

HARFORD COMMUNITY COLLEGE
COMPONENT UNIT FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEAR ENDED JUNE 30, 2017

**HARFORD COMMUNITY COLLEGE
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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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2017, 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 Post Retirement 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 Budgetary Comparison Schedule- General Operating Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the budget information in the Budgetary Comparison Schedule- General Operating Fund marked "unaudited" in which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional 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.

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 August 31, 2017, 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
August 31, 2017

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

Overview of the Financial Statements and Financial Analysis

The discussion and analysis of Harford Community College's ("the College" or "HCC") financial statements provides an overview of the College's financial activities for the year ended June 30, 2017. 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, 2017, the College's current assets consist primarily of cash, short-term investments and accounts receivable while noncurrent assets consist primarily of capital assets, including property, plant, and equipment maintained by the College. All of the College's liabilities except compensated absences, 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.

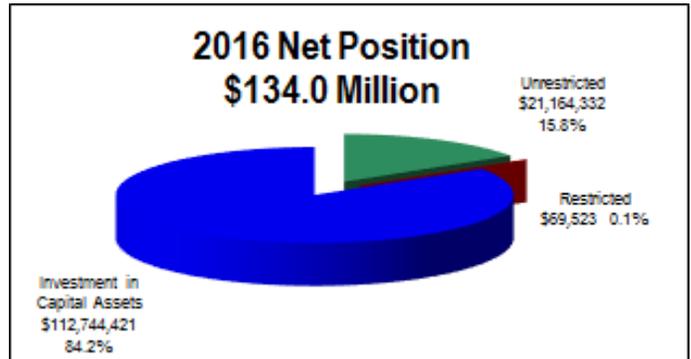
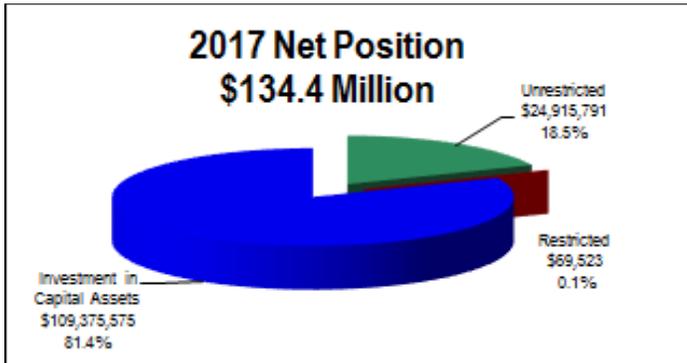
**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

CONDENSED STATEMENT OF NET POSITION

	June 30, 2017	% of total	June 30, 2016	% of total
Assets				
Current Assets	\$ 34,148,037	23.2%	\$ 35,239,958	23.6%
Noncurrent Assets:				
Capital Assets	109,375,575	74.2%	112,744,421	75.4%
Other Assets	3,816,438	2.6%	1,552,509	1.0%
Total Noncurrent Assets	<u>113,192,013</u>	<u>76.8%</u>	<u>114,296,930</u>	<u>76.4%</u>
Total Assets	<u>147,340,050</u>	<u>100.0%</u>	<u>149,536,888</u>	<u>100.0%</u>
Deferred Outflows	460,497	100.0%	394,527	100.0%
Liabilities				
Current Liabilities	10,796,172	80.7%	13,481,692	85.0%
Noncurrent Liabilities	<u>2,578,491</u>	<u>19.3%</u>	<u>2,377,744</u>	<u>15.0%</u>
Total Liabilities	13,374,663	100.0%	15,859,436	100.0%
Deferred Inflows	64,995	100.0%	93,703	100.0%
Net Position				
Net Investment in Capital Assets	109,375,575	81.4%	112,744,421	84.2%
Restricted	69,523	0.1%	69,523	0.1%
Unrestricted	<u>24,915,791</u>	<u>18.5%</u>	<u>21,164,332</u>	<u>15.7%</u>
Total Net Position	<u>\$ 134,360,889</u>	<u>100.0%</u>	<u>\$ 133,978,276</u>	<u>100.0%</u>

Fiscal Year 2017 compared to 2016. Net position increased \$0.4 million from \$134.0 million in fiscal year 2016 to \$134.4 million in 2017. Current assets decreased by \$1.1 million. Current assets consist primarily of cash and cash equivalents and accounts receivable, which include funds due for federal aid and for state funding of capital project expenses. Cash increased \$3.6 million due to favorable operating performance within the general fund and the timing of the state reimbursement of Construction in Progress expenditures paid by the College in 2016. Accounts receivable decreased \$3.1 million which was driven by a large decrease in receivables due from the state and county for capital projects of \$1.1 and \$2.4 million, respectively. HCC is self-insured, and the \$0.7 million increase in the deposit with trustee (Harford County) is a result of the favorable healthcare experience realized in fiscal year 2017. Prepaid expenses decreased \$0.2 million while the receivable due from the HCC Foundation increased \$0.3 million due to the timing of payments. Current liabilities decreased by \$2.7 million. The key components of the College's current liabilities are accounts payable, accrued liabilities and unearned revenue. Accounts payable due to vendors declined \$1.3 million due to the timing of invoices. Accrued payroll liabilities decreased by \$1.1 million due to the last pay date of the fiscal year occurring on June 30th, as all College full-time employees are paid to date.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**



The unrestricted net position includes the fund balances contained within the College's plant fund budgets that are anticipated or in progress along with auxiliary service fund balances generated through operations. Currently, designations of \$3.4 million are budgeted within the plant funds for various capital projects such as the Maryland Hall conversion, Chesapeake "Front Door" conversion and the Belcamp Hall renovations. Other plant fund balances are also internally designated for deferred projects, roof replacements, parking lot improvements and computer equipment and technology expenditures.

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

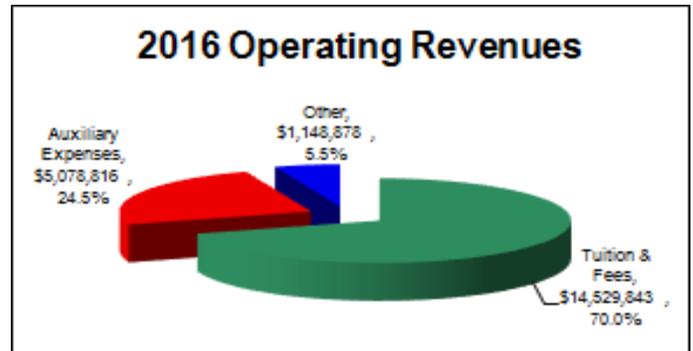
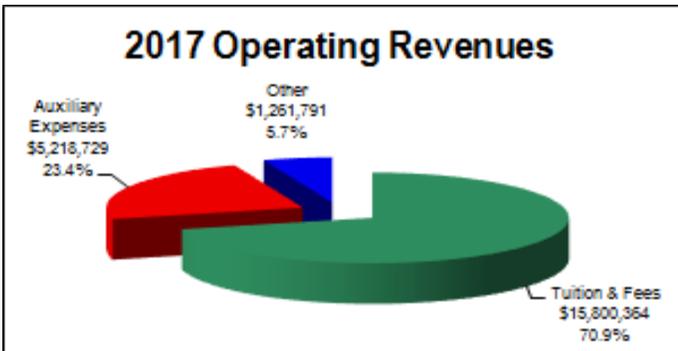
Statement of Revenues, Expenses and Changes in Net Position

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

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,		Percent Change
	2017	2016	
OPERATING REVENUE			
Tuition and Fees	\$ 15,800,364	\$ 14,529,843	8.7%
Auxiliary Enterprises	5,218,729	5,078,816	2.8%
Other	1,261,791	1,148,878	9.8%
Total Operating Revenue	<u>22,280,884</u>	<u>20,757,537</u>	7.3%
OPERATING EXPENSES	<u>64,311,375</u>	<u>59,398,011</u>	8.3%
Net Operating Loss	<u>(42,030,491)</u>	<u>(38,640,474)</u>	8.8%
NONOPERATING REVENUES (EXPENSES)			
Certain Fringe Benefits Paid Directly by the State of Maryland	2,627,547	2,520,472	4.2%
State Grants and Contracts	13,135,440	12,782,261	2.8%
Federal Grants and Contracts	6,071,615	6,262,283	-3.0%
Local Grants and Contracts	16,350,767	16,051,224	1.9%
Contributions	743,812	851,055	-12.6%
Interest Income	134,766	42,243	219.0%
Loss on Disposal of Assets	(564,591)	(258,227)	118.6%
Total Nonoperating Revenues	<u>38,499,356</u>	<u>38,251,311</u>	0.7%
Loss Before Other Revenues	<u>(3,531,135)</u>	<u>(389,163)</u>	807.4%
State Capital Grants	3,425,649	1,482,386	131.1%
Harford County Capital Grants	488,099	2,976,660	-83.6%
INCREASE IN NET POSITION	<u>382,613</u>	<u>4,069,883</u>	-90.6%
NET POSITION, BEGINNING OF YEAR	<u>133,978,276</u>	<u>129,908,393</u>	3.1%
NET POSITION, END OF YEAR	<u>\$ 134,360,889</u>	<u>\$ 133,978,276</u>	0.3%

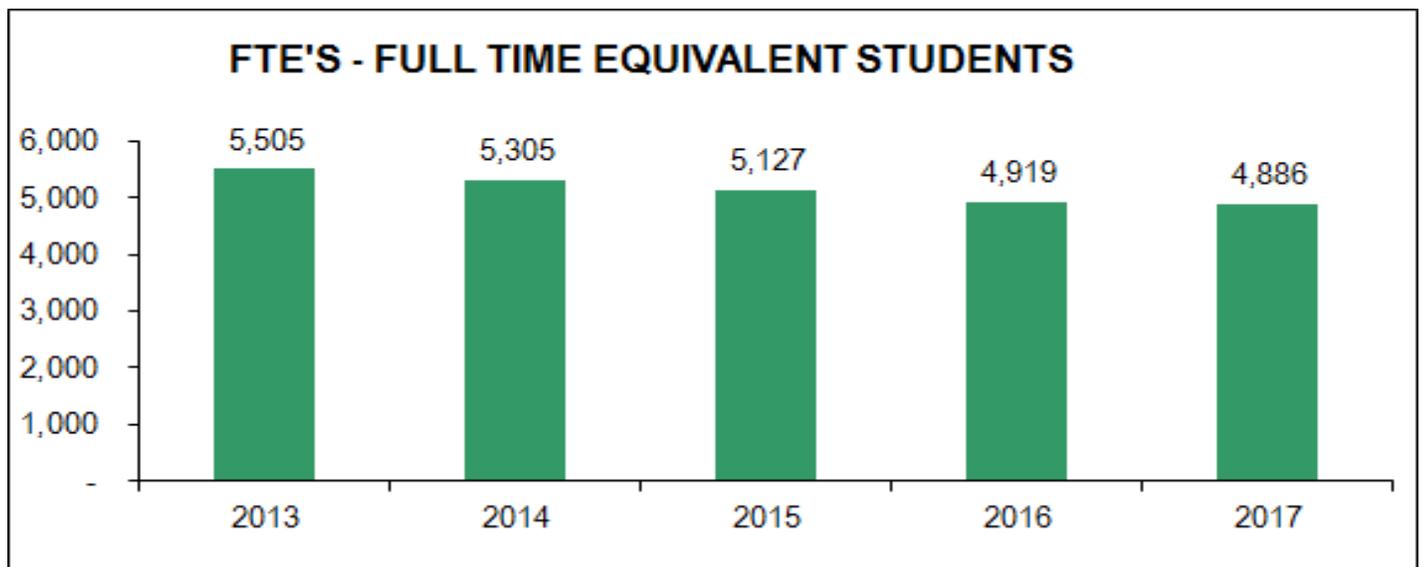


**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies and customers of the College. Operating expenses are paid to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out the mission of the College. Non-operating 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 2017 compared to 2016. Net position increased \$0.4 million or 0.3% for 2017. This increase can primarily be attributed to the surplus realized within the operating fund due to favorable performance versus the budget along with the net income provided to the College by the auxiliary enterprises. The state and county provided a total of \$3.9 million in revenues for investment in capital assets. This revenue was more than offset by the \$4.9 million in depreciation expense recorded on the College's capital assets.

Net tuition and fees increased 8.7% primarily due to the \$8 increase in tuition per credit hour. Scholarship allowances in 2017 are \$5.9 million or 27.2% of gross tuition and fee revenue, which is a decrease of 4.2% from 2016 scholarship allowances of \$6.7 million or 31.4% 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 33 or 0.7%. Credit FTE students decreased by 108 while non-credit FTE students increased by 75.

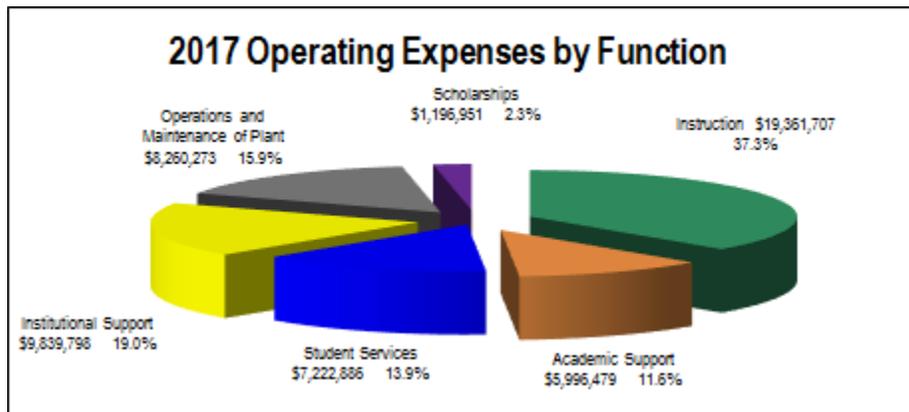
Analyzing operating and non-operating revenues together for 2017, tuition and fees net of scholarship allowances, comprise 25.7% of total revenues. State and county funding, including the state payment for retirement, provided an additional 52.4% of operating and non-operating revenues. Federal funding accounts for 9.9% of total 2017 revenues. The revenue from auxiliary enterprises accounts for 8.5% of total 2017 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, 2017**

OPERATING EXPENSES

	Years Ended June 30,		Percent Change
	2017	2016	
OPERATING EXPENSES			
Instruction	\$ 19,361,707	\$ 19,169,953	1.0%
Academic Support	5,996,479	6,165,699	-2.7%
Student Services	7,222,886	6,950,866	3.9%
Institutional Support	9,839,798	9,029,370	9.0%
Operations and Maintenance of Plant	8,260,273	4,905,640	68.4%
Scholarships	1,196,951	1,036,548	15.5%
Sub-Total	<u>51,878,094</u>	<u>47,258,076</u>	9.8%
Auxiliary Enterprises	4,898,039	4,825,754	1.5%
Certain Fringe Benefits Paid Directly by the State of Maryland	2,627,547	2,520,472	4.2%
Depreciation	<u>4,907,695</u>	<u>4,793,709</u>	2.4%
TOTAL	<u><u>\$ 64,311,375</u></u>	<u><u>\$ 59,398,011</u></u>	8.3%



Instruction accounts for 30.1% of the total operating expense of the College. This figure does not include the state payment for retirement benefit associated with instruction. The instruction function increased 1.0% primarily due to the 2% base salary adjustment that occurred, partially offset by the vacant positions that existed in 2017.

Academic support expenses decreased 2.7% in fiscal year 2017. This decrease is largely associated with the marketing research study that was performed by SimpsonScarborough in 2016.

The increase in student services expenditures can be primarily attributed to the increase in financial aid refunds paid directly to students for awarded Pell grants. This increase in refunds to students occurred despite a slight decrease of approximately \$0.3 million in total Pell grant expenditures in 2017. 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, 2017**

Institutional support increased 9.0% in 2017 mainly due to the increase in additional technology costs that were funded by the plant fund that is internally designated for equipment and technology purchases.

Operations and maintenance of plant increased significantly in 2017 due to the renovation costs associated with the Edgewood capital project that were not capitalized along with other deferred maintenance related costs that the College incurred.

Scholarships increased as a result of the \$0.1 million or 39% increase in the high school waiver that is provided to students for certain math classes that are taught at the high schools.

The very slight increase in auxiliary enterprise expenditures is primarily related to additional event activity in the arena that has also produced incremental revenue.

Other major components of operating expenses include: the \$2.6 million that represents the state's contribution for college employees to the Maryland state retirement system and the recognition of \$4.9 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, interest received and investment income from such activities. The fifth section reconciles the net cash used for operating activities to the operating income or loss reflected on the statement of revenues, expenses and changes in net position.

	CASH FLOWS		Percent Change
	Years Ended June 30, 2017	2016	
Cash Provided By (Used In):			
Operating Activities	\$ (38,176,454)	\$ (30,805,504)	23.9%
Noncapital Financing Activities	36,436,271	35,667,295	2.2%
Capital and Related Financing Activities	5,218,333	(6,423,341)	-181.2%
Investing Activities	134,766	42,243	219.0%
Net Increase (Decrease) in Cash	3,612,916	(1,519,307)	-337.8%
CASH, BEGINNING OF YEAR	26,763,030	28,282,337	-5.4%
CASH, END OF YEAR	\$ 30,375,946	\$ 26,763,030	13.5%

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

The primary cash receipts from operating activities consist of \$15.3 million from tuition and fees and \$5.2 million from auxiliary enterprises. Major cash outlays in operating activities consist of salaries and benefits of \$36.0 million and payments to suppliers of \$23.9 million. The increase in payments to suppliers and to employees is driving the decrease in cash used in operating activities. The increase in payments to suppliers is driven by the Edgewood Hall renovation costs that were not capitalized and other general deferred maintenance costs. Payments to employees increased due to the salary adjustment that was awarded to employees in 2017. This increase in cash outlays is partially offset by a \$1.0 million increase in cash receipts from tuition and fee payments due to the increase in the tuition rate.

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 increased 2.2%. The increase in cash receipts from the county and state provided to the College for operations leads to this overall increase in noncapital financing activities.

The primary financing activities included within the report are associated with capital appropriations for the College's commitment to expansion of new facilities and the continued renovation of its older facilities. Net cash flows provided/used in capital financing activities increased from \$(6.4) million in 2016 to \$5.2 million in 2017. 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 the sizable cash outlay in 2016. The College then received the cash flows from the state and county for the Edgewood Hall renovation in fiscal year 2017.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the College had \$157.9 million invested in capital assets, less accumulated depreciation of \$48.6 million. Depreciation charges for the current year totaled \$4.9 million.

CAPITAL ASSETS, NET

	June 30,		Percent Change
	2017	2016	
CAPITAL ASSETS			
Land and Land Improvements	\$ 21,887,374	\$ 21,415,671	2.2%
Buildings	123,088,441	118,926,275	3.5%
Furniture and Equipment	6,279,395	6,238,045	0.7%
Computer Technology	4,217,880	4,064,812	3.8%
Vehicles	840,183	822,857	2.1%
Library Books	1,634,651	1,584,405	3.2%
Construction in Progress	-	4,968,743	-100.0%
Total	<u>157,947,924</u>	<u>158,020,808</u>	0.0%
Less: Accumulated Depreciation	<u>48,572,349</u>	<u>45,276,387</u>	7.3%
NET CAPITAL ASSETS	<u><u>\$ 109,375,575</u></u>	<u><u>\$ 112,744,421</u></u>	<u><u>-3.0%</u></u>

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

The resurfacing of parking lots and the construction of a new right turn lane on Route 22 drives the \$0.5 million increase in land and land improvements. The portion of the Edgewood Hall renovation that was capitalized leads to the \$4.2 million increase in buildings. The majority of these additions to land improvements and buildings were included in construction in progress at the end of fiscal year 2016.

Debt

The College has no long-term debt as of June 30, 2017.

**HARFORD COMMUNITY COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2017**

Economic Factors That Will Affect the Future

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

As the College cannot influence the various economic variables which correlate to the public support it receives, HCC administration continues to develop strategies to ensure the College generates necessary operating revenues in future years. The College's Board of Trustees approved an \$8 tuition increase per credit hour for fiscal year 2017. In fiscal year 2018, a 2% or \$2.48 tuition increase per credit hour was approved. This smaller increase qualified the College for a state "one-time" supplemental grant of approximately \$192,000 for approving a tuition rate increase measured at or below 2%. As a result of the actions taken to increase tuition and fee revenue coupled with the effective management of operating expenditures, the College has been able to add funds to the undesignated fund balance operating surplus in each of the past three fiscal years. The College will continue to evaluate the need for future tuition increases through a strong budgeting tool developed in-house that allows finance to assign certain assumptions, producing 10 years of high level estimated revenues and expenditures that can be utilized for planning purposes.

A great deal of uncertainty continues to exist surrounding future credit enrollments. Fiscal years 2014-2017 have featured enrollment declines in the range of 3.0%-3.5% each year. This declining enrollment has also been common among other community colleges. The enrollment management team continues to implement various strategies in an attempt to boost enrollment. Although HCC is optimistic that these strategies will have a favorable impact for upcoming semesters, the College continued with a conservative budgeting approach for 2018, assuming that billable credit hours will decline at a similar rate as experienced in recent years.

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 could 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, 2017**

	Harford Community College	Component Unit Harford Community College Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 26,559,508	\$ 760,790
Accounts Receivable, Net	4,868,905	-
Promises to Give, Net	-	463,398
Inventories	393,884	-
Prepaid Expenses and Other Assets	399,363	31,820
Due from Foundation	280,191	-
Deposit with Trustee	1,646,186	-
Total Current Assets	34,148,037	1,256,008
Noncurrent Assets:		
Cash and Cash Equivalents, Capital Projects	3,816,438	-
Investments	-	8,910,187
Land and Construction in Progress	3,741,759	-
Capital Assets being Depreciated	154,206,165	-
Less: Accumulated Depreciation	(48,572,349)	-
Total Noncurrent Assets	113,192,013	8,910,187
Total Assets	147,340,050	10,166,195
Deferred Outflows- Pension	460,497	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,593,482	-
Accrued Liabilities	829,020	-
Deposits Held for Students	49,471	-
Unearned Revenue	8,120,697	33,350
Compensated Absences, Current	117,982	-
Due to College	-	280,191
Other Liabilities	85,520	-
Total Current Liabilities	10,796,172	313,541
Noncurrent Liabilities:		
Other Post-Employment Benefits	225,221	-
Net Pension Liability	1,330,868	-
Compensated Absences, Net of Current Portion	1,022,402	-
Total Noncurrent Liabilities	2,578,491	-
Total Liabilities	13,374,663	313,541
Deferred Inflows- Pension	64,995	-
NET POSITION		
Unrestricted	24,915,791	394,686
Net Investment in Capital Assets	109,375,575	-
Restricted:		
Expendable	69,523	5,551,398
Nonexpendable	-	3,906,570
Total Net Position	\$ 134,360,889	\$ 9,852,654

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017**

	Harford Community College	Component Unit Harford Community College Foundation
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowances of \$5,904,684)	\$ 15,800,364	\$ -
Gifts and Contributions	-	707,033
Auxiliary Enterprises	5,218,729	-
Other Operating Revenues	1,261,791	-
Total Operating Revenues	22,280,884	707,033
OPERATING EXPENSES		
Instruction	19,361,707	-
Academic Support	5,996,479	-
Student Services	7,222,886	-
Institutional Support	9,839,798	-
Operations and Maintenance of Plant	8,260,273	-
Scholarship Expense	1,196,951	-
Certain Fringe Benefits Paid Directly by the State of Maryland	2,627,547	-
Other Operating Expenses	-	174,950
Depreciation	4,907,695	-
Auxiliary Enterprises	4,898,039	-
Total Operating Expenses	64,311,375	174,950
OPERATING INCOME (LOSS)	(42,030,491)	532,083
NONOPERATING REVENUES (EXPENSES)		
Certain Fringe Benefits Paid Directly by the State of Maryland	2,627,547	-
Federal Grants and Contracts	6,071,615	-
State of MD Grants and Contracts	13,135,440	-
Harford County Grants and Contracts	16,350,767	-
Contributions from HCC Foundation	743,812	(743,812)
Investment Income (Loss)	134,766	940,536
Loss on disposal of assets	(564,591)	-
Net Nonoperating Revenues (Expenses)	38,499,356	196,724
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND ADDITIONS TO ENDOWMENTS	(3,531,135)	728,807
State Capital Grants	3,425,649	-
Harford County Capital Grants	488,099	-
Contributions for Permanent Endowments	-	533,492
INCREASE IN NET POSITION	382,613	1,262,299
Net Position - Beginning of Year	133,978,276	8,590,355
NET POSITION - END OF YEAR	\$ 134,360,889	\$ 9,852,654

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

	<u>Harford Community College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 15,261,134
Payments to Suppliers	(23,916,454)
Payments to Employees	(36,000,990)
Auxiliary Enterprise Charges	5,218,065
Other Receipts	1,261,791
Net Cash Used by Operating Activities	<u>(38,176,454)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal Student Loan Programs Receipts	3,639,282
Federal Student Loan Programs Disbursements	(3,639,282)
Federal Grants and Appropriations	6,008,630
State Grants and Appropriations	13,223,273
County Grants and Appropriations	16,345,701
Private Grants and Contributions	858,667
Net Cash Provided by Noncapital Financing Activities	<u>36,436,271</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants Received	7,321,773
Purchase of Capital Assets	(2,140,815)
Proceeds from the Sale of Capital Assets	37,375
Net Cash Provided by Capital and Related Financing Activities	<u>5,218,333</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	<u>134,766</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,612,916
Cash and Cash Equivalents - Beginning of Year	<u>26,763,030</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 30,375,946</u>
Cash and Cash Equivalents - Current	\$ 26,559,508
Cash and Cash Equivalents - Capital Projects	3,816,438
Total	<u><u>\$ 30,375,946</u></u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	<u>Harford Community College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (42,030,491)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,907,695
Certain Fringe Benefits Paid Directly to the State of Maryland	2,627,547
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	(1,178,509)
Inventories	33,938
Prepaid Expenses	249,587
Due from Foundation	(266,551)
Deferred Outflows	(65,970)
Accounts Payable	(1,431,382)
Accrued Salaries	(1,130,343)
Deposits Held for Students	14,522
Unearned Revenue	(57,250)
Accrued Compensated Absences	20,673
Other Accrued Liabilities	(18,695)
Net Pension Liability	177,483
Deferred Inflows	(28,708)
Net Cash Used by Operating Activities	<u>\$ (38,176,454)</u>

See accompanying Notes to Financial Statements.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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.

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

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Basis of Presentation (Continued)

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
- Statement of cash flows
- Notes to the financial statements

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

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

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

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

Operating and Nonoperating Components

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The College's principal ongoing operations determine operating flow activities. Ongoing operations in the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs. Operating revenues of the College primarily consist of tuition and fees, grants and contracts, and auxiliary enterprise revenues.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Operating and Nonoperating Components (Continued)

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.

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 \$306,927 at June 30, 2017.

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 \$5,904,684 for fiscal year 2017.

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
YEAR ENDED JUNE 30, 2017**

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, 2017, management determined there were no uncollectible promises to give.

Investments

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

Beginning on February 1, 2017, the Foundation invests with the University System of Maryland Foundation (USMF) in a comingled investment fund. These investments are recorded at fair value. Prior to then, the Foundation invested in a professionally managed portfolio of equities, mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Inventories

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

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
YEAR ENDED JUNE 30, 2017**

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	30-45
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 and various contracts for services within the general operating fund. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these component unit financial statements. Encumbrances at June 30, 2017 were \$1,587,299.

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
YEAR ENDED JUNE 30, 2017**

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
YEAR ENDED JUNE 30, 2017**

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

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

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
YEAR ENDED JUNE 30, 2017**

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, and Baltimore, Maryland, 21201.

At June 30, 2017, the carrying amount of the College deposits, including petty cash of \$13,935, was \$2,867,412 and the bank balance was \$4,567,726.

At June 30, 2017, the College had \$27,508,534 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
YEAR ENDED JUNE 30, 2017**

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. Cash and cash equivalents are collateralized by federal agency securities held in the College's name at a rate of 102%.

Interest Rate Risk – Investments

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing interest rates, the College's investment policy limits the term of investment maturities. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the College from having to sell investments below original cost for that purpose. At June 30, 2017, the MLGIP funds had a weighted average maturity of 31 days.

Credit Risk – Investments

The College invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP is rated AAAM by Standard & Poor's. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

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, 2017, 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, 2017:

	Fair Value	Cost
Total	\$ 8,910,187	\$ 8,710,688

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Investment income consists of interest and dividends of \$106,216 net of fees and net realized and unrealized gains of \$834,320 for the year ended June 30, 2017.

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

Promises to give consist of the following at June 30, 2017:

Promises to Give	\$ 546,293
Discount	(82,895)
Total	<u>\$ 463,398</u>
Amounts Due in:	
Less than One Year	\$ 48,293
One to Five Years	284,667
More than Five Years	213,333
Total	<u>\$ 546,293</u>

NOTE 5 RECEIVABLES AND PAYABLES

Receivables and payables of the College consist of the following at June 30, 2017:

Accounts Receivable:	
Federal Government	\$ 548,429
State of Maryland	33,146
Harford County	4,163
Student Receivables and Other	4,283,167
Total	<u>\$ 4,868,905</u>
Accounts Payable:	
Vendors	\$ 1,282,133
Retainage	209,627
Due to Students	101,722
Total	<u>\$ 1,593,482</u>
Accrued Liabilities:	
Payroll and Payroll Taxes	<u>\$ 829,020</u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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, 2017:

	Balance June 30, 2016	Addition	Retirement	Transfer	Balance June 30, 2017
Capital Assets Not Being Depreciated:					
Land	\$ 3,741,760				\$ 3,741,760
Construction in Progress	4,968,743			(4,968,743)	-
Total Capital Assets Not Being Depreciated	8,710,503	-	-	(4,968,743)	3,741,760
Capital Assets Being Depreciated:					
Land Improvements	17,673,911	696,461	(827,718)	602,960	18,145,614
Buildings	118,926,275	599,299	(802,916)	4,365,783	123,088,441
Furniture and Equipment	6,238,045	200,489	(159,139)		6,279,395
Computer Technology	4,064,812	398,353	(245,285)		4,217,880
Vehicles	822,857	141,858	(124,532)		840,183
Library Books	1,584,405	104,355	(54,109)		1,634,651
Total Capital Assets Being Depreciated	149,310,305	2,140,815	(2,213,699)	4,968,743	154,206,164
Less Accumulated Depreciation:					
Land Improvements	5,683,196	575,763	(731,520)	-	5,527,439
Buildings	31,215,747	3,436,212	(349,702)	-	34,302,257
Furniture and Equipment	3,635,088	443,990	(138,372)	-	3,940,706
Computer Technology	3,152,646	283,698	(245,033)	-	3,191,311
Vehicles	524,033	77,778	(92,997)	-	508,814
Library Books	1,065,677	90,254	(54,109)	-	1,101,822
Total Accumulated Depreciation	45,276,387	4,907,695	(1,611,733)	-	48,572,349
Total Capital Assets, Net	\$ 112,744,421	\$ (2,766,880)	\$ (601,966)	\$ -	\$ 109,375,575

NOTE 7 COMPENSATED ABSENCES

Compensated absences activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Change	Balance June 30, 2017	Balance Due Within Year
Compensated Absences	\$ 1,119,711	\$ 20,673	\$ 1,140,384	\$ 117,982

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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, 2017 are as follows:

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

Total rent expense for the year ended June 30, 2017 was \$383,294.

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
YEAR ENDED JUNE 30, 2017**

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 \$104,519 and contributions by the State of Maryland to the Maryland Retirement Pension Plan on behalf of the College totaling \$2,123,795, or 15.79% of covered payroll for fiscal year 2017, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2016. Additional contributions were made by the State of Maryland to the Optional Retirement System on behalf of the College totaling \$503,752, or 7.25% of covered payroll for fiscal year 2017. Total annual pension costs contributed by the State of Maryland were \$2,627,547 for fiscal year 2017. 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, 2017, the College reported a liability of \$1,330,868 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the College's proportionate share was .0056%.

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
YEAR ENDED JUNE 30, 2017**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Pension Costs (Continued)

<u>Description</u>	<u>Amount</u>
College's Proportionate Share of the Net Pension Liability	\$ 1,330,868
State's Proportionate Share of the Net Pension Liability Associated with the College	23,594,027

For the year ended June 30, 2017 the College recognized pension expense of \$187,324. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 52,055	\$ -
Differences between expected and actual experience	-	33,352
Change in proportion	83,437	(15,079)
Net difference between projected and actual investment earnings	208,204	46,722
Changes in proportionate share of contributions	12,282	-
Contributions subsequent to the measurement date	104,519	-
	<u>\$ 460,497</u>	<u>\$ 64,995</u>

\$104,519 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2018	\$ 69,783
2019	69,783
2020	90,056
2021	60,651
2022	710
Thereafter	-
	<u>\$ 290,983</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

- Actuarial cost method – Individual entry age
- Amortization method – Level percent closed
- Inflation – 2.90% general, 3.20% wage
- Salary increases – 3.20% to 9.20%, including inflation
- 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Public Equity	35%	5%
Fixed Income	10%	2%
Credit Opportunity	10%	3%
Real Return	14%	3%
Absolute Return	10%	5%
Private Equity	10%	6%
Real Estate	10%	5%
Cash	1%	1%
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
YEAR ENDED JUNE 30, 2017**

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>Discount Rate</u>	<u>1% Increase</u>
Discount Rate	6.55%	7.55%	8.55%
College's Proportionate Share of the Net Pension Liability	\$ 1,828,063	\$ 1,330,868	\$ 917,128

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, 2017, 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, 2017, there were 39 retirees out of 320 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
YEAR ENDED JUNE 30, 2017**

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		(5,000)
Annual OPEB Cost (Expense)		95,000
Contributions Made		(75,000)
Increase in Net OPEB Obligation		20,000
Net OPEB Obligation - Beginning of Year		205,221
Net OPEB Obligation - End of Year		\$ 225,221

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016 and 2015 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 95,000	78.9%	\$ 225,221
2016	95,000	78.9%	205,221
2015	98,000	72.4%	185,221

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
YEAR ENDED JUNE 30, 2017**

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 proration 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, 2016 was 21 years.

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, 2017, the College had estimated amounts on deposit with the trustee of the Consortium totaling \$1,977,874. 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. An accrual of \$331,688 for the self-insured portion is netted against the deposit in the statement of net position.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 11 RISK MANAGEMENT (CONTINUED)

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

Fiscal Year Ended June 30,	Beginning Balance (Net)	Premium	Incurred/ Estimated Expenses	Interest/ Other Income	Change in Liability for 7% of Premiums Paid	Ending Balance (Net)
2017	\$ 964,843	\$ 4,738,398	\$ 4,056,493	\$ 6,866	\$ 7,428	\$ 1,646,186
2016	351,284	4,632,284	4,012,931	1,611	7,405	964,843

NOTE 12 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, the Foundation distributed \$743,812 to the College for both restricted and unrestricted purposes. The Foundation paid the College \$50,000 for management fees for the fiscal year 2017. In addition, the College paid, on behalf of the Foundation, a percentage of various overhead-related expenditures totaling approximately \$20,500 for the year ended June 30, 2017.

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, 2017:

Loans	<u><u>\$ 69,523</u></u>
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NOTE 14 HARFORD COMMUNITY COLLEGE FOUNDATION, INC. – RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2017:

Endowment Investments and Earnings Restricted for:	
Scholarships	\$ 2,864,403
Other	146,095
Contributions Restricted for:	
Equipment and Programs	980,329
Scholarships	1,560,571
Total	<u><u>\$ 5,551,398</u></u>

Permanently restricted net assets at June 30, 2017 are restricted in perpetuity with income available to support the following purposes:

Scholarships	\$ 3,593,420
General Purpose	310,000
Specific Programs	3,150
Total	<u><u>\$ 3,906,570</u></u>

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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.

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, 2017 are composed as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ (315)	\$ 3,010,498	\$ 3,906,571	\$ 6,916,754
Board-Designated Endowment Funds	87,516	-	-	87,516
Total	\$ 87,201	\$ 3,010,498	\$ 3,906,571	\$ 7,004,270

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Changes in endowment funds for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 79,557	\$ 2,427,560	\$ 3,373,078	\$ 5,880,195
Contributions	-	-	533,493	533,493
Investment Income:				
Income on Long-Term Investments, Net	1,061	82,356	-	83,417
Net Realized and Unrealized Losses on Long-term Investments	8,442	646,862	-	655,304
Reclassification of Underwater Loss	(49)	49	-	-
Appropriation of Endowment Assets for Expenditure	(1,810)	(146,329)	-	(148,139)
Endowment Net Assets, End of Year	<u>\$ 87,201</u>	<u>\$ 3,010,498</u>	<u>\$ 3,906,571</u>	<u>\$ 7,004,270</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the MUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of \$315 resulting from unfavorable market fluctuations existed as of June 30, 2017.

Return Objectives and Risk Parameters

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

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

Strategies Employed for Achieving Objectives

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

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.

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

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

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

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

Level 1

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

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

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.

The Foundation's Investment in USMF

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

University System of Maryland Foundation

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

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

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

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

University System of Maryland Foundation (continued)

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

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

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

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

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

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

University System of Maryland Foundation (continued)

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

The general partner or manager generally values the investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by USMF's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents USMF's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments, and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2017, unfunded commitments within the private capital category and the real estate and energy and natural resources category equal approximately 41.70% and 27.60% of the assets in those categories, respectively.

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

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

2017	Level 1	Level 2	Level 3	Total
Investments:				
USMF	\$ -	\$ -	\$ 8,910,187	\$ 8,910,187

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

University System of Maryland Foundation (continued)

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended June 30, 2017:

Balance, July 1	\$	-
Dividends (net of fees)		32,957
Realized gains (losses)		235,118
Unrealized gains (losses)		199,419
Net purchased (sales)		8,442,693
	\$	<u>8,910,187</u>

NOTE 17 COMMITMENTS AND CONTINGENCIES

The College has outstanding commitments for ongoing capital projects and deferred maintenance of \$645,490 as of June 30, 2017.

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

In July 2012, the College entered into a 20 year solar power purchase agreement with Tecta Solar Harford, LLC ("Tecta"). Tecta will furnish, install, maintain and own four roof mounted solar electric generating facilities at the College. The College has agreed to purchase all of the electricity produced by these solar facilities according to the terms as set forth in the agreement with Tecta. In the event of default by the College, Tecta is entitled to terminate the agreement and recover a prescribed termination payment for the applicable billing year. The termination payment that would be required in year 5 would be \$2,146,466.

NOTE 18 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The following GASB pronouncements considered to have an impact on the College have been issued but not yet implemented by the College:

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.

**HARFORD COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

In June 2017, GASB issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of government financial statement users by improving accounting and financial reporting for leases. This statement will require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the contract's payment provisions. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

The College has not yet completed the process of evaluating the impact of GASB Statements Nos. 75 and 87 on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF FUNDING PROGRESS
FOR OTHER POSTRETIREMENT BENEFITS
YEAR ENDED JUNE 30, 2017
(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)	UAAAL 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%

Schedule of Contributions

Fiscal Year Ended June 30,	Required Contribution	Amount Contributed	Percentage Contributed
June 30, 2015	\$ 98,000	\$ 71,000	72.4%
June 30, 2016	95,000	75,000	78.9%
June 30, 2017	95,000	75,000	78.9%

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

	<u>2017</u>	<u>2016</u>
<u>Employees' Retirement and Pension System:</u>		
College's proportionation of the net pension liability	0.0056407%	0.0550000%
College's proportionate share of the net pension liability	\$ 1,330,868	\$ 1,153,385
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	109.67%	90.69%
Plan fiduciary net position as a percentage of the total pension liability	62.97%	66.26%
<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	<u>24,662,847</u>	<u>20,566,562</u>
Total	\$ 24,662,847	\$ 20,566,562
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	67.95%	70.76%

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

	2017**	2016**	2015**	2014**
<u>Employees' Retirement and Pension System</u>				
Contractually required contribution	\$ 104,519	\$ 109,885	\$ 116,977	\$ 112,101
Contributions in relation to the contractually required contribution	<u>(104,519)</u>	<u>(109,885)</u>	<u>(116,977)</u>	<u>(112,101)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 1,375,456	\$ 1,213,529	\$ 1,271,818	\$ 1,159,093
Contributions as a percentage of covered-employee payroll	7.60%	9.05%	9.20%	9.67%

	2017*	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>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 12,830,684	\$ 12,399,645	\$ 12,235,432	\$ 12,230,229
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%

* 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, 2017
(UNAUDITED)**

	Original Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
REVENUES			
Tuition and Fees	\$ 20,903,177	\$ 20,515,107	\$ (388,070)
State of Maryland	11,475,320	11,475,320	-
Harford County, MD	15,561,612	15,561,612	-
Other Revenue	378,353	839,519	461,166
Total Revenues	<u>48,318,462</u>	<u>48,391,558</u>	<u>73,096</u>
EXPENDITURES			
Instruction	18,154,025	17,503,072	650,953
Academic Support	6,455,637	6,016,736	438,901
Student Services	5,507,237	5,077,252	429,985
Institutional Support	10,120,861	9,285,141	835,720
Operations of Plant	4,872,706	4,433,619	439,087
Scholarships and Fellowships	1,084,575	1,189,241	(104,666)
Transfers	2,123,421	2,124,625	(1,204)
Total Expenditures	<u>48,318,462</u>	<u>45,629,686</u>	<u>2,688,776</u>
OPERATING SURPLUS (DEFICIT)	<u>\$ -</u>	<u>\$ 2,761,872</u>	<u>\$ 2,761,872</u>

This General Operating Fund Budgetary Comparison Schedule does not include fiscal year 2017 encumbrances that represent commitments in the amount of \$829,229.



**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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated August 31, 2017. 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
August 31, 2017



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, 2017. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. The College's basic financial statements include the operations of the Harford Community College Foundation, Inc., a discretely presented component unit. Federal awards received by the discretely presented component unit are not included in the College's schedule of expenditures of federal awards during the year ended June 30, 2017. 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, 2017.

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, material weaknesses may exist that have not been identified.

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



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
August 31, 2017

**HARFORD COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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	07A161752	-	\$ -	\$ 116,712
Federal Supplemental Educational Opportunity Grant	84.007	07A151752	-	-	10,478
Federal Work-Study Program	84.033	033A141752	-	-	84,816
Federal Work-Study Program	84.033	033A151752	-	-	(484)
Federal Pell Grant Program	84.063	63P162923	-	-	5,124,644
Federal Pell Grant Program	84.063	63P152923	-	-	(336)
Federal Direct Loan Program	84.268	P268K161554	-	-	3,639,282
Total Student Financial Assistance Cluster				-	8,975,112
Administered through the Maryland State Department of Education (MSDE):					
Voc. Ed. Act - Adult Education Title IIA:					
Title 1C Program Improvement	84.048	170545	-	-	170,397
Title 1C Program Improvement	84.048	165072	-	-	122
Total Voc. Ed. Act - Adult Education Title IIA				-	170,519
Child and Career and Professional Development	93.575	170855	-	-	44,690
Total Federal Programs Administered through the MSDE				-	215,209
Administered through the Maryland State Department of Labor, Licensing and Regulation (MSDLLR):					
Adult Basic Education Act:					
Adult Basic Education	84.002A	P00P7400141	-	-	171,080
Total Federal Programs Administered through the MSDLLR				-	171,080
Total U.S. Department of Education				-	9,361,401
U.S. SMALL BUSINESS ADMINISTRATION					
Administered through Maryland Small Business Development:					
Small Business Development Centers	59.037	Z9287004	-	-	82,951
Small Business Development Centers	59.037	Z9287004	-	-	61,256
Total U.S. Small Business Administration				-	144,207
U.S. DEPARTMENT OF LABOR					
Administered through Susquehanna Workforce:					
Susquehanna Workforce Network Youth Program	17.259		-	48,546	74,250
Susquehanna Workforce Network Youth Program	17.259		-	6,075	12,410
TAACCCT Grant	17.282	TC-26466-14-60-A-24	-	-	324,439
Total U.S. Department of Labor				54,621	411,099
NATIONAL SCIENCE FOUNDATION					
Cyber Security Education	47.076	1241748	-	-	47,677
WBHR-L SAMP Grant	47.076	0008749-1000065725	-	-	2,000
Total National Science Foundation				-	49,677
Total Federal Awards Expended				\$ 54,621	\$ 9,966,384

*CFDA - Catalog of Federal Domestic Assistance

**HARFORD COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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, 2017. 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, 2017**

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 statements 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? _____ Yes X 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? _____ Yes X No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.063, 84.007	
84.033, 84.268	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, 2017**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

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

NONE

**HARFORD COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

2016-001

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

Current Year Status: Resolved

2016-002

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

Current Year Status: Resolved

2016-003

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

Current Year Status: Resolved