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**HOWARD COMMUNITY COLLEGE**  
**(A Component Unit of Howard County, Maryland)**

**Financial Statements and  
Report of Independent Public Accountants**

**For the Year Ended June 30, 2019**

# HOWARD COMMUNITY COLLEGE

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Trustees  
Howard Community College

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

We have audited the accompanying financial statements of Howard Community College (the College), a component unit of Howard County, Maryland and its discretely presented component unit, the Howard Community College Educational Foundation, Inc., as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 controls 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the College, as of June 30, 2019, and the respective changes in their financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Howard Community College's Proportionate Share of the Net Pension Liability- Maryland State Retirement and Pension Systems, the Schedule of Howard Community College's Contributions- Maryland State Retirement and Pension Systems, the Schedule of Howard Community College's Proportionate Share of Net OPEB Liability- Howard County Government- OPEB, and the Schedule of Howard Community College's Contributions- Howard County Government- OPEB, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and 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 the 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.

Owings Mills, Maryland  
September 18, 2019

*SB & Company, LLC*

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

### Overview and Basis of Presentation

The following discussion and analysis provides an overview of Howard Community College's (referred to throughout as the "college" or "HCC") planning, enrollment, and financial activities. The intent of this section of the annual financial report is to provide an objective analysis of the college's financial activities based on currently known facts, decisions, or conditions that impacted the operations of the college during fiscal year (FY) 2019. In addition, this section should assist in assessing the financial position of the college and provide information about significant changes that have occurred. Finally, it presents an outlook on known conditions that may affect the college's financial position or operations in the coming years.

The college has presented the statements in compliance with the Governmental Accounting Standards Board (GASB) statement no. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and statement no. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

In compliance with GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements of the Howard Community College Educational Foundation, Inc. (referred to throughout as the "foundation" or "HCCEF") are presented discretely in the college's financial statements.

Comparative financial data are not presented in the financial statements; however, the college's comparative data are presented and discussed within this management discussion and analysis.

### College Planning and Strategic Goals

The financial statements for the year ended June 30, 2019, reflect the financial results of the activities of the college, which are guided by the college's strategic planning and budget process. The strategic plan and the college's core work set the stage for the operational and financial goals the college expects to achieve. Long- and short-term goals guide the staff throughout the year and into the future. The college's mission, vision, and values follow.

**Mission:** Providing pathways to success

**Vision:** A place to discover greatness in yourself and others

**Values:** INSPIRES



## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **College Planning and Strategic Goals (continued)**

The strategic goals implemented for a five-year period, 2016-2020, with 2016 being the base year, are listed on the next set of pages. Each year during the budget process, funds are allocated to achieve these initiatives. The report includes the action plans in place for FY19 and the fiscal year accomplishments related to these action plans that impacted the college's financial operations.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

Strategic Goal #1. Student Success, Completion and Lifelong Learning			
1.1	Increase number of students graduating annually.		
	For FY19 - 1,294 Year over year trend: ↓		
	Lead	Action Plans	Results as of June 30, 2019
1.1A	VPAA VPSS	Develop, evaluate and revise program offerings (transfer and career) to meet the needs of students and the community, provide career opportunities (such as clinical placements, internships (see also strategic goal 3) for students and promote degree completion and transfer.	<p><b>Partially Accomplished and Ongoing</b></p> <p>Completed five program reviews.</p> <p>Built partnerships with employers for internships and employment opportunities. The number of unique employer connections in FY19 was 315 as compared to 425 in FY18. Facilitated 216 internships in FY19 compared to 191 in FY18, an increase of 13 percent.</p>
1.1B	VPAA VPSS	Increase student participation in high impact (e.g., service learning) academic and specialized student engagement experiences that promote student success and completion.	<p><b>Partially Accomplished and Ongoing</b></p> <p>Increased the number of students in all years of the Schoenbrodt Scholars program by 3.4 percent, from 59 in fall 2017 to 61 in fall 2018. Supported 32 students in all years of the STEM Scholars program, down slightly from 37 in fall 2017 and 33 in fall 2016. Rouse Scholars increased by one student for a total of 47 students.</p> <p>Students participating in the scholars programs (Rouse, STEM, Schoenbrodt) were retained at a rate of 88.9 percent fall-to-spring, lower than the FY18 rate of 91.4 percent, but above the FY17 rate of 87.3 percent. Cumulative GPA for scholars cohorts at the end of fall 2018 was 3.43, 33 percent higher than the institutional average for fall 2018. The most recent data available for Rouse Scholars (fall 2015 cohort) demonstrates a graduation/transfer rate of 71.4 percent at two years and 78.6 percent at three years.</p> <p>Engaged 220 students in success coaching through Step UP, down slightly from 242 in FY18 and 233 in FY17. The matched cohort methodology for assessing Step UP student outcomes confirmed that Step UP exerts a significantly positive impact on students' retention rate, term GPA, and ratio of completed to attempted credits.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.1B	VPAA VPSS	<p>(Continued)</p> <p>Increase student participation in high impact (e.g., service learning) academic and specialized student engagement experiences that promote student success and completion.</p>	<p>Engaged 768 students in service learning experiences as part of 54 courses throughout the academic curriculum, and developed service partnerships with two new community organizations. Service Learning participation grew by 14.6 percent from FY18. The average course success rate for courses with significant service learning components was 88.9 percent, significantly exceeding the institutional average.</p> <p>Supported Silas Craft Collegians, resulting in retention rates at two years after entry significantly exceeding the one-year institutional averages for developmental education students, with 58.3 percent of the Silas Craft Collegians retained, up from 52 percent in in FY18. Most recently available completion data (fall 2015 entering cohort) shows a 45.8 percent graduation and transfer rate at three years, significantly higher than institutional averages and exceeding the benchmark of 35 percent.</p> <p>Students participating in study abroad (SABR) courses exhibited course success rates of 100 percent, equal to FY17 and significantly above the institutional average.</p>
1.1C	VPSS VPAA VPIT	<p>Support a percentage increase in annual graduates by providing support services to include intrusive advising of students with 45 or more credits, promoting reverse transfer, and awarding scholarships. Continue development of a guided pathways program plan for new full-time students.</p>	<p><b>Partially Accomplished and Ongoing</b></p> <p>Revised the admissions application to reflect the Guided Pathways model, implemented a pilot Guided Pathways process with the Freshman Focus admissions and advising process, and revamped the advising liaison model to reflect Guided Pathways.</p> <p>Identified and increased communication to prospective graduates who applied to graduate yet failed math for intrusive advising and placed individual calls to students with 60 or more credit hours who had not applied to graduate.</p> <p>The intrusive advising team contacted 1,955 student in FY19, compared to 2,069 in FY18. 42 percent of those contacted (821) graduated in FY19, compared to 39.3 percent (813) in FY18.</p> <p>The reverse transfer team collaborated with the records, registration, and veterans' affairs office to follow up with any student who indicated an interest in reverse transfer when requesting a HCC transcript. This resulted in 41 more graduates in FY19, compared to 56 in FY18.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.1D	VPAA	Increase the use of open education resources (OER).	<p><b>Partially Accomplished and Ongoing</b></p> <p>OER increased from 96 sections in fall 2018 to 135 sections in spring 2019, a 40.6 percent increase. The increase in students impacted went from 2,875 students to 4,050.</p>
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1.2	<b><i>Increase percentage of developmental completers, four years after entry to HCC, from 35.8% (fall 2003 cohort) to 45% (fall 2016 cohort). (Maryland Higher Education Commission (MHEC) Indicator)</i></b>														
	<b>As of the fall 2014 cohort - 41.1% Year over year trend: ↓</b>														
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>												
1.2A	VPAA	<p>Evaluate and revise as indicated the requirement for developmental mathematics students to also enroll in the First Year Experience course.</p> <p>Evaluate and expand English-121 Accelerated Learning Program.</p> <p>Implement and evaluate course redesign linked to revision of the Code of Maryland Regulations (COMAR) definition of college-level mathematics.</p> <p>Encourage eligible developmental students to concurrently enroll in same-subject, credit-bearing course (see 1.2B).</p>	<p><b>Partially Accomplished and Ongoing</b></p> <p>Enrollments in First Year Experience (FYEX) courses were 763 in fall 2018 and 445 in spring 2019 compared to 934 in fall 2017 and 450 in spring 2018. The decline in enrollment may be caused by a higher number of students placing into college level/ALP English due to implementation of multiple measures.</p> <p>Success rates were as follows:</p> <table><tr><td>FYEX-100 fall 2017</td><td>68.83 percent</td></tr><tr><td>FYEX-100 spring 2018</td><td>63.52 percent</td></tr><tr><td>FYEX-100 fall 2018</td><td>63.88 percent</td></tr><tr><td>FYEX-100 spring 2019</td><td>60.54 percent</td></tr></table> <p>Beginning fall 2020, FYEX-100 will be replaced by the three-credit INFO-100 information literacy and college success course. This will no longer be a co-requisite of developmental mathematics courses. Students will use this course to fulfill their information literacy general education goal.</p> <p>Enrollments in accelerated learning program (ALP) courses were 242 in fall 2018 and 140 in spring 2019 compared to 336 in fall 2017 and 165 in spring 2018.</p> <p>Success rates were as follows:</p> <table><tr><td>ENGL-121 ALP fall 2017</td><td>69.8 percent</td></tr><tr><td>ENGL-121 ALP fall 2018</td><td>65.2 percent</td></tr></table> <p>Because the more prepared students are also placing into ENGL-121, there is a shift in the readiness of the ALP population.</p>	FYEX-100 fall 2017	68.83 percent	FYEX-100 spring 2018	63.52 percent	FYEX-100 fall 2018	63.88 percent	FYEX-100 spring 2019	60.54 percent	ENGL-121 ALP fall 2017	69.8 percent	ENGL-121 ALP fall 2018	65.2 percent
FYEX-100 fall 2017	68.83 percent														
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ENGL-121 ALP fall 2018	65.2 percent														

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.2B	VPAA VPSS VPIT	Evaluate College and Career Readiness and College Completion Act (CCRCCA) requirement to include credit-bearing mathematics and English within the first 24 credit hours for first-time degree seeking students; encourage eligible developmental students to concurrently enroll in a same-subject, credit-bearing course; require students completing the developmental course sequence to immediately enroll in a same-subject, credit-bearing course the following semester.	<p style="text-align: center;"><b>Partially Accomplished and Ongoing</b></p> <p>Currently, there are four developmental English courses, each with four credits. In fall 2020, this content will be condensed into two integrated courses. The lowest level will be six credits, and students who score an A will be able to go directly into an ALP class. The higher level is four credits. This will streamline the time/number of credits it takes to get into college level English.</p> <p>HCC continues to prepare students for college-level English work in high school by expanding the access to FYEX infused in the 10th grade English curriculum and ENGL-121 infused in the 11th grade curriculum through HCC's JumpStart program. This collaboration also creates a better understanding of college expectations with high school English teachers.</p> <p>Enrollments for the accelerated options MATH-070/141 and MATH-070/143 are up with approximately 60 students in the fall semester and 30 students in the spring semester. For students in the accelerated courses, success rates in MATH-070 and MATH-143 remain at the overall course average and were significantly higher than the overall course average for MATH-141.</p> <p>A new co-requisite intermediate algebra course for pre-calculus has been developed and will be offered in fall 2019. This will allow students in the STEM programs to have a shorter path to completion.</p> <p>Collaboration continued with the Howard County Public School System on the 12th grade college readiness mathematics course, advanced algebra, including teacher training on course content and assistance with assessments.</p> <p>Enrollments increased in the statistics pathway course MATH-037, mathematical foundations by 35 percent from 122 students in the second year to 165 students, while increasing the ABC success rate to 66 percent and withdraw rate around four percent.</p> <p>Enrollments increased in the new mathematical literacy course, the terminal math course geared for humanities and liberal arts students. In fall, the enrollments from 2017 from 2018 moved from 36 to 65 (83 percent), and, in the spring, the enrollments from 2018 to 2019 moved from 30 to 56 (87 percent).</p> <p>Multiple measures to assess college readiness through collaboration with the English and world language division, mathematics division, and admissions and advising was implemented.</p>
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## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

1.2C	VPAA VPSS	Expand the HCC Early Alert Program to attain positive outcomes in courses with low retention and success rates; establish a work group of faculty and staff to improve program processes and implement strategies to increase course completion and program effectiveness.	<p><b>Partially Accomplished and Ongoing</b></p> <p>A workgroup of faculty and staff was established in spring 2019 to redesign the Early Alert program. The group drafted a mission, vision, goals, and objectives for the redesigned program and are currently working together to develop recommendations for a program that will support the college's Guided Pathways initiative, and the JumpStart program.</p> <p>During the FY18 pilot year of the open accounting lab, students in both ACCT-111 and 112 that used the lab (comparative data from fall 2017 to 2018) indicated an increase of 28 percent in A and B grades and a reduction in C grades. Other data indicated that students who sought assistance on case study assignments received substantially higher grades (93) than the class average (75). Peer Leaders were used extensively in the face-to-face courses and the open accounting lab to provide additional assistance to the students. During FY19, based on success data and faculty and student feedback, an extension of the lab hours and availability of the lab in the summer session has been recommended. In FY20, principles of accounting students will be required to attend the lab for assistance with at least one course assignment during the semester.</p> <p>Zoom faculty hours have been established with 60 percent of the faculty across the division providing immediate response to issues for students who are not on campus. Faculty in accounting, business, cyber, and office technology departments are offering Zoom student hours. Promotion of this option to students is ongoing. Student/faculty engagement has increased.</p> <p>The entrepreneurship individualized program continues to attract students who are interested in building a business. This is due to development and implementation of highly effective one-credit courses that are topic specific and allow students to take up to three within a given semester.</p>
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# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.3	<b><i>Increase student successful-persistence rate after four years for all students from 73.2% (fall 2003 cohort) to 75% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)</i></b>		
	<b>As of the fall 2014 cohort (all students overall) – 76.4%. Year over year trend: ↓</b> <b>Black/African American: 68.1% ↓ Asian 88.5% ↑ Latino-Hispanics 71.3% ↓</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
1.3A	VPSS VPAA	Increase participation in Ambiciones from 25 to at least 100 students by 2020. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.	<b>Partially Accomplished and Ongoing</b>  Ambiciones served 78 students in fall 2018 and 80 students in spring 2019, compared with 58 students in FY18. The program has a fall 2018 to spring 2019 retention rate of 85 percent, compared with 63 percent in FY18. There was a 79 percent retention rate for all Hispanic students for the same period compared with 47 percent for non-participating peers in FY18. In fall 2018, 67 percent of program participants had at least a 2.0 GPA, compared with 77.8 percent in fall 2018. In FY19, 14 students applied for graduation, compared with 20 graduates in FY18.
1.3B	VPSS VPAA	Increase Howard P.R.I.D.E. (Purpose. Respect. Initiative. Determination. Excellence.) participation by 30 percent, from 129 to 168 students, by 2020. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.	<b>Partially Accomplished and Ongoing</b>  Howard P.R.I.D.E. participation exceeded the 2020 goal of 168 students. The headcount for FY19 was 199 students. The program continues to constitute about 18 percent of the African-American/Black male population and eight percent of the minority male student population at HCC, both highest since the inception of the program. The first-time student retention rate from fall 2018 to spring 2019 was 78 percent, compared with 86 percent in FY18. The overall fall 2018 to spring 2019 retention rate was 74 percent (148/199), compared with 81 percent in FY18. In fall 2018, 76 percent of students were in good academic standing, compared with 79 percent in fall 2017. In FY19, 22 students applied for graduation, compared with 19 students in FY18.
1.3C	VPAA VPSS VPIT	Complete investigation of using multiple assessment measures as a strategy for more accurate English and mathematics placements for fall 2019 registration.	<b>Partially Accomplished and Ongoing</b>  Implemented and launched the new mathematics (ALEKS=McGraw Hill's Assessment and Learning in Knowledge Spaces) and English placement tools.  Participated in the Accuplacer Next-Generation bookmarking process with the English faculty to establish the new remedial and college-level cut scores.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.4	<b><i>Increase student graduation and transfer rate after four years for all students from 51.9% (fall 2003 cohort) to 55% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)</i></b>		
	Fall 2012 cohort-All students: <b>54.8%</b> Year over year trend: <b>↓</b> Black/African American: <b>46.4%-↓</b> Asian: <b>66.9%-↑</b> Latino-Hispanic: <b>51.0%-↑</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
1.4A	VPSS VPAA	Attract a critical mass of students to targeted programs (Howard P.R.I.D.E., Silas Craft Collegians, Ambiciones, Student Support Services, and Career Links) to provide supportive services to increase the graduation and transfer rates and close performance gaps of Black, Asian, and Latino-Hispanic students.	<b>Partially Accomplished and Ongoing</b>  In FY19, Howard P.R.I.D.E. served 199 students, compared to 188 in FY18. Ambiciones served 80 students, compared to 58 in FY18. Student Support Services served 242 students, compared to 232 in FY18. Career Links served 149, compared to 138 in FY18.  In FY19, Howard P.R.I.D.E graduated 22 students, compared to 19 in FY18. Ambiciones graduated 14 students, compared to 20 in FY18. Student Support Services graduated 55 students, compared to 42 in FY18. Career Links graduated 27 students, compared to 24 graduates in FY18.
1.4B	VPAA	Continue the systematic evaluation plan for all academic programs.	<b>Partially Accomplished and Ongoing</b>  Completed full cycle of general education goals assessments.  Completed 100 percent of all academic programs to date. New programs will be assessed in the upcoming five-year cycle.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

1.4C	VPAA	Continue and evaluate the undergraduate research program for STEM students with a goal that participants complete their degrees at a rate above the general population of STEM majors.	<p><b>Accomplished and Ongoing</b></p> <p>Increased the number of students participating in faculty-mentored STEM research projects in FY19 from 24 to 32 students; increased the fall-to-fall retention rate from 83 percent (FY18) to 91.3 percent (FY19). 50 percent of the students participating in the program in FY19 earned a degree or certificate, compared to 14 percent for all STEM-3-yr rate. The average GPA for students participating in the undergraduate research (UR) program in FY19 was 3.63, compared to an average GPA for all HCC students of 2.46. A second collection of original student research articles was published. A rigorous assessment plan for the program that includes nationally recognized tools was developed and approved by the HCC Institutional Review Board. A new research collaboration for UR students was established with the University of Maryland, Baltimore County (UMBC) in which HCC and UMBC faculty are co-leading an environmental science research study in Baltimore City neighborhoods.</p>
1.4D	VPAA	Actively promote diversity in restricted enrollment and honors programs.	<p><b>Accomplished and Ongoing</b></p> <p>Maintained or significantly increased racial and ethnic diversity in honors programs. Schoenbrodt Scholars: 49 percent in fall 2017, compared to 56 percent in fall 2018. Rouse Scholars: 33 percent in fall 2017, compared to 42 percent in fall 2018. STEM Scholars: 56 percent in fall 2018, down from 71 percent in fall 2017, but up from 48.5 percent in fall 2016.</p> <p>The African-American/Black applicant pool for the Rouse Scholars program decreased by 25 percent (20 students compared to 15 students) between fall 2017 and fall 2018 with a two-year increase of 7.1 percent. There was a corresponding decrease of Hispanic applicants by 28.5 percent (14 students compared to 10 students) from fall 2017 to fall 2018. In order to reduce barriers and increase program diversity, the admissions application for the fall 2019 Rouse Scholars class was adjusted to be SAT/ACT optional and the admissions rubric was redesigned to focus on additional admissions factors including Grit Scale scores.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

Strategic Goal #2. Organizational Excellence			
2.1	<i>Increase percentage of minority employees to reflect county demographics from fall 2007 rates of 22.1% faculty and 20.9% staff (administrators and professional/technical) to 24% and 28%, respectively, by fall 2020. (MHEC Indicator)</i>		
	Faculty: <b>28.4%</b> Year over year trend: <b>↑</b> Staff: <b>31.9%</b> Year over year trend: <b>↑</b>		
	Lead	Action Plans	Results as of June 30, 2019
2.1A	ALL	Improve faculty and staff recruitment efforts outcomes, and retention.	<p><b>Accomplished and Ongoing</b></p> <p>Continued to advertise on sites and attend job fairs that are minority-specific and to evaluate the success of those efforts.</p> <p>Attended five job fairs with high minority representation. One job fair location was replaced by the Maryland Career Consortium, which provided two additional historically black colleges and universities in one location.</p> <p>Thirteen percent of applicants find out about HCC job opportunities from "other" sources. This would include applicants who learned of opportunities during the five career fairs in which HCC participated in at the Historically Black Colleges and Universities.</p>
2.2	<i>Increase stakeholder satisfaction for students from spring 2012 rates of: 86.6% for credit students; to spring 2020 rate of 87%, and for employees, from fall 2007 rate of 4.29 to fall 2019 rate of 4.35. Continuing education students will report 95% satisfaction.</i>		
	<b>Spring 2018 (latest available) for credit students (39.6%)</b> Year over year trend: <b>↑</b> <b>FY18 noncredit students (98.93%)</b> <b>↑</b> , <b>fall 2018 employees (4.18 out of 5)</b> <b>↓</b>		
	Lead	Action Plans	Results as of June 30, 2019
2.2A	ALL	Use systems thinking approach to improve (Plan-Do-Check-Act) a process or processes selected by the president's team to	<p><b>Accomplished and Ongoing</b></p> <p><b>Academic Affairs</b></p> <p>Increased the number of hybrid courses in the noncredit to credit allied health pathway that contributed to a significant increase in revenue and enrollment; limited classroom space was maximized. Piloted and implemented new process to provide self-service certificates of completion in open entry noncredit online classes. This process eliminates staff time required to issue certificates by email and enables students to access certificates immediately upon completion.</p>

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

	create cost efficiencies while ensuring quality service to students and one another.	<p><b>Administration and Finance</b></p> <p>Human resources redesigned the Excel Leadership Academy. Ensured all courses were aligned with HCC's mission and vision, and that they created the context and application for the college's values. Integrated Baldrige strengths and opportunities feedback. Selected Kouze's and Posner's The Leadership Challenge (TLC) program as an anchor, with additional customization to meet HCC specific objectives at a cost of \$713 per person. The cost per person for the public TLC workshop is \$1,895.</p> <p>Facilities established a computerized picture database for the college community to search for used furniture; eliminating the tedious physical process of going through the trailers to search for used furniture.</p> <p><b>Information Technology</b></p> <p>HCC successfully moved the Colleague administrative system to Ellucian's cloud hosting services. The initiative was undertaken to improve the performance, augment campus technical support staff, reduce technology infrastructure on campus and provide business continuity with disaster recovery and offsite data backup capabilities for the Colleague administrative system.</p> <p><b>Student Services</b></p> <p>Pooled funds to create a joint position between Ambiciones and completion services to support a full-time assistant director for Ambiciones. In collaboration with IT, electronic processes were improved to reduce a seven-step transcript evaluation report process to two steps in order to decrease the transcript evaluation report processing time. Students are able to access the transcript evaluation report within the day it is created rather than waiting three or more days for the report. Cost reductions include paper, printing, postage, and the number of hours needed to complete the processes. The office has successfully completed 715 transcript evaluation reports.</p> <p><b>President's Area</b></p> <p>The president's office launched a comprehensive review and update of all written office procedures and checklists, as well as created desk guides for office staff. The development office enhanced its annual benefactor letter process. The letters are a compilation of data from multiple sources. Staff has established checkpoints and detailed procedures that can be modified annually to improve efficiency. The office of public relations and marketing investigated, piloted, and adopted a project management tool to track and schedule its work. Since implementation, there have been changes and refinements to how they use the tool.</p>
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## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

2.2B	ALL	Implement selected Commission on the Future recommendations	<p style="text-align: center;"><b>Accomplished and Ongoing</b></p> <p>An International Education Advisory Board was convened per a recommendation of the Global Competency work group. The board membership includes seven community global professionals who also served on the Commission the Future (COF).</p> <p>During spring 2019, the college launched a formal on-campus, paid internship program designed to support students who do not have transportation for opportunities in the community and provide valuable work experience to international students who are only able to work on the college campus rather than for an external employer, due to visa restrictions. Eighteen students participated in a variety of college departments. In addition, counseling and career services has been collaborating with financial aid services to develop some on-campus work-study internships.</p> <p>In response to the COF Sustainability Task Force recommendations, HCC completed a stream restoration project in cooperation with the Maryland Department of Natural Resources, Maryland Department of the Environment, Howard County Office of Sustainability, and Army Corp of Engineers. The college also installed a HCC bike route that will link the downtown Columbia Pathway with bike lanes on Hickory Ridge Road and connections to Hickory Ridge and Wilde Lake Villages. This route will allow bikes to reach campus without riding in traffic.</p>
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# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

2.3	<b><i>Make progress toward achieving a 50/50 FT/PT faculty ratio and adequate staffing to meet organizational needs.</i></b>		
	<b>FY19 FT/PT ratio was 44:56. Year over year trend: ↓</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
2.3A	VPAA	Create scheduling efficiencies to meet the established benchmarks.	<p><b>Accomplished and Ongoing</b></p> <p>Data shows that HCC appropriately fell within its balanced course/section ratio benchmark range (70-90 percent) with a 74 percent seat fill in fall 2018. The college was just below the range at 69 percent seat fill in spring 2019 as an institution. This analysis excludes specialty music and open entry sections.</p> <p>Data shows that the college appropriately fall within its maximum prime time offerings range (40-50 percent) with ratios of 44 percent in fall 2018 and 43 percent in spring 2019 as an institution. This analysis looks at sections meeting in lecture and computer credit classrooms only.</p> <p>A new schedule of classes to better meet students' needs and to maximize room usage in the Hickory Ridge Building was developed for the fall 2019 and spring 2020 semesters. This schedule places all mathematics courses in the Hickory Ridge Building except those added for dual enrollment.</p>
2.3B	All	Analyze vacancies and determine recruitment action.	<p><b>Accomplished and Ongoing</b></p> <p>The division of continuing education and workforce development underwent a reorganization that studied open positions and resulted in staffing decisions to enhance division effectiveness.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

2.4	<b><i>Increase development/training expenditure per FTE employee to stay in top quartile. 100% of budgeted employees will complete the campus-wide online training required in each annual professional development term.</i></b>		
	<b>As of FY18 National Community College Benchmarking Project comparative data (FY17 data) – 58 percentile Year over year trend: ↑</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
2.4A	VPAF	Continue to effectively and efficiently expend funds on professional development, including using an optimal mix of internal and external facilitators. Explore methods to capture the value of internal facilitators.	<p><b>Accomplished and Ongoing</b></p> <p>In addition to the use of the budget allocated for professional development in FY19, employees were able to take advantage of free and subscription webinars with an estimated value of \$19,203.</p> <p>Fifty-three employees shared their time and expertise with colleagues through professional development offerings.</p> <p>Public safety leverages the law enforcement and investigative expertise of its on-staff Special Police Officers to develop and deliver training programs for the contract guard force.</p>

2.5	<b><i>Reduce HCC's carbon footprint 1% each year to achieve a 100% reduction in greenhouse gas emissions over 2009 levels by 2050.</i></b>		
	<b>Latest reading: 19.77 kg/SF Year over year trend: ↓ Down is good.</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
2.5A	VPAF	Investigate best practices; examine and refine existing metrics; incorporate new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF) aligned with college's Facilities Master Plan (FMP) and the President's Climate Leadership Commitment (PCLC) signatories' gross emissions by Carnegie class.	<p><b>Accomplished and Ongoing</b></p> <p>Incorporated new comparator for calculation of average gross emissions per square foot (SF) of built space (per 1,000 SF).</p> <p>Aligned goals with college's FMP and Transportation Demand Management Plan with the PCLC signatories for gross emissions per Carnegie class.</p> <p>Completed second year of Green Professor Teaching Certification Program to promote sustainability across the curriculum and reward faculty members who are green teachers, while giving green courses a familiar face on syllabi and Canvas sites for students.</p> <p>Continue to revise goals to meet and exceed national standards including new goal to incorporate climate neutrality by 2050.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

Strategic Goal #3. Building and Sustaining Partnerships			
3.1	<i>Increase resources to provide scholarships and facilities to students.</i>		
	See data below.		
	Lead	Action Plans	Results as of June 30, 2019
3.1A	President	Raise \$1,400,000 for scholarships and endowments.	<p><b>Accomplished</b></p> <p>Raised a total of \$1,439,791, exceeding the goal.</p>
3.1B	President	Obtain \$2.4 million in competitive grants.	<p><b>Partially Accomplished and Ongoing</b></p> <p>Obtained \$2,078,218, which is 87 percent of goal.</p>
3.1C	VPAA VPAF	Continue the renovation construction of N and ST buildings.	<p><b>Accomplished and Ongoing</b></p> <p>Completed phases 1A, 2A, and 2B of the N and ST buildings renovation on time and within budget. Project closeout will start at the beginning of FY20.</p>

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

3.2	<b><i>Increase opportunities to serve the regional needs.</i></b>		
	<b>See data below.</b>		
	<b>Lead</b>	<b>Action Plans</b>	<b>Results as of June 30, 2019</b>
3.2A	VPSS	Increase the draw rate of HCPSS recent high school graduates to 26 percent by continuing to promote the honors/scholars brand and by increasing dual enrollment and Early College.	<p><b>Partially Accomplished and Ongoing</b></p> <p>Trained and placed an academic advisor one day per week in two HCPSS high schools, Oakland Mills and River Hill. Admitted and enrolled 52 rising seniors from Centennial and Howard High Schools, who will be bused to HCC during the 2019-2020 academic year.</p> <p>Created registration rule for dual enrollment sections to allow students to eventually self-serve, while maintaining accurate information on demand for a course.</p> <p>Introduced batch registration for JumpStart students and nursing and allied health students, reducing the time it takes to register students and allowing the ability to batch print registration statements.</p> <p>Provided onsite Free Application for Federal Student Aid (FAFSA) workshops at every HCPSS high school and delivered financial aid presentations at 10 HCPSS high schools, including the Black Student Achievement Program at Long Reach High School.</p>
3.2B	VPSS	Increase enrollment, transfer, and college completion of adult students by implementing the adult learner initiative recommendations.	<p><b>Partially Accomplished and Ongoing</b></p> <p>Established an advising presence one day per month in the students veterans lounge.</p> <p>In response to student and faculty requests, the office developed a communication plan to invite active military members and veterans to the Health Care Professionals Resource Fair.</p> <p>Participated in the Howard County Veterans and Military Resource Fair held in April at HCC.</p> <p>Developed and delivered a virtual information session for the nursing program.</p> <p>Increased adult learner outreach activities adding the following sites: Fort Detrick Education Fair, Kaiser Permanente Education Fair, Living World International Resource Fair, and Riderwood Employment Benefits Fair.</p>

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

3.2C	VPAA	Develop credit and noncredit courses that meet regional employment needs and expand internship/apprenticeship/stackable credential opportunities.	<p style="text-align: center;"><b>Accomplished and Ongoing</b></p> <p>Placed over 85 students in over 100 job and internship experiences and developed relationships with over 62 companies via HCC's White House Tech Hire designation, the Trade Adjustment Assistance Community Colleges and Career Training (TAACCCT) grant, and partnership with the Howard County Economic Development Authority (EDA).</p> <p>Established a technical bench for over 85 cyber/technical students. The students developed hiring packages (LinkedIn, Resume development) and received training in interview skills. Systemic requests are made from the EDA to HCC for hiring needs from Howard County companies in the cyber/technical/programing area.</p> <p>Cyber students participated in a variety of technology competitions this year. Participation in the Baltimore Cyber Range competition ensures students will be considered for employment within the companies that make up the Baltimore Cyber Range consortium. A code-a-thon was hosted at HCC and was sponsored by business partner, NewWave Technologies. Due to his expertise during the competition, one student received an internship at NewWave. SANS institute sponsored a competition that was open to cyber students throughout the United States and will also provide possible employment and training opportunities.</p> <p>Submitted to the Maryland Higher Education Commission for approval:</p> <ul style="list-style-type: none"><li>• Humanities area of concentration</li><li>• World languages and cultures area of concentration.</li></ul>
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# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

3.2C	VPAA	<p>(Continued)</p> <p>Develop credit and noncredit courses that meet regional employment needs and expand internship/ apprenticeship/ stackable credential opportunities.</p>	<p style="text-align: center;"><b>Accomplished and Ongoing</b></p> <p>The Apprenticeship and Training Council of Maryland Apprenticeship and Training Program (MAPT) through the Maryland Department of Labor approved Howard Community College as a registered apprenticeship sponsor in March 2019. Howard Community College registered its first cohort of eight construction management apprenticeship students in summer 2019.</p> <p>Continuing Education and Workforce Development reports:</p> <ul style="list-style-type: none"> <li>• Graduating six cohorts, 75 students, in the Healthcare Interpreter Certificate Program established in spring 2017.</li> <li>• Graduating 25 students in the certificate training program for ophthalmic technicians in partnership with Johns Hopkins Wilmer Eye Institute, established in FY18.</li> <li>• Serving 54 students in partnership with the credit health sciences division developed for certified computed tomography (CT) and magnetic resonance imaging (MRI) technician certificate programs.</li> <li>• Twenty-three students have completed coursework (designed in partnership with the credit dental hygiene program) in new noncredit courses (nitrous oxide and local anesthesia) designed to meet the Maryland State Board of Dental Examiners (MSBDE) requirements for licensed dental hygienists.</li> <li>• Eighteen students completed the training in a new certificate in social and emotional foundations of early learning (SEFEL) for educators in response to the national need for teachers to appropriately respond to children's social and emotional needs.</li> <li>• Three cohorts (31 students) completed the new English Language Center's Multicultural Banking and Finance Institute.</li> <li>• Training 17 students in newly launched fundamentals of health information technology course. The training program is funded through the Maryland Department of Labor Employment Advancement Right Now program.</li> <li>• Cardiac Electrophysiology Technologist Certification and Diagnostic Medical Vascular Sonographer Program began in FY19 through a partnership between the continuing education and workforce development division and the health sciences division.</li> </ul>
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## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

#### College Planning and Strategic Goals (continued)

The following are some core work accomplishments that occurred during the fiscal year that impacted FY19 revenue and spending.

- Advocated successfully for the college's legislative agenda with federal, state, and local governments:
  - Operating Budget - Secured operating budget increases of 2.45 percent from the county, representing an increase of more than \$850,000, and a 6.2 percent increase from the state, representing an increase of more than \$1,150,000, which supported a 4.1 percent merit increase for budgeted employees; an increase in adjunct faculty pay; an additional 3.8 new positions; and allowing the college to limit its in-county tuition increase to \$2 per credit hour;
  - Capital Budget - Secured \$1.4 million from the county and \$1.4 million from the state to begin the design phase of the new Mathematics and Athletics Complex. Also received \$2 million from the county for systematic renovations-deferred maintenance projects. This represents a total capital budget of approximately \$4.8 million;
- Raised a total of \$1,438,791 toward the fundraising goal of \$1.4 million (includes gifts and pledges, based on gross event revenue);
- Generated gross revenue of \$369,038 toward a goal of \$316,000 from the HCC 5K Challenge Race, Silas Craft Collegians Dinner at Hunan Manor, Vino Scholastico, REPartee, and other smaller events;
- Generated \$2,078,218 in competitive grants, toward the foundation's \$2.4 million goal.
- Provided \$1,957,074 in overall support for scholarships and programs from the foundation to the college (\$1,483,312 for scholarships and \$473,762 for programs);
- Raised \$311,500 through named spaces in buildings to fund the donor's choice of scholarships, programs, or endowments;
- Approved as a registered apprenticeship sponsor paving the way for the college to implement apprenticeship programs in traditional and non-traditional occupations. In collaboration with the science, engineering, and technology division, the continuing education and workforce development division (CEWD) launched the college's first registered apprenticeship in construction management in June 2019;
- Facilitated the growth of dual-enrollment JumpStart initiative with expanded curriculum planning in the social sciences/teacher education division and increased sections of principles of business offered;
- Submitted a successful grant application to the National Science Foundation to collaborate with the University of Maryland Baltimore County and three community colleges to improve quantitative reasoning skills for students majoring in biology;
- Completed the renovations for the former Nursing (N) and Science and Technology (ST) buildings, now known as Howard Hall and Academic Commons, on-time and within budget;
- Obtained approval for the Mathematics and Athletics Complex Part I/II Program and obtained design funding; in addition, completed bridge study analyzing bridge options, site and utility alternatives and costs associated with the new facility;

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **College Planning and Strategic Goals (continued)**

- Piloted First Day (FD), an inclusive access program, in the college bookstore
- Completed \$2,990,000 of systemic renovations on time and within budget;
- Reduced energy by installing heat exchanges on all of the college's large boilers, which allows the boiler to use this generated heat to produce domestic hot water;
- Planned for a new 24/7 Grab & Go/Vending Hybrid in the new Academic Commons;
- Continued upgrading the college's technology infrastructure, maintenance procedures and disaster recovery, business continuity, and incident response plans to meet computer security requirements and assure reliability of computer support for HCC's business processes, instruction, and student services;
- Completed the implementation of virtual servers that enable the college to reduce costs related to computer hardware and software that support faculty and students' academic computer applications and data storage;
- Completed the migration of the college's Ellucian administrative computing system to Ellucian's hosted cloud service. Project provided improvements in systems performance, technical support, and better prospects for business continuity. Ellucian has used HCC's project as a best practice;
- Achieved an enrollment growth of 82 percent for HCPSS's JumpStart program from winter/spring 2018 of 663 students to winter/spring 2019 enrollment of 1,208 students;
- Combined funds from athletics and completion services to hire a part-time completion specialist for athletics to support and monitor academic achievement;
- Leveraged micro-grants as a retention and completion tool for 89 financial aid recipients who had a past due balance but were in good standing, resulting in 58 students enrolling for the following semester, a 65 percent retention rate for fall 2018;
- Increased the number of scholarship applicants by 160 percent in fall 2018 as a result of revising the 2018-19 scholarship application and implementing a new scholarship outreach plan;
- Awarded a PNC Bank grant for \$15,000 for the Children's Learning Center's (CLC) library; and,
- Increased enrollment at the CLC from 53 percent in July 2018 to 99 percent in May 2019.

## HOWARD COMMUNITY COLLEGE

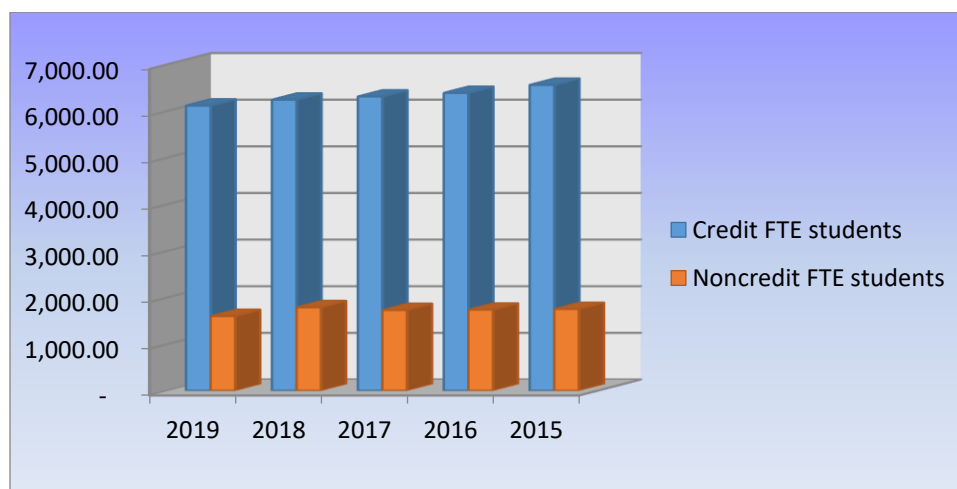
### Management's Discussion and Analysis June 30, 2019

#### Enrollment Statistics and Analysis

For the year ended June 30, 2019, the college served approximately 14,444 credit and 15,803 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Education Commission in terms of full-time equivalent (FTE) students; FTE represents 30 hours of instruction. FTE is an important statistic of the college as it is the basis for comparison among the various state colleges and is, in part, what determines the college's state funding.

During FY19, the state approved credit and noncredit enrollments of 5,862.21 and 1,395.33 FTE. As compared to the prior year, this is a decrease of 88.69 credit FTE and a decrease of 0.99 noncredit FTE. State-funded FTE do not include out-of-state students, employees who took classes, and other ineligible students determined by the state. Overall, credit FTE of 6,113.24 decreased 126.53 FTE, or two percent. Noncredit FTE of 1,599.89 decreased 188.18, or 10.52 percent. Together this number created a total decrease in FTE of 314.71, or 3.92 percent. The college had anticipated enrollment to be flat in FY19. Nationwide, community colleges are experiencing declining enrollment as the improving economy attracts more people into the workforce and birthrates drop.

The chart below shows total FTE as opposed to state-funded FTE for fiscal years 2015 through 2019.



	2019	2018	2017	2016	2015
Credit	6,113.24	6,239.77	6,308.27	6,385.73	6,557.53
Noncredit	1,599.89	1,788.07	1,729.86	1,736.38	1,751.30
<b>Total FTE</b>	<b>7,713.13</b>	<b>8,027.84</b>	<b>8,038.13</b>	<b>8,122.11</b>	<b>8,308.83</b>

As seen in the data above, the 595.7 FTE decline was 7.2 percent for this five-year period. No change in credit FTE, and only a slight increase in noncredit enrollment is anticipated in the FY20 budget.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **Economic Impact**

The college's economic stability comes primarily from three revenue sources: tuition and fees from students, and funding appropriations from Howard County Government and the State of Maryland. The original intent was that one-third of the college's operating funds would come from each of these sources; however, in FY19, the actual unrestricted revenue was 40 percent from students, 37 percent from the county, and 19 percent from the state, with the final four percent coming from auxiliary and miscellaneous revenue.

The college's per credit hour tuition rate increased by two dollars per credit hour. Even with the tuition increase, the student share of actual unrestricted revenue declined to 40 percent, due to the decline in enrollment.

State funds are distributed through the Cade funding formula, with the community colleges receiving a percentage of what the four-year institutions receive in funding from the state. The state increased the college's appropriation by 4.72 percent, or \$847,503 for FY19, but support for the Regional Higher Education Center at the Laurel College decreased by \$6,761. The state's share of actual unrestricted revenue remained the same.

The college received a 3.01 percent, or \$1,020,686 increase in FY19 operating funding from the county. The county's increase in funding of actual unrestricted revenue increased one percent from the prior year.

Revenue from auxiliary services and miscellaneous revenue, increased 21 percent, primarily due to higher interest income earned. Interest rates increased unexpectedly from the time the budget was developed. The percentage share of actual unrestricted revenue, remained the same as the prior year.

#### **Financial Statement Highlights and Analyses**

The financial statements, as prepared in accordance with Government Accounting Standards Board (GASB) statement nos. 34 and 35, are designed to present the college as a whole unit, consolidating the various funds (operating, continuing education, special, auxiliary, and facilities) and emulating corporate financial statements. The purpose of the statement of net position is to identify the college's financial and capital resources in one consolidated statement. The statement of revenue, expenses, and changes in net position identifies the college's operating revenue and expenses for its various programs, and also shows the support the college receives from Howard County Government, the State of Maryland, and various federal, state, and local grant programs. This statement also highlights spending in the various functional areas. Finally, the statement of cash flows identifies sources and uses of cash, and the change in the cash balance from the previous fiscal year.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **Financial Statement Highlights and Analyses (continued)**

The college's financial position remains positive, however, beginning last year, Howard County Government has required the College, as well as county component units, to record its respective portion of the Other Post-Employment Benefits (OPEB) liability. The most recent liability was measured as of June 30, 2018, and calculated for each entity independently. This change made a negative fiscal impact to the college's financial position; creating a net negative unrestricted fund deficit. The FY19 ending unrestricted fund deficit and net assets were reduced by \$38,497,228 for the amount of the college's proportionate FY18 net OPEB liability.

The net position of the college increased six percent over the prior year. The college continues to make improvements to its current facilities with a major renovation of the previously named nursing and science and technology buildings. These renovated buildings are now called Howard Hall and Academic Commons. This ongoing renovation was the primary reason for the increase in the college's net fixed assets that grew four percent in FY19. As capital projects are winding down, the state receivable and offsetting payable to the county have decreased. The county pays for state-funded project costs upfront. The state share is reimbursed only after the county has paid its share of the project costs. In addition, the remaining short-term debt owed to the county for the expansion of the parking garage was converted to long-term bond debt. The net OPEB liability increased in FY19 primarily due to a change in actuarial assumptions and contributions to the OPEB trust. This is explained in the OPEB footnote 11 disclosure and other supplement information on page 80.

The primary increase in both operating revenue and expenses were due to an increase in appropriations from the county and state used to offset additional operating costs for instruction, technology, and facilities. Salary and benefit costs remain the largest expense in the budget. The college does its best to ensure salaries are competitive and that the college can retain and attract talented faculty and staff. The winding down of several capital projects in FY19, reduced capital appropriations used to fund these assets.

Efforts continue to be made college-wide to determine cost savings within departments and divisions. The college also works to create new opportunities for cost savings by partnering with other colleges and organizations on shared goals and objectives including adding new four-year partners at the Laurel College Center as well as partnering with the Howard County Public School System on dual enrollment initiatives.

A major financial challenge facing the college today is funding and its impact on affordability. With state support at only 19 percent of unrestricted revenue, the burden of education falls heavily on the county and HCC students. With the Maryland economy doing well, more students are opting to work rather than go to school and bear the burden of student loan debt. With declining enrollment trending throughout our nation, the college will continue to look for ways to reduce operating costs.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

### Financial Statement Highlights and Analyses (continued)

#### STATEMENTS OF NET POSITION

	June 30, 2019	June 30, 2018	Dollar Variance	Percentage Variance
<b>ASSETS</b>				
Current assets	\$ 56,968,368	\$ 53,977,831	\$ 2,990,537	6%
Non-current assets, net	279,647,525	268,356,230	11,291,295	4%
<b>Total Assets</b>	<b>336,615,893</b>	<b>322,334,061</b>	<b>14,281,832</b>	<b>4%</b>
Deferred outflows of financial resources				
– pension	779,251	643,507	135,744	21%
– other post-employment benefits	2,348,125	269,612	2,078,513	771%
<b>Total Deferred Outflows of Financial Resources</b>	<b>3,127,376</b>	<b>913,119</b>	<b>2,214,257</b>	<b>242%</b>
<b>LIABILITIES</b>				
Current liabilities	24,558,005	25,935,738	(1,377,733)	-5%
Non-current liabilities	47,618,405	47,017,297	601,108	1%
<b>Total Liabilities</b>	<b>72,176,410</b>	<b>72,953,035</b>	<b>(776,625)</b>	<b>-1%</b>
Deferred inflows of financial resources				
– pension	273,396	303,408	(30,012)	-10%
– other post-employment benefits	6,601,449	4,486,330	2,115,119	47%
<b>Total Deferred Inflows of Financial Resources</b>	<b>6,874,845</b>	<b>4,789,738</b>	<b>2,085,107</b>	<b>44%</b>
<b>NET POSITION</b>				
Net investment in capital assets	265,841,551	254,604,434	11,237,117	4%
Restricted funds, expendable	38,522	153,174	(114,652)	-75%
Unrestricted	(5,188,059)	(9,253,201)	4,065,142	-44%
<b>Total Net Position</b>	<b>\$ 260,692,014</b>	<b>\$ 245,504,407</b>	<b>\$ 15,187,607</b>	<b>6%</b>

Designations of unrestricted net position:	June 30, 2019	June 30, 2018	Variance
Continuing education	\$ 4,712,529	\$ 4,373,033	\$ 339,496
Auxiliary enterprises	4,547,968	4,361,537	186,431
Special funds	13,166,283	10,467,040	2,699,243
Facility funds	12,819,201	10,968,712	1,850,489
Other	1,999,773	1,989,882	9,891
Unfunded pension related items	(2,040,376)	(1,955,503)	(84,873)
Unfunded other post-employment benefits	(38,497,228)	(37,496,341)	(1,000,887)
Unfunded vacation liability	(1,896,209)	(1,961,561)	65,352
<b>Total unrestricted net position</b>	<b>\$ (5,188,059)</b>	<b>\$ (9,253,201)</b>	<b>\$ 4,065,142</b>

- *Total assets* increased \$14,281,832, or four percent over the prior year. The primary increase in *current assets* was in cash and cash equivalents. *Non-current assets* increased four percent, or \$11,291,295 primarily due to the capitalization of the renovation addition and construction in progress costs of the nursing and science and technology buildings renovation.

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

#### Financial Statement Highlights and Analyses (continued)

- The increase in *non-current assets* is net of depreciation. Capital assets include land, buildings, renovation costs, furniture, equipment, software, library books, leaseholds, land improvements, and construction in progress (CIP). CIP, as of June 30, 2019, totaled \$27,306,647, which is the cost to date of the incomplete portion of the nursing and science and technology buildings renovation project. The Howard Hall portion of the renovation project was completed and capitalized into renovations in FY19. The breakdown by asset category can be found in Note 7 of the financial statements.
- *Total liabilities* decreased \$776,625, or one percent from the prior year. The primary decrease in *current liabilities* was in the payable to Howard County for construction projects that the county pays up front on behalf of the state. As major capital projects are winding down, the payable has decreased.
- *Non-current liabilities* include the college's portion of the state pension liability for certain employees, the OPEB liability, and bond debt. The college's pension liability increased 11 percent. The new bond debt for the east garage expansion, net of repayments and refunding of debt done by the county, decreased by five percent. The bonds are held by the county on behalf of the college and provided funding for the garage and other capital assets. The debt repayment schedule is detailed in Note 8 of the financial statements. The OPEB liability increased \$964,281, or three percent, primarily due to a change in assumptions. More information about the liability is found in Note 11.
- Deferred outflows of financial resources increased 242 percent and deferred inflows of financial resources increased 44 percent. These items are related to the college's pension liability for certain employees, discussed in note 10 of the financial statements, and the OPEB liability, discussed in note 11 of the financial statements.
- These changes resulted in an increase in the college's *net position* of \$15,187,607, or six percent. *Restricted funds*, which decreased 75 percent, satisfied grant obligations during FY19.

The college's *unrestricted net position* is internally designated as outlined in the previous chart. The college's portion of the unfunded OPEB liability had a material negative effect on the unrestricted net position of the college. The unrestricted net deficit is now (\$5,188,059). It should be noted that the county has funded the OPEB trust since its inception and has budgeted to fund the trust on the college's behalf in the FY20 budget.

The primarily increase in the facilities funds was from the increase in the consolidated fee revenue collected to pay for the increased debt on the parking garage expansion. The increase in the special funds was due to new programs and project improvements.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

### Financial Statement Highlights and Analyses (continued)

#### STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<u>June 30, 2019</u>	<u>June 30, 2018 Reclassified</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
<b>Total Operating Revenue</b>	<b>\$ 34,449,123</b>	<b>\$ 33,845,117</b>	<b>\$ 604,006</b>	<b>2%</b>
<b>Operating Expenses</b>				
Instruction	46,859,530	46,773,048	86,482	0%
Public service	833,965	820,450	13,515	2%
Academic support	11,213,439	10,587,471	625,968	6%
Student services	9,104,745	8,865,689	239,056	3%
Facilities	13,713,033	13,209,511	503,522	4%
Institutional support	14,556,729	14,205,924	350,805	2%
Scholarships and related expenses	2,784,618	2,579,216	205,402	8%
Auxiliary enterprises	2,862,641	2,679,022	183,619	7%
Certain fringe benefits paid directly by the state	4,639,257	4,514,216	125,041	3%
Unallocated depreciation	11,500,922	11,367,698	133,224	1%
Total operating expenses	118,068,879	115,602,245	2,466,634	2%
<b>Operating loss</b>	<b>(83,619,756)</b>	<b>(81,757,128)</b>	<b>(1,862,628)</b>	<b>2%</b>
<b>Non-operating Revenue (Expenses)</b>				
Government appropriations	53,856,705	51,945,355	1,911,350	4%
Grants and contracts	15,634,457	15,675,546	(41,089)	0%
In-kind contributions and certain fringe benefits paid directly by government	6,925,158	6,746,080	179,078	3%
Investment income	887,758	501,151	386,607	77%
Interest on debt to Howard County	(487,078)	(333,023)	(154,055)	46%
<b>Net Non-operating Revenue</b>	<b>76,817,000</b>	<b>74,535,109</b>	<b>2,281,891</b>	<b>3%</b>
Loss before capital appropriations	(6,802,756)	(7,222,019)	419,263	-6%
Capital appropriations	21,990,363	22,818,534	(828,171)	-4%
Increase in net position	15,187,607	15,596,515	(408,908)	-3%
Net position, beginning of year	245,504,407	229,907,892	15,596,515	7%
<b>Net Position, End of Year</b>	<b>\$ 260,692,014</b>	<b>\$ 245,504,407</b>	<b>\$ 15,187,607</b>	<b>6%</b>

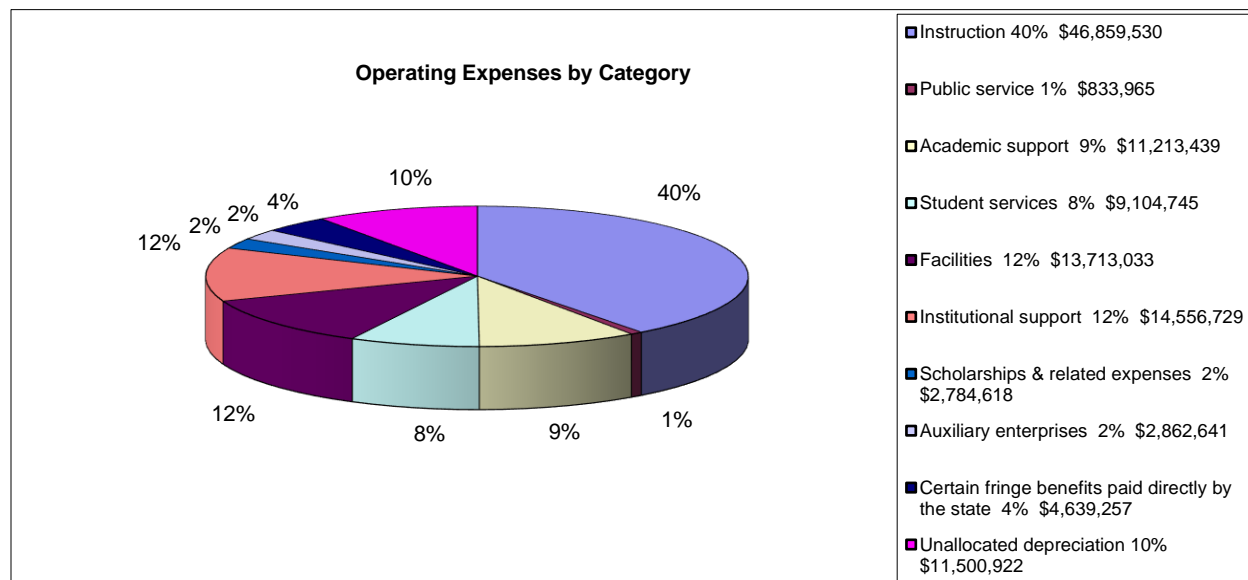
- In FY19 the college reclassified several cost center expenditures to better align with national standards. For comparative purposes, the FY18 functional expenditures in instruction, academic support, student services, facilities, and institutional support have been reclassified above.
- Operating revenue had a two percent, or \$604,006 increase from the prior year. This increase was primarily in other operating revenue. Prince George's Community College's (PGCC) earned revenue, recognized from the Laurel College Center operations, increased in FY19 by \$204,841. HCC and PGCC evenly share revenues and expenses at the center for this partnership. In addition, tuition and fees increased one percent.

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

#### Financial Statement Highlights and Analyses (continued)

- *Non-operating revenue* had a three percent, or \$2,281,891 increase from the prior year. The county appropriation increased 3.01 percent and the state appropriation increased 4.72 percent in FY19. Grants and contracts decreased slightly. Increased investment income due to rising interest rates caused a 77 percent increase in investment income.



- Total *operating expenses* increased \$2,466,634, or two percent from the prior year. *Instruction and academic support* together represent 49 percent of expenditures. This is one percent less than the prior year. *Instruction's* expenditures had a lower than average increase in direct costs due to lower enrollment, while *academic support* increased as described below.
- The *academic support* function increased six percent, or \$625,968 from the prior year. Additional funds for student accommodations and new positions added to support dual enrollment, caused this increase in expenditures. In addition, funding for various learning communities increased in FY19.
- The *facilities* function increased four percent, or \$503,522 from the prior year. This increase in expenses is primarily due to new operating costs of the science, engineering, and technology building.
- The *scholarships and related expenses* increased eight percent or \$205,402 as compared to the prior year. This expense represents financial assistance paid directly to students for expenses other than their college charges of tuition and fees such as transportation and housing costs. More financial assistance was paid out to students and less was applied to on campus costs.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2019

### Financial Statement Highlights and Analyses (continued)

- Expenses in *auxiliary enterprises* increased seven percent, or \$183,619. Costs associated with athletics, the Children's Learning Center, and the food service operation all increased over the prior year.
- *Unallocated depreciation* increased one percent, or \$133,224. The write down of depreciation related to the Howard Hall renovation caused this lower than average variance increase.
- *Capital appropriations* from the county and state government decreased \$828,171, or four percent from the prior year. Funding for the science, engineering, and technology building and the nursing and science and technology buildings renovation decreased as expenditures are in their final phase.

	STATEMENTS OF CASH FLOWS			
	June 30, 2019	June 30, 2018	Dollar Variance	Percentage Variance
<b>Cash Flows From Operating Activities</b>				
Net cash used in operating activities	<b>\$ (66,332,009)</b>	\$ (62,051,116)	\$ (4,280,893)	7%
<b>Cash Flows From Non-Capital Financing Activities</b>				
Net cash provided by non-capital financing activities	<b>69,265,589</b>	67,551,265	1,714,324	3%
<b>Cash Flows From Capital Financing Activities</b>				
Net cash provided (used) by capital financing activities	<b>807,988</b>	(2,747,353)	3,555,341	-129%
<b>Cash Flows From Investing Activities</b>				
Net cash provided by investing activities	<b>887,758</b>	501,151	386,607	77%
Net increase in cash and cash equivalents	<b>4,629,326</b>	3,253,947	1,375,379	42%
Cash and cash equivalents, beginning of the year	<b>38,060,572</b>	34,806,625	3,253,947	9%
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 42,689,898</b>	<b>\$ 38,060,572</b>	<b>\$ 4,629,326</b>	12%

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2019

#### Financial Statement Highlights and Analyses (continued)

- Cash and cash equivalents increased \$4,629,326, or 12 percent from the prior year.
- The primary inflow of cash from operations continues to come from student tuition and fees. This inflow had a one percent decline for the year, due to lower enrollment. The primary outflows of cash from operations are supplier payments, employee compensation, and employee benefits costs. These outflows collectively increased four percent over the prior year. As a result, *net cash used in operating activities* increased seven percent.
- State and local appropriations are the primary cash inflows from *non-capital financing activities*. Other funds come from grants and contracts. Collectively, the county and state receipts increased four percent, while grant receipts decreased one percent. This resulted in an increase in *net cash provided by non-capital financing activities* of three percent over the prior year.
- *Capital financing activities* include resources received from the county and state for the college's capital projects, purchase of capital assets, and the issuance and repayment of debt. Cash receipts for appropriations increased 37 percent over the prior year and expenditures on capital projects declined three percent. This occurred as the roadways and science, engineering, and technology projects came to a close this fiscal year. Overall, the college had a 129 percent increase in *net cash provided by capital financing activities*.
- The college's *investing activity* cash flows come from investment income. Interest rates continued to rise during FY19, resulting in a 77 percent increase in *net cash provided by investing activities*.

The college believes that its liquidity position as of June 30, 2019, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2019.

As the college collects the majority of its tuition revenue at the beginning of each term and receives its grants and appropriations regularly, liquidity should not be an issue for the next fiscal year.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **Economic Factors that Will Affect the Future**

Howard County and the State of Maryland provide significant resources to the college for both its operating and capital budgets. Restricted funding from federal, state, and local governments cover significant expenses for college programs and provide support to students with financial need. This support, exclusive of capital appropriations, is reflected on the financial statements as non-operating revenue. In FY19, these funds covered 64 percent of operating expenses, therefore, the economic condition of the country, state, and county are critical to the college's future financial health.

Although Howard County is considered one of the wealthiest counties in the United States, revenue sources in recent years have not been as robust as the past. Over the next few years, Howard County revenue is anticipated to grow an average of two to three percent. County revenue in FY20 is expected to grow only modestly with a projected growth rate of 2.7 percent, based on a forecasted growth of 2.4 percent in the assessable property tax base and a moderate growth in personal income tax.

The county faces many restraints on growth. The workforce is at full capacity with high labor force participation (71 percent) and very low unemployment (3.8 percent) leaving little room for growth. The impact of the Adequate Public Facilities Ordinance (APFO), passed by the County Council in 2018, is expected to reduce net revenue by \$63 million over the next six years, which could grow to \$152 million over the next 20 years, based on recent studies. APFO imposed more stringent restrictions on new development. The county's population is aging with the increase of residents over the age of 65. Development patterns in the county are also changing as the attached and multi-unit housing units are increasing, as opposed to single family detached housing that was normally the driver of growth. The aging population, low unemployment, and multi-unit housing are some concerns that limit revenue growth for the county. In addition, the county, like the state, is highly reliant on federal employment and procurement, and uncertainty in future federal spending remains a concern.

In FY18 the county made the decision to move the college's portion of the OPEB liability from the county to the college. It is important to the financial stability of the college that funding of the OPEB trust remains the responsibility of the county.

Long term, the county is limited in land available for development both in quantity and configuration. However, the development of growth corridors and the re-development of downtown Columbia will contribute to the county's long-term economic progress. In FY19, the college received a 3.01 percent increase from the county and is approved to receive a 2.45 percent increase in FY20.

The college received an increase from the State of Maryland of 4.95 percent in FY19, which included a one-time state grant for community colleges to keep tuition affordable. This one-time grant was eliminated in FY20. The community colleges received an average increase

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **Economic Factors that Will Affect the Future (continued)**

of 3.9 percent for the Cade funding formula in FY20 for all community colleges, however, HCC received an increase of 6.2 percent in Cade funding due to prior growth. With the elimination of the one-time grant, the state increase will average 4.97 percent for FY20. A recent economic report compiled by 24/7 Wall Street ranked Maryland's economy eighth in the nation. The June 2019 Maryland unemployment rate decreased to 3.8 percent from 4.3 in June 2018.

The college experienced a decline in enrollment in state-funded credit FTEs in FY19 of 1.49 percent, and no enrollment increase is anticipated in FY20. In FY18, the college and the Howard County Public School System (HCPSS) entered into an updated memorandum of understanding for dual enrollment, promoting a new program called JumpStart. With this revised agreement, the college saw an increase in its spring 2019 dual enrollment programs of 85.3 percent over spring 2018. However, based on the improving economy and the expectation that it will take a few years for the JumpStart program to have an impact on overall enrollment, the college is expecting little or no increase in enrollment in FY20.

As enrollment slows, tuition and fees that supported 40 percent of the operating revenue in FY19 will decline, unless tuition rates continue to rise. In the FY20 budget, in-county tuition rates increased by two dollars per credit hour and out-of-county and out-of-state rates increased eight dollars. State guidelines on tuition rates caused the higher increases for non-county residents.

The college received funding in FY20 to begin the design of the new Mathematics and Athletic Complex. The complex supports current enrollment and growth for the mathematics division and athletics programs while addressing existing facilities inadequacies and severe space deficits. The architects are anticipated to be hired this fall to begin design of the project. Design funding was approved for the first phase of this multi-phase complex.

Due to funding limitations at the county and state, as well as the college's goal of keeping tuition increases limited, the college continues to look for ways to reduce costs. During the FY20 budget process, \$277,700 was saved. This included reductions, rebates and savings in the following amounts: \$100,000 in energy savings; \$5,400 in part-time personnel costs; \$20,000 in travel; \$33,600 in supplies and mailings; \$5,000 in contracted services; \$30,000 in insurance; and \$83,700 in rebates and the sale of inventory.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2019**

#### **Requests for Information**

The management's discussion and analysis financial report is intended to provide a general overview of the college's finances. Questions concerning information within this report or requests for additional information should be addressed to the office of administration and finance, Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044. Email questions can be sent to [FinanceOffice@howardcc.edu](mailto:FinanceOffice@howardcc.edu).

Electronic versions of this audit report are provided for information only and for the convenience of the reader. While reasonable efforts have been made to ensure the integrity of electronic statements, they should not be relied on. A copy of the printed financial statements will be provided upon written request made to: Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044; Attention: The Office of the Vice President of Administration and Finance. Email requests should be sent to [FinanceOffice@howardcc.edu](mailto:FinanceOffice@howardcc.edu).

## **FINANCIAL STATEMENTS**

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# HOWARD COMMUNITY COLLEGE

## Statements of Net Position June 30, 2019

	Howard Community College	Howard Community College Educational Foundation, Inc.
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 42,689,898	\$ 437,623
Investments	-	4,651,215
Tuition and other receivables, (net of allowance of \$3,289,895)	262,915	-
Federal, state, local, and other receivables	13,008,977	-
Contributions receivable, net	-	140,559
Prepaid expenses and other assets	1,006,578	22,095
Total current assets	56,968,368	5,251,492
<b>Non-current Assets</b>		
Investments and interest in irrevocable trust	-	8,459,498
Contributions receivable, net	-	186,923
Capital assets, net	279,647,525	-
Total non-current assets	279,647,525	8,646,421
<b>Total Assets</b>	336,615,893	13,897,913
<b>Deferred outflow of financial resources</b>		
Pension	779,251	
Other post-employment benefits	2,348,125	-
<b>Total Deferred outflow of financial resources</b>	3,127,376	-
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued wages	7,128,492	63,197
Accrued compensated absences	2,496,599	-
Payable to PGCC joint venture	328,031	
Payable to Howard County for construction	9,268,870	-
Other payables	414,701	-
Bonds payable, Howard County, current portion	803,935	-
Deposits	63,403	-
Agency funds	1,289,263	-
Unearned revenue	2,764,711	91,200
Total current liabilities	24,558,005	154,397

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

# HOWARD COMMUNITY COLLEGE

## Statements of Net Position (continued) June 30, 2019

	Howard Community College	Howard Community College Educational Foundation, Inc.
<b>Non-current Liabilities</b>		
Pension liability	\$ 2,546,231	\$ -
Bonds payable, Howard County, net of current portion	10,828,270	-
Other post-employment benefits	34,243,904	-
Total non-current liabilities	47,618,405	-
<b>Total Liabilities</b>	72,176,410	154,397
<b>Deferred inflows of financial resources</b>		
Pension	273,396	-
Other post-employment benefits	6,601,449	-
<b>Total Deferred inflows of financial resources</b>	6,874,845	-
Net investment in capital assets	265,841,551	-
Restricted for scholarships and program uses	38,522	11,837,543
Unrestricted	(5,188,059)	1,905,973
<b>Total Net Position</b>	<b>\$ 260,692,014</b>	<b>\$ 13,743,516</b>

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

# HOWARD COMMUNITY COLLEGE

## Statements of Revenue, Expenses and Changes in Net Position For the Year Ended June 30, 2019

	Howard Community College	Howard Community College Educational Foundation, Inc.
<b>Revenue</b>		
Operating Revenue		
Student tuition and fees (net of discounts, allowances, and financial aid of \$12,406,854)	\$ 31,041,193	\$ -
Cultural, community, and other programs (net of financial aid of \$2,700)	1,061,296	-
Auxiliary enterprises revenue (net of financial aid of \$1,792)	1,442,740	-
Other operating revenue	903,894	-
Contributions, including in-kind	-	1,862,710
Special events	-	354,824
<b>Total Operating Revenue</b>	<b>34,449,123</b>	<b>2,217,534</b>
<b>Operating Expenses</b>		
Instruction	46,859,530	-
Public service	833,965	-
Academic support	11,213,439	-
Student services	9,104,745	-
Facilities	13,713,033	-
Institutional support	14,556,729	452,854
Scholarships and related expenses	2,784,618	-
Program expenses	-	1,957,074
Special events	-	61,182
Fundraising	-	390,840
Auxiliary enterprises	2,862,641	-
Certain fringe benefits paid directly by the State of Maryland	4,639,257	-
Unallocated depreciation	11,500,922	-
<b>Total Operating Expenses</b>	<b>118,068,879</b>	<b>2,861,950</b>
<b>Operating Loss</b>	<b>(83,619,756)</b>	<b>(644,416)</b>
<b>Non-Operating Revenue (Expenses)</b>		
Howard County government appropriations	34,985,816	-
State of Maryland appropriations	18,870,889	-
Federal, state, local, and other grants and contracts	15,634,457	43,257
In-kind contributions – Howard County Government	1,158,000	-
Certain fringe paid directly by the State of Maryland and Howard County Government	5,767,158	-
Investment income	887,758	227,051
Net realized and unrealized gain on investments	-	452,591
Interest expense	(487,078)	-
<b>Net Non-Operating Revenue</b>	<b>76,817,000</b>	<b>722,899</b>
<b>(Loss) Income before Capital Appropriations</b>	<b>(6,802,756)</b>	<b>78,483</b>

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

## HOWARD COMMUNITY COLLEGE

### Statements of Revenue, Expenses and Changes in Net Position (continued) For the Year Ended June 30, 2019

	Howard Community College	Howard Community College Educational Foundation, Inc.
Capital appropriations, State of Maryland	\$ 9,543,857	\$ -
Capital appropriations, Howard County	12,446,506	-
<b>Total Capital Appropriations</b>	21,990,363	-
Changes in net position	15,187,607	78,483
Net position, beginning of year	245,504,407	13,665,033
<b>Net Position, End of Year</b>	<b>\$ 260,692,014</b>	<b>\$ 13,743,516</b>

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

## HOWARD COMMUNITY COLLEGE

### Statements of Cash Flows For the Year Ended June 30, 2019

#### Howard Community College

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**Cash Flows From Operating Activities**

Student tuition and fees	\$ 30,642,031
Payments to suppliers	(26,074,127)
Payments to employees	(60,566,443)
Payments for employee benefits	(13,741,400)
Auxiliary enterprises	1,442,740
Other receipts	1,965,190
<b>Net Cash From Operating Activities</b>	<b>(66,332,009)</b>

**Cash Flows From Non-Capital Financing Activities**

Local appropriations	34,985,816
State appropriations	18,870,889
Grant and contracts	15,628,321
Student loan receipts	7,302,797
Student loan disbursements	(7,302,797)
Agency fund receipts	333,917
Agency fund disbursements	(553,354)
<b>Net Cash From Non-Capital Financing Activities</b>	<b>69,265,589</b>

**Cash Flows From Capital Financing Activities**

Capital appropriations	23,830,453
Purchase of capital assets	(22,792,217)
Interest expense payments	(487,078)
New bond issue	793,048
Principal payments on bonds, net of refunding	(536,218)
<b>Net Cash From Capital Financing Activities</b>	<b>807,988</b>

**Cash Flows From Investing Activities**

Investment interest	887,758
<b>Net Cash From Investing Activities</b>	<b>887,758</b>

Net increase in cash and cash equivalents	4,629,326
Cash and cash equivalents, beginning of year	38,060,572

<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 42,689,898</b>
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The accompanying notes are an integral part of these financial statements.

## HOWARD COMMUNITY COLLEGE

### Statements of Cash Flows (continued) For the Year Ended June 30, 2019

#### Howard Community College

#### Reconciliation of Net Operating Loss to Net Cash Used in

##### Operating Activities:

Operating loss	\$ (83,619,756)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,500,922
In-kind contributions	6,136
Amounts paid directly by the state and county	6,925,158
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	131,793
Prepaid expenses and other assets	(1,977,106)
Accounts and other payables	(2,023,385)
Unfunded pension liability	280,641
Unfunded other post-employment benefits liability	3,019,376
Unearned revenue	(510,436)
Compensated absences	(65,352)
<b>Net Cash From Operating Activities</b>	<b>\$ (66,332,009)</b>

#### Howard Community College Educational Foundation, Inc.

#### Cash Flows From Operating Activities

Changes in net position	\$ 78,483
Adjustments to reconcile changes in net position to net cash used in operating activities:	
Net realized and unrealized gain on investments	(605,303)
Change in discount on contributions receivable	4,522
Change in allowance for uncollectible accounts	(3,500)
Effects of changes in non-cash operating assets and liabilities:	
Contributions receivable	(71,473)
Prepaid expenses and other assets	15,152
Accounts payable and accrued wages	153
Due to Howard Community College	(9,365)
Unearned revenue	3,246
<b>Net Cash From Operating Activities</b>	<b>(588,085)</b>
<b>Cash Flows From Investing Activities</b>	
Proceeds from sale of investments	9,103,310
Purchase of investments	(8,446,437)
<b>Net Cash From Investing Activities</b>	<b>656,873</b>
Net increase in cash and cash equivalents	68,788
Cash and cash equivalents, beginning of year	368,835
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 437,623</b>

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

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements

June 30, 2019

### 1. ORGANIZATION AND BACKGROUND

Howard Community College (the “college”), founded by the Board of Education of Howard County (the “county”), was formally authorized by the Howard County Commissioners to provide a full range of educational services to the county’s citizens; however, citizens of other counties and states are also eligible to attend. In FY19, 73 percent of the college’s credit student populations were county residents. The college is fully accredited by the Middle States Commission on Higher Education and by the Maryland Higher Education Commission to offer programs of learning and to award associate degrees and certificates of proficiency.

A seven-member board of trustees, appointed by the Governor of Maryland, governs the college. The college president is a non-voting member and serves as the secretary-treasurer.

The college has been defined as a component unit of Howard County, Maryland government, and the college’s financial statements are included in the comprehensive annual report of the county in accordance with generally accepted accounting principles in the United States of America.

The Howard Community College Educational Foundation, Inc. (the “foundation”) is a separate legal entity with a separate board of directors. The foundation is a nonprofit organization established in 1978 to provide charitable benefits to the college and financial aid to qualified students attending the college. The college’s president holds the position of secretary and the college’s director of development holds the position of executive director. The foundation operates independently of the college.

Since the foundation was established for the purpose of obtaining resources and to provide charitable benefits to the college, it is considered a component unit of the college, and is discretely presented in the college’s financial statements.

Complete financial statements of the foundation can be obtained by contacting the foundation’s administrative office located at Howard Community College, 10901 Little Patuxent Parkway, Columbia, MD 21044-3197. Email requests can be sent to [Foundation@howardcc.edu](mailto:Foundation@howardcc.edu).

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements are prepared using accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB).

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Basis of Presentation (Continued)

Given the importance of tuition, fees, and other exchange-type transactions in financing higher education, the college adopted the financial reporting model required by GASB for business-type activities (BTA). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. Accordingly, the accompanying college financial statements have been prepared on the accrual basis of accounting in accordance with governmental accounting standards generally accepted in the United States of America.

The foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB), including FASB Accounting Standards Codification Topic no. 958. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial reporting entity for these differences.

##### Use of Estimates

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

##### Cash and Cash Equivalents

The college and the foundation consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Funds invested through the Maryland Local Government Investment Pool are also considered cash equivalents.

##### Investments and Interest in Irrevocable Trust

Investments of the foundation that are comprised of mutual funds and fixed income securities are reported at fair value, based upon the net asset value per share as determined by quoted market prices. Investments were held by the University System of Maryland (USMF), 1919 Investment Council, and Wilmington Trust during the year.

The foundation's investments in an external investment pool have no readily determined market value and are valued at fair value as estimated by the USMF custodian based on values as reported by the record keeper. USMF's management estimates fair value of the underlying market values of the investments. Because of the inherent uncertainty of the valuation, it is reasonably possible that such estimated values may differ from the values that would have been used had a ready market for the securities existed.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Investments and Interest in Irrevocable Trust (Continued)**

Changes in fair value are recognized in the statement of revenue, expenses, and changes in net position in the period in which the change occurs and are included in net realized and unrealized gains on investments.

Interest in irrevocable trust represents the foundation's interest in an irrevocable trust donated to the foundation during the year ended June 30, 2009. The foundation's interest is reported as the present value of the estimated fair value based on the foundation's share of the trust, the fair value of the assets in the trust, and the expected life of the donor.

##### **Tuition and Other Receivables**

The college's tuition receivable represents obligations of students resulting from course registrations. The receivable is due before the end of the semester for which it was incurred. Amounts that remain uncollected three weeks after the end of the semester are considered delinquent and are referred to a collection agency. The college has established a valuation allowance for the tuition receivable it estimates as uncollectible. As of June 30, 2019, the net tuition receivable was \$168,518. Included in other receivables are amounts due from the Howard Community College Educational Foundation of \$62,304 and from Barnes and Noble of \$32,093, primarily for June's commission on sales.

##### **Contributions Receivable**

The foundation's contributions receivable represents unconditional promises to give from various contributors including individuals, foundations, local businesses, and governments. There was a \$3,500 allowance for uncollectible accounts recorded as of June 30, 2019.

Contributions receivable are recorded at the donated amount or net present value for those contributions expected to be collected in excess of one year. A discount rate of three percent was used as of June 30, 2019. The unamortized discount of \$10,777 will be accreted into contribution revenue in the future.

##### **Capital Assets**

Capital assets of the college are long-lived tangible assets that will benefit future periods. These assets have been capitalized and are depreciated over their estimated useful lives. Capital assets are defined as land, land improvements, buildings, building renovations, leasehold improvements, furniture and equipment (including software), and library books that have initial useful lives extending beyond a single reporting period.

The college has established a threshold of \$5,000 for furniture and equipment for items to be capitalized. Library books are capitalized as one component unit for the purchases within the fiscal year.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Capital Assets (continued)

Capital assets constructed or purchased are capitalized at cost, while assets acquired by gift are capitalized at their fair market value at the time of donation. The college depreciates all capital assets, except for land. Depreciation expense is not allocated functionally on the financial statements. Cost incurred for construction in progress is capitalized as incurred and not depreciated until the assets are ready to be placed in service.

Depreciation is computed on a straight-line basis over estimated useful lives (as listed below), beginning the year after acquisition, except for buildings, which are depreciated in the first year of their use.

<u>Class of Assets</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Land improvements	25 years
Renovations and leasehold improvements	15 years (or lease term, if shorter)
Library books	8 years
Furniture, equipment, and software	3 – 10 years

##### Accrued Compensated Absences

The college accrues for unused compensated absences at year-end. Accrued compensated absences as of June 30, 2019, were \$2,496,599.

Changes in the college's accrued compensated absences for the year ended June 30, 2019, were as follows:

	<u>June 30, 2018</u>	<u>Net change</u>	<u>June 30, 2019</u>
Payable	<u>\$ 2,561,951</u>	<u>\$ (65,352)</u>	<u>\$ 2,496,599</u>

##### Agency Funds

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. The funds held for others are recorded as a liability on the statement of net position and agency transactions are not included in the revenue and expenses of the college.

##### Unearned Revenue

Unearned revenue for the college is primarily comprised of tuition received for semesters beginning after June 30, 2019, and grant revenue received during the year that has restrictions on spending related to time or purpose, which has been deferred until those restrictions are met. The foundation collects advance receipts for fundraising events. Funds received for

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Unearned Revenue (continued)

foundation fundraising events are recognized as special events revenue upon the occurrence of the event.

##### Deferred Financing Inflows and Outflows Related to Pension and Other Post-Employment Benefits

Deferred financing inflows include differences between expected and actual experience, changes in actuarial assumptions, the net difference between projected and actual earnings, and a change in the college's proportional rate.

Deferred financing outflows includes amounts paid to the county for the college's related expense. They also include changes in actuarial assumptions, and the net difference between projected and actual earnings.

Deferred financing inflows and outflows are amortized over five years for the pension items, and five or 10 years for the other post-employment benefits items.

##### Net Position

Net position of the college is classified as restricted, unrestricted, or net investment in capital assets. Restricted net position is reported as either expendable or nonexpendable. Nonexpendable net position is to be maintained in perpetuity. Expendable net position, for which there are externally imposed constraints, are obligated or expensed within those condition(s).

The restricted net position of \$38,522 represents grants given to the college for a specific use, designated by the grantor. The unrestricted balance of (\$5,188,059) represents auxiliary enterprise funds of \$4,547,968, continuing education funds of \$4,712,529, cultural, community, theatre and other funds of \$15,166,056, and \$12,819,201 designated for construction and debt repayment, net of \$1,896,209 of unfunded vacation liability, \$2,040,376 of unfunded pension liability, and \$38,497,228 of unfunded post-employment related benefits.

The net investment in capital assets of \$265,841,551 is net of related debt that includes long-term debt to Howard County of \$11,632,205, and outstanding payables related to construction projects as of June 30, 2019, of \$2,173,769.

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by the foundation has been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. As of

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Net Position (continued)

June 30, 2019, there was \$3,378,045 in net assets with donor restrictions for a specific time period or purpose.

Net assets with donor restrictions also consist of contributions subject to donor-imposed stipulations that must be maintained in perpetuity by the foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned and capital gains, if any, on the related investments for general or specific purposes. Investment income earned from such contributions is restricted to support the purpose designated. Net assets with donor restrictions, in perpetuity, was \$8,459,498 for the year ended June 30, 2019.

### Revenue Recognition

The financial statements of the college have been prepared on the accrual basis of accounting, whereby all revenue is recorded when earned and all expenses are recorded when they have been incurred. These financial statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution. Internal activity between programs has been eliminated.

The college's tuition and fee revenue is shown net of scholarship allowances. A scholarship allowance is defined as the difference between the stated charge for tuition, fees, goods, and services provided by the college and the amount that is paid by the student and/or third-parties making payments on behalf of the student. The scholarship allowance represents the amount the college receives as tuition from outside sources, such as the Title IV Federal Grant Program, the foundation, other restricted grants, and the college's own scholarship program. Funds received on behalf of students from outside sources, such as third-party payers, are reported in the appropriate revenue classification.

Certain aid, such as loans and third-party payments, are credited to the student's account as if the student made the payment. For the year ended June 30, 2019, the college netted expenses in the amount of \$12,411,346, reducing tuition revenue by \$12,406,854, auxiliary enterprise revenue by \$1,792, and cultural revenue by \$2,700, for these payments.

### Auxiliary Enterprises, Continuing Education, and Cultural, Community, and Other Programs

Auxiliary enterprises operated by the college include the Children's Learning Center and student athletic programs. The bookstore, food service, and vending are outsourced.

Continuing education and workforce development programs primarily represent noncredit courses offered by the college for a fee.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Auxiliary Enterprises, Continuing Education, and Cultural, Community, and Other Programs (continued)**

Cultural, community, and other programs are primarily events of Rep Stage, the Laurel College Center, summer instructional and sports camps, the youth music program, the international programs, various student services programs, and athletic activities sponsored by the college for the community. Net position for these programs are part of the unrestricted net position balance.

Contributions received are recorded as net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Howard Community College Educational Foundation statements of activities and changes in net assets as net assets released due to satisfaction of donor restrictions.

##### **Defined Benefit Plan**

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 Maryland State Retirement and Pension Systems (MSRPS) and additions to/deductions from MSRPS fiduciary net position have been determined on the same basis as they are reported by MSRPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

##### **Operating and Non-operating Components**

The college has elected to report its operating expenses by functional classification, with the exception of certain fringe benefits paid directly by the state and depreciation expense, which are presented as distinct expenses. The statement of cash flows is presented as required using the direct method that depicts cash flows from operating activities and a reconciliation of operating loss and operating cash flows.

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 activities. Ongoing operations of the college include, but are not limited to, providing intellectual, cultural, and social services through associate degree and certificate programs, along with continuing education and workforce development programs. Operating revenue of the college consists of tuition and fees; cultural, community, and other programs; auxiliary enterprise revenue; and other operating revenue.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Operating and Non-operating Components (continued)**

Non-operating components include transactions and other events that are defined as non-capital financing activities, capital financing activities, and investing activities.

Non-capital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest.

Non-operating activities include certain intergovernmental receipts and payments, such as state and local appropriations, grants, payments paid on behalf of the college, investment earnings, and interest on debt. The college has also identified student financial aid assistance, including Pell Grants and Supplemental Educational Opportunity Grants, as non-operating revenue as the college does not consider them to be exchange transactions.

Capital financing activities include acquiring and disposing of capital assets used in providing services or producing goods; borrowing money for acquiring, constructing, or improving capital assets, and repaying the amounts borrowed, including interest; and paying for capital assets obtained from vendors on credit. Investing activities include acquiring and disposing of debt or equity instruments and the related investment earnings.

##### **In-Kind Contributions**

The foundation is the designated recipient for all college gifts. The foundation receives and records all in-kind gifts intended for the college, such as artwork, books, equipment, etc. This property is transferred to the college immediately upon receipt. Annually, the college records all in-kind gifts in the restricted fund.

The foundation receives contributions of various services from non-related sources. These contributions and their related expenses are reported at fair value in the period the services are performed. The estimated fair value of these contributions for the year ended June 30, 2019, was \$19,533. Additionally, the foundation receives in-kind support from the college consisting of personnel, legal, consulting, and office costs. The estimated value of these services for the year ended June 30, 2019, was \$827,414.

##### **Federal and State Income Tax Status**

The college is exempt from federal and state income taxes as it is essentially a political subdivision of the state. The foundation has been granted an exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

The IRS has also determined that the foundation is not a private foundation. The foundation is required to report unrelated business income to the IRS. The foundation did not have any unrelated business income for the year ending June 30, 2019. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Federal and State Income Tax Status (continued)

examination by taxing authorities. The foundation has analyzed tax positions taken for filing with the IRS and in Maryland where it operates. The foundation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the foundation's financial position or results of activities. Accordingly, the foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2019. The foundation is still open to examination by taxing authorities from FY16 forward.

### New Accounting Pronouncements

GASB issued statements No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; No. 87, *Leases*; No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*; and No. 91, *Conduit Debt Obligations*. The college is analyzing the effects of these pronouncements and if appropriate, will implement them by their effective dates. However, the college does not expect the adoption of these pronouncements to have a material effect on its financial statements.

### Adopted

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The foundation adopted ASU 2016-14 for the year ended June 30, 2019. Due to the adoption, the foundation reclassified amounts on the statement of financial position and the required disclosures. The ASU has been applied retrospectively to all periods.

### Pending

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

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### New Accounting Pronouncements (Continued)

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

## 3. CASH AND CASH EQUIVALENTS

### A. Deposits

As of year-end, the carrying amount of the college's deposits was \$2,201,626 and the bank balance was \$3,260,873. The deposits of the college, as of June 30, 2019, were not exposed to custodial credit risk. The operating account is federally insured up to \$250,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$250,000 were collateralized by mortgage back securities with a market value of \$10,000,000, as of June 30, 2019. The collateral is held by the bank's agent in the college's name.

### B. Investments

The college's allowable investments are determined by Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the college's investment policy. The college may invest in certificates of deposit with commercial banks in the State of Maryland, direct U.S. obligations, U.S. government agency obligations, repurchase agreements, banker's acceptances from approved banks with acceptable credit ratings, commercial paper from entities with an acceptable credit rating, money market funds, and the Maryland Local Government Investment Pool (MLGIP).

As of June 30, 2019, the college's investment balance consisted of \$40,484,972 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 3,300
Carrying amount of deposit	2,201,626
Carrying amount of MLGIP	40,484,972
<b>Total cash and cash equivalents</b>	<b><u>\$ 42,689,898</u></b>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 3. CASH AND CASH EQUIVALENTS (CONTINUED)

##### Interest 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 term of investment maturities. As of June 30, 2019, the college's investments were limited to the MLGIP with maturity of less 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.

Investment income included interest and dividends in the amount of \$887,758 for the year ended June 30, 2019.

##### Credit Risk

The college invests in MLGIP, which is under the administration of the state treasurer. The MLGIP is rated AAAM by Standards & Poor's, its highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of one dollar per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, market-to-market, is calculated and maintained on a weekly basis to ensure a one dollar per unit constant value.

##### Custodial Credit Risk

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

##### Foreign Currency Risk

The college's investment policy does not allow for investments denominated in foreign currencies. The college did not have any investments denominated in any foreign currency as of June 30, 2019.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 4. INVESTMENTS AND INTEREST IN IRREVOCABLE TRUST

The foundation's investments and interest in irrevocable trust as of June 30, 2019, were summarized as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gain/Loss</b>	<b>Fair Value</b>
Fixed income - corporate bonds	\$ 3,762,817	\$ (885,621)	\$ 2,877,196
Mutual funds - equities	4,504,895	588,844	5,093,739
Interest in external investment pool	2,989,097	2,017,710	5,006,807
Interest in irrevocable trust	87,262	45,709	132,971
<b>Total</b>	<b>\$ 11,344,071</b>	<b>\$ 1,766,642</b>	<b>\$ 13,110,713</b>

On January 29, 2009, the foundation received an irrevocable bequest expectancy in which the college would receive 20 percent of a charitable remainder trust. The value of the trust was \$2,382,941 as of June 30, 2019. As of June 30, 2019, the interest in irrevocable trust was recorded at \$132,971, net of the related discount of \$343,618. The foundation used the IRS guideline suggested discount rate of 6.8 percent as of June 30, 2019.

#### 5. FAIR VALUE MEASUREMENTS

Fair value is defined under Accounting Standards Codification (ASC) topic no. 820, *Fair Value Measurements and Disclosures*, as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under ASC topic no. 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and are as follows:

##### *Basis of Fair Value Measurement*

**Level 1 Inputs:** Valuation based on quoted prices in active markets for identical unrestricted assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2 Inputs:** Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.

**Level 3 Inputs:** Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the foundation's assumptions

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 5. FAIR VALUE MEASUREMENTS (CONTINUED)

##### *Basis of Fair Value Measurement (Continued)*

about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following section describes the valuation methodologies used by the foundation to measure its financial assets at fair value:

- **Mutual funds and fixed income** - The foundation's investments in mutual funds and fixed income are valued based upon the net asset value per share as determined by quoted market prices and open market on which the fund is traded.
- **Interest in external investment pool** - The foundation's investment in the investment pool is held in the USMF investment pool, which is valued based on level 3 inputs within the fair value hierarchy. The investments of USMF related to the foundation's pool holds the majority of its investment assets in global equities, hedged global and US equity, private capital, absolute return, and real estate funds. USMF carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the board of trustees of USMF after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material.

Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that USMF might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

The foundation does not directly invest in the underlying securities of the USMF, but instead holds units in the overall United Investment Fund. The amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions. The Foundation's interest in the external investment pool of USMF was 0.35 percent of the total investment portfolio as of June 30, 2019.

The foundation invited local firms to submit a proposal to be considered for the foundation's investment manager. The foundation board's subcommittee met with the finance and investment committee and recommended Wilmington Trust as the new investment manager.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 5. FAIR VALUE MEASUREMENTS (CONTINUED)

##### *Basis of Fair Value Measurement (Continued)*

It was approved that Wilmington Trust will replace both 1919 Investment Counsel and USMF. Wilmington Trust began as the new investment manager on January 1, 2019. While the 1919 Investment Counsel account was closed by a transfer of approximately \$2.7 million to the Wilmington Trust account, the USMF account transferred \$5.2 million in March 2019, which represented 50 percent of the holdings, to the Wilmington Trust account. The remainder of the funds at USMF will be transferred over the next three years and will follow the foundation's investment policy as directed to Wilmington Trust.

- **Interest in irrevocable trust** - The foundation's interest in an irrevocable trust is valued at the present value of the estimated fair value of the underlying market value of investments.

There have been no changes in the valuation methodologies used as of June 30, 2019.

The following tables set forth, by level within the fair value hierarchy, the foundation's investment assets at fair value as of June 30, 2019. As required by ASC topic no. 820, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 2,877,196	\$ -	\$ -	\$ 2,877,196
Mutual funds	5,093,739	-	-	5,093,739
Interest in external investment pool	-	-	5,006,807	5,006,807
Interest in irrevocable trust	-	132,971	-	132,971
<b>Total</b>	<b>\$ 7,970,935</b>	<b>\$ 132,971</b>	<b>\$5,006,807</b>	<b>\$13,110,713</b>

The following table presents the foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC topic no. 820-10 for the year ended June 30, 2019:

June 30, 2019	
Balance, beginning of year	<b>\$10,312,591</b>
Realized gains	<b>544,132</b>
Unrealized gains	<b>5,925</b>
Investment fees	<b>(84,152)</b>
Sales/redemptions	<b>(5,864,650)</b>
Purchases	<b>92,961</b>
<b>Balance, end of year</b>	<b>\$ 5,006,807</b>

Unrealized gains in fair value are recorded in the statement of revenue, expenses, and changes in net position.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 5. FAIR VALUE MEASUREMENTS (CONTINUED)

##### *Basis of Fair Value Measurement (Continued)*

Quantitative information as of June 30, 2019, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) was as follows:

Description	Fair Value	Principal Valuation Technique	Unobservable input	Weighted Average
Interest in external investment pool	\$ 5,006,807	Net Asset Value	Values assigned to underlying fund investments, including capital activity (capital calls and distributions) and performance estimates as received from the fund manager	N/A

##### *Level 3 Valuation Process*

The USMF custodian determines the fair value of the overall investment pool and provides that information to the record keeper. A unitized accounting methodology is used for the valuation process. This methodology takes into account the beginning units along with the withdrawal units. The earnings are then allocated and any additions and transfers are added at the current month value. USMF personnel also have regular calls with management of the funds and meet periodically with the foundation's investment committee and report the performance of the funds.

##### *Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs*

The significant unobservable inputs used in the fair value measurement of the foundation's interest in the external investment pool are subject to market risks resulting from changes in the market value of its investments and other events that may occur over the life of the investments and may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 6. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2019, were recorded as follows:

<b>Due in:</b>	<b>Amounts</b>
Less than one year	\$ 144,059
One to five years	197,700
<b>Total</b>	<b>341,759</b>
Less: discount for net present value of three percent	10,777
Less: allowance for uncollectible accounts	3,500
<b>Contributions Receivable, Net</b>	<b>\$ 327,482</b>

#### 7. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for the year ended June 30, 2019:

	<b>June 30, 2018</b>	<b>Additions/ Transfers</b>	<b>Retirements</b>	<b>June 30, 2019</b>
Land	\$ 378,578	\$ -	\$ -	\$ 378,578
Land improvements	1,987,708	-	(590,188)	1,397,520
Buildings	260,667,896	843,490	(1,221,453)	260,289,933
Building renovations	61,118,245	14,516,063	(2,927,657)	72,706,651
Furniture and equipment	21,455,544	1,189,816	(334,904)	22,310,456
Library books	339,198	15,349	(37,079)	317,468
Leasehold improvements	332,648	-	-	332,648
<b>Total</b>	<b>346,279,817</b>	<b>16,564,718</b>	<b>(5,111,281)</b>	<b>357,733,254</b>
Less: accumulated depreciation	99,002,735	11,374,806	(4,985,165)	105,392,376
Assets, net of depreciation	247,277,082	5,189,912	(126,116)	252,340,878
Construction in progress	21,079,148	6,227,499	-	27,306,647
<b>Total</b>	<b>\$ 268,356,230</b>	<b>\$11,417,411</b>	<b>\$ (126,116)</b>	<b>\$ 279,647,525</b>

#### 8. BONDS PAYABLE, HOWARD COUNTY

The college is indebted to the county for bond issues in the amount of \$11,632,205, as of June 30, 2019, for construction costs of the east parking garage, the college's portion of the Horowitz Visual and Performing Arts Center, and the Campus Roadway Project that includes the east parking garage expansion. New bond debt of \$793,048 was incurred during FY19 for the Campus Roadway Project. During FY19, the county refunded the bonds that resulted in additional county revenue of \$602,915. Payments began in 2008 and are due through 2038 at interest rates ranging from three percent to five percent.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 8. BONDS PAYABLE, HOWARD COUNTY (CONTINUED)

The debt and interest payments in the future are as follows:

<i><u>For The Year Ending June 30,</u></i>	<b>Principal</b>	<b>Interest</b>
2020	\$ 803,935	\$ 487,548
2021	802,081	459,700
2022	710,675	423,524
2023	795,673	387,926
2024	819,425	351,664
2025-2029*	3,519,883	1,207,189
2030-2034*	2,414,643	575,322
2035-2038*	1,765,890	144,430
<b>Total</b>	<b>\$ 11,632,205</b>	<b>\$ 4,037,303</b>

\*Debt associated with older capital projects is paid off during these five-year periods. The amount is smaller over time as older projects are paid off.

Changes in the college's long-term liabilities for the year ended June 30, 2019, are as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Amounts Due in One Year</u>
Bonds payable	<u>\$ 12,053,670</u>	<u>\$ 793,048</u>	<u>\$ 1,214,513</u>	<u>\$ 11,632,205</u>	<u>\$ 803,935</u>

#### 9. RESTRICTED NET POSITION

Restricted for expendable net position of the college of \$38,522, as of June 30, 2019, consists of funds for grant programs. Restricted for expendable net position of the foundation of \$3,378,045 as of June 30, 2019, consists of funds restricted for scholarship purposes and other specified programs. Net position released from restrictions were funds restricted for scholarship purposes and other specified programs whose restrictions were satisfied. Nonexpendable net position of the foundation of \$8,459,498, as of June 30, 2019, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships.

##### **Endowment**

The board of directors of the foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 9. RESTRICTED NET POSITION (CONTINUED)

##### Endowment (Continued)

endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as expendable net position until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

- the duration and preservation of the fund;
- the purposes of the foundation and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the foundation; and
- the investment policies of the foundation.

##### *Return Objectives and Risk Parameters*

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds.

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

The foundation has a policy of appropriating four percent of the average year-end balance for the prior three years of the endowment at the end of each fiscal year. The foundation board may spend more or less than the four percent because balances may not be sufficient due to deposits, withdrawals, and investment returns. The board approved funding the endowments at a seven percent spending rate for the year ended June 20, 2019.

##### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2019

### 9. RESTRICTED NET POSITION (CONTINUED)

#### Endowment (Continued)

##### *Funds with Deficiencies*

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature reported in expendable net position, as of June 30, 2019.

#### Composition of the Endowment by Net Position

As of June 30, 2019, the composition of the endowments was as follows:

	As of June 30, 2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted and board-designated funds	\$ 545,559	\$ 10,317,463	\$ 10,863,022

#### Change in Endowment Net Position

The changes in endowment net position were as follows:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 544,008	\$ 10,036,378	\$10,580,386
Investment return:			
Investment income	-	167,393	167,393
Net appreciation	-	417,117	417,117
Total investment return	-	584,510	584,510
Contributions	250	348,884	349,134
Appropriated for expenditures	-	(673,952)	(673,952)
Transfers	1,301	21,643	22,944
<b>Endowment Net Assets, June 30, 2019</b>	<b>\$ 545,559</b>	<b>\$ 10,317,463</b>	<b>\$10,863,022</b>

During the year ended June 30, 2019, transfers were made among without donor restrictions net position and with donor restrictions net position. The transfers were based on a more accurate understanding of the donors' intentions for contributions received by the foundation.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 10. RETIREMENT BENEFITS

All budgeted full-time and budgeted part-time college employees participate in either the Maryland State Retirement and Pension Systems (MSRPS) or an Optional Retirement Program (ORP), primarily the Teachers Insurance and Annuity Association (TIAA). The college's total current-year payroll for all employees was \$60,581,777. The payroll of employees covered by either the MSRPS or an ORP was \$45,132,914.

MSRPS is a cost-sharing multiple employer Public Employees Retirement System (PERS) established and administered in accordance with State Personnel and Pension Article of the Annotated Code of Maryland. Annually, the State Retirement Agency publishes a publicly-available financial report that includes financial statements and required supplementary information for the PERS. That report may be obtained by writing to MSRPS at the State Retirement Agency, 301 West Preston Street, Baltimore, Maryland, 21201-2363.

#### **MSRPS Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The system also provides disability and survivor benefits to DB plan members.

Employee benefits and contributions differ based on the employees' participation in either the retirement system (Teachers' Retirement System or Employees' Retirement System) or the pension system (Teachers' Pension System or Employees' Pension System). All new budgeted employees must join the pension system or an ORP. Employees who were members of the retirement system on December 31, 1979, can continue membership unless they elect to join the pension system or an ORP.

All employees have vested benefits after 10 years of creditable service. Retirement benefits under both the retirement and pension systems are based on years of service. Under the pension system, benefits are integrated with Social Security benefits and cost-of-living adjustments vary depending on the plan. The retirement system has no integration level.

The pension system requires individuals to contribute seven percent of their annual salary. Employees, who are members of the retirement system can, if elected by July 1984, contribute seven percent of their annual compensation and receive an unlimited cost-of-living adjustment.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 10. RETIREMENT BENEFITS (CONTINUED)

##### **Employer Contributions**

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The State of Maryland pays, on behalf of the college, the employer's share of retirement costs for teachers and related positions. During the fiscal year ended June 30, 2019, the state paid \$4,639,257 in retirement costs, equal to approximately 10.2 percent of the covered payroll costs. The college's share of retirement costs for other employees was calculated based on the accrued benefit cost method.

##### **Optional Retirement**

TIAA is a Fortune 100 financial services organization that is a leading retirement provider for people who work in the academic, research, medical, and cultural fields. Much of TIAA operates on a non-for-profit basis, with surplus returned to participants. The TIAA program is a money purchase plan under which the benefit is determined by the retirement income purchased by state and employee contributions. Fidelity is also an available employee options to establish an ORP. The state contribution rate is determined by state law and is currently 7.25 percent of salary. No employee contribution is required. Participants in an optional retirement plan may begin to receive their annuity income at any time after leaving the college; however, there is a penalty for those under retirement age.

##### **Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

As of June 30, 2019, the college reported a liability of \$2,546,231, for its proportionate share of the MSRPS plans liability. The net pension liability was measured as of June 30, 2018, 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 a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. As of June 30, 2019, the college's proportion was .0121 percent.

##### *Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2019, the college recognized pension expense related to the employee's system, of \$359,231. This does not include amounts included in the \$4,639,257 of state paid benefits. The net amount of \$505,855, reported as deferred outflows and inflows of

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 10. RETIREMENT BENEFITS (CONTINUED)

resources related to pensions, was recognized as a reduction of the net pension liability in the year ended June 30, 2019.

#### *Deferred Outflows of Resources and Deferred Inflows of Resources (continued)*

As of June 30, 2019, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Differences between expected and actual experience	\$ -	\$ (178,945)
Net difference between projected and actual earnings on pension plan investments	193,546	(94,451)
Changes in assumption	56,311	-
Change in allocation rate	255,036	-
College contributions subsequent to the measurement date	274,358	-
<b>Total</b>	<b>\$ 779,251</b>	<b>\$ (273,396)</b>

The net amount of \$505,855, reported as deferred outflows of resources and (deferred inflows) of resources related to pensions, will be recognized in pension expense as follows:

<b><u>For The Year Ending June 30,</u></b>	<b><u>Amount</u></b>
2020	\$ 407,587
2021	57,341
2022	(3,475)
2023	44,402

#### **Actuarial Assumptions**

**Investment rate of return** – 7.45 percent a year, compounded annually net of investment and administrative expenses.

**Salary increases** - The rate of pay increase used for individual members is 3.10 percent to 9.10 percent, including inflation.

**Inflation** - 2.60 percent general, 3.10 percent wage

**Mortality assumptions** - The healthy life post-employment mortality table used in this valuation of the system was the RP-2014 Combined Healthy Mortality Table.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 10. RETIREMENT BENEFITS (CONTINUED)

##### The long-term expected rate of return on pension plan investments

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.8%
Private Equity	13%	6.7%
Rate Sensitive	19%	1.1%
Credit Opportunity	9%	3.6%
Real Assets	14%	4.8%
Absolute Return	<u>8%</u>	3.2%
Total	<u>100%</u>	

The above was the Maryland State Pension Plan Board adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2019.

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 8.08 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

##### Discount Rate

A single discount rate of 7.45 percent was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.45 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these 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.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 10. RETIREMENT BENEFITS (CONTINUED)

##### Sensitivity of the net pension liability to changes in the discount rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.45 percent, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher.

	<b>1% Lower (6.45%)</b>	<b>Discount Rate (7.45%)</b>	<b>1% Higher (8.45%)</b>
Howard Community College proportionate share of the net pension liability	\$3,667,446	\$2,546,231	\$1,615,703

##### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Maryland State Retirement and Pension System Comprehensive Annual Financial Report.

#### 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

##### Plan Description

The college contributes to the Howard County Other Post-Employment Benefits Trust, a cost-sharing multiple-employer defined benefit health care plan (the plan). The county established an irrevocable trust for administering the plan assets and paying health care costs on behalf of the participants. Howard County provides post-employment health insurance benefits to all eligible employees who retire from the county or its component units who wish to participate. In order to be eligible, the retiree must have a minimum of 10 years of service, and immediately preceding retirement, been enrolled in a medical, vision, or prescription drug insurance plan offered to active employees of the county or its components. The county will pay a percentage of the retiree's health insurance premium based upon certain criteria. This percentage varies with the number of years of service attained by the employee. Other retirees who do not meet the eligibility criteria must have five years of service to participate in the retirees' health insurance program by paying the full premium at the group rate.

##### Plan Funding Policy

The college's required annual contribution is based on its annual retiree expense. The county, as the plan sponsor, is responsible for funding the plan. For the year ended June 30, 2019, the college recognized the county payment made on behalf of the college of \$1,127,901, which was made during the measurement period.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

##### Funding Status and Funding Process

While the college is paying an annual contribution, the college is not funding the plan. Actuarial assumptions 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 health care cost trend. Amounts determined regarding the funded status of the plan and the annual 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.

As of June 30, 2019, the plan was 9.94 percent funded.

##### OPEB Liability, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2019, the college reported a liability of \$34,243,904 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The college's proportion of the net OPEB liability was based on an actuarial calculation of the College's OPEB liability on a standalone basis compared to the Plan's total OPEB liability. As of June 30, 2019, the college's proportion was 2.92 percent.

##### Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the college recognized an OPEB expense of \$2,434,644. This amount includes the contribution of \$1,127,901, made by the county. As of June 30, 2019, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 1,709,086
Net difference between projected and actual earnings on OPEB plan investments	-	76,491
Changes in assumption	2,042,269	3,799,579
College contributions subsequent to the measurement date	305,856	-
Change in proportionate share	-	1,016,293
<b>Total</b>	<b>\$ 2,348,125</b>	<b>\$ 6,601,449</b>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

##### Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

\$305,856 reported as deferred outflows of resources related to OPEB resulting from college contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. The prior year contribution of \$269,612 was included as OPEB expense in FY19. The deferred outflows of \$2,348,125 combined with the deferred inflows of resources of (\$6,601,449) related to OPEB will be recognized in OPEB expenses as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2020	\$ (268,969)
2021	(574,825)
2022	(574,826)
2023	(555,411)
2024	(550,849)
Thereafter	(1,728,444)

##### The long-term expected rate of return on OPEB plan investments

The long-term expected rate of return on OPEB plan investments was determined for expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	3.27%
Fixed Income	1.25%

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

##### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 calculations.

Significant valuation methods and assumptions are as follows:

Actuarial cost method	Entry Age Normal
Interest assumption	Discount rate of 3.98 percent
Actuarial Health care cost trend	3.80 percent
Inflation	2.20 percent
Municipal bond rate	3.62 percent as of 6/30/18 based on the Bond Buyer General Obligation 20-year Bond Municipal Bond Index
Projected cash flows	College and County contributions will continue to increase \$3 million per annum  Long-term expected rate of return of 7.5 percent was applied to fiscal years 2019 through 2035. After 2035, the bond rate of 3.62 percent was used. The plan is expected to be insolvent in 2036.
Mortality	Generational RP-2000 Combined Mortality Table for Males and Females

The OPEB liability is based on the methods, assumptions and participant data used as detailed in the 2018 GASB actuarial valuation report dated September 1, 2019. These calculations are based on the Entry Age Actuarial cost method as required by GASB 74 and 75. That actuarial cost methods requires a salary scale assumption.

##### Discount Rate

The discount rate used to measure the total OPEB liability was 3.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions from the county and the college will be made at contractually required rates, actuarially determined. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees through 2036. Therefore, the long-term expected rates of return, as noted above, were applied to all periods of projected benefit payments through 2036, when the plan is expected to become insolvent.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

##### Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.98 percent) or one-percentage-point higher (4.98 percent) than the current discount rate:

	1% Decrease (2.98%)	Discount Rate (3.98%)	1% Increase (4.98%)
Net OPEB liability	\$ 41,856,819	\$ 34,243,904	\$ 28,258,000

##### Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using healthcare cost trend that are one-percentage-point lower (3.90 percent decreasing to 2.90 percent) or one-percentage-point higher (3.90 percent increasing to 4.90 percent) than the current healthcare cost trend rates:

	1% Decrease (2.80%)	Healthcare Cost Trend Rates (3.80% medical trend)	1% Increase (4.80%)
Net OPEB liability	\$ 27,699,574	\$ 34,243,904	\$ 42,974,124

#### 12. RISK MANAGEMENT

The college is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The college is self-insured through Howard County Government's self-insurance program, which is underwritten by the Local Government Insurance Trust (LGIT). The self-insurance fund provides general liability insurance, all-risk property, and worker's compensation insurance for Howard County, Maryland. The fund is a self-insurance mechanism, authorized under Maryland Law, by which local governments' pool together to provide casualty self-insurance coverage.

The limit of coverage for general liability is \$5,000,000 per occurrence for any single event, with the first \$1,000,000 covered under the Howard County fund and the \$4,000,000 additional through a policy of excess liability insurance directly through LGIT. The limit for property coverage is full replacement cost equal to the insurable value of real or personal property, with the first \$100,000 covered under the Howard County Fund and the remaining balance of full replacement through a policy of excess property insurance directly through LGIT. The limit of

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 12. RISK MANAGEMENT (continued)

coverage for workers' compensation is the statutory coverage as required by the State of Maryland, with the first \$1,000,000 covered under the Howard County Fund and \$4,000,000 additional through a policy of excess professional liability insurance directly through LGIT. In addition, the college maintains its primary and excess automobile coverage directly through LGIT with a limit of \$1,000,000 for each automobile claim.

Under the umbrella of Howard County, the college has additional coverage from LGIT for liability and property claims in excess as described above. The county pays annual premiums to LGIT for these coverages. LGIT was created to provide broader insurance than that available from commercial insurers, coverage that otherwise would be unavailable, and loss control and risk management services for local governments. The college is covered for workers' compensation claims in excess of the \$1,000,000 per claim as described above. Settled claims have not exceeded coverage in any of the past five years.

The college makes payments to the county and LGIT based on the premiums established by the county dependent on a combination of actuarial estimates and historical cost information. The college has no liability for covered claims other than paying the premium established by the county. The amount paid to the county and LGIT and expensed during the year ended June 30, 2019, was \$540,472.

The college has also entered into an agreement with Howard County to provide health care coverage for its employees under the county's self-insured plan. The college has the option to terminate the agreement at the end of each fiscal year. The college has no liability for covered claims other than paying the premiums established by the county, which were \$8,377,471 for the year ended June 30, 2019.

#### 13. RELATED PARTY TRANSACTIONS

As discussed, the foundation has been determined to be a component unit of the college, after analyzing the requirements of GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, and its financial activity is presented discretely in the college's financial statements.

For the year ended June 30, 2019, the college provided \$827,414 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$1,483,312 in scholarships awarded to students and \$473,762 in non-scholarship benefits to the college in support of college programs and other services. This figure includes in-kind contributions.

Howard County Government allows the college to use the Hickory Ridge Building and the first floor of the Howard County Innovation Center for classrooms and administrative offices. Both facilities are owned by the county. The college pays all maintenance and operating costs related to the use of this 77,200 square feet of space. The college has recognized \$1,158,000 in non-operating revenue and facilities expense for this in-kind county contribution.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 14. JOINT VENTURE - LAUREL COLLEGE CENTER (LCC)

In FY01, the college entered into a joint-venture agreement with Prince George's Community College (PGCC) to form the LCC. The LCC offers both credit and noncredit courses. The college and PGCC split revenue of \$3,696,434 and expenses of \$4,132,152 associated with the LCC equally. For the year ended June 30, 2019, the college recorded 50 percent of revenue and 50 percent of expenses of the center in the statement of revenue, expenditures, and changes in net position, as per the agreement with PGCC. As of June 30, 2019, the amount of \$328,031 is due to PGCC from HCC.

As part of the joint venture agreement, the college and PGCC entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease had an initial term of five years with the option to renew the lease for an additional five years in one-year increments. The lease payments have an escalation clause of three percent per year and the college has recognized its proportionate share of the rent expense in accordance with the terms of the lease agreement. HCC's proportionate share of the rent expense for the year ended June 30, 2019, was \$624,763.

In FY13, the colleges entered into a five-year lease, with two additional five-year renewal options. The lease contains a non-appropriation clause. In this lease agreement, if after 10 years the LCC continued to lease the space, the LCC would receive a rent abatement of \$1,005,651 in year 10. The lease contains an escalation clause of three percent per year. The lease increased the lease space by 4,514 square feet on another floor of the building.

During FY14, the colleges agreed to increase the lease space by another 7,694 square feet on the fifth floor of the building and renewed the existing leased space agreement for five years. There is now one renewal option left on the lease. The rent abatement increased from \$450,000 to \$1,455,651, and was spread evenly between September 1, 2014, and August 31, 2021.

The college's proportionate share of the future minimum lease payments under the terms of the leases as of June 30, 2019, were:

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 558,309
2021	578,178
2022	96,918
<b>TOTAL</b>	<u><u>\$ 1,233,405</u></u>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2019

#### 15. COMMITMENTS AND CONTINGENCIES

##### *Contingencies*

In the normal course of business, the college becomes involved in legal actions. There are no legal actions pending at the current time.

As of June 30, 2019, the college has commitments of approximately \$4,755,118, to complete outstanding capital construction projects.

##### *Grants*

Most grants and cost-reimbursable contracts of the college and foundation specify the types of expenses for which the grant or contract funds may be used. The expenses made by the college under some of these grants and contracts are subject to audit. To date, the college has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

#### 16. SUBSEQUENT EVENTS

The college's management evaluated the accompanying financial statements for subsequent events and transactions through September 18, 2019, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

## REQUIRED SUPPLEMENTARY INFORMATION

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## HOWARD COMMUNITY COLLEGE

### Schedule of Howard Community College's Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension Systems

	June 30, 2019*	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
College's proportion of net pension liability	0.0121%	0.0106%	0.0117%	0.0124%	0.011%
College's proportionate share of net pension liability	\$2,546,231	\$2,295,602	\$2,757,041	\$2,579,875	\$1,878,075
College's covered-employee payroll	\$3,214,415	\$3,031,305	\$3,021,313	\$2,983,599	\$2,738,973
College's proportionate share of net pension liability as a percentage of its covered-employee payroll	79.21%	75.73%	91.25%	86.47%	68.57%
Plan fiduciary net position as a percentage of total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

*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.*

*\*The amounts presented above were determined as of June 30, 2018, 2017, 2016, 2015, and 2014, respectively.*

## Howard Community College

### Schedule of Howard Community College's Contributions - Maryland State Retirement and Pension Systems

	June 30, 2019*	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
Statutorily required contributions	\$241,992	\$216,075	\$227,640	\$261,657	\$246,615
Contributions in relation to statutorily required contributions	\$241,992	\$216,075	\$227,640	\$261,657	\$246,615
Contribution deficiency (excess)	-	-	-	-	-
College's covered-employee payroll	\$3,214,415	\$3,031,305	\$3,021,313	\$2,983,599	\$2,738,973
Contributions as a percentage of covered-employee payroll	7.5%	7.1%	7.5%	8.8%	9.0%

*\*The amounts presented above were determined as of June 30, 2018, 2017, 2016, 2015, and 2014, respectively.*

*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.*

## HOWARD COMMUNITY COLLEGE

### Notes to Required Supplementary Information for Pensions June 30, 2019

**Changes of benefit terms:** There were no changes of benefit terms.

**Changes of assumptions:** There were the following changes in assumptions from the 2016 to 2018 valuation.

	2018	2017	2016
Inflation	2.60%	2.65%	2.65%
Salary Increase	3.10 to 9.10	3.15 to 9.15	3.30 to 9.2
Investment Rate of Return	7.45%	7.50%	7.50%

## HOWARD COMMUNITY COLLEGE

### Schedule of Howard Community College's Proportionate Share of the Net Other Post-Employment Benefits (OPEB) Liability – Howard County Government

	June 30, 2019*	June 30, 2018*
College's proportion of net OPEB liability	2.92%	3.01%
College's proportionate share of net OPEB liability	\$34,243,904	\$33,279,623
College's covered-employee payroll	\$43,128,303	\$41,961,287
College's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	79.40%	79.3%
Plan fiduciary net position as a percentage of total OPEB liability	9.94%	8.62%

\*The amounts presented above were determined as of June 30, 2018, and 2017, respectively.

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

## HOWARD COMMUNITY COLLEGE

### Schedule of Howard Community College's Contributions – Howard County Government - Other Post-Employment Benefits (OPEB)

	June 30, 2019*	June 30, 2018*
Statutorily required contributions	\$269,612	\$250,080
Contributions in relation to statutorily required contributions	\$269,612	\$250,080
Contribution deficiency (excess)	-	-
College's covered-employee payroll	\$43,128,303	\$41,961,287
Contributions as a percentage of covered-employee payroll	0.6%	0.6%

\*The amounts presented above were determined as of June 30, 2018, and 2017 respectively.

*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.*

## HOWARD COMMUNITY COLLEGE

### Notes to Required Supplementary Information for OPEB June 30, 2019

**Changes of benefit terms:** There were no changes of benefit terms.

**Changes of assumptions:** There were the following changes in assumptions from the 2016 to 2018 valuation.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Investment Rate of Return</b>	<b>3.98%</b>	<b>3.94%</b>	<b>3.20%</b>

Because this OPEB plan does not depend on salary, no salary information is shown.