass the NSLDS enrollment reporting edits.

Context:

This condition occurred for all monthly submissions to NSLDS during FY16.

Cause:

The College utilizes the National Student Clearinghouse (NSC) as a third party provider in order to submit student information to NSLDS. NSC had software conversion issues that failed in monitoring and correcting submission errors. However, it is possible for the College to create an Enrollment Reporting Summary Report after reporting student status changes on NSLDS, which would have detected these types of errors.

Effect:

Student enrollment statuses may not be correctly or timely reported to the NSLDS.

Questioned Costs:

None.

Repeat Finding:

Yes, prior year finding 2015-001.

Auditor's Recommendation:

We recommend that the College put a process in place to ensure determination of all students who withdraw, graduate, or have a change in status are accurately and timely reported to NSLDS. The system should include understanding if and when the NSC third party servicer has corrected the failed software programming.

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

2016-001: NSLDS Reporting (Continued)

Management Response and Corrective Action Plan:

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

Actions planned in response to finding: Due to staffing turnover and vacancies, appropriate staffing was not assigned to NSLDS access. The new registrar is being assigned, given access and appropriately trained to create and reconcile the Enrollment Reporting Summary Report to ensure accurate and timely reporting to NSLDS for all students who withdraw, graduate or have a change status. The National Student Clearinghouse sent a letter to the college in July of 2014 indicating that The Clearinghouse resolved the system issue as soon as it was discovered.

Responsible party: Amy Spinnato, Director of Financial Aid

Planned completion date for corrective action plan: June 2017

Plan to monitor completion of corrective action plan: The College will work with the Clearinghouse to ensure that error records are being cleared.

2016-002: NSLDS Enrollment Reporting

Federal Agency: U.S. Department of Education

Federal Program: Student Financial Assistance Cluster

Type of Finding: Significant Deficiency in Internal Control, Noncompliance

Condition:

The College incorrectly reported the enrollment status of students to the NSLDS.

Criteria:

All schools participating (or approved to participate) in the FSA programs must have an arrangement to report student enrollment data to the NSLDS through a Roster file (formerly called the Student Status Confirmation Report or SSCR). The School is required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half-time, graduated, or withdrawn status must be reported within 30 days. However, if a Roster file is expected within 60 days, you may provide the data on that Roster file (34CFR section 682.610).

Context:

For 3 of 40 status changes selected for testing, the students were reported as half-time in the NSLDS, but attended at three-quarter time status.

Cause:

A programming error occurred in the student database information system.

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

2016-002: NSLDS Reporting (Continued)

Effect:

The College did not update student enrollment statuses correctly or timely to NSLDS.

Questioned Costs:

None.

Repeat Finding:

Yes, prior year finding 2015-002.

Auditor's Recommendation:

The College should review its policies and procedures on reporting of enrollment status changes to NSLDS to ensure that all status changes are being reported timely and accurately to be in compliance with ED regulations.

Management Response and Corrective Action Plan:

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

Actions planned in response to finding: Based upon further investigation an analysis was completed of those students reported to NSC and it was discovered that those reported in the ¾ time category were reported incorrectly. The programming error occurred on 10/15/15. This was a management error due to a programming entry error in the student information database system. We are currently identifying all students affected. NSC and NSLDS will be updated to reflect correct enrollment information.

Responsible party: Amy Spinnato, Director of Financial Aid

Planned completion date for corrective action plan: Fall 2017

Plan to monitor completion of corrective action plan: Financial Aid will review status changes for the current Fall semester to ensure accurate reporting.

2016-003: Return of Title IV Funds

Federal Agency: U.S. Department of Education

Federal Program: Student Financial Assistance Cluster

Type of Finding: Significant Deficiency in Internal Control, Noncompliance

Condition:

Return of Title IV funds was not made to the U.S. Department of Education within the required timeframe.

Criteria:

In accordance with 34 CFR 668.22(J)(1), an institution must return unearned funds for which it is responsible as soon as possible but no later than 45 days from the determination of a student's withdrawal.

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

2016-003: Return of Title IV Funds (Continued)

Context:

For 1 out of 19 students tested who withdrew during the year, the return of funds was not made until 63 days after the date of determination that the student withdrew.

Cause:

This error was the result of personal issues that occurred with the staff responsible for processing the return of funds as well as similar issues that affected the individual responsible for serving as back-up to the staff with primary responsibility for this task.

Effect:

Refunds of Title IV funds were not made to the U.S. Department of Education on a timely basis.

Questioned Costs:

None.

Repeat Finding:

No

Auditor's Recommendation:

We recommend that the College review its existing procedures around return of Title IV refunds to ensure refunds are made on a timely basis and within prescribed timeframes.

Management Response and Corrective Action Plan:

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

Actions planned in response to finding: Staff in the Financial Aid Office experienced an unusual series of events due to extended leave, medical leave and the holiday break between December 24 and January 2nd. At the time EDconnect was available on the desktop of one full time and one part time staff member. Additional full and part time staff members now have access to the software that is needed to process and calculate the return.

Responsible party: Amy Spinnato, Director of Financial Aid

Planned completion date for corrective action plan: Fall 2017

Plan to monitor completion of corrective action plan: Financial Aid will ensure staff are cross-trained in the event of a situation where the person with primary responsibility is not available.

**HARFORD COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

2015-001

See current year finding 2016-001.

Reason for finding's recurrence: The NSC has not corrected the software issue that has resulted in errors records remaining uncorrected.

2015-002

See current year finding 2016-002.

Reason for finding's recurrence: The College was still in the process of investigating the root cause of the issue.