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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, 2022**



**S B & COMPANY, LLC**  
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**JUNE 30, 2022**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Trustees  
Howard Community College

### ***Opinions***

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the College, as of June 30, 2022, and the respective changes in their financial position and, where applicable, their cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

The College's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for one year beyond the date the financial statements are available for issue, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 College's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls-related matters that we identified during the audit.



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### ***Emphasis of Matter***

As discussed in Note 2, during the year ended June 30, 2022, the College adopted Government Accounting Standards Boards (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Owings Mills, Maryland  
September 15, 2022

*SB & Company, LLC*

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2022

### Overview and Basis of Presentation

The following discussion and analysis provide 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) 2022. In addition, this section will 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 accordance with accounting standards generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB).

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

### College Planning and Strategic Goals

The financial statements for the year ending June 30, 2022, 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.

**Mission:** Providing pathways to success

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

**Values:** INSPIRED

Innovation

Nurturing

Service and Sustainability

Partnerships

Integrity

Respect

Excellence

Diversity, Equity, and Inclusion

The strategic goals of the college are implemented for a five-year period, 2021-2025, with 2021 as the base year. Each year during the budget process, funds are allocated to achieve these initiatives. The bullets below details high level key accomplishments of the college this past fiscal year.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2022**

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

- Conducted a nationwide search, hired, and onboarded Howard Community College's (HCC) fifth president, Dr. Daria J. Willis.
- Continued providing governance and leadership throughout the COVID-19 global pandemic.
- Advocated for \$14,794,000 from both the county and state to continue construction of the new Mathematics and Athletics Complex (MAC). Also secured \$1 million from the county for systematic renovations. The college's total fiscal year (FY) 2023 capital budget is approximately \$30.6 million.
- On the operating side, the board of trustees advocated for increases of 7.6 percent from the county and 24.3 percent from the state, which allowed the college to maintain its in-county tuition with no increase. The college saw a significant increase in state funding due to a legislative percentage adjustment in the CADE funding formula. The board of trustees also was able to support a 7 percent merit pool for increases in salaries for eligible budgeted and hourly employees and a tiered increase ranging from three to ten percent per credit hour for adjunct faculty. The operating budget will continue to provide funding for health benefits for budgeted faculty and staff at a college contribution level of approximately 90 percent, among the highest levels in Maryland community colleges.
- Conferred graduates who earned a total of 1,260 degrees and certificates.

#### **Enrollment Statistics and Analysis**

For the year ended June 30, 2022, the college served approximately 12,943 credit and 10,156 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 the basis for comparison among the various state colleges and is, in part, what determines the college's state funding.

During FY22, the state approved credit and noncredit enrollments of 5,086.77 and 1,055.35 FTE. As compared to the prior year, this is a decrease of 451.33 credit FTE and an increase of 199.97 noncredit FTE. State-funded FTE do not include out-of-state students, employees who took classes, and other students determined ineligible by the state. Overall, total credit FTE of 5,270.77 decreased 477.17 FTE, or 8.30 percent. Total noncredit FTE of 1,212.21 increased 230.49 FTE, or 23.48 percent. Together this number created a total decrease in FTE of 246.68, or 3.67 percent. The college anticipated enrollments to decline three percent in FY22. Nationwide, community colleges are continuing to experience declining enrollments.



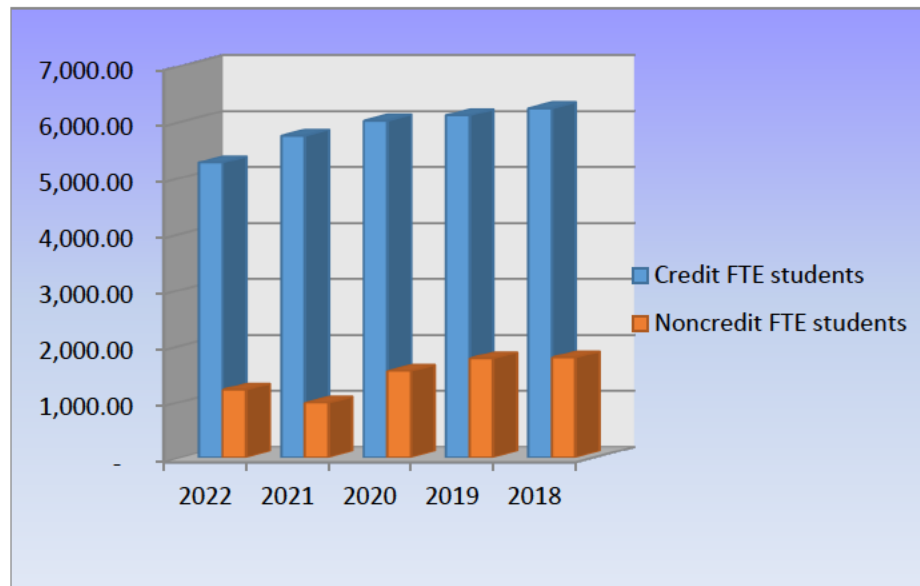
## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2022

#### Enrollment Statistics and Analysis *(continued)*

Dually enrolled students receive a 50 percent tuition discount and continue to support the college's overall FTE. In FY22, dual enrollment grew by five percent, representing 8.7 percent of total credit area.

The following chart shows total FTE as opposed to state-funded FTE for fiscal years 2018 through 2022. The 1,544.86 FTE decline was 19.2 percent for this five-year period.



	2022	2021	2020	2017	2018
Credit	5,270.77	5,747.94	6,016.37	6,113.24	6,239.77
Noncredit	<u>1,212.21</u>	<u>981.72</u>	<u>1,549.09</u>	<u>1,772.05</u>	<u>1,788.07</u>
<b>Total FTE</b>	<b><u>6,482.98</u></b>	<b><u>6,729.66</u></b>	<b><u>7,565.46</u></b>	<b><u>7,885.29</u></b>	<b><u>8,027.84</u></b>

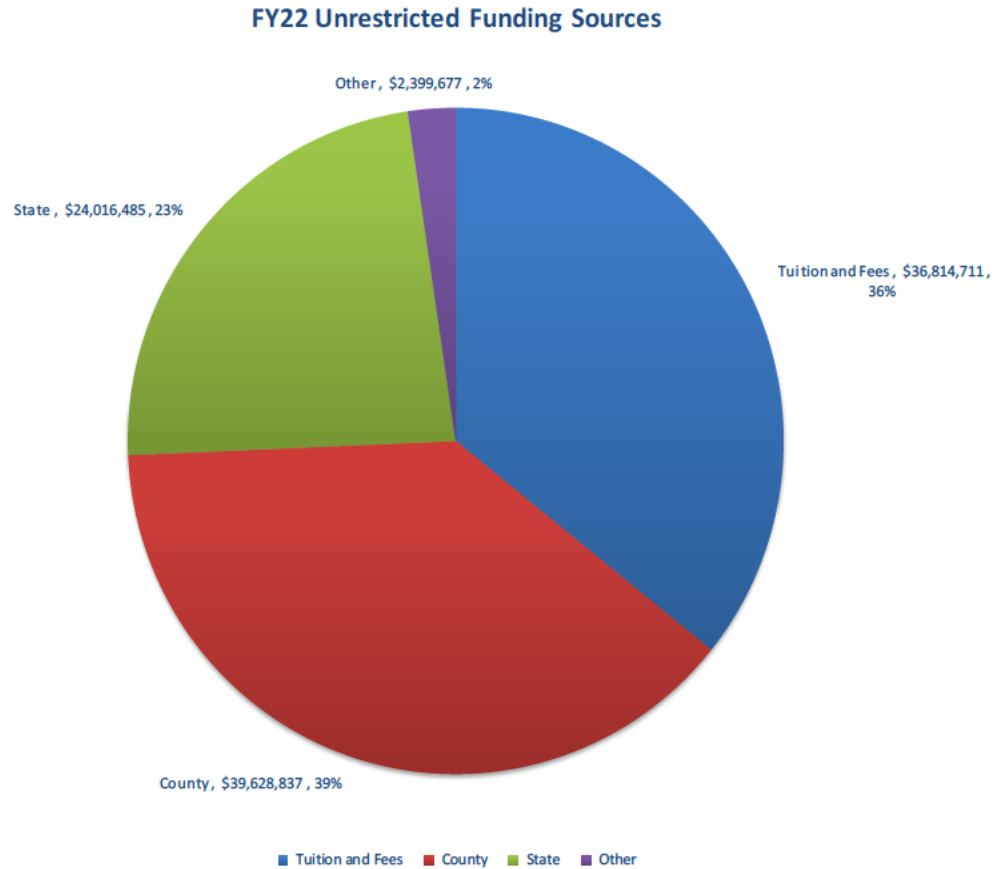
#### Economic Impact

The college's operating fund 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, as shown in the following graph for FY22, the actual unrestricted revenue was 36 percent from students, 39 percent from the county, and 23 percent from the state, with the final two percent coming from auxiliary and miscellaneous revenue.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2022

### Economic Impact (*continued*)



The college's FY22 per credit hour tuition rate remained flat over the prior year for in-county students and increased by six and 12 dollars for out-of-county and out-of-state students, respectively. State requirements control the increase for out-of-county and out-of-state students. The student share of actual unrestricted revenue declined to 36 percent from 39 percent, due to the decline in enrollment and increased funding from the county and state.

State funds are distributed through the Cade funding formula, with community colleges receiving a percentage of what the four-year institutions receive in funding from the state. The college received an overall 3.12 percentage increase over the prior year budget, however; in FY21 the state did not fund the full budgeted appropriation. The increased funding of actual revenue in FY22 over FY21 was 20.3 percent.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2022**

#### **Economic Impact** *(continued)*

Funding from the state is tied directly to the state CADE funding formula. This percentage tie to what four-year universities receive saw an increase from 25 percent in FY21 to 27 percent in FY22, resulting in this higher overall state funding. Support for the Regional Higher Education Center at the Laurel College increased by \$4,575. The state's share of actual unrestricted revenue increased by three percent over the prior year.

The college received a 2.6 percent, or \$950,756 increase in FY22 operating funding from the county. The county's funding percentage of actual unrestricted revenue remained at 39 percent, the same as the prior year.

Revenue from auxiliary services and miscellaneous revenue, increased 53 percent, primarily due to increases in arts and culture areas associated with the theater, international, and other programs. Auxiliary services, interest income and foundation funding all saw increases in revenue. These increases are primarily associated with more of a return to in person activities on campus as the college continues to recover from the COVID-19 pandemic. The percentage share of actual unrestricted auxiliary and miscellaneous revenue remains at two percent, the same as the prior year.

The college's restricted fund typically fluctuates from year to year depending on the number of grants and restricted funds the college receives. In FY22 the college saw a 16 percent increase in the restricted fund. This increase is primarily a result of COVID-19 emergency federal relief funding.

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

The financial statements, as prepared in accordance with accounting principles generally accepted in the United States of America as established by the Government Accounting Standards Board (GASB) 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 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, 2022**

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

Beginning in FY18, Howard County Government required the College, and other 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, 2021, and calculated for each entity independently. This change resulted a negative fiscal impact to the college's financial position. The FY22 ending unrestricted fund deficit and net assets were reduced by \$48,309,689 for the college's proportionate FY22 net OPEB liability. It should be noted that the County has always funded this liability and intends to do so in the future.

Despite this liability being included in the college's financial statement, the college was able to end the year with a positive unrestricted net position. At the end of FY22, the college was able to hold funds for future planned projects. These initiatives have helped to increase the college's overall net position.

The total net position of the college saw a nine percent increase over the prior year. The college continues to make improvements to its current facilities with major renovations. With the major construction associated with the Mathematics and Athletics Complex, the college saw an increase in capital asset investments. This increase attributed to the overall net position increase. The net OPEB liability increased in FY22 primarily due to a change in actuarial assumptions and change in projected and actual experience to the OPEB trust. This is explained in the OPEB footnote disclosure and supplemental information.

The decrease in operating revenue is due to a decline in tuition and fee revenue associated with the decline in enrollment. The COVID-19 pandemic caused the theater, international and other cultural programs to close, and those areas are continuing to make a recovery, offsetting some of the overall tuition and fee decline. In addition, auxiliary revenues were down. Auxiliary sales declined in the café due to increased online course offerings. Commissions from the bookstore saw declines due to increased digital materials which have a lower commission than paper text, lower enrollment, and the elimination of a guaranteed commission that was in the previous contract. Operating expenses increased 14 percent from the prior year. This increase is primarily associated with additional scholarships awarded to students through the Higher Education Emergency Relief Fund (HEERF). Capital appropriations increased about 246 percent due to the Mathematics and Athletics Complex entering the construction phase of the project.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2022

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

A major financial challenge facing the college today is funding impact on affordability. With state support at only 23 percent of unrestricted revenue, the burden of education falls heavily on the Howard County Government and HCC students. With the continuing impacts of the COVID-19 pandemic, the college continued to see declining enrollments this past year and the college is anticipating an additional three percent decline in FY23. With declining enrollment trending throughout our nation and potential reduced appropriations from government sources, the college will continue to look for efficiencies and ways to reduce operating costs. The college works to create new opportunities for cost savings by partnering with other colleges and organizations on shared goals and objectives.

	June 30, 2022	June 30, 2021	Dollar Variance	Percentage Variance
<b>ASSETS</b>				
Current assets	\$ 96,299,556	\$ 75,460,446	\$ 20,839,110	28%
Non-current assets, net	281,086,854	269,737,593	11,349,261	4%
<b>Total Assets</b>	<b>377,386,410</b>	<b>345,198,039</b>	<b>32,188,371</b>	<b>9%</b>
Deferred outflows of financial resources				
- pension	1,078,526	813,377	265,149	33%
- other post-employment benefits	11,896,185	9,046,990	2,849,195	31%
<b>Total Deferred Outflows of Financial Resources</b>	<b>12,974,711</b>	<b>9,860,367</b>	<b>3,114,344</b>	<b>32%</b>
<b>LIABILITIES</b>				
Current liabilities	33,089,944	26,751,697	6,338,247	24%
Non-current liabilities	60,218,305	54,811,365	5,406,940	10%
<b>Total Liabilities</b>	<b>93,308,249</b>	<b>81,563,062</b>	<b>11,745,187</b>	<b>14%</b>
Deferred inflows of financial resources				
- pension	1,256,116	317,187	938,929	296%
- other post-employment benefits	7,975,863	8,257,838	(281,975)	-3%
<b>Total Deferred Inflows of Financial Resources</b>	<b>9,231,979</b>	<b>8,575,025</b>	<b>656,954</b>	<b>8%</b>
<b>NET POSITION</b>				
Net investment in capital assets	268,222,206	259,653,185	8,569,021	3%
Unrestricted	19,598,687	5,267,134	14,331,553	272%
<b>Total Net Position</b>	<b>\$ 287,820,893</b>	<b>\$ 264,920,319</b>	<b>\$ 22,900,574</b>	<b>9%</b>
<b>Designations of unrestricted net position</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>	<b>Variance</b>	
Continuing education	\$ 8,224,096	\$ 7,301,305	\$ 922,791	
Auxiliary enterprises	4,978,707	5,316,551	(337,844)	
Special funds	31,165,698	26,501,603	4,664,095	
Facility funds	22,124,013	14,215,049	7,908,964	
Other	77,966	2,342,282	(2,264,316)	
Unfunded pension related items	(2,280,457)	(2,329,165)	48,708	
Unfunded other post-employment benefits	(44,389,367)	(41,823,125)	(2,566,242)	
Unfunded compensated absences	(301,969)	(396,206)	94,237	
HEERF funds	-	(5,861,160)	5,861,160	
<b>Total unrestricted net position</b>	<b>\$ 19,598,687</b>	<b>\$ 5,267,134</b>	<b>\$ 14,331,553</b>	

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2022

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

- *Total assets* increased \$32,188,371, a nine percent increase over the prior year. The primary increase in *current assets* was in cash and cash equivalents due to increased emergency relief funds as well as federal and state accounts receivable associated with the Mathematics and Athletics Complex (MAC) capital project. *Non-current assets* also saw an increase of four percent primarily due to the increase in construction in progress (CIP) associated with the MAC.
- 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 CIP. CIP, as of June 30, 2022, totaled \$24,665,053, which is the accumulated costs associated with the Mathematics and Athletics Complex. Also included in non-current assets is the right to use a leased asset. The breakdown by asset category can be found in Note 7 of the financial statements.
- *Total liabilities* increased \$11,745,187, or 14 percent from the prior year. The primary increase in liabilities is associated with the increase in capital projects and a payable due to Howard County for the state's share of construction costs. In addition, during FY22 the college made a shift to pay all employees in arrears. As a result, the wages earned from June 15 through June 30 were accrued and later paid on July 15.
- *Non-current liabilities* include the college's portion of the state pension liability for certain employees, the OPEB liability, lease liability and bond debt. The college's pension liability decreased 26 percent. The bond debt decreased by seven 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 9 of the financial statements. The OPEB liability increased \$5,697,412, or 13 percent, primarily due to a change in assumptions. More information about the liability is found in Note 12.
- Deferred outflows of financial resources increased 32 percent and deferred inflows of financial resources increased eight percent. These items are related to the college's pension liability for certain employees, discussed in note 11 of the financial statements, and the OPEB liability, discussed in note 12 of the financial statements.
- These changes resulted in an increase in the college's *net position* of \$22,900,574, an increase of nine percent from the prior year.

# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2022

### Financial Statement Highlights and Analyses (continued)

The college's *unrestricted net position* is internally designated as outlined in the previous chart. The college's unrestricted net position is now \$19,598,687, a change of \$14,331,553, or a 272 percent increase over the prior year. The college was able to hold funds for future projects which have helped to increase the college's overall net position.

	June 30, 2022	June 30, 2021	Dollar Variance	Percentage Variance
<b>Total Operating Revenue</b>	<b>\$ 27,892,199</b>	<b>\$ 28,998,880</b>	<b>\$ (1,106,681)</b>	<b>-4%</b>
<b>Operating Expenses</b>				
Instruction	44,795,195	42,746,962	2,048,233	5%
Public service	1,004,963	843,300	161,663	19%
Academic support	15,050,585	12,450,076	2,600,509	21%
Student services	11,167,641	9,948,710	1,218,931	12%
Facilities	13,581,696	12,889,113	692,583	5%
Institutional support	15,196,517	13,831,211	1,365,306	10%
Scholarships and related expenses	12,055,913	4,559,976	7,495,937	164%
Auxiliary enterprises	1,552,054	1,468,134	83,920	6%
Certain fringe benefits paid directly by the state	4,807,157	4,652,522	154,635	3%
Unallocated depreciation	13,009,402	13,082,453	(73,051)	-1%
Amortization on right to use asset	640,577	-	640,577	
Total operating expenses	<b>132,861,700</b>	<b>116,472,457</b>	<b>16,389,243</b>	<b>14%</b>
<b>Operating loss</b>	<b>(104,969,501)</b>	<b>(87,473,577)</b>	<b>(17,495,924)</b>	<b>20%</b>
<b>Non-operating Revenue (Expenses)</b>				
Government appropriations	61,341,595	56,369,270	4,972,325	9%
Grants and contracts	38,695,579	22,127,394	16,568,185	75%
In-kind contributions and certain fringe benefits paid directly by government	6,925,378	6,817,260	108,118	2%
Investment income	147,475	49,304	98,171	199%
Interest on debt to Howard County	(400,567)	(445,976)	45,409	-10%
Interest expense - lease expense	(89,083)	-	(89,083)	
<b>Net Non-Operating Revenue</b>	<b>106,620,377</b>	<b>84,917,252</b>	<b>21,703,125</b>	<b>26%</b>
Income (Loss) before capital appropriations	1,650,876	(2,556,325)	4,207,201	165%
Capital appropriations	21,249,698	6,145,393	15,104,305	246%
Change in net position	22,900,574	3,589,068	19,311,506	-538%
Net position, beginning of year	264,920,319	261,331,251	3,589,068	1%
<b>Net Position, End of Year</b>	<b>\$ 287,820,893</b>	<b>\$ 264,920,319</b>	<b>\$22,900,574</b>	<b>9%</b>

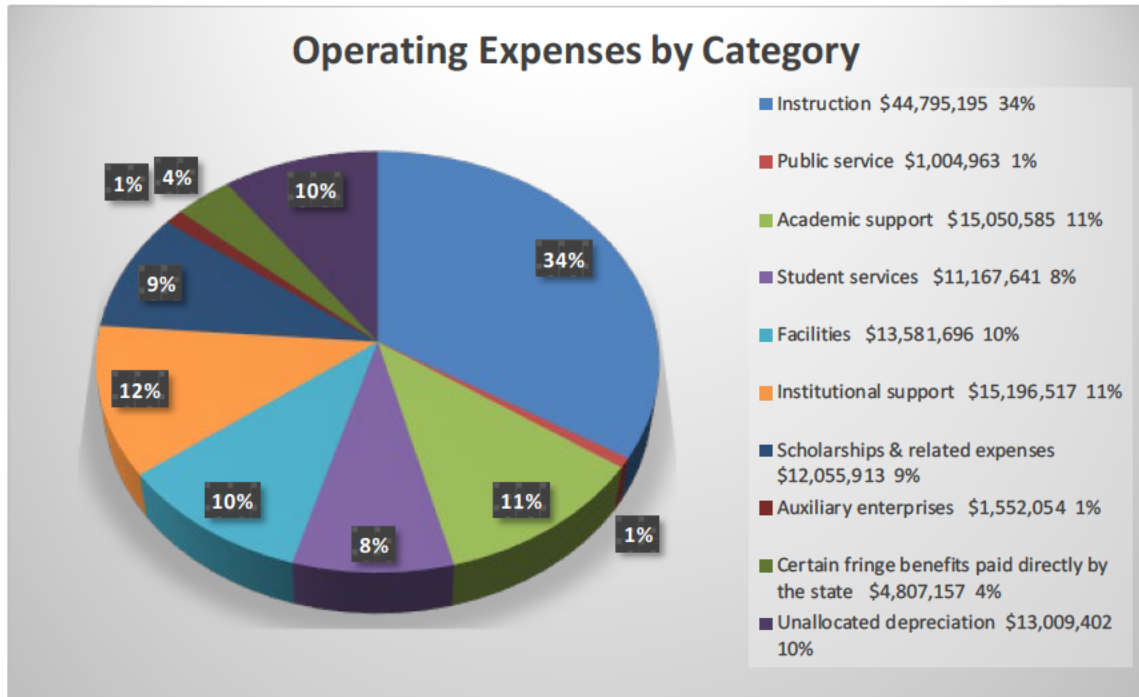
- *Operating revenue* had a four percent, or \$1,106,681 decrease from the prior year. This decrease was primarily in tuition and fee revenue which was down five percent. The tuition and fee decline was offset by increased revenue in cultural programs which were up 61 percent as areas such as the theater, international and other cultural programs recover from the impacts of the pandemic.

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2022

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

- *Non-operating revenue* had a 26 percent, or \$21,703,125 increase from the prior year. The county appropriation increased three percent and the state appropriation increased 20 percent. Grants and contracts had a significant increase of 75 percent, primarily due to HEERF federal relief funding.



- Total *operating expenses* increased \$16,389,243, or 14 percent over the prior year. *Instruction and academic support* together represent 45 percent of expenditures, which is two percent lower when compared to the prior year. Direct instructional expenses increased five percent while academic support costs increased 21 percent. Scholarships and related expenditures saw a 164 percent increase which impacted the overall percentage spent on direct instruction and academic support.
- The *academic support* function saw an increase of \$2,600,509 or 21 percent over the prior year. This area saw large increased spending associated with the institutional portion of the HEERF funds as the college prepared classroom and instructional space for remote and hybrid learning environments.



# HOWARD COMMUNITY COLLEGE

## Management's Discussion and Analysis June 30, 2022

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

- The *scholarships and related expenses* increased 164 percent or \$7,495,937 as compared to the prior year. The majority of this increase is associated with additional HEERF funds awarded to students. This expense represents financial assistance paid directly to students for expenses other than their college charges of tuition and fees.
- *Grants and contracts* increased \$16,568,185, or 75 percent from the prior year. Funding received for emergency relief assistance from the federal and state governments are the major contributors to this change.
- *Government appropriations* increased \$4,972,325, or nine percent from the prior year. Increased county and state operating appropriations as well as increased capital funding contributed to this increase.

	June 30, 2022	June 30, 2021	Dollar Variance	Percentage Variance
<b>Cash Flows From Operating Activities</b>				
Net cash used by operating activities	\$ (68,801,236)	\$ (67,262,798)	\$ (1,538,438)	2%
<b>Cash Flows From Non-Capital Financing Activities</b>				
Net cash provided by non-capital financing activities	94,084,126	76,902,046	\$ 17,182,080	22%
<b>Cash Flows From Capital Financing Activities</b>				
Net cash (used) provided by capital financing activities	(12,364,806)	1,503,576	\$ (13,868,382)	-922%
<b>Cash Flows From Investing Activities</b>				
Net cash provided by investing activities	147,475	49,304	98,171	199%
Net increase in cash and cash equivalents	13,065,559	11,192,128	1,873,431	17%
Cash and cash equivalents, beginning of year	57,786,242	46,594,114	11,192,128	24%
Cash and Cash Equivalents , End of Year	\$ 70,851,801	\$ 57,786,242	\$ 13,065,559	23%

- Cash and cash equivalents increased \$13,065,560, or 23 percent from the prior year.

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2022

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

- The primary inflow of cash from operations continues to come from student tuition and fees. This inflow had a seven 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 two percent.
- State and local appropriations are typically the primary cash inflows from *non-capital financing activities*. Other funds come from grants and contracts. The county increased three percent and the state increased 20 percent over the prior year and grant receipts increased 76 percent. The major increase was due to federal HEERF funding. The changes resulted in an increase in *net cash provided by non-capital financing activities* of 22 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, lease payments and interest, and the issuance and repayment of debt. Cash receipts for appropriations increased 23 percent over the prior year, expenditures on capital projects increased 221 percent and interest expense payments and bond principal payments decreased 10 and four percent respectively. The large increase in capital appropriations is a result of the ramping up of the Mathematics and Athletics Complex. Overall, the college had a 922 percent increase in *net cash used by capital financing activities*.
- The college's *investing activity* cash flows come from investment income. Interest rates began to rise in FY22 resulting in a 199 percent increase in *net cash provided by investing activities*.

The college believes that its liquidity position as of June 30, 2022, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2022.

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, 2022**

#### **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 covers 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 FY22, the college received a 20 percent increase from the state and a 2.6 percent increase from the county.

These governmental funds covered 81 percent of operating expenses; therefore, the economic condition of the state and county are critical to the college's future financial health.

The college experienced a decline in enrollment in state funded credit FTEs in FY22 of 3.93 percent. Dual enrolled students continue to grow and have helped to offset the overall enrollment decline. In FY22, dual enrolled student enrollment grew by five percent and represented 8.7 percent of total credit area. Based on the current economic situation and assessment of enrollment projections, the college expects and budgeted for a three percent decrease in enrollment in FY23.

As enrollment declines, tuition and fees that supported 36 percent of the operating revenue in FY22 will continue to decline, unless tuition rates rise. In the FY23 budget, in-county tuition rates remained flat while out-of-county and out-of-state rates increased 12 and 18 dollars, respectively. State guidelines on tuition rates caused the higher increases for non-county residents.

The college received funding in FY23 for phased construction of the new Mathematics and Athletic Complex that will be split funded over several years. The complex supports current enrollment and allows for growth in the mathematics division and athletics programs while addressing existing facilities inadequacies and severe space deficits. Funding and continued construction costs will take place over a five-year period through FY24, with the building scheduled to open in FY25.

U. S. economists forecast a downturn in the US economy over the next twelve months and some are predicting that a recession will begin before the end of the fiscal year. The war in Ukraine, lockdowns in China, and supply-chain disruptions and high inflation are hampering growth. It is expected that consumer spending will decline along with corporate profits. Residential and nonresidential investment is expected to slow. This will impact our already tight labor market and drive up our unemployment rates. The college is hopeful that this recession will be relatively short and somewhat mild but 2023 will still see inflation rates well above the past averages. In July 2021, the CPI index rose by 5.3 percent and in July of 2022 it was up 8.5 percent.

## HOWARD COMMUNITY COLLEGE

### Management's Discussion and Analysis June 30, 2022

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

It is hoped that the Chips and Science Act, which recently passed, will encourage U.S. companies to produce computer chips and fund billions of dollars to fund scientific research and development which will increase innovation and development of other U.S. technologies. In addition, the Inflation Reduction Act of 2022 will invest in domestic energy production and manufacturing as well as allow Medicare to negotiate for prescription drug prices and extend the Affordable Care Act to 2025. However, these bills will take one to two years to have an impact on the overall economy.

In FY23, the college will receive an additional \$5,793,669 or a 24.3 percent increase in funding over the FY22 budget. Governor Hogan and the Maryland General Assembly granted the full funding for the Cade Funding Formula to the Maryland Community Colleges with the FY23 budget, which represented a 22.4 percent increase over FY22. This increase represented the longstanding obligation to fund the full Cade funding statute at 29 percent per FTE that the state allocated to the select public four-year institutions. Since the formula's inception 25 years ago, the State has never fully supported the CADE allocation and has instead rebased the formula every year.

The College received an increase of 7.6 percent or \$2,850,384 from Howard County. This is the largest increase the college has seen since (FY) 2008. The County projected a 6.6 percent increase in their FY23 budget. Of this growth, about half is attributable to a higher-than-expected base in the current year, thanks to federal stimulus funding and other factors such as gains in the stock market and real estate seen earlier in FY22.

In July 2022 jobs report, Maryland ranked 23<sup>rd</sup> in percentage job growth gaining 12,000 total nonfarm jobs and ranked 38<sup>th</sup> in the unemployment rate (3.9 percent). With supply chain issues continuing, interest rates rising, inflation and poor overall growth, Maryland's immediate future is uncertain, but with the Chips and Science Act and the Inflation Reduction Act of 2022 we may see positive change on the horizon.

In July 2022, the U.S. News and World report named Howard County sixth wealthiest county in the nation. Howard County also ranks high in the 2022 Healthiest Communities and Urban Communities with high performing economies. Howard County also had the lowest unemployment rate among the counties in Maryland tying with Carroll County at 3.9 percent.

However, long-term the county is transitioning from a "growth county" to a "maturing county." The county is at the end stages of developing its available land, which means it now must focus on redevelopment and replacing an aging infrastructure. Our population is aging, which means slower growth in personal income tax and additional needs for an aging population.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2022**

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

In addition, with the limited availability of developable land, there is a significant shift to a more dense and multi-family driven housing for development, also lowering our income tax revenue. Although the county projected a 6.6 percent growth in FY23, future years starting in FY24 through FY28, the county is projecting an average 3.34 percent growth rate.

Higher education was very fortunate to receive COVID-19 relief. From the federal government, Howard Community College received two separate awards of the Higher Education Emergency Relief Funds (HEERF I and II) authorized by the Coronavirus Response and Relief Supplemental Appropriation (CARES) and also received HEERF III authorized by the American Rescue Plan. In addition, the college received funds under the Governor's Emergency Relief Fund (GEER I and II) and the Relief Act of 2021. T These HEERF grants were exhausted as of the end of FY22, and the GEER and Relief Act funding will continue into FY23.

In total, Howard Community College received \$34,068,414 for COVID-19 relief funding. The funds allowed the college to assist students with direct aid, debt paydown, purchasing laptops, internet access, and other necessities. The college also obtained institutional funds for hardware and software related to remote instruction and student services, cleaning, safety, and social distancing supplies, as well as train faculty on new techniques in instructional delivery and to recoup lost revenue. Some of these expenses will need to be covered by operational funds in the future.

In light of declining enrollments, the college continues to look for efficiencies and continues to ensure that available funds are being utilized to their full potential. The college is in the process of a restructure in the teaching and learning division. In addition, the college has partnered with external consultants to review the student service, information technology, and human resources areas for potential efficiencies. These efforts will continue in FY23 and FY24.

As the college moves forward, it continues to anticipate sudden shifts and remains flexible and able to quickly adjust to everchanging financial circumstances. The college is fortunate to be in Howard County where there is a highly educated workforce and an AAA bond rating. The county has growth corridors for development along with the continuing development of Columbia, which will contribute to the long-term economic growth of the county.

## **HOWARD COMMUNITY COLLEGE**

### **Management's Discussion and Analysis June 30, 2022**

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

The college has proven its resiliency and agility and has embraced a paradigm shift that the COVID-19 global pandemic ignited. The college continues to respond to the everchanging needs and demand that students present and is confident it can navigate the path as it enters the new world of change, adaptation, and transformation.

#### **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, 2022

	Howard Community College	Howard Community College Educational Foundation, Inc.
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 70,851,801	\$ 932,633
Investments	-	4,061,461
Tuition and other receivables, (net of 830,079 allowance)	372,327	-
Federal, state, local and other receivables	24,270,179	-
Contribution receivable, net	-	178,372
Prepaid expenses/other assets	805,249	22,128
Total current assets	96,299,556	5,194,594
<b>Non-current Assets</b>		
Investments and interest in irrevocable trust	-	10,336,699
Contribution receivable, net	-	53,213
Capital assets, net	279,305,195	-
Right to use asset, net	1,781,659	-
Total non-current assets	281,086,854	10,389,912
<b>Total Assets</b>	<b>377,386,410</b>	<b>15,584,506</b>
<b>Deferred outflows of financial resources</b>		
Pension	1,078,526	-
Other post-employment benefits	11,896,185	-
<b>Total Deferred outflows of financial resources</b>	<b>12,974,711</b>	<b>-</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued wages	8,029,662	160,278
Accrued compensated absences	2,923,837	-
Payable to PGCC joint venture	301,838	-
Payable to Howard County for construction	17,485,222	-
Other payables	325,820	-
Bonds payable, Howard County, current portion	795,315	-
Lease liability, current	639,422	-
Deposits	215,432	-
Agency funds	14,896	-
Unearned revenue	2,358,500	153,400
Total current liabilities	33,089,944	313,678

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



# HOWARD COMMUNITY COLLEGE

## Statements of Net Position *(continued)* June 30, 2022

	Howard Community College	Howard Community College Educational Foundation, Inc.
<b>Non-Current Liabilities</b>		
Pension Liability	\$ 2,102,867	\$ -
Other post-employment benefits	48,309,689	-
Bonds payable, Howard County, net of current portion	8,574,429	-
Lease liability, net of current	1,231,320	-
Total non-current liabilities	60,218,305	-
<b>Total Liabilities</b>	93,308,249	313,678
<b>Deferred inflows of financial resources</b>		
Pension	1,256,116	-
Other post-employment benefits	7,975,863	-
<b>Total Deferred inflows of financial resources</b>	9,231,979	-
Net investment in capital assets	268,222,206	-
Restricted for scholarships and program uses	-	13,807,171
Unrestricted	19,598,687	1,463,657
<b>Total Net Position</b>	\$ 287,820,893	15,270,828

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

# HOWARD COMMUNITY COLLEGE

## Statements of Revenue, Expenses and Changes in Net Position For the Year Ended June 30, 2022

	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 \$12,338,776	\$ 26,250,384	\$ -
Cultural, community, and other programs	538,226	-
Auxiliary enterprise revenue	272,934	-
Other operating revenue	830,655	-
Contributions	-	1,484,492
In-kind contributions	-	975,752
Special events	-	428,802
<b>Total Operating Revenue</b>	<b>27,892,199</b>	<b>2,889,046</b>
<b>Operating Expenses</b>		
Instruction	44,795,195	-
Public service	1,004,963	-
Academic support	15,050,585	-
Student services	11,167,641	-
Facilities	13,581,696	-
Institutional support	15,196,517	485,790
Scholarships and related expenses	12,055,913	-
Program expenses	-	2,469,711
Special events	-	42,723
Fundraising	-	426,537
Auxiliary enterprises	1,552,054	-
Certain fringe benefits paid directly by the State of Maryland	4,807,157	-
Unallocated depreciation	13,009,402	-
Amortization on right to use asset	640,577	-
<b>Total Operating Expenses</b>	<b>132,861,700</b>	<b>3,424,761</b>
<b>Operating (Loss)</b>	<b>(104,969,501)</b>	<b>(535,715)</b>
<b>Non-Operating Revenue (Expenses)</b>		
Howard County Government appropriations	37,510,616	-
State of Maryland appropriations	23,830,979	-
Federal, state, local and other grants and contracts	38,695,579	46,944
In-kind contributions - Howard County Government	1,158,000	-
Certain fringe benefits paid directly by the State of Maryland and Howard County Government	5,767,378	-
Investment income	147,475	343,345
Net realized and unrealized gain on investments	-	(2,764,055)
Interest expense - bonds	(400,567)	-
Interest expense - lease expense	(89,083)	-
<b>Net Non-Operating Revenue</b>	<b>106,620,377</b>	<b>(2,373,766)</b>
<b>Income (Loss) before Capital appropriations</b>	<b>1,650,876</b>	<b>(2,909,481)</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, 2022

	Howard Community College	Howard Community College Educational Foundation, Inc.
Capital appropriations, State of Maryland	\$ 10,110,644	\$ -
Capital appropriations, Howard County	11,139,054	-
<b>Total Capital Appropriations</b>	<b>21,249,698</b>	<b>-</b>
Changes in net position	22,900,574	(2,909,481)
Net position, beginning of year	264,920,319	18,180,309
<b>Net position, End of year</b>	<b>\$ 287,820,893</b>	<b>\$ 15,270,828</b>

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

# HOWARD COMMUNITY COLLEGE

## Statements of Cash Flows

For the Year Ended June 30, 2022

	<u>Amount</u>
<b>Cash Flows From Operating Activities</b>	
Student Tuition and fees	\$ 26,083,550
Payments to suppliers	(27,022,082)
Payments to employees	(59,117,506)
Payments for employee benefits	(13,825,339)
Auxiliary enterprises	272,934
Other receipts	4,807,207
<b>Net Cash From Operating Activities</b>	<u>(68,801,236)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Local appropriations	37,510,616
State appropriations	23,830,979
Grant and contracts	32,741,980
Student loan receipts	4,867,428
Student loan disbursements	(4,867,428)
Agency funds receipts	5,127
Agency funds disbursements	(4,576)
<b>Net Cash From Non-Capital Financing Activities</b>	<u>94,084,126</u>
<b>Cash Flows From Capital Financing Activities</b>	
Capital appropriations	11,963,666
Purchase of capital assets	(22,577,005)
Interest expense payments	(400,567)
Principal payments on bonds, net of refunding	(714,664)
Refunding on bonds	4,341
Interest on leases	(89,083)
Payments on leases	(551,494)
<b>Net Cash From Capital Financing Activities</b>	<u>(12,364,806)</u>
<b>Cash Flows From Investing Activities</b>	
Investment Interest	147,475
<b>Net Cash From Investing Activities</b>	<u>147,475</u>
Net increase in cash and cash equivalents	13,065,559
Cash and cash equivalents, beginning of year	57,786,242
<b>Cash and Cash equivalents, End of Year</b>	<u><u>\$ 70,851,801</u></u>

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

## HOWARD COMMUNITY COLLEGE

### Statements of Cash Flows *(continued)* For the Year Ended June 30, 2022

	<u>Amount</u>
<b>Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:</b>	
Operating loss	\$ (104,969,501)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	13,004,978
Lease amortization	640,577
Loss on disposal of assets	4,425
In-kind contributions	92,439
Amounts paid directly by the state and county	6,925,378
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	3,089,823
Prepaid expenses and other assets	42,480
Pension and OPEB Outflow	(3,114,344)
Accounts and other payables	10,109,470
Unfunded pension liability	(722,488)
Unfunded OPEB liability	5,697,412
Pension and OPEB inflow	656,954
Unearned revenue	(164,602)
Compensated absences	(94,237)
<b>Net Cash From Operating Activities</b>	<u><u>\$ (68,801,236)</u></u>

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

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 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 County Commissioners to provide a full range of educational services to the county’s citizens; however, citizens of other counties, states and countries are also eligible to attend. In FY22, 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 is 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).

# **HOWARD COMMUNITY COLLEGE**

## **Notes to the Financial Statements June 30, 2022**

### **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).

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.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 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 net 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 established a valuation allowance based on prior trends for the tuition receivable it estimates as uncollectible. As of June 30, 2022, the net tuition receivable was \$202,730. Included in other receivables are amounts due from the Howard Community College Educational Foundation of \$157,278 and from Barnes and Noble of \$12,319, 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 \$6,500 allowance for uncollectible accounts recorded as of June 30, 2022.

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 0.75 percent was used as of June 30, 2022. The unamortized discount of \$704 is accreted into contribution revenue.

#### **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.



## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

##### **Capital Assets** *(continued)*

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.

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><b>Class of Assets</b></u>	<u><b>Estimated Useful Lives</b></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

##### **Right to Use Asset and Liabilities**

The college has entered into lease agreements for equipment and the Laurel College Center building. As the college enters into a lease, the right to use an asset and associated liability are recorded at the net present value. The useful life of the asset ranges from 3-5 years, and the asset is amortized over shorter of the term of the lease or the useful life.

##### **Accrued Compensated Absences**

The college accrues for unused compensated absences as of year-end. Accrued compensated absences as of June 30, 2022, were \$2,923,837.

The change in the college's accrued compensated absences for the year ended June 30, 2022, was as follows:

	<u>June 30, 2021</u>	<u>Net change</u>	<u>June 30, 2022</u>
Payable	<u>\$ 3,018,074</u>	<u>\$ (94,237)</u>	<u>\$ 2,923,837</u>

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Unearned Revenue

Unearned revenue for the college is primarily comprised of tuition received for semesters beginning after June 30, 2022, 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 foundation fundraising events are recognized as special events revenue upon the occurrence of the event.

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

Deferred 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 outflows include 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 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). As of June 30, 2022, the college did not have any nonexpendable net position.

The unrestricted balance of \$19,598,687 is detailed in the chart below:

	<u>Amount</u>
Continuing education	\$ 8,224,096
Auxiliary enterprises	4,978,707
Special funds	31,165,698
Facility funds	22,124,013
Other	77,966
Unfunded pension related items	(2,280,457)
Unfunded other post-employment benefits	(44,389,367)
Unfunded compensated absences	(301,969)
<b>Total</b>	<u><u>\$ 19,598,687</u></u>

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Net Position** *(continued)*

The net investment in capital assets of \$268,222,206 is net of related debt that includes debt to Howard County of \$9,369,744.

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 June 30, 2022, there was \$3,470,472 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 \$10,336,699 for the year ended June 30, 2022.

#### **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.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Revenue Recognition** *(continued)*

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, 2022, the college netted expenses in the amount of \$12,388,776, reducing tuition revenue for these payments.

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

Auxiliary enterprises operated by the college include the 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.

Cultural, community, and other programs are primarily events of Rep Stage, the Laurel College Center (LCC), 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 is 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.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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.

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, leasing equipment or buildings, 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.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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 special 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, 2022, was \$99,972. 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, 2022, was \$875,780.

#### **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 ended June 30, 2022. 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 examination by taxing authorities. As of June 30, 2022, the foundation has analyzed tax positions taken for filing with the IRS and all state jurisdictions 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, 2022. The foundation is still open to examination by taxing authorities from FY19 forward.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### New Accounting Pronouncements

##### Adopted

During the year ended June 30, 2022, the college adopted GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The college evaluated its leases with terms longer than one year. The college calculated the net present values of the lease payments and reflected those in the financial statements as of July 1, 2021.

The college has two outstanding lease obligations for the use of equipment and buildings. These lease assets and liabilities have adjusted the following beginning balances, effective July 1, 2021:

Account	Amounts
Right to use asset	\$ 2,422,236
Lease Liability	\$ 2,422,236

During the year ended June 30, 2022, the Foundation implemented ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard required the presentation of contributed nonfinancial assets as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash or other financial assets.

##### Pending

GASB issued statements No. 96, *Subscription-Based Information Technology*, No. 100, *Accounting Changes*, and No. 101 *Compensated Absences*. The college is analyzing the effects of these pronouncements and if appropriate, will implement it by the effective dates. However, the college does not expect the adoption of these pronouncement to have a material effect on its financial statements.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 3. CASH AND CASH EQUIVALENTS

##### A. Deposits

As of year-end, the carrying amount of the college's deposits was \$1,373,118 and the bank balance was \$3,409,886. The deposits of the college, as of June 30, 2022, 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, 2022. 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, 2022, the college's investment balance consisted of \$69,476,783 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 1,900
Carrying amount of deposit	1,373,118
Carrying amount of MLGIP	<u>69,476,783</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 70,851,801</u></b>

All of the above investments are in compliance with the college's internal investment policy.

##### 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, 2022, 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.



## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 3. CASH AND CASH EQUIVALENTS *(continued)*

##### **Interest rate risk** *(continued)*

Investment income included interest and dividends in the amount of \$147,475 for the year ended June 30, 2022.

##### **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 for the year ended June 30, 2022.

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

The foundation's investments and interest in irrevocable trust as of June 30, 2022, were summarized as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gain/(Loss)</b>	<b>Fair Value</b>
Fixed income - corporate bonds	\$ 5,339,549	\$ (476,081)	\$ 4,863,468
Mutual funds - equities	9,450,987	(52,832)	9,398,155
Interest in irrevocable trust	87,262	49,275	136,537
<b>Total</b>	<u>\$16,356,651</u>	<u>\$ (1,958,491)</u>	<u>\$ 14,398,160</u>

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 4. INVESTMENTS AND INTEREST IN IRREVOCABLE TRUST *(continued)*

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 \$2,148,225 as of June 30, 2022. As of June 30, 2022, the interest in irrevocable trust was recorded at \$136,537, net of the related discount of \$293,108. The foundation used the IRS guideline suggested discount rate of 6.8 percent as of June 30, 2022.

### 5. FAIR VALUE MEASUREMENTS

Fair value is defined 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 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 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:

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

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

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

- **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 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 are no changes in the valuation methodologies as of June 30, 2022.

The following tables set forth, by level within the fair value hierarchy, the foundation's investment assets at fair value as of June 30, 2022. 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, 2022			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 4,863,468	\$ -	\$ -	\$ 4,863,468
Mutual funds	9,398,155	-	-	9,398,155
Interest in irrevocable trust	-	136,537	-	136,537
Total	\$ 14,261,623	\$ 136,537	\$ -	\$ 14,398,160

The following table presents the foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2022:

June 30, 2022	Amounts
Balance, beginning of year	\$ ,478,853
Realized gains	82,041
Unrealized gains	19,582
Investment fees	(8,349)
Sales/redemptions	(1,572,127)
Purchases	-
Balance, end of year	\$ -

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, 2022

### 6. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2022, were recorded as follows:

<b>Due in:</b>	<b>Amount</b>
Less than one year	\$ 184,872
One to five years	53,917
<b>Total</b>	<b>238,789</b>
Less: discount for net present value of three percent	704
Less: allowance for uncollectible accounts	6,500
<b>Contributions Receivable, Net</b>	<b>\$ 231,585</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, 2022:

	<b>June 30, 2021</b>	<b>Addition/ Transfers</b>	<b>Retirements</b>	<b>June 30, 2022</b>
Capital assets not being depreciated				
Land	\$ 378,578	\$ -	\$ -	\$ 378,578
Construction in progress	5,989,458	18,675,595	-	24,665,053
Total capital assets not being depreciated	6,368,036	18,675,595	-	25,043,631
Capital assets being depreciated				
Land improvements	1,397,520	-	(173,251)	1,224,269
Buildings	260,289,932	-	-	260,289,932
Building renovations	105,346,249	2,691,984	(757,614)	107,280,619
Furniture and equipment	21,267,598	1,138,687	(611,682)	21,794,603
Library books	260,611	70,739	(45,325)	286,025
Leasehold improvements	332,648	-	-	332,648
Total capital assets being depreciated	388,894,558	3,901,410	(1,587,872)	391,208,096
Land improvements	(1,267,353)	(48,971)	173,251	(1,143,073)
Buildings	(60,709,971)	(5,167,638)	-	(65,877,609)
Building renovations	(44,631,733)	(6,972,576)	757,614	(50,846,695)
Furniture and equipment	(18,622,126)	(772,594)	607,257	(18,787,463)
Library books	(182,936)	(21,022)	45,325	(158,633)
Leasehold improvements	(110,882)	(22,177)	-	(133,059)
Total accumulated depreciation	(125,525,001)	(13,004,978)	1,583,447	(136,946,532)
Total assets being depreciated, net	263,369,557	(9,103,568)	(4,425)	254,261,564
<b>Capital assets, net</b>	<b>\$ 269,737,593</b>	<b>\$ 9,572,027</b>	<b>\$ (4,425)</b>	<b>\$ 279,305,195</b>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 8. RIGHT TO USE ASSET AND LEASE LIABILITY

The College has entered into various lease agreements as lessee primarily for office space and office equipment. The college's leases have initial terms of up to five years, and contain one or more renewals at the college's option, generally for up to five-year periods. The college has generally included these renewal periods in the lease term when it is reasonably certain that the lease renewal option will be exercised. The college's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Certain real estate leases require additional payments for common area maintenance, real estate taxes, and insurance, which are expensed as incurred as variable lease payments. For office space leases that include variable payments, those include payments for the college's proportionate share of the building's property taxes, insurance, and common area maintenance. The college's lease arrangements do not contain any material residual value guarantees.

As the interest rate implicit in the college's leases is not readily determinable, the college utilizes its incremental borrowing rate of five percent to discount the lease payments.

As of June 30, 2022, and 2021, the statement of net position includes the following amounts relating to leases:

	June 30, 2021	Amortized Amount	June 30, 2022
Asset: Right to Use			
Building	\$ 2,157,645	\$ (548,044)	\$ 1,609,601
Equipment	264,591	(92,533)	172,058
	<u>\$ 2,422,236</u>	<u>\$ (640,577)</u>	<u>\$ 1,781,659</u>

	June 30, 2021	Reduction	June 30, 2022
Lease Liability			
Building	\$ 2,157,645	\$ (467,563)	\$ 1,690,082
Equipment	264,591	(83,931)	180,660
	<u>\$ 2,422,236</u>	<u>\$ (551,494)</u>	<u>\$ 1,870,742</u>

The future principal and interest lease payments as of June 30, 2022, are as follows:

For the Years Ending June 30,	Principal	Interest
2023	\$ 639,422	\$ 31,972
2024	621,997	63,754
2025	523,702	82,547
2026	85,621	18,452
	<u>\$ 1,870,742</u>	<u>\$ 196,725</u>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 8. RIGHT TO USE ASSET AND LEASE LIABILITY *(continued)*

Associated with the college's lease obligations, 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 \$4,079,885 and expenses of \$3,572,066 associated with the LCC equally. For the year ended June 30, 2022, 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, 2022, the amount of \$301,838 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, 2022, was \$565,745.

#### 9. BONDS PAYABLE, HOWARD COUNTY

The college is indebted to the county for bond issues in the amount of \$9,369,744, as of June 30, 2022, 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. Payments began in 2008 and are due through 2038 at interest rates ranging from 0.5 percent to five percent.

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

<i><b>For the Years Ending June 30,</b></i>	<b>Principal</b>	<b>Interest</b>
2023	\$ 795,315	\$ 364,987
2024	669,664	327,599
2025	728,692	296,458
2026	642,407	265,250
2027	612,032	238,147
2028-2032	2,914,612	823,167
2033-2037	2,658,434	313,610
2038	348,588	11,653
<b>Total</b>	<b>\$ 9,369,744</b>	<b>\$ 2,640,871</b>

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 9. BONDS PAYABLE, HOWARD COUNTY *(continued)*

Changes in the college's long-term liabilities for the year ended June 30, 2022, are as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Amount Due in One Year</u>
Bonds payable	<u>\$ 10,084,408</u>	<u>\$ -</u>	<u>\$ 714,664</u>	<u>\$ 9,369,744</u>	<u>\$ 795,315</u>

#### 10. RESTRICTED NET POSITION

Restricted for expendable net position of the college was zero as of June 30, 2022. Restricted for expendable net position of the foundation of \$3,470,472 as of June 30, 2022, 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 \$10,336,699, as of June 30, 2022, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships. The \$11,370,108, reflected with donor restriction in the endowment, is comprised of the \$10,336,699 to be held in perpetuity and the expendable earnings from those funds.

##### **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 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.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 10. RESTRICTED NET POSITION *(continued)*

##### **Endowment** *(continued)*

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 30, 2022.

##### *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, 2022

### 10. 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, deficiencies of this nature are reported in net assets with donor restrictions and there were \$77,584 of deficiencies as of June 30, 2022, and there were no deficiencies as of June 30, 2021.

#### **Composition of the Endowment by Net Position**

As of June 30, 2022, the composition of the endowments was as follows:

	As of June 30, 2022		
	Without Donor Restriction	With Donor Restriction	Total
Donor- restricted and board designated funds	\$ 546,559	\$ 11,370,108	\$ 11,916,667

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 10. RESTRICTED NET POSITION *(continued)*

##### Change in Endowment Net Position

The changes in endowment net position were as follows:

	June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 545,559	\$ 13,799,552	\$ 14,346,111
Investment return:			
Investment income	-	271,575	271,575
Net depreciation	-	(2,170,624)	(2,170,624)
Total investment return	-	(1,899,049)	(1,899,049)
Contributions	-	269,498	269,498
Appropriated for expenditures	-	(816,054)	(816,054)
Transfers	-	16,161	16,161
<b>Endowment Net Assets, June 30, 2022</b>	<b>\$ 546,559</b>	<b>\$ 11,370,108</b>	<b>\$ 11,916,667</b>

#### 11. 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 \$60,139,345. The payroll of employees covered by either the MSRPS or an ORP was \$46,931,174.

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.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 11. RETIREMENT BENEFITS *(continued)*

##### **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.

##### **MSRPS Benefits Provided *(continued)***

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

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, 2022, the state paid \$4,807,157 in retirement costs, equal to approximately 10.24 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.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 11. RETIREMENT BENEFITS *(continued)*

##### **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 optional retirement plan. 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, 2022, the college reported a liability of \$2,102,867, for its proportionate share of the MSRPS plans liability. The net pension liability was measured as of June 30, 2021, 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, 2022, the college's proportion was .0140 percent.

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

For the year ended June 30, 2022, the college recognized pension expense related to the employee's system, of \$281,107. This does not include amounts included in the \$4,807,157 of state paid benefits. The net amount of (\$177,589), reported as deferred outflows and inflows of resources related to pensions, was recognized as an increase of the net pension liability in the year ended June 30, 2022.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 11. RETIREMENT BENEFITS (continued)

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

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

As of June 30, 2022, 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	\$ -	\$ (122,373)
Net difference between projected and actual earnings on pension plan investments	-	(979,665)
Changes in assumption	401,922	(37,498)
Change in allocation rate	346,790	(116,580)
College contributions subsequent to the measurement date	329,815	-
<b>Total</b>	<b>\$ 1,078,527</b>	<b>\$ (1,256,116)</b>

The net amount of (\$177,589), 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 Years Ending June 30</u></b>	<b><u>Amount</u></b>
2023	\$ 258,782
2024	(115,435)
2025	(154,458)
2026	(166,478)

#### **Actuarial Assumptions**

**Investment rate of return** – 6.80 percent a year, compounded annually net of investment and administrative expenses.

**Salary increases** - The rate of pay increase used for individual members is 2.75 percent to 9.25 percent, including inflation.

**Inflation** - 2.25 percent general, 2.75 percent wage

**Mortality assumptions** - The healthy life post-employment mortality table used in this valuation of the system was the Fully generational – Pub-2010/MP2018 Mortality Table.

# HOWARD COMMUNITY COLLEGE

## Notes to the Financial Statements June 30, 2022

### 11. 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 weighting 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:

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	4.7%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.4%
Credit Opportunity	9%	2.6%
Real Assets	14%	4.2%
Absolute Return	<u>8%</u>	2.0%
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, 2021.

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 3.50 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 6.8 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 6.80 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, 2022

#### 11. 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 6.80 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 (5.80%)</b>	<b>Discount Rate (6.80%)</b>	<b>1% Higher (7.80%)</b>
Howard Community College proportionate share of the net pension liability	\$3,581,477	\$2,102,867	\$876,370

##### **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.

#### 12. 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.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 12. OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(continued)*

##### **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, 2022, the college recognized the county payment made on behalf of the college of \$960,221, which was made during the measurement period.

##### **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 healthcare 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, 2022, the plan was 11.43 percent funded.

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

As of June 30, 2022, the college reported a liability of \$48,309,689 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2022, the college's proportion was 2.62 percent.



## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 12. OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(continued)*

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

For the year ended June 30, 2022, the college recognized an OPEB expense of \$3,526,463. This amount includes the contribution of \$960,221 made by the county. As of June 30, 2022, 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	\$ 310,930	\$ (1,199,225)
Net difference between projected and actual earnings on OPEB plan investments	-	(724,054)
Changes in assumption	11,206,188	(2,130,757)
College contributions subsequent to the measurement date	379,067	-
Change in proportionate share	-	(3,921,827)
<b>Total</b>	<b>\$ 11,896,185</b>	<b>\$ (7,975,863)</b>

The college reported \$379,067 deferred outflows of resources related to OPEB resulting from college contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. The prior year contribution of \$370,929 was included as OPEB expense in FY22. The deferred outflows of \$11,896,185 combined with the deferred inflows of resources of (\$7,975,863) related to OPEB will be recognized in OPEB expenses as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 535,302
2024	160,327
2025	155,068
2026	144,052
2027	334,933
Thereafter	2,590,640

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 12. OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(continued)*

##### Actuarial Assumptions

The collective total OPEB liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of January 1, 2020, with update procedures used to roll forward the total OPEB liability to June 30, 2021.

The total OPEB liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, health costs, and employee demographic behavior expected in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2020. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements. This actuarial valuation used the following actuarial assumptions.

Actuarial Cost Method	Entry Age Normal
Interest Assumption	Discount rate of 2.41% as of 6/30/21
Inflation	2.5%
Municipal Bond Rate	1.92% as of 6/30/21 based on the Bond Buyer General Obligation 20-year Bond Municipal Bond Index
Projected Cash Flows	Long-term expected rate of return was applied to fiscal years 2021 through 2041.
Long-Term Expected Real Rate of	3.17% for Equity investments (based on 65% target allocation) Return, Based on Geometric Means and 0.69% for Fixed Income investments (based on 35% target allocation), or a total of 3.86%
Mortality	Pub-2010 Safety Retirees Headcount Weighted Mortality Projected with Fully Generational MP2019 Mortality
Healthcare Cost Trend Rate	4.00% based upon 2016 SOA Model, 1.6% GDP, adjusted for the anticipated impact of the ACA Excise
Tax	

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 12. OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(continued)*

##### Discount Rate

The discount rate used to measure the total OPEB liability was 2.41 percent, a decrease of .43 percent from the prior year discount rate of 2.84 percent. The projection of cash flows used to determine the discount rate assumed that contributions from 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 2040. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments through 2040 to determine the total OPEB liability.

##### 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 (1.41%) or one percentage point higher (3.41%) than the current discount rate:

	1% Decrease (1.41%)	Discount Rate (2.41%)	1% Increase (3.41%)
Net OPEB liability	\$ 60,511,278	\$ 48,309,689	\$ 38,883,798

##### 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 (4.00% decreasing to 3.00%) or one percentage point higher (4.00% increasing to 5.00%) than the current healthcare cost trend rates:

	1% Decrease (3.00%)	Healthcare Cost Trend Rates (4.00% medical trend)	1% Increase (5.00%)
Net OPEB liability	\$ 37,653,853	\$ 48,309,689	\$ 62,976,084

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 13. 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 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, cyber liability 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 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. The college maintains its primary and excess automobile coverage directly through LGIT with a limit of \$1,000,000 for each automobile claim. In addition, during this unprecedented time as a result of COVID-19, the college was able to increase the excess liability amount for its cyber policy to cover potential exposures associated with increased telework. The new limits for cyber liability are \$5,000,000 per claim and \$10,000,000 aggregate.

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, 2022, was \$587,344.

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 \$8,593,696 for the year ended June 30, 2022.

## HOWARD COMMUNITY COLLEGE

### Notes to the Financial Statements June 30, 2022

#### 14. RELATED PARTY TRANSACTIONS

As discussed, the foundation has been determined to be a component unit of the college, after analyzing the requirements of accounting principles generally accepted for governmental accounting, and its financial activity is presented discretely in the college's financial statements.

For the year ended June 30, 2022, the college provided \$875,780 of in-kind administrative and overhead support to the foundation. During the same period, the foundation provided \$1,775,896 in scholarships awarded to students and \$693,815 in non-scholarship benefits, including in-kind contributions, to the college in support of college programs and other services.

Howard County Government allows the college to use the Hickory Ridge Building and the first floor of the Gateway Building 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.

#### 15. COMMITMENTS AND CONTINGENCIES

##### *Commitments*

As of June 30, 2022, the college has commitments of approximately \$75,939,688, to complete outstanding capital construction and other special projects.

##### *Contingencies*

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

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 15, 2022, 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**

## HOWARD COMMUNITY COLLEGE

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

	June 30, 2022*	June 30, 2021*	June 30, 2020*	June 30, 2019*	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
College's proportion of net pension liability	0.0140%	0.0125%	0.0134%	0.0121%	0.0106%	0.0117%	0.0124%	0.0110%
College's proportions share of net pension liability	\$ 2,102,867	\$ 2,825,355	\$ 2,755,687	\$2,546,231	\$ 2,295,602	\$ 2,757,041	\$ 2,579,875	\$ 1,878,075
College's covered-employee payroll	\$ 3,391,185	\$ 3,247,201	\$ 3,435,325	\$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	62.01%	87.01%	80.22%	79.21%	75.73%	91.25%	86.47%	68.57%
Plan fiduciary net position as a percentage of total pension liability	81.84%	70.72%	72.34%	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, 2021, 2020, 2019, 2018, 2017, 2016 and 2015.

## HOWARD COMMUNITY COLLEGE

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

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Statutory required contributions	\$ 329,815	\$ 308,868	\$ 268,025	\$ 274,358	\$ 241,992	\$ 216,075	\$ 227,640	\$ 261,657	\$ 246,615
Contributions in relations to statutorily required contributions	\$ 329,815	\$ 308,868	\$ 268,025	\$ 274,358	\$ 241,992	\$ 216,075	\$ 227,640	\$ 261,657	\$ 246,615
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
College's covered-employee payroll	\$ 3,120,299	\$ 3,391,185	\$ 3,247,201	\$ 3,435,325	\$ 3,214,415	\$ 3,031,305	\$ 3,021,313	\$ 2,983,599	\$ 2,738,973
Contributions as a percentage of covered-employee payroll	10.6%	9.1%	8.3%	8.0%	7.5%	7.1%	7.5%	8.8%	9.0%

*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, 2021

**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 2021 valuation.

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Inflation	2.60%	2.60%	2.65%	2.60%	2.65%	2.00%
Salary Increase	3.10%	3.10 to 11.6	3.10 to 11.6	3.10 to 9.10	3.15 to 9.15	3.30 to 9.20
Investment Rate of Return	6.80%	7.40%	7.40%	7.45%	7.50%	7.55%

## HOWARD COMMUNITY COLLEGE

### Schedule of Howard Community College's Proportionate Share of the Net OPEB Liability – Howard County Government

	June 30, 2022*	June 30, 2021*	June 30, 2020*	June 30, 2019*	June 30, 2018*
College's proportion of net OPEB liability	2.62%	2.62%	2.92%	2.92%	3.01%
College's proportions share of net OPEB liability	\$ 48,309,689	\$ 42,612,277	\$ 39,159,723	\$ 34,243,904	\$ 33,279,623
College's covered-employee payroll	\$ 44,471,480	\$ 45,610,772	\$ 44,031,241	\$ 43,128,303	\$ 40,876,378
College's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	108.63%	93.43%	88.94%	79.40%	81.42%
Plan fiduciary net position as a percentage of total OPEB liability	11.43%	9.81%	10.31%	9.94%	8.62%

*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, 2021, 2020, 2019, 2018, and 2017 respectively.*

## HOWARD COMMUNITY COLLEGE

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

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Statutory required contributions	\$ 379,067	\$ 370,929	\$ 343,147	\$ 305,856	\$ 269,612	\$ 250,080
Contributions in relations to statutorily required contributions	\$ 379,067	\$ 370,929	\$ 343,147	\$ 305,856	\$ 269,612	\$ 250,080
Contribution deficiency (excess)	-	-	-	-	-	-
College's covered-employee payroll	\$ 46,156,807	\$ 44,471,480	\$ 45,610,772	\$ 44,031,241	\$ 43,128,303	\$ 40,876,378
Contributions as a percentage of covered-employee payroll	0.8%	0.8%	0.8%	0.7%	0.6%	0.6%

*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, 2022

**Changes of benefits terms:** There were not changes of benefit terms.

**Changes of assumptions:** There were the following changes in assumptions from 2016-2020

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Investment Rate of Return</b>	<b>2.41%</b>	<b>2.84%</b>	<b>3.56%</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.