



FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 15
Basic Financial Statements	
Statements of Net Position	16
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements	19-48
Required Supplementary Information	
Schedule of Hagerstown Community College's Proportionate Share of the Net Pension Liability - Maryland State Retirement and Pension Systems	49
Schedule of Hagerstown Community College's Contributions - Maryland State Retirement and Pension Systems	50
Notes to Required Supplementary Information	51
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52-53



Independent Auditor's Report

Board of Trustees
Hagerstown Community College
Hagerstown, 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 **Hagerstown Community College** (the College) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Hagerstown Community College Foundation, Inc. (a Not-for-Profit Organization) were not audited in accordance with *Government Auditing Standards*, but are required to be included in the basic financial statements of the College as a component unit.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 2 and 5 of the financial statements, the College adopted FASB Accounting Standards Update (ASU) 2015-07 *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Prior year disclosures have been revised to reflect the retrospective application of adopting this change in accounting. Our auditor's opinion was not modified with respect to the restatement.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-15, the schedule of the College's proportionate share of the net pension liability on page 49, and the schedule of the College's contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Hagerstown, Maryland
October 17, 2016

HAGERSTOWN COMMUNITY COLLEGE
Management's Discussion and Analysis
June 30, 2016

Financial Highlights

For the fiscal year ended June 30, 2016, the College recorded total operating revenues of \$25,624,301 and total operating expenses of \$44,767,571. The difference produced an operating loss of \$19,143,270. Net non-operating revenue of \$23,472,817 offset this loss and resulted in an overall increase in net position of \$4,329,547. The increase closely mirrors the state and county capital appropriation figures.

Approximately 57% or \$14.6 million of the College's operating revenue is generated from student tuition and fees net of the scholarship allowance. In FY16, credit tuition rates were increased by 6% per credit hour bringing County tuition to \$117, Out-of-County to \$183 and Out-of-State to \$241. Fee projections were based on actualized fee revenue and enrollment growth. Overall, total credit FTE decreased 7.2% over FY15 and non-credit FTE decreased by 6.2%. There is an increase in the scholarship allowance from FY15 (\$676,816) to FY16 (\$1,096,363). GASB Statements No. 34 and 35 requires public institutions to report all tuition and fee revenues net of any scholarship discounts and allowances. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is paid by the student and/or third parties making payments on behalf of the student. Determinations of scholarship allowances and student aid expenses by category are virtually impossible on a case by case basis since most institutions, including HCC, post financial aid to student's accounts as a batch process. It is permissible to use an alternate method of calculating the allowance. NACUBO Advisory Report 2000-05 provides a methodology for an alternate method which includes the calculation of the following categories:

1. Financial Aid not recognized as revenue
2. Financial aid being applied from resources recognized as revenue
3. Third party payments
4. Payments made directly by students
5. Refunds made to students
6. Non-Monetary institutional waivers
7. Charges applied to student accounts

Operating revenue from auxiliary enterprises, including the Campus Store, Food Services, the Children's Learning Center, and the Technical Innovation Center totaled \$2.8 million, a 14.8% decrease from the previous year. With expenses totaling \$2.8 million, auxiliary enterprises realized a net loss of \$16,327. The FY15 surplus for auxiliary operations was \$82,335.

Operating revenue from grants and contracts of \$7.8 million decreased 13.5% from FY15. Student financial assistance and funding to support career education, adult basic education, and student support services account for the majority of this revenue stream.

Non-operating revenue includes State and County appropriations of \$8.5 million and \$9.3 million, respectively. While the state revenue stream increased just over 1%, the county contribution increased 3.3%. Capital appropriations decreased from \$8.1 million in FY15 to \$3.9 million in FY16. This decrease can be attributed to major construction projects being substantially completed including the student center renovation. Benefits paid on behalf of the College by the State of Maryland were \$1.8 million, a very slight increase over the previous fiscal year.

The College's net position increased from \$111.4 million to \$115.7 million at June 30, 2016.

Statement of Net Position

The Statement of Net position reports all of the College's financial and capital resources using the accrual basis of accounting. Under GASB 34, this financial statement reports the difference between assets and liabilities as net position. This is one way to measure the financial health of the College.

Net position is divided into three categories:

- Capital Net Assets are assets held net of debt in the property, plant and equipment of the College (the College currently has no debt for capital assets).
- Temporarily Restricted Net Assets are assets available to the College but reserved for a specific purpose or time period.
- Unrestricted Net Assets are assets available to the College with no restrictions.

**Net Position
June 30, 2016 and 2015**

	FY16	FY15
<u>Assets</u>		
Current Assets	\$ 23,802,703	\$ 27,222,394
Non-Current Assets (net)	100,038,185	94,873,707
Total Assets	<u>\$ 123,840,888</u>	<u>\$ 122,096,101</u>
Deferred Outflows	<u>\$ 333,725</u>	<u>\$ 171,298</u>
<u>Liabilities</u>		
Current Liabilities	\$ 6,654,514	\$ 9,527,102
Non-Current Liabilities	1,741,888	1,270,499
Total Liabilities	<u>\$ 8,396,402</u>	<u>\$ 10,797,601</u>
Deferred Inflows	<u>\$ 96,906</u>	<u>\$ 118,040</u>
<u>Net Position</u>		
Capital Assets	\$ 100,038,185	\$ 94,873,707
Temporarily Restricted Assets	252,917	285,043
Unrestricted Assets	15,390,203	16,193,008
Total Net Position	<u>\$ 115,681,305</u>	<u>\$ 111,351,758</u>

Current Assets decreased 12.6% to \$23.8 million in FY16. Non-Current Assets increased \$5.2 million to \$100 million.

The most significant change to the total Non-Current assets was an increase to Building offset by a decrease to Construction in Progress due to the student center renovation.

**Capital Assets, Net
June 30, 2016 and 2015**

	FY16	FY15
Land & Land Improvements	\$ 3,934,196	\$ 3,934,196
Building	114,477,720	95,217,450
Infrastructure	7,552,283	7,167,505
Furniture, Machinery & Equipment	18,568,656	17,753,642
Construction in Progress	258,858	11,506,052
Total property, plant & equipment	<u>144,791,713</u>	<u>135,578,845</u>
Less: Accumulated Depreciation	(44,753,528)	(40,705,138)
Total investment in plant	<u>\$ 100,038,185</u>	<u>\$ 94,873,707</u>

Liabilities include accounts payable, accrued salaries and taxes, deferred revenue, compensated absences and state retirement payable. Total liabilities decreased from FY15 to FY16 in the amount of \$2.4 million. This is a result mainly to a decrease in accounts payable of \$2.6 million. The decrease in accounts payable is directly related to the student center renovation.

Unrestricted net assets decreased from \$16,139,008 in FY15 to \$15,390,203 in FY16. In fund accounting, unrestricted net assets are referred to as fund balance. The decrease is a result of a transfer for capital projects of \$4.9 million from the general fund. Excluding these transfers, the College would have added over \$4.1 million to fund balance.

The College's goal is to maintain unrestricted assets at levels sufficient to protect HCC's financial position from unforeseeable emergencies, revenue shortfalls, and expenditure overages. Given the financial challenges the State and County may face in the upcoming years, sufficient levels of unrestricted assets will become even more important. Additionally, discussions continue between College administration and the Board of Trustees regarding the possible use of unrestricted assets. An action is anticipated to be taken by the Board to internally designate the use of these funds for continued capital projects and a designation to cover potential shortfalls in health care claims.

Statements of Revenues, Expenses, and Changes in Net Position

The purpose of this statement is to present the revenues realized and expenses incurred by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses realized or incurred by the institution.

Operating revenues are those receipts received for providing goods and services to students and customers of the College. Operating expenses are goods and services that are provided in return for operating revenues. Non-operating revenues are revenues for which goods and

services are not provided. Examples of non-operating revenue are State and County Appropriations.

**Revenues, Expenses and Changes in Net Position
June 30, 2016 and 2015**

	FY16	FY15
Operating Revenues and Expenses		
Tuition and Fees (net)	\$ 14,645,787	\$ 14,591,956
Auxiliary Enterprises	2,763,728	3,244,537
Grants and Contracts	7,763,065	8,976,968
Other	451,721	493,909
Total Operating Revenue	<u>\$ 25,624,301</u>	<u>\$ 27,307,370</u>
Total Operating Expenses	<u>\$ 44,767,571</u>	<u>\$ 46,793,224</u>
 Non-Operating Revenues and Expenses		
State Appropriation	\$ 8,456,933	\$ 8,366,979
County Appropriation	9,265,010	8,965,010
Capital Appropriation	3,898,167	8,394,471
Investment Income	32,700	22,159
Certain Fringe Benefits Paid Directly by the State	1,818,367	1,802,177
Other Sources	1,640	25,199
Total Non-Operating Revenues	<u>\$ 23,472,817</u>	<u>\$ 27,575,995</u>
Increase (Decrease) in Net Position	\$ 4,329,547	\$ 8,090,141
Net Position – Prior Year	111,351,758	104,316,928
Restatement	<u>-</u>	<u>(1,055,311)</u>
Net Position – Current Year	<u>\$ 115,681,305</u>	<u>\$ 111,351,758</u>

- Tuition and fees, net of scholarship allowances, accounts for 30% of the total revenue for the college. The absolute dollar amount increased by approximately \$54,000 from FY15 while the percentage as a portion of total revenue increased from 25%. This can mainly be attributed to the increase in tuition and fee rates and the decrease in revenue from the State and County for capital appropriation during FY 16.
- Auxiliary Enterprises account for approximately 6% of the College’s total revenue, which is flat from FY15. This revenue source includes the Campus Store, Children’s Learning Center, Technical Innovation Center and Food Services.
- Grants and contracts account for approximately 16% of total revenues in FY16. The revenue of \$7.8 million decreased approximately \$1.2 million from FY 15.
- State and County Appropriations, excluding capital appropriations, accounts for 36% of the total institutional revenue. As a percentage of total institutional revenue, this revenue source is up 4% when compared to the previous fiscal year.
- Capital appropriations from the State and County decreased \$4.5 million to slightly under \$3.9 million. This is a result of the completion of the renovation/expansion of the Student Center.

Operating expenses by functional categories are:

	FY16		FY15
Instruction	\$ 13,746,090	\$	13,416,760
Public Service	47,546		122,600
Grants	4,216,392		6,006,551
Academic Support	2,769,663		2,928,170
Student Services	4,167,658		4,365,078
Plant Operations & Maintenance	3,350,367		3,524,698
Institutional Support	7,782,754		7,689,735
Auxiliary Enterprises	2,780,055		3,162,202
Depreciation	4,088,679		3,775,253
Benefits Paid by the State	1,818,367		1,802,177
	<hr/>		<hr/>
Total Operating Expenses	<u>\$ 44,767,571</u>	<u>\$</u>	<u>46,793,224</u>

Overall, operating expenditures decreased by \$2,025,652. The decrease in grants is due to the decline in Pell Grants and the increase in the scholarship allowance. Many functional areas decreased due to cost cutting efforts attributable to the challenging enrollment environment currently being experienced.

Statements of Cash Flows

The Statements of Cash Flows provides information about the College's cash receipts and cash payments during the year. This statement also helps users assess the College's ability to generate net cash flow and its ability to meet obligations as they come due.

Cash flow from operating activities consists of tuition and fees, auxiliary enterprises, and grants and contracts. Major cash outlays in operating activities consist of salaries and benefits of \$25.4 million and payments to suppliers of \$15.9 million. Net cash used for operating activities increased by approximately \$900,000 from FY15 to FY16 primarily due to increased payments to suppliers and a decline in tuition and fee revenue offset by an increase in payments for grants and contracts.

State and local appropriations are the primary source of non-capital financing activities. Generally Accepted Accounting Principles require that the College reflect this source of revenue as non-operating even though the College's budget depends on this to continue the current level of operations. These appropriations from FY15 to FY16 increased approximately 2%.

Capital financing activities represent funds that were used to purchase or add value to capital assets. There was a net increase in funds used from FY15 to FY16 due to the decline in state and county capital funds received for the student center renovation.

Cash flows from investing activities represent income earned on cash invested in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposits. Investment income

in FY16 was \$32,700. This increased from \$22,159 in FY15 due to a slightly more favorable interest rate environment, especially, with respect to the MLGIP.

Cash Flows
June 30, 2016 and 2015

	FY16	FY15
Cash, Beginning	\$ 18,203,155	\$ 18,173,831
Cash Provided/(Used) By:		
Operating Activities	(14,439,306)	(13,527,617)
Non-Capital Financing Activities	17,732,722	17,359,451
Capital Financing Activities	(5,368,167)	(3,824,669)
Investing Activities	32,700	22,159
Net (Decrease) Increase in Cash	<u>(2,042,051)</u>	<u>29,324</u>
Cash, Ending	<u>\$ 16,161,104</u>	<u>\$ 18,203,155</u>

Budget Adjustments

Planning and funding future growth based upon the College's institutional priorities and strategic goals will to some extent necessitate the reallocation of resources within a given fiscal year. The evaluation, planning and budgeting process includes procedures to address necessary resource reallocations. A Board-approved budget revision was made mid-year based upon enrollment statistics, program development, new programs and initiatives and unforeseen circumstances.

General Fund

Net Increase/(Decrease) in Credit Tuition	\$	(394,000)
Net Increase/(Decrease) in Credit-Free Tuition		200,000
Net Increase/(Decrease) in Student Fees		300,000
Net Increase/(Decrease) in Miscellaneous Revenue		(82,000)
Total Net Increase in Revenue	\$	<u>24,000</u>
Net Increase/(Decrease) in Salaries & Benefits	\$	(224,014)
Net Increase/(Decrease) in Contracted Services		(15,228)
Net Increase/(Decrease) in Materials & Supplies		77,099
Net Increase/(Decrease) in Professional Development		7,033
Net Increase/(Decrease) in Utilities		(3,000)
Net Increase/(Decrease) in Grants & Subsidies		(20,000)
Net Increase/(Decrease) in Other Expenditures		(89,909)
Net Increase/(Decrease) in Capital Outlay		77,792
Net Increase/(Decrease) in Contingency		214,227
Total Net Increase in Expenditures	\$	<u>24,000</u>

Highlights included:

Revenue:

Credit Tuition and fees

- Adjustments are being made for realized fall 2015 enrollment shortfalls and projected spring and summer 2016 enrollment shortfalls. As of the mid-year mark, out-of-county tuition revenues were down, but were partially offset by increases in in-county and out-of-state tuition revenues, as well as the tuition cost increases.

Credit-Free Tuition

- Credit-free revenue is projected to increase slightly over budgets due to the increased number of programs being offered.

Student Fees

- While overall enrollments have declined somewhat, the higher and more consistent student fees for various courses and registration has increased the projected total fee revenue for the year. Actual fees collected to-date indicates that fees revenue should be higher than initially budgeted.

Miscellaneous Revenue

- Decreased budget for projected decreases in various Other revenue areas.

Expenditures:

Salaries & Benefits

- Budgeted dollars for newly vacant or budgeted, but unfilled full and part-time regular positions were reduced.
- Budgets were reduced for regular positions for which we were able to obtain partial/supplemental grant funding.

Contracted Services

- The budget was reduced for various areas including a reduction in the instructional consultant budget lines for several academic units which did not need the full budgeted amount due to lower enrollments. In addition, a department was able to use grant funds for consultants instead of operating funds, resulting in a budget decrease.

Materials & Supplies

- An increase in budget was made for additional instructional materials (student kits) in the dental hygiene program. These kits were accounted for as part of fees charged to students (revenue), but, the budget was not added to the department for the applicable costs.
- An increase in the budget was made for software upgrades for campus cameras. The current DVRs are no longer working correctly and the new software is needed to keep the cameras running correctly to ensure that footage can be reviewed remotely.

Grants & Subsidies

- The funds needed for early college scholarships were less than anticipated, resulting in a decrease of the budgeted amount for the year.

Other Expenditures & Contingency

- Due to favorable analysis of bad debt, the budget for uncollectible accounts was reduced.
- The advertising and promotions budget related to the HCC open house was reduced based on actual expenditures for the fall open house.

- Additional contingency funds were set aside to support activities and personnel expenditures associated with enrollment enhancement activities such as a part-time veteran's recruiter, additional outreach to the county high schools, and for the Student Affairs/Enrollment Management organizational change. Actual costs of the reorganization and additional activities are not known at the current time.

Capital Outlay

- Additional funds are needed for various campus repairs and alterations, including getting TIC space ready for new tenant occupation.

During the fiscal year each cost center manager has the flexibility to move allocated operational funds from one-line item to another without requesting a budget revision through the executive staff level. These operational line items do not include salaries, benefits, memberships, professional development, lease agreements, software or capital outlays, which are considered institutional discretionary and designated funds as outlined in the College's Annual Plan and Budget.

Hagerstown Community College Foundation, Inc. (HCCF or Foundation)

Under Governmental Accounting Standards Board Statement No. 39, the Foundation was determined to be component unit of the College. The purpose of the Foundation is to encourage and seek private financial contributions for the progress of Hagerstown Community College as a vital community partnership between the College and the community. While the Foundation's primary focus has been on providing scholarship assistance, \$632,854 in FY16, its role has expanded over the last several years to include capital campaigns. It is the Foundation's intent to disburse only the income received from the investments for scholarships; however, this is not a requirement.

The Foundation's temporarily restricted net assets consist of seven separate divisions within the endowment: Regular Scholarships, Faculty Scholarships, Athletic Scholarships, the Arboretum, Career Programs Building, Arts and Sciences Complex/Performing and Visual Arts Education Center Capital Campaign, and other. The primary purpose of the Regular Scholarships is to provide financial assistance to students. The Faculty Scholarships were established to provide scholarships to attend Hagerstown Community College to students from the Washington County Area High Schools that have demonstrated scholastic achievement. Donations to the Arboretum were established to maintain the aesthetic beauty of Hagerstown Community College.

Net Assets for the Foundation decreased \$144,405 to \$9,637,481 million in FY16. This is primarily attributable to net loss on investments. The HCC Foundation also realized revenue of \$64,800 this fiscal year as a result of a distribution from a real estate limited partnership (RELP) interest carried at \$1,044,400. There is an Indemnification Agreement whereby the Foundation cannot be asked for cash calls. Additional donations of approximately \$428,480 were realized in FY16. This includes \$10,500 in non-cash donations. The College paid, on behalf of the Foundation, various overhead expenditures totaling \$254,994. This is included in the financial statements as contributions of in-kind services. The expenses are also reflected under the appropriate expenditure line item.

Major cash outlays in operating activities consist of scholarships of \$632,854, salaries and benefits of \$234,384, transfers to the College for scholarships of \$81,443 and fundraising expenses of \$144,592.

The Foundation's investments include the aforementioned RELP and units in the Unitized Investment Fund (the Fund) of the University System of Maryland Foundation. The market value of these investments as of June 30, 2016 was \$8.6 million. In FY16, there was a net investment loss from investment activities in the amount of \$190,059, down \$470,079 from FY15.

Economic Factors Affecting the Future

The economic health of the College is closely tied to the appropriations provided by the County and State. As noted in the Statements of Revenues, Expenses, and Changes in Net Position, the County and State governments provide vital resources to the College's operating budget. The College must position itself to reallocate resources if necessary. The annual unit planning process is comprehensive and provides a means to strategically determine reallocations if necessary. Revisions to the College's financial plan and projections will be needed and must be closely monitored. This will better assist the College in the development and implementation of strategies to ensure the future needs are met.

As enrollment declines, additional tuition and fee revenue will not be realized. Even when enrollment increases it is not at a rate sufficient to address the related costs associated with providing a quality education. Over the last thirty years, the burden to fund the College's general operating budget has shifted from the State and County to the students. HCC strives to keep a quality education within reach of low and middle-income families. Strategies must continue to be developed and implemented to maintain sufficient levels of governmental support.

Strategies to Strengthen the College's Financial Position

Current and foreseeable economic conditions will place increased pressures on HCC's financial capabilities for the next three to five years. This will make it more difficult for the College to maintain low cost/high quality in all its mission based program and service areas. Consequently, the College will need to expand its private fund raising initiatives as well as further enhance its capabilities to secure grants and initiate other forms of revenue enhancement. Where possible, reallocation of funds, along with developing potential partnership arrangements that could result in significant savings, will be studied and implemented.

The College will continue discussions on possible avenues the College should consider for revenue enhancements, including, but not limited to, traditional revenue sources and increased donations to the College from alumni and friends. In particular, the College will expand its efforts to increase grants revenue, especially in those areas where substantial curricular and / or student growth is anticipated.

Historically, grant proposal development has depended on the initiative and commitment of a variety of faculty and staff at Hagerstown Community College and the process for grant development was not tied to institutional goals and priorities. To coordinate this effort, the

grants function was reassigned to the Office of Planning and Institutional Effectiveness and a Grants Accountant position was funded. Additionally a Grants Council was convened. The Council meets periodically to monitor grant opportunities and to discuss the implications for the institution in areas such as personnel, equipment, sustainability, etc. Since the College will pursue multiple grants at approximately the same time, the President is developing a model with members of the Grants Council serving as grants teams to help identify funding sources and develop grant proposals.

FY16 was a successful year in securing grant funding and this success will continue into the next fiscal year. To supplement the General Fund operating budget, HCC regularly pursues grant opportunities. Grants for higher education are provided by a number of sources including federal, state, and local agencies. The table below summarizes grant revenues that supplemented operations during FY16. Many of these grants span multiple years and will continue to provide support for new and continuing goals and initiatives in upcoming years.

Grant Name	Amount
Department of Agriculture	\$ 19,754
Department of Education	999,468
Department of Health and Human Services	61,458
Department of Labor	193,609
National Science Foundation	438,654
Department of Labor, Licensing and Regulation	247,155
Maryland State Department of Education	134,883
Maryland Higher Education Commission	25,361
MD-DOT Highway Safety	5,527
Nurse Support Program	145,167
Dollar General Literacy	10,000
Fletcher Foundation	10,071
Who Will Care - Nursing	76,589
Citi Grant - JTSR	7,926
CareFirst Accelerated Medical	13,324
Miscellaneous/Other	161,857
TOTAL	<u>\$ 2,550,803</u>

The executive officers will also continue to lead cost-benefit studies and program reviews in their areas of responsibility, following established protocols. The goal is to make certain that HCC is using its resources wisely and producing quality outcomes in a cost effective manner. Selected areas of the College, based on internal data screenings, from instruction to administrative units, will be subject to cost-benefit reviews.

The College has made great effort to strengthen the institution's financial position. This success is documented through the maintenance of an adequate fund balance, growing investment in capital assets, and strong financial ratios. All of these elements provide a very positive picture of the College's financial health.

The chart below provides a five-year picture of net position, and operating revenue and expenditures. FY15 and FY16 general fund expenditures are higher due to fund balance transfers to pay for capital improvement projects like the student center renovation. The fluctuations in FY15 and FY16 non-operating revenues are due as well to the capital projects and associated state and local funding sources.

	FY16	FY15	FY14	FY13	FY12	5-Year Increase
Net Position:						
Invested in Capital Assets	\$ 100,038,185	\$ 94,873,707	\$ 86,413,649	\$ 88,048,078	\$ 82,439,937	21%
Unrestricted	15,390,203	16,193,008	17,590,868	16,251,221	14,624,111	5%
Temporarily Restricted	252,917	285,043	312,410	341,185	538,469	-53%
Total Net Position	\$ 115,681,305	\$ 111,351,758	\$ 104,316,927	\$ 104,640,484	\$ 97,602,517	19%
General Fund*:						
Actual Revenue	\$ 33,791,782	\$ 32,984,180	\$ 33,165,616	\$ 33,032,501	\$ 32,008,484	6%
Actual Expenditures	\$ 34,588,637	\$ 32,385,648	\$ 31,944,183	\$ 31,723,297	\$ 28,526,129	21%
Revenues & Expenses (GASB):						
Operating Revenue	\$ 25,624,301	\$ 27,307,370	\$ 29,435,462	\$ 30,590,703	\$ 29,697,084	-14%
Non-Operating Revenues	23,472,817	27,575,995	20,504,990	27,378,571	39,062,070	-40%
Total Revenue	49,097,118	54,883,365	49,940,452	57,969,274	68,759,154	-29%
Operating Expenses	44,767,571	46,793,224	50,264,007	50,931,308	51,120,081	-12%
Increase (Decrease) in Net Position	\$ 4,329,547	\$ 8,090,141	\$ (323,555)	\$ 7,037,966	\$ 17,639,073	

*Excludes Benefits Paid by the State on behalf of the College and transfers related to designated fund balance

Developing Relationships/Partnerships with Government Leaders and the Community

The County Commissioners recognize the College as one of the primary economic development entity in the region. The College will continue to demonstrate its positive outcomes in preparing persons for employment, but will need additional County financial support to adequately address these local needs. Without sufficient support the College will need to consider limiting enrollments, especially in high cost programs which are in high demand among a growing number of students because of high starting salaries, especially in various STEM and medical fields.

The College administration, Board of Trustees and the Washington County Commissioners meet officially each year in March to discuss the College's strategic goals, institutional priorities and projected operational needs. These meetings help the officials better understand the needs of the College before the County allocation is determined in late spring.

To reinforce the value of HCC to the community, the College contracted with Economic Modeling Specialists International to conduct an economic impact study. The report was published January 2013. Below are key points included in the Overview Fact Sheet:

INVESTMENT ANALYSIS

Student Perspective

- HCC served 7,024 credit students and 8,698 non-credit students in the 2011-12 reporting year.

- Education increases lifetime income. The average income at the career midpoint of someone with an associate's degree in Washington County is \$39,800, 35% more than a student with a high school diploma.
- Students enjoy an 18.5% rate of return on their HCC investment in HCC, recovering all costs in 7.7 years.
- Throughout his or her working career, the average HCC student's discounted lifetime income increases by \$4.50 for every dollar invested in HCC.

Social Perspective

- Higher earnings of HCC students and associated increases in state income expand the tax base in Maryland by about \$19 million each year.
- Maryland will see avoided social costs amounting to \$899,000 per year due to HCC students, including savings associated with improved health, reduced crime, and reduced welfare and unemployment.

Taxpayer Perspective

- State and local governments allocated \$17.4 million in support of HCC in FY 2011-12.
- For every dollar of this support, taxpayers see a cumulative return of \$2.20 over the course of a students' working career (in the form of higher tax receipts and avoided costs).
- State and local governments see a rate of return of 9.0% on their support for HCC. This return compares very favorably with private sector rates of return on similar long-term investments.

ECONOMIC GROWTH ANALYSIS

College Operations Effect

- The Washington County economy annually receives roughly \$21.9 million in income due to HCC operations. This is a conservative figure adjusted to account for monies that leave the economy or are withdrawn from the economy in support of the College.

Productivity Effect

- The current Washington County economy embodies an estimated \$875,500 credits that have accumulated over the past 30-year period as thousands of former HCC students (completers and non-completers) enter the workforce year after year.
- HCC skills translate to higher earnings for students and increased output of businesses. The added income attributable to the accumulation of HCC credits in the workforce amounts to \$134.6 million each year.

Total Effect

- Altogether, the average annual added income due to the activities of HCC and its former students equals \$156.5 million. This is approximately equal to 3.0% of the total Washington County economy.

Local members of the State delegation have also been meeting for the last few years with the Board of Trustees and College administration every November. This meeting, just prior to the convening of the State legislative session, is beneficial to all parties as the College's accomplishments and needs are highlighted. State legislators are very supportive of HCC as an economic development agent in Washington County.

Contingency Planning

In the event that HCC does not receive the operational funding that it requests, the annual plan and budget is developed with contingencies in place. Contingency lists, developed by the President and his executive officers, may include personnel, equipment, professional development, and supplies. In addition, the College builds into its annual budget a general contingency line item. Mid-year budget revisions and reallocations are conducted annually to ensure sound fiscal management.

Hagerstown Community College
Hagerstown, Maryland
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	Hagerstown Community College		Component Unit Hagerstown Community College Foundation	
	2016	2015	2016	2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 16,161,104	\$ 18,203,155	\$ 205,667	\$ 131,029
Accounts receivable:				
Student receivables (net of allowance of \$2,335,174 and \$2,218,411)	5,533,973	4,840,612	-	-
State of Maryland	719,114	247,247	-	-
Federal government	300,171	1,520,155	-	-
Other	283,615	1,693,602	-	-
Due from Foundation	68,515	21,006	-	-
Due from Agency	1,208	-	40	-
Interest receivable	7,613	349	-	79
Pledges receivable, net	-	-	54,905	56,470
Inventories	478,402	406,556	-	-
Prepaid expenses	248,988	289,712	5,574	-
Total current assets	<u>23,802,703</u>	<u>27,222,394</u>	<u>266,186</u>	<u>187,578</u>
NONCURRENT ASSETS				
Property, plant and equipment, net	99,779,327	83,367,655	-	-
Construction in progress	258,858	11,506,052	-	-
Investments, at fair value	-	-	8,614,118	8,510,730
Investments, at cost	-	-	1,044,400	1,044,400
Pledges receivable, net	-	-	85,445	91,036
Total non-current assets	<u>100,038,185</u>	<u>94,873,707</u>	<u>9,743,963</u>	<u>9,646,166</u>
TOTAL ASSETS	<u>\$ 123,840,888</u>	<u>\$ 122,096,101</u>	<u>\$ 10,010,149</u>	<u>\$ 9,833,744</u>
DEFERRED OUTFLOWS	<u>\$ 333,725</u>	<u>\$ 171,298</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 694,803	\$ 3,320,452	\$ 21,801	\$ 758
Accrued salaries and taxes	1,327,452	1,313,795	-	-
Scholarships payable	-	-	282,352	30,094
Due to College	-	-	68,515	21,006
Deferred revenue	4,632,259	4,892,855	-	-
Total current liabilities	<u>6,654,514</u>	<u>9,527,102</u>	<u>372,668</u>	<u>51,858</u>
NONCURRENT LIABILITIES				
Compensated absences	206,743	192,084	-	-
Net pension liability	1,535,145	1,078,415	-	-
Total noncurrent liabilities	<u>1,741,888</u>	<u>1,270,499</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 8,396,402</u>	<u>\$ 10,797,601</u>	<u>\$ 372,668</u>	<u>\$ 51,858</u>
DEFERRED INFLOWS	<u>\$ 96,906</u>	<u>\$ 118,040</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 100,038,185	\$ 94,873,707	\$ -	\$ -
Unrestricted	15,390,203	16,193,008	899,007	1,115,004
Board designated unrestricted	-	-	2,193,039	2,202,881
Restricted	252,917	285,043	6,545,435	6,464,001
Total net position	<u>\$ 115,681,305</u>	<u>\$ 111,351,758</u>	<u>\$ 9,637,481</u>	<u>\$ 9,781,886</u>

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

Hagerstown Community College
Hagerstown, Maryland
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2016 and 2015

	Hagerstown Community College		Component Unit Hagerstown Community College Foundation	
	2016	2015	2016	2015
REVENUES				
Operating revenues:				
Tuition and fees	\$ 15,742,150	\$ 15,268,772	\$ -	\$ -
Scholarship allowances	(1,096,363)	(676,816)	-	-
	<u>14,645,787</u>	<u>14,591,956</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	7,013,049	8,057,677	-	-
State, local and other grants and contracts	750,016	919,291	-	-
Auxiliary enterprises	2,763,728	3,244,537	-	-
Contributions	-	-	417,980	506,844
Income distribution from RELP	-	-	64,800	67,500
Non-cash donations	-	-	10,500	9,703
Special events				
Gross revenue (including contributions of \$224,055 and \$201,932, respectively)	-	-	377,442	258,182
Less: direct costs of events	-	-	(119,884)	(42,836)
Contribution of in-kind services	-	-	254,994	242,671
Other sources	451,721	493,909	39,585	31,091
Total operating revenues	<u>25,624,301</u>	<u>27,307,370</u>	<u>1,045,417</u>	<u>1,073,155</u>
EXPENSES				
Instruction	13,746,090	13,416,760	-	-
Public service	47,546	122,600	-	-
Grants	4,216,392	6,006,551	-	-
Academic support	2,769,663	2,928,170	-	-
Student services	4,167,658	4,365,078	-	-
Plant operations and maintenance	3,350,367	3,524,698	-	-
Institutional support	7,782,754	7,689,735	-	-
Auxiliary enterprises	2,780,055	3,162,202	-	-
Fundraising	-	-	24,708	30,266
Scholarships awarded	-	-	632,854	589,218
Contribution to the College	-	-	81,443	78,530
Other	-	-	260,758	242,005
Depreciation	4,088,679	3,775,253	-	-
Certain fringe benefits paid directly by the State of Maryland	1,818,367	1,802,177	-	-
Total operating expenses	<u>44,767,571</u>	<u>46,793,224</u>	<u>999,763</u>	<u>940,019</u>
OPERATING INCOME (LOSS)	<u>(19,143,270)</u>	<u>(19,485,854)</u>	<u>45,654</u>	<u>133,136</u>
NONOPERATING REVENUES				
County appropriation	9,265,010	8,965,010	-	-
State appropriation	8,456,933	8,366,979	-	-
State and County capital appropriation	3,882,673	8,123,513	-	-
Other capital appropriation	15,494	270,958	-	-
Investment return (loss), net of expenses	32,700	22,159	(190,059)	280,020
Certain fringe benefits paid directly by the State of Maryland	1,818,367	1,802,177	-	-
Other sources	1,640	25,199	-	-
Total nonoperating revenues	<u>23,472,817</u>	<u>27,575,995</u>	<u>(190,059)</u>	<u>280,020</u>
INCREASE (DECREASE) IN NET POSITION	4,329,547	8,090,141	(144,405)	413,156
NET POSITION, BEGINNING OF YEAR	111,351,758	104,316,928	9,781,886	9,368,730
RESTATEMENT, Note 16	-	(1,055,311)	-	-
NET POSITION, END OF YEAR	<u>\$ 115,681,305</u>	<u>\$ 111,351,758</u>	<u>\$ 9,637,481</u>	<u>\$ 9,781,886</u>

Hagerstown Community College
Hagerstown, Maryland
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	Hagerstown		Component Unit	
	Community College		Hagerstown Community	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 13,737,523	\$ 15,091,156	\$ -	\$ -
Grants and contracts	9,875,462	6,802,745	-	-
Other sources	451,721	493,909	-	-
Payments to suppliers	(15,860,354)	(13,213,917)	-	-
Payments for salaries and benefits	(25,407,386)	(25,946,047)	-	-
Auxiliary enterprises revenue	2,763,728	3,244,537	-	-
Foundation operating activity	-	-	368,006	6,809
Net cash (used in)/provided by operating activities	<u>(14,439,306)</u>	<u>(13,527,617)</u>	<u>368,006</u>	<u>6,809</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
County appropriations	9,265,010	8,965,010	-	-
State appropriations	8,456,933	8,366,979	-	-
Other sources	10,779	27,462	-	-
Net cash provided by noncapital financing activities	<u>17,732,722</u>	<u>17,359,451</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
State and County capital appropriation	3,882,673	8,123,513	-	-
Other capital appropriation	15,494	270,959	-	-
Purchases of capital assets	(9,265,665)	(12,221,243)	-	-
Proceeds from sale of fixed assets	8,470	4,363	-	-
Loss (gain) from sale of fixed assets	(9,139)	(2,261)	-	-
Net cash (used in) provided by capital financing activities	<u>(5,368,167)</u>	<u>(3,824,669)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	(575,679)	(490,744)
Proceeds from sale of investments	-	-	282,311	501,702
Investment income	32,700	22,159	-	-
Net cash (used in)/ provided by capital investing activities	<u>32,700</u>	<u>22,159</u>	<u>(293,368)</u>	<u>10,958</u>
NET INCREASE/(DECREASE) IN CASH	<u>(2,042,051)</u>	<u>29,324</u>	<u>74,638</u>	<u>17,767</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>18,203,155</u>	<u>18,173,831</u>	<u>131,029</u>	<u>113,262</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,161,104</u>	<u>\$ 18,203,155</u>	<u>\$ 205,667</u>	<u>\$ 131,029</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating (loss)/income	\$ (19,143,270)	\$ (19,485,854)	\$ 45,654	\$ 133,136
Adjustments to reconcile operating (loss)/income to net cash (used in)/provided by operating activities:				
Depreciation	4,088,679	3,775,253	-	-
In-kind county plant and state paid fringes	1,818,367	1,802,177	-	-
Bad debts	-	-	-	1,023
Unrealized (gain) loss on investments	-	-	378,856	(66,692)
Realized (gain) loss on investments	-	-	(185,079)	(226,724)
Investment return (loss)	-	-	(190,059)	280,020
Reinvested dividends	-	-	(3,797)	-
Effects of changes in operating assets and liabilities:				
Student receivable, net	(693,361)	367,832	-	-
Accounts receivable - State of Maryland	(471,867)	82,946	-	-
Accounts receivable - Federal government	1,219,984	(847,127)	-	-
Accounts receivable - Washington County	1,364,280	(1,410,043)	-	-
Accounts receivable - other (net)	45,692	84,287	-	-
Prepaid expenses	40,724	(102,446)	(5,574)	-
Inventories	(71,846)	(29,183)	-	-
Deferred outflows	(162,427)	(29,689)	-	-
Accounts payable	(2,677,687)	2,241,755	21,043	(7,149)
Accrued salaries and taxes	13,765	(19,904)	-	-
Compensated absences	14,660	(4,238)	-	-
Deferred revenue	(260,595)	47,081	-	-
Net pension liability	456,730	(118,504)	-	-
Deferred inflows	(21,134)	118,040	-	-
Pledges receivable	-	-	4,250	(111,062)
Discount on pledge receivables	-	-	2,906	2,209
Other receivables	-	-	39	(32)
Other liabilities	-	-	299,767	2,080
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	<u>\$ (14,439,306)</u>	<u>\$ (13,527,617)</u>	<u>\$ 368,006</u>	<u>\$ 6,809</u>

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Note 1 - REPORTING ENTITY

Hagerstown Community College (HCC or 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 seven-member Board of Trustees, who are appointed for six-year terms by the Governor of the State with the advice and consent of the State Senate.

Funding is received from both the State and Washington County (the County). Annual state funding is based upon a statutory formula that utilizes the number of full-time equivalent students reported two years earlier.

Hagerstown Community College Foundation, Inc. (HCCF or the Foundation) is considered a component unit of the College and is presented in the College’s financial statements based on management’s interpretation of Government Accounting Standards Board Statement (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*. The purpose of the Foundation is to encourage and seek private financial contributions for the progress of the College as a vital community partnership between the College and the community. While the Foundation's primary focus has been providing scholarship assistance, its role is to raise funds for the benefit of the College, its students, and faculty through public contributions. Complete financial statements for the Foundation can be obtained by contacting Hagerstown Community College Foundation, Inc. at 11400 Robinwood Drive, Hagerstown, MD 21742.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The College and the Foundation is presented to assist in understanding the College’s and Foundation’s financial statements. The financial statements and notes are representations of the College’s and Foundation’s management, who are responsible for their integrity and objectivity.

BASIS OF PRESENTATION

In June 1999, the GASB approved Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*; this statement has been in part amended by GASB 63. This was followed by Statement No. 35 *Basic Financial Statements and Management’s Discussion Analysis for Public Colleges and Universities*. GASB Statement 34 identified three types of special-purpose governments (SPG): (1) those engaged only in governmental activities, (2) those engaged only in business-type activities, and (3) those engaged in both governmental and business type activities.

Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange transactions. On the other hand, business-type activities (BTAs) 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 of SPG’s engaged in

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

business-type activities. Colleges reporting as BTA's follow GASB standards applicable to proprietary (enterprise) funds. The BTA model requires the following component unit financial statement components.

- * Management's Discussion and Analysis
- * Statement of Net Position
- * Statement of Revenues, Expenses, and Changes in Net Position
- * Statement of Cash Flow
- * Notes to the Financial Statements

The College's financial statements are prepared using the format of a special-purpose government engaged only in business-type activities with an economic resources measurement focus and the accrual basis of accounting. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal contractual obligation to pay. The statements are intended to report the public institution as an economic unit that includes all measurable assets, liabilities, financial results, and capital of the institution.

The statements of revenues, expenses, and changes in net position for special-purpose governments engaged in BTAs require an operating/non-operating format to be used. The College has elected to report its operating expenses by functional classification. The statements of cash flows are presented utilizing the direct method, which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income.

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.

The College's tuition and fee revenue is reported net of scholarship allowance. The scholarship allowance represents funds received as tuition from outside resources such as Title IV Federal Grant Program, restricted grants, Board of Trustee Scholarships, as well as waivers.

The Foundation is a private, non-profit organization that reports under FASB ASC 958 *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Certain presentation reclassifications have been made to the Foundation's financial statement information included in the College's financial statements.

The Foundation has presented its financial statements in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Accordingly, the Foundation reports information regarding its financial position and activities according to three classes of net position; unrestricted net position (including board designated funds), temporarily restricted, and permanently restricted net position.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS (HCC & HCCF)

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for doubtful accounts, allowance for uncollectible pledges, discounts on pledges receivable, the useful lives of depreciable assets, and fair value measurements.

RECENTLY ADOPTED AUTHORITATIVE GUIDANCE (HCCF)

In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value (NAV) per share practical expedient under ASC 820. ASU 2015-07 is effective for fiscal year-ends beginning after December 15, 2016 with early adoption permitted. The Foundation elected to early adopt this new guidance and the updated disclosures are included in the accompanying financial statement disclosures (Note 5). The adoption of this guidance had no impact on the Foundation's financial statement, other than as described in the Fair Value Measurements accounting policy below.

FAIR VALUE MEASUREMENTS (HCCF)

The Foundation complies with ASC 820-10 which (a) defines how fair value should be determined for the invested assets, (b) establishes a framework for measuring fair value, and (c) requires statement preparers to disclose information about their fair value determinations in their financial statements. The three levels of fair value hierarchy under ASC 820-10 are as follows:

- Level 1:** Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category include listed equities and listed bonds.

- Level 2:** Pricing inputs including inputs in markets that are not considered to be active for identical investments observable as of the reporting date. Investments which are generally included in this category include less liquid and restricted equity securities.

- Level 3:** Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

corporate private equity and investment funds as well as off-shore hedge funds in which the Foundation does not have readily available access due to lock up periods and/or partnership agreements. In addition, the Foundation depends on the General Partner or the Investment Manager of the investment for pricing information.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Certain investments use the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. These investment funds are held as units or interest in institutional funds or limited partnerships, which are stated at net asset value (NAV) or its equivalent. The NAV is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. Due to the early adoption of FASB ASU 2015-07 during the year ended June 30, 2016 (see above), these investments are not categorized in levels within the fair value hierarchy table (Note 5).

FEDERAL FINANCIAL ASSISTANCE PROGRAMS (HCC)

The College participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and William D. Ford Direct Student Loan Programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

OPERATING AND NON-OPERATING COMPONENTS (HCC)

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

CASH AND CASH EQUIVALENTS (HCC & HCCF)

The College and the Foundation consider all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

INVESTMENTS (HCCF)

The Foundation's investment in units of the University System of Maryland Foundation, Inc. (USMF) Unitized Investment Fund is stated at the Foundation's proportionate share of the fair value of the USMF fund units. Realized and unrealized gains and losses on investments are included in investment return and reported as increases or decreases in unrestricted and temporarily restricted net position. Other investment income, including dividends and interest, is recognized in the period earned as increases in net position.

USMF invests in a portfolio that contains money market funds, equity mutual funds, and Corporate/Government bonds. Such investments are exposed to various risks, such as market, credit and interest rate risk. Due to the level of risk associated with such investments, it is at least reasonably possible that such risk may change in the near term and that such changes could materially affect the fair values of those investments as reported in the Foundation's financial statements. In addition, recent economic uncertainty and market events have led to unprecedented volatility in the currency, commodity, debt and equity markets that have resulted in the bankruptcy and/or failure of some financial institutions. Such events have highlighted the level of risk inherent in any investment portfolio.

The Foundation's investments also include a 6% interest in a real estate limited partnership ("RELP"). The limited partnership agreement contains an indemnification agreement whereby the Foundation cannot be asked for additional capital contributions. Cash distributions received from the partnership are treated as unrestricted donations in the accompanying statements of activities. The Foundation's investment in the RELP is carried at cost. Management has determined that no impairment loss is required for its interest in the RELP.

STUDENT RECEIVABLES (HCC)

Student receivables are uncollateralized obligations of students resulting from course registration. The receivable is due at the start of the semester for which it was incurred. The College uses the allowance method to determine accounts receivables. The allowance is based on prior years' experience and management's analysis of collection history and specific promises made.

CONTRIBUTIONS AND PLEDGES RECEIVABLE (HCC & HCCF)

Unconditional promises to give that are expected to be collected within one year are reported at their net realizable values. Unconditional promises to give that are expected to be collected in future years are discounted to present value of their estimated future cash flows. The discounts on non-current amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net position are reclassified to unrestricted net position and reported in the statements of activities as net position released from restrictions.

The College and the Foundation use the allowance method to evaluate the collectability of student accounts and promises to give based on prior years' experience and management's analysis of specific promises made. At June 30, 2016 and 2015, management has established an allowance for doubtful accounts as stated on the statement of net position (HCC) and in Note 6 to these financial statements (HCCF).

INVENTORIES (HCC)

Inventories are comprised predominately of textbooks held for sale in the bookstore and are stated at cost using the First in First out (FIFO) method. Generally, unsold books are returned to the publishers.

PENSION (HCC)

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 benefits and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NET OTHER POST-EMPLOYMENT OBLIGATIONS (HCC)

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, ("GASB 45") was issued to provide a more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide OPEB as part of the compensation for services rendered by their employees. Post-employment healthcare benefits, the most common form of OPEB are a significant financial commitment for many governments.

Under GASB 45, the College is required to calculate and record a net other post-employment benefit obligation (OPEB). An actuarial study is conducted every two years to determine the OPEB with the most recent being conducted September 2016. The College's Board of Trustees elected to fully fund the OPEB annual required contribution (ARC) and a retiree health plan trust was created and annually funded beginning with Fiscal Year 2009.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

CONTRIBUTED GOODS AND SERVICES (HCCF)

Donated assets, including securities and property and equipment are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as temporarily restricted support. Absent donor stipulations regarding how long the donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor at which time temporarily restricted net position are reclassified to unrestricted net position. Donated services that require specialized skills or enhance nonfinancial assets are recorded as support at fair value at the time of donation with a corresponding charge to expense.

NET POSITION CLASSIFICATION AND ENDOWMENTS (HCCF)

The Foundation complies with the provisions of FASB ASC 958-205 *Endowments of Not-for-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds*, which provides guidance on net position classification of donor-restricted endowment funds and related disclosures. The Foundation's endowment funds include both donor-restricted and board designated endowment funds. As required by accounting standards generally accepted in the United States of America, net position associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Maryland has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), replacing the 1974 Uniform Management of Institutional Funds Act. UPMIFA was issued by the National Conference of Commissioners on Uniform State Laws to, among other things, improve (a) protection of donor intent with respect to expenditures from endowments and (b) the endowment spending rule by eliminating the historic dollar value concept and provide better guidance regarding the operation of the prudence standard. The Maryland Law is called the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA). Under MUPMIFA, the term "endowment funds" does not include assets that an institution designates as an endowment fund for its own use. However, the disclosures required under ASC 958-205 apply to both donor-restricted and board designated endowment funds.

FEDERAL AND STATE INCOME TAX STATUS (HCC & HCCF)

The College is exempt from federal and state income taxes as it is an instrumentality of the State.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation complies with ASC 740-10 *Income Taxes*, which establishes a threshold for determining when an income tax benefit of a tax position can be recognized. Under ASC 740-10, a tax position includes, among other things, (a) a decision not to file a tax

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

return, (b) an allocation or a shift of income between jurisdictions, (c) the characterization of income or a decision to exclude reporting taxable income in a tax return, (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt, and (e) an entity's status, including its status as a tax-exempt not-for-profit entity. Based on its interpretation of the requirements of ASC 740-10, management believes that the Foundation has no uncertain tax positions that qualify for either recognition or disclosure. The Foundation believes it is no longer subject to income tax examinations for years prior to 2012.

NET POSITION (HCCF)

Temporarily Restricted net position is comprised of the following as of June 30:

	2016	2015
Regular Scholarship	\$ 4,588,006	\$ 4,456,527
Faculty Scholarship	180,202	186,182
Athletic Scholarship	1,440,029	1,460,156
Arboretum	319,857	327,334
CPB Capital Campaign	17,341	17,341
ASC/PVAEC Capital Campaign	-	22,656
Other	-	(6,195)
	<u>\$ 6,545,435</u>	<u>\$ 6,464,001</u>

The primary purpose of the Regular Scholarships is to provide financial assistance to students. The Faculty Scholarships were established to provide scholarships to attend Hagerstown Community College to students from Washington County High Schools that have demonstrated high scholastic achievement. Donations to the Arboretum were established to maintain the aesthetic beauty of the College's campus.

The Foundation conducted a capital campaign to help furnish and equip the Career Programs Building (CPB); the funds raised were primarily used to purchase furniture and equipment for classrooms and laboratories. Funds were also used to purchase furnishings for the Merle S. Elliott Continuing Education and Conference Center also housed in the CPB.

The Athletic Scholarship and Booster Leadership Group was established to generate fan support and raise funds to support and promote HCC athletics. In regard to raising funds, the club will be associated with the HCC Foundation and all fundraising will be specifically addressed through the Athletic Scholarship and Booster Support Committee. In regard to fan support and community interest, the group will continue to operate at their own discretion.

The Foundation is a partner in the Waltersdorf/Henson Endowment Challenge Campaign. The established goal of \$800,000 was met in FY08. This matching gift program will provide a dollar-for-dollar match creating a \$1.6 million fund within the Community Foundation of Washington County (CFWC) to support the Foundation with scholarships and a teaching and

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

learning excellence fund. The Foundation has transferred such funds, which are a component fund of CFWC, and granted variance power to CFWC with respect to such funds. Accordingly, the Foundation has not recognized such funds as an asset. The Foundation is a beneficiary of the investment return on such funds and, accordingly, has recognized the investment return on such fund as contributions.

Note 3 – RISKS AND UNCERTAINTIES (HCC & HCCF)

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 concerning instruction of nursing and Allied health students. The College also purchases private stop-loss insurance for employee health coverage. Settled claims have not exceeded this commercial coverage for the past three fiscal years.

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash, cash equivalents, and investments. USMF, directed by the adopted investment policy, manages the majority of the Foundation's investment portfolio.

Note 4 – CASH AND INVESTMENTS

DEPOSITS (HCC)

As of June 30, 2016 and 2015, the College's carrying value of cash was \$2,963,064 and \$1,311,488, respectively, and the bank balance was approximately \$1,500,000 for both years. All of these funds are insured by the FDIC or collateralized with securities held by the depository institutions.

SHORT-TERM INVESTMENTS (HCC)

Securities pledged to cover deposits for the College are an FNMA Pool with a coupon rate of 4.00% maturing July 1, 2025 with a fair value of \$1,067,535 and an FHLMC Remic with a coupon rate of 1.50%, maturing November 15, 2031 with a fair value of \$6,711,396. These securities were pledged for HCC and are in safekeeping at the US Bank as of June 30, 2016. The repurchase agreement as of June 30, 2016 was \$6,429,855. The College had \$5,518,185 and \$5,507,526 invested in the Maryland Local Government Investment Pool (MLGIP) at June 30, 2016 and June 30, 2015, respectively. The College had \$1,250,000 in CDs with maturities of 1 year or less. These investments are in accordance with Article 95 of the Annotated Code of Maryland.

The investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The categorizations are as follows:

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Category 1 - Insured or registered, or securities held by the college or its agent in the College's name.

Category 2 - Uninsured and unregistered, with securities held by the counter party's trust department or agent in the College's name.

FY 2016	Category		Carrying Amount	Fair Value
	1	2		
Repurchase agreements	\$ -	\$6,429,855	\$6,429,855	\$6,429,855
Investments not subject to categorization:				
Investment in Maryland Local Government Investment Pool			5,518,185	5,518,185
Certificates of Deposit			<u>1,250,000</u>	<u>1,250,000</u>
Total investments			<u>13,198,040</u>	<u>13,198,040</u>
Cash			<u>2,963,064</u>	<u>2,963,064</u>
Total			<u>\$16,161,104</u>	<u>\$16,161,104</u>

FY 2015	Category		Carrying Amount	Fair Value
	1	2		
Repurchase agreements	\$ -	\$10,034,027	\$10,034,027	\$10,034,027
Investments not subject to categorization:				
Investment in Maryland Local Government Investment Pool			5,507,526	5,507,526
Certificates of Deposit			<u>1,350,114</u>	<u>1,350,114</u>
Total investments			<u>16,891,667</u>	<u>16,891,667</u>
Cash			<u>1,311,488</u>	<u>1,311,488</u>
Total			<u>\$18,203,155</u>	<u>\$18,203,155</u>

Investment rate risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing interest rates, the College's investment policy limits the maturity date of direct investments, unless matched to a specific cash flow, to one year from the date of purchase. The College may invest in instruments that contain some underlying securities with maturity dates greater than one year. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the College from having to sell investments below original cost for that purpose. The investments at June 30, 2016, met the College's investment policy as of that date.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Credit Risk

College investment policy does not permit investments in commercial paper or corporate bonds, except as permitted under state law in the state investment pool. The College invests in the Maryland Local Investment Pool (MLGIP) which is under the administration of the State Treasurer. 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. The College maintains a repurchase agreement with Columbia Bank that is collateralized with Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) Notes.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, all of the College's investments were insured or collateralized in the College's name, or invested in the MLGIP or in instruments whose underlying securities are comprised solely with obligations of the U.S. Treasury.

Foreign Currency Risk

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

Note 5 - INVESTMENTS (HCCF)

The Foundations investments consisted of the following as of June 30:

	2016				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at NAV*
Money market funds and short-term investments ⁽¹⁾	\$ 242,918	\$ 242,918	\$ -	\$ -	\$ -
Corporate and municipal bonds ⁽²⁾	65,468	-	65,468	-	-
Equities and mutual funds ⁽³⁾	1,376,536	1,376,536	-	-	-
US Treasury notes and bonds ⁽²⁾	29,288	-	29,288	-	-
US agencies ⁽²⁾	2,584	-	2,584	-	-
Absolute return ⁽⁴⁾	1,446,310	-	-	578,090	868,220
Long and short equity hedge funds ⁽⁵⁾	2,484,312	-	-	1,128,126	1,356,186
Private capital ⁽⁶⁾	1,299,870	-	-	1,084,742	215,128
Real estate, energy and natural resources ⁽⁶⁾	1,666,832	-	-	1,390,971	275,861
	<u>\$ 8,614,118</u>	<u>\$ 1,619,454</u>	<u>\$ 97,340</u>	<u>\$ 4,181,929</u>	<u>\$ 2,715,395</u>

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

	2015				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at NAV*
Money market funds and short-term investments ⁽¹⁾	\$ 319,153	\$ 319,153	\$ -	\$ -	\$ -
Corporate and municipal bonds ⁽²⁾	66,384	-	66,384	-	-
Equities and mutual funds ⁽³⁾	1,474,909	1,474,909	-	-	-
US Treasury notes and bonds ⁽²⁾	27,234	-	27,234	-	-
US agencies ⁽²⁾	4,256	-	4,256	-	-
Absolute return ⁽⁴⁾	1,382,994	-	-	525,399	857,595
Long and short equity hedge funds ⁽⁵⁾	2,764,285	-	-	1,307,783	1,456,502
Private capital ⁽⁶⁾	1,047,671	-	-	920,589	127,082
Real estate, energy and natural resources ⁽⁶⁾	1,423,844	-	-	1,251,132	172,712
	<u>\$ 8,510,730</u>	<u>\$ 1,794,062</u>	<u>\$ 97,874</u>	<u>\$ 4,004,903</u>	<u>\$ 2,613,891</u>

*Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy pursuant to ASU 2015-07. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of net position.

There were no transfers of assets between Level 1, 2 or 3 classifications for the years ended June 30, 2016 and 2015.

- (1) USMF invests in money-market funds and short-term investments, including amounts invested in accounts with depository institutions and managed accounts which are readily convertible to known amounts of cash. USMF invests in money-market and short-term investments 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. The Foundation has not experienced such losses on these funds. USMF has classified these investments as Level 1. Valuation is based on quoted market prices.
- (2) USMF invests in corporate and municipal bonds, U.S. treasury notes and bonds, U.S. agency securities, and collateralized mortgage obligations/assets and mortgage backed securities through managed accounts. Fair value, liquidity, and related income of these securities 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. USMF has classified these investments as Level 2. Valuation is based on similar asset values in active markets.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

- (3) USMF invests directly in common stock, preferred stock and also mutual funds. In general, equity securities and mutual funds 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. USMF invests in equity securities to gain exposure to the overall direction of global equity markets. The underlying securities within the account have quoted prices available in active markets and have no redemption restrictions and therefore, USMF has classified these investments as Level 1.
- (4) Absolute return investments track 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 has been estimated either by using the net asset value (NAV) per share of the investments or the ownership percentage of the fund's net assets. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. The notice period for redemption of investment ranges from one month to six months. There are no outstanding unfunded commitments to this asset category. USMF has classified the investments fair valued by ownership percentage of the fund's net assets as Level 3.
- (5) 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. Also, early withdrawal carries a penalty. Therefore, even though the underlying assets in some of the vehicles are readily saleable in the open market, USMF does not have the ability and, therefore, has classified investments in those vehicles, excluding investments valued by NAV, as Level 3. The fair value of these investments has been estimated either by using the net asset value per share of the investments or the ownership percentage of the fund's net assets. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year. The notice period for redemption ranges from one month to six months. There are no outstanding unfunded commitments to this asset category.
- (6) 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. 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

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

investment manager. The general partner or investment manager generally values their 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, 2016 and 2015, unfunded commitments within the private capital category equal approximately \$2,702,000 and \$2,556,000, respectively. As of June 30, 2016 and 2015, unfunded commitments within the real estate and energy and natural resources category equal approximately \$0 and \$1,702,000, respectively.

Net investment return (loss) consisted of the following for the years ended June 30:

	2016	2015
Interest, dividends & other activity	\$ 115,406	\$ 92,820
Realized gain (loss) on sale of investments	(378,856)	226,724
Unrealized gain (loss) on investments	185,079	66,692
	<u>(78,371)</u>	<u>386,236</u>
Less: investment management fees	(111,688)	(106,216)
	<u>\$ (190,059)</u>	<u>\$ 280,020</u>

The fair values of Level 3 investments have been estimated by USMF based on all available data, including information provided by third-party pricing vendors, fund managers, custodians and general partners. The valuations of alternative investments are classified as Level 3 due to the use of unobservable inputs in their year-end fair valuation. Unobservable inputs include 1) use of NAV or ownership percentage of the fund's net assets for alternative investment vehicles that are private, 2) capital account activity during the gap period of the most recent investor statement and USMF's year-end and 3) known performance adjustments for alternative investments that hold securities with observable fair valuations. There were no changes in valuation methodologies as of June 30, 2016 and 2015.

Alternative investments are recorded at fair value based on NAV as a practical expedient provided by the respective general partner or fund administrator of the individual alternative investment funds or the ownership percentage of the fund's net assets. Due to the limited

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

availability of valuation data as of USMF's year-end, management utilizes the most recent NAV or ownership percentage which may be on a month to quarter lag. USMF adjusts the net asset value or ownership percentage to be more representative of the year-end fair value by including capital contributions, redemptions or returns of capital during the gap period. Net capital activity during the gap periods increased USMF's estimates by \$13,000 and \$95,000 through June 30, 2016 and 2015, respectively. USMF will also adjust for known performance adjustments for alternative investments that hold publicly traded securities. Performance adjustments ranged from -4.3% to 3.01% for those investments on a one-month lag. No performance adjustments are made to investments on a quarter lag given the un-observability of investment performance at the time of report issuance.

USMF believes the carrying value of alternative investments in the statements of net position is a reasonable estimate of its ownership interest in the alternative investment funds. As part of USMF's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets. Management performs a retroactive review of its fair value estimates by comparing to actual year-end statements received subsequent to year-end.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while USMF believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. USMF's alternative investments are held with sophisticated investment managers who received audited financial statements during the year that aid in management's ability to approximate fair value.

The following table provides the reconciliation details for financial instruments classified within Level 3 of the fair valuation hierarchy defined above:

	2016	2015
Fair value, beginning	\$ 4,004,903	\$ 3,452,951
Realized gains (losses)	(47,949)	(74,565)
Unrealized gains (losses)	(195,816)	(304,516)
Net purchases (sales)	420,791	931,033
Fair value recorded at ending	<u>\$ 4,181,929</u>	<u>\$ 4,004,903</u>

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Note 6 – PLEDGES RECEIVABLE (HCCF)

Pledges receivable consisted of the following at June 30:

	2016	2015
Receivable in less than one year	\$ 55,256	\$ 56,713
Receivable in one to five years	98,000	104,750
Total unconditional promises to give	153,256	161,463
Less discounts to net present value	(2,906)	(3,957)
Less allowance for uncollectible promises	(10,000)	(10,000)
Net unconditional promises to give	\$ 140,350	\$ 147,506
Pledges receivable, current portion	\$ 54,905	\$ 56,470
Pledges receivable, long-term	85,445	91,036
Total pledges receivable	\$ 140,350	\$ 147,506

Unconditional promises to give have been discounted at 0.64% and 0.43%, respectively.

Note 7 - CAPITAL ASSETS (HCC)

Capital assets are stated at cost, if purchased, and at fair value, if donated. Depreciation of physical plant and equipment is provided on a straight-line basis over the useful lives of the assets ranging from 5 to 50 years. Included under the equipment category for financial reporting purposes is the College's investment in library books.

	2016	2015
Land and land improvements	\$ 3,934,196	\$ 3,934,196
Buildings	114,477,720	95,217,450
Infrastructure	7,552,283	7,167,505
Equipment	18,568,656	17,753,642
Construction in progress	258,858	11,506,052
Total property, plant, and equipment	144,791,713	135,578,845
Less: accumulated depreciation	(44,753,528)	(40,705,138)
Capital Assets, net	\$ 100,038,185	\$ 94,873,707

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Note 8 – RETAINAGE (HCC)

As of June 30, 2016, the College withheld retainage totaling approximately \$103,000. The retainage predominately relates to the Arts and Science complex expansion construction project. This represents less than 1% of completed work as of June 30, 2016.

Note 9 – INTERFUND BORROWINGS (HCC)

Interfund borrowings have been made principally by current funds from plant and agency funds to finance expenditures until related receivables from governmental agencies are collected. All amounts are due currently.

Note 10 – DEFERRED REVENUE (HCC)

Deferred Revenue consists primarily of tuition and fees resulting from registrations received for summer classes and fall school programs starting after July 1st. Deferred revenue as of June 30, 2016 and 2015 was \$4,632,259 and \$4,892,855, respectively.

Note 11 - AGENCY FUNDS (HCC)

Funds held by the College as custodian or fiscal agent for others, such as student organizations, used to support various student activities not directly related to instructional activities, are accounted for as agency funds and are excluded from the GASB financial statements.

Note 12 - RETIREMENT PLANS (HCC)

Plan Description

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).

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

These systems provide pension and death and disability benefits to plan members and beneficiaries. The plans are administered by the State Retirement Agency (Agency). The responsibility for the administration and operation of the System is vested in a 14-member Board of Trustees. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System.

That report may be obtained by writing to the Office of Legislative Audits, State Office Building, 301 West Preston Street, Baltimore, Maryland, 21201, or by calling (410) 225-1400.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The State Personnel and Pensions Article require active members to contribute to the System at the rate of 5% or 7% of their covered salary depending upon the retirement option selected. The contribution rate under the state Employees' and Teachers' Pension Enhancement Benefit Act of 2006, which became effective July 1, 2006, was increased to 7% in FY13 of the member's earnable compensation. The combined State contribution rate for 2015 and 2016 of 15.47% and 15.71%, respectively, of covered payroll is established by annual actuarial valuations for fiscal year 2013 and 2014. The unfunded actuarial accrued liability which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 31, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

Contributions

For the years ended June 30, 2016 and 2015, the College's annual pension cost of \$2,127,087 and \$2,103,642, respectively, was equal to its required and actual contributions made in accordance with an actuarial valuation performed as of June 30, 2015 and 2014. The State of Maryland contributed a total of \$1,818,367 for all plans in 2016 and \$1,802,177 in 2015. This amount is included as both revenue and expense (Certain Fringe Benefits Paid by the State of Maryland) in the accompanying statements as required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

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

Pension Costs

At June 30, 2016 and 2015, the College reported a liability of \$1,535,415 and \$1,078,415, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's contributions to the System in relation to total system contributions including direct aid from the State of Maryland. At June 30, 2015 and 2014, the College's proportionate share was 0.0074% and 0.0061%.

For the year ended June 30, 2016 and 2015, the College recognized pension expense of \$273,169 and \$15,466, respectively.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

At June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Changes in assumptions	\$ 73,115	\$ 15,600
Net difference between projected and actual investment earnings	108,171	-
Contributions subsequent to the measurement date	<u>152,439</u>	<u>155,698</u>
Total	<u>\$ 333,725</u>	<u>\$ 171,298</u>

<u>Deferred Inflows of Resources</u>	<u>2016</u>	<u>2015</u>
Net difference between projected and actual investment earnings	\$ 70,824	\$ 118,040
Net difference between projected and actual experience	<u>26,082</u>	<u>-</u>
Total	<u>\$ 96,906</u>	<u>\$ 118,040</u>

Deferred inflows and outflows of resources are made up of employer contributions, changes in actuarial assumptions, differences in actual and expected experience, and net differences in the projected and actual investment earnings. Deferred outflows related to employer contributions made subsequent to the plan's actuarial measurement date reduce net pension liability in the fiscal year in which the related actuarial measurement date is used to measure the net pension liability, generally the following fiscal year. Employer contributions included in deferred outflows as of June 30, 2015 reduce net pension liability for the year ended June 30, 2016. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five-year period. The following table shows the amortization of the balances:

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Year End June 30,	2015 Balance Amortization			2014 Balance Amortization		
	Deferred Outflows		Deferred Inflows	Deferred Outflows		Deferred Inflows
	Net Difference in		Actual and	Change in		Net Difference in
	Investment	Change in	Expected	Change in	Investment	
	Earnings	Assumptions	Experience	Assumptions	Earnings	
2017	\$ 27,043	\$ 13,091	\$ (5,356)	\$ 3,120	\$ (23,608)	
2018	27,043	13,091	(5,356)	3,120	(23,608)	
2019	27,043	13,091	(5,356)	3,120	(23,608)	
2020	27,042	13,091	(5,356)	-	-	
2021	-	11,391	(4,658)	-	-	
	<u>\$ 108,171</u>	<u>\$ 63,755</u>	<u>\$ (26,082)</u>	<u>\$ 9,360</u>	<u>\$ (70,824)</u>	

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal
- Amortization method – Level Percentage of Payroll, Closed
- Inflation – 2.95%, general, 3.45% wage
- Salary increases – 3.45% to 10.7%, including inflation
- Discount rate – 7.55%
- Investment rate of return – 7.55%
- Mortality – RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

The long-term expected rate of return on pension plan investments was determined using 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 weighing 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:

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	100%	

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.

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:

Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.55%	7.55%	8.55%
College's Proportionate Share of the Net Pension Liability	\$ 2,169,692	\$ 1,535,145	\$ 1,008,979

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

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.

Optional Defined Contribution Plan

Professional employees otherwise eligible to join the State of Maryland Plan may choose instead to join the Optional Retirement Plan (ORP) administered by the State of Maryland. This plan is a noncontributory defined contribution plan. The plan provides for retirement and death benefits. The plan was established by and can be amended by the State Legislature. The State of Maryland contributes 7.25% of eligible salaries on behalf of the College. Contributions were \$357,610 and \$342,189 for 2016 and 2015, respectively.

Deferred Compensation Plan

The College offers a defined contribution 403(B) plan to all of its eligible employees. The plan is contributory on a voluntary basis with all contributions being paid to the trustee. The College makes no basic or matching contributions on behalf of its employees.

Note 13 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (HCC)

Plan Description

The College offers postemployment medical benefits (medical, prescription drug, and dental) to eligible retirees and their dependents. One plan is offered for medical plus prescription and one plan is offered for dental coverage. Both plans are self-funded and eligible retirees are required to pay a premium based on their years of service. Premiums are approved by the Board of Trustees. Employees (and spouse) are eligible to receive benefits from the Retiree Medical Plan upon retirement, if they are enrolled in the active medical plan immediately prior to retiring. The eligibility for retirement is the same as under the Maryland State Pension System (regardless of the actual pension plan enrolled in) with the added requirement of at least 10 years of service. These requirements include either 30 years of service, or age 55 and 15 years of service, or age 62 and 10 years of service. Retired employees and their spouse are eligible to continue participation for life.

Funding Policy

During fiscal year 2009, the College's Board of Trustees elected to fund the OPEB annual required contribution (ARC) and a trust was established. Subsequent payments to the trust were made in fiscal years 2010 through 2016. The trust balance as of June 30, 2016 was \$4.18 million.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

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. 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 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 multiyear trend information about whether the actuarial value of plan assets change over time relative to the accrued liability. The College had an actuarial study conducted as of January 1, 2014, that was the basis of the FY15 and FY16 ARC. An actuarial study was conducted as of September 26, 2016, based on GASB Statement No. 75 that will be implemented no later than FY18.

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 includes 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. Actuarial studies are conducted every two years. The actuarial experience under the plan will be monitored in order to justify the appropriateness of these assumptions.

In the January 1, 2014 actuarial valuation, the projected unit credit method was used. Under this method, the costs attributable to past service and the current years' service are determined by prorating overall years of service the benefits expected to be paid from the plan. The normal cost for any year is determined equal to the present value of the current year's portion of the employee's expected postretirement medical benefit. The current year's portion is equal to the expected postretirement medical benefit divided by the total credited service at the anticipated retirement date. The accrued liability is determined equal to the present value of the past year's portion of the employee's expected postretirement medical benefit. The past year's portion is equal to the expected postretirement medical benefit times the ratio of the participant's credited service to the total credited service at the anticipated retirement date. The sum of these values for all employees determines the normal cost and the accrued liability for the plan. The actuarial assumption includes a 7.3 percent investment rate of return based upon the funding of a retiree healthcare trust. The unfunded actuarial accrued liability is being amortized over a 30-year period.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

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, the amount actually contributed to the plan, and changes in the College's net OPEB obligation.

	2016	2015
Annual required contribution	\$ 408,532	\$ 408,532
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	408,532	408,532
Contributions made	408,532	408,532
Increase in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	\$ -	\$ -

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

<u>For the Fiscal Year</u> <u>Ended:</u>	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
June 30, 2016	\$ 408,532	\$ 408,532	100.00%	\$ -
June 30, 2015	408,532	408,532	100.00%	-
	<u>\$ 817,064</u>	<u>\$ 817,064</u>	<u>100.00%</u>	<u>\$ -</u>

Funding Status and Funding Progress

As of June 30, 2016 the Annual Required Contribution (ARC) was 100% funded, based both on payments made for retiree health benefits and the creation and funding of a separate trust with PNC bank for retiree health benefits.

Note 14 – ENDOWMENT (HCCF)

The Foundation's endowments consist of approximately 180 named funds established to support a variety of scholarship programs and other activities at Hagerstown Community College. The endowment may include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

The Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) has been interpreted as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as temporarily restricted net assets (a) the original value of the gifts donated, (b) the original value of the subsequent gifts, and (c) accumulations 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 temporarily restricted net assets is classified as board designated unrestricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with MUPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the endowment fund
- 2) The purpose of the Institution and the endowment fund
- 3) The general economic conditions
- 4) The possible effect of inflation or deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Institution
- 7) The investment policies of the Foundation

The Foundation has adopted investment policies employed by USMF for the Foundation's Endowment which seeks to provide a steady and sustainable distribution of funds to provide a source of income for scholarship assistance and other financial assistance for the benefit of the College's students and faculty. 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.

To satisfy its 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 overlay class (liquid, exchange traded instruments that aim to hedge against undesired risks). The asset allocation target ranges inclusive of these securities as of June 30, 2016 is as follows:

Safe assets	0% - 25%
Portfolio overlay	0% - 5%
Public risk assets	45% - 75%
Private risk assets	20% - 40%

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

The Endowment Portfolio is constructed based on the following principles:

1) Allocation: The overall goal of the investment committee at USMF is to establish asset classes in a range to create balance across the portfolio between sources of return, liquidity, timeliness, and types of risk. The allocation to safe assets is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Portfolio overlay is another line of defense for capital preservation. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as needed opportunistic basis. The public risk assets are actually parsed in four sub-asset classes which further define the portfolio's risk. These sub classes are (a) public equity, which is the primary growth drive of the portfolio (b) public credit provides a differentiated source of return from the overall equity markets and diversify our public market risk, (c) real return represents a hedge against inflation, so as to preserve the endowment's corpus, and (d) pure alpha, which is a portion of the portfolio that invests with niche investment managers that provide idiosyncratic sources of investment return. Private risk assets are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. These investments are also further defined into two sub-asset classes. They are: (a) private equity transactions that take ownership in companies across the spectrum of their life cycles and (b) private credit investments.

2) Diversification: By allocating funds to asset classes whose returns are not highly correlated over time, USMF's Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions that might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The Investment Committee, however, may make an exception in special circumstances.

3) Rebalancing: In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations ranges.

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. If the agreement with the donor so provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Some agreements provide that the corpus can be invaded to provide for spending stability.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Endowment net asset composition by type of fund consisted of the following as of:

	June 30, 2016			
	Unrestricted	Temporarily Restricted		Total
Board designated endowment funds	\$ 2,215,190	\$ -	\$ 2,215,190	
Donor restricted endowment funds	-	6,398,928	6,398,928	
	\$ 2,215,190	\$ 6,398,928	\$ 8,614,118	

	June 30, 2015			
	Unrestricted	Temporarily Restricted		Total
Board designated endowment funds	\$ 2,202,881	\$ -	\$ 2,202,881	
Donor restricted endowment funds	-	6,307,849	6,307,849	
	\$ 2,202,881	\$ 6,307,849	\$ 8,510,730	

The changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

	June 30, 2016			
	Unrestricted	Temporarily Restricted		Total
Endowment net assets as of June 30, 2015	\$ 2,202,881	\$ 6,307,849	\$ 8,510,730	
Investment return:				
Investment income, net	49,617	139,259	188,876	
Net appreciation	(99,239)	(279,617)	(378,856)	
Total investment return	(49,622)	(140,358)	(189,980)	
Contributions	182,366	393,313	575,679	
Appropriation of endowment assets for expenditure	(120,435)	(161,876)	(282,311)	
Endowment net assets as of June 30, 2016	\$ 2,215,190	\$ 6,398,928	\$ 8,614,118	

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

	June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
Endowment net assets as of June 30, 2014	\$ 2,104,593	\$ 6,123,679	\$ 8,228,272
Investment return:			
Investment income, net	56,835	156,493	213,328
Net depreciation	17,770	48,922	66,692
Total investment return	74,605	205,415	280,020
Contributions	23,683	600,062	623,745
Appropriation of endowment assets for expenditure	-	(621,307)	(621,307)
Endowment net assets as of June 30, 2015	\$ 2,202,881	\$ 6,307,849	\$ 8,510,730

Note 15 – RELATED PARTY TRANSACTIONS (HCC & HCCF)

The following is a summary of transactions between the Foundation and the College as of and for the years ended June 30:

	2016	2015
Contributions to the College for Scholarships	\$ 632,854	\$ 589,218
Other contributions to the College	\$ 81,443	\$ 78,530
In-kind services performed by the College	\$ 254,994	\$ 242,671
Due to (from) the College - Operating Expenses	\$ 68,515	\$ 21,006
Due to (from) the College - Scholarships Expenses	\$ 282,352	\$ 30,094
Due to (from) the College - Grants Payable	\$ 21,244	\$ -

Note 16 – CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This pronouncement requires the restatement of the June 30, 2014 net position of the College as shown as follows:

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

Net Position, June 30, 2014, As Previously Reported	\$ 104,316,928
Cumulative Affect of Application of GASB 68, Net Pension Liability	(1,196,920)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for College Contributions made to the Plan During Fiscal Year Ending June 30, 2014	<u>141,609</u>
Net Position, June 30, 2014, As Restated	<u><u>\$ 103,261,617</u></u>

Note 17 – RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current period presentation. The reclassifications had no effect on the reported results of operations.

Note 18 – RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement established 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.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO FINANCIAL STATEMENTS

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The primary objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for fiscal years beginning after June 15, 2016.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for fiscal years beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The Statement addresses certain issues that have been raised with respect to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

The College has not yet completed the process of evaluating the impact of GASB Statements Nos. 74, 75, 80, 81, and 82 on its financial statements.

Note 19 – SUBSEQUENT EVENTS (HCC & HCCF)

The College and Foundation have evaluated events and transactions subsequent to June 30, 2016 through October 17, 2016, the date these financial statements were available to be issued. Based on the definitions and requirements of accounting principles generally accepted in the United States of America, management has not identified any events that have occurred subsequent to June 30, 2016 through October 17, 2016, that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**Hagerstown Community College
Hagerstown, Maryland**

**SCHEDULE OF HAGERSTOWN COMMUNITY COLLEGE'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEMS**

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
College's proportion of net pension liability*	0.007%	0.006%
College's proportionate share of net pension liability*	\$ 1,535,145	\$ 1,078,415
College's covered-employee payroll	\$ 10,308,003	\$ 10,491,571
College's proportionate share of net pension liability as a percentage of its covered-employee payroll	14.89%	10.28%
Plan fiduciary net position as a percentage of total pension liability*	68.78%	71.87%

*Amounts were determined as of the end of the previous fiscal year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the College presents information for those years for which information is available.

Hagerstown Community College
Hagerstown, Maryland
SCHEDULE OF HAGERSTOWN COMMUNITY COLLEGE'S CONTRIBUTIONS - MARYLAND STATE
RETIREMENT AND PENSION SYSTEMS

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
Statorily required contributions	\$ 152,439	\$ 155,698
Contributions in relation to statorily required contributions	<u>152,439</u>	<u>155,698</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 10,308,003	\$ 10,491,571
Contributions as a percentage of covered-employee payroll	1.5%	1.5%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the College presents information for those years for which information is available.

HAGERSTOWN COMMUNITY COLLEGE
Hagerstown, Maryland

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 – CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

Note 2 – CHANGES OF ASSUMPTIONS

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%

Independent Auditor's 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
Hagerstown Community College

We have audited, 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 business-type activities and the discretely presented component unit of **Hagerstown Community College** (the College), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 17, 2016. The financial statements of the Hagerstown Community College Foundation, Inc. (a Not-for-Profit Organization) were not audited in accordance with *Government Auditing Standards*, and are required to be included in the basic financial statements of the College as a component unit.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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*.

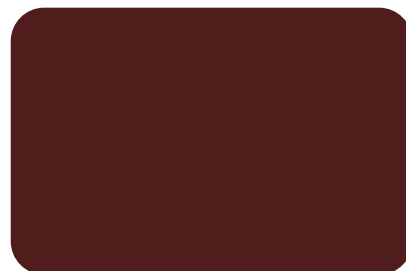
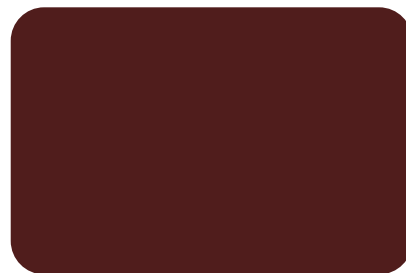
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Hagerstown, Maryland
October 17, 2016

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