FREDERICK COMMUNITY COLLEGE

Financial Statements Together with
Report of Independent Public Accountants

For the Years Ended June 30, 2014 and 2013

JUNE 30, 2014 AND 2013

CONTENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Fredrick Community College

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Frederick Community College (the College), a component unit of Frederick County, Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of and for the years ended June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, in 2014, the College adopted the new accounting guidance from GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". 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 on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Hunt Valley, Maryland
September 24, 2014

SB & Company, LLC

Overview and Basis of Presentation

This section of the Frederick Community College's (the College) basic financial statements presents management's discussion and analysis (MD&A), which provides an overview of its financial activities as of and for the years ended June 30, 2014 and 2013. This should be read in conjunction with the financial statements, as well as the more detailed information in the related notes to the financial statements. The MD&A, financial statements and the related notes are the responsibility of management.

Discretely Presented Component Units

The College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *"Determining Whether Certain Organizations are Component Units"* in fiscal year 2004. Pursuant to the criteria set forth in GASB 39, it was determined that the Frederick Community College Foundation (the Foundation) is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other College projects. The Foundation's financial statements as of and for the years ended June 30, 2014 and 2013, are displayed in the financial statements section of this report.

Significant Financial and Enrollment Highlights

- An unreserved fund balance of $3.2 million remains in the Current Unrestricted Educational and General Subfund to be used for unanticipated revenue shortfalls and changing fiscal conditions. The auxiliary fund balance is $1.1 million.

- A policy approved by the College's Board of Trustees in March 2007 created a goal of establishing a Contingency Fund Reserve (CFR) designated for fiscal stability equal to 5% of the current year's operating budget. This policy also established a Strategic Fund Balance Reserve (SFBR) and a Budgeted Annual Operating Reserve (BAOR) equal to up to 2% and 1%, respectively, of the current approved operating budget. The SFBR is to provide a funding source for multi-year initiatives and the BAOR is to provide a potential source for unexpected opportunities during the normal course of operations that would further the College's mission and vision. As of June 30, 2014, the CFR is $2.4 million, the SFBR is $0.96 million, the BAOR is $0.4 million and all three reserves are fully funded. The SFBR in the amount of $0.96 million and the BAOR are also allocated for use in fiscal year 2015. The remaining balance relates to the $2.0 million prior year unreserved balance which is used in the fiscal year 2015 budget.

- In-County tuition rates were increased by $3 per credit hour, out-of-county rates increased by $7 per credit hour and out-of-state rates increased by $9 per credit hour in fiscal year 2014. The county and state's share of unrestricted revenue was 32% and 24%, respectively.

Significant Financial and Enrollment Highlights (continued)

- The Mt. Airy College Center for Health Care Education is a center established with Howard Community College (HCC) and Carroll Community College (CCC) to provide health care programs. The center opened for classes in the fall of 2012. For the year ended June 30, 2014 the center had a net loss of $538,322. The revenues and expenditures are divided equally among the three College's. FCC's share of the loss totaled $179,441, which is reflected in the accompanying statements.

- Bookstore net profit from operations increased $88 thousand from the prior fiscal year due mainly to purchasing lower cost textbooks. Dining Services operating performance decreased $9 thousand from the prior fiscal year due mainly to decreased sales. Children's Center operating performance increased $174 thousand from the prior fiscal year due to an increase in enrollment.

- Academic headcount enrollment decreased slightly between fiscal year 2014 and fiscal year 2013. The following summarizes state-reimbursable FTE trends over the past five years:

	2010	2011	2012	2013	2014
Credit	4,068	4,055	3,842	3,798	**3,672**
Non-credit	319	553	571	534	**529**
Total	4,387	4,608	4,413	4,332	**4,201**

Statements of Net Position

The Statements of Net Position present all assets and liabilities of the College as of the end of the fiscal year. The net position represents the difference between assets and liabilities and is one way to measure the financial health of the College.

Management's Discussion and Analysis
June 30, 2014 and 2013

Statements of Net Position (continued)

	2014	2013*	2012	2014/2013* Change	2013*/2012 Change
Assets					
Current assets	**$ 19,795,261**	$ 19,017,791	$ 20,098,065	$ 777,470	$ (1,080,274)
Non-current assets	**70,013,198**	69,189,990	67,345,961	823,208	1,844,029
Total Assets	**89,808,459**	88,207,781	87,444,026	1,600,678	763,755
Liabilities and Net Position					
Liabilities:					
Current liabilities	**5,325,613**	5,723,272	4,735,105	(397,659)	988,167
Noncurrent liabilities	**8,189,400**	8,407,976	12,996,039	(218,576)	(4,588,063)
Total Liabilities	**13,515,013**	14,131,248	17,731,144	(616,235)	(3,599,896)
Net Position:					
Capital assets	**62,999,729**	61,922,185	57,208,049	1,077,544	4,714,136
Restricted	**558,343**	480,969	523,512	77,374	(42,543)
Unrestricted	**12,735,374**	11,673,379	11,981,321	1,061,995	(307,942)
Total Net Position	**$76,293,446**	$ 74,076,533	$ 69,712,882	$ 2,216,913	$ 4,363,651

*2013 restatement consisted of ($720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

Net position increased to $76.3 million and $74.1 million in fiscal year 2014 and fiscal year 2013, respectively. Non-current assets increased by $.8 million and $1.8 million in fiscal year 2014 and 2013, respectively, due mainly to the expansion of Building C in fiscal year 2014 and the reconfiguration of Building F in fiscal year 2013. Unrestricted net position increased $1.1 million in fiscal year 2014 due mainly to controlled spending.

Statements of Revenue, Expenses, and Change in Net Position

The Statements of Revenue, Expenses and Change in Net Position present the operating results of the College, as well as the non-operating revenue and expenses. Annual county and state appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally accepted in the United States. Accordingly, public colleges will show an operating loss prior to the display of non-operating revenue, which is primarily governmental funding support.

Statements of Revenue, Expenses, and Change in Net Position (continued)

	2014	2013*	2012	2014/2013* Change	2013*/2012 Change
Operating Revenue					
Tuition and fees	**$ 16,224,781**	$ 16,249,364	$ 16,446,752	$ (24,583)	$ (197,388)
Grants and contracts	**2,317,084**	2,074,205	2,186,411	242,879	(112,206)
Auxiliary enterprises	**4,432,509**	4,406,528	4,661,176	25,981	(254,648)
Other revenue	**3,045,029**	2,510,042	2,559,533	534,987	(49,491)
Total Operating Revenue	**26,019,403**	25,240,139	25,853,872	779,264	(613,733)
Operating Expenses					
Education and general	**50,456,539**	49,572,192	47,160,381	884,347	2,411,811
Depreciation expense	**3,046,773**	2,952,110	2,618,123	94,663	333,987
Auxiliary enterprises	**4,331,245**	4,546,958	4,842,407	(215,713)	(295,449)
Other expenditures	**679,276**	1,023,774	1,430,428	(344,498)	(396,654)
Total Operating Expenses	**58,513,833**	58,095,034	56,051,339	418,799	2,043,695
Operating Loss	**(32,494,430)**	(32,854,895)	(30,197,467)	360,465	(2,657,428)
Nonoperating Revenue (Expenses)					
Government appropriations	**23,044,899**	22,112,522	21,560,507	932,377	522,015
State retirement	**2,008,303**	1,906,850	1,920,745	101,453	(13,895)
Capital appropriations	**3,640,140**	3,574,196	1,707,311	65,944	1,866,885
County contribution	-	4,206,398	-	(4,206,398)	4,206,398
Investment income	**14,141**	15,998	17,899	(1,857)	(1,901)
Gain (Loss) on disposal of assets	-	1,247	19,979	(1,247)	(18,732)
Other	**6,003,860**	6,121,730	6,370,966	(117,870)	(249,236)
Total Nonoperating Revenue	**34,711,343**	37,938,941	31,597,407	(3,227,598)	6,341,534
Adjustments to restate net position	-	(720,395)	-	720,395	(720,395)
Increase in Net Position	**$ 2,216,913**	$ 4,363,651	$ 1,399,940	$ (2,146,738)	$ 2,963,711

*2013 restatement consisted of ($720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

County appropriations, including in-kind appropriations, in support of the operating budget increased 1.7% and 4.1% in fiscal year 2014 and 2013, respectively. State appropriations increased 8.5% in fiscal year 2014 and remained unchanged from fiscal year 2012 to fiscal year 2013.

Total educational and general expenditures increased 1.8% and 5.1% during fiscal years 2014 and 2013, respectively. In fiscal year 2014, the college controlled expenditure growth, while in fiscal year 2013, benefitted full-time employees received a merit increase and a 2% cost of living increase, and all part-time employees received a 2% cost of living increase.

Statements of Cash Flows

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

	2014	2013	2012	2014/2013 Change	2013/2012 Change
Cash and Cash Equivalents From					
Operating activities	**$(27,956,194)**	$(31,049,665)	$(25,200,269)	$ 3,093,471	$ (5,849,396)
Non-capital financing activities	**28,991,338**	26,845,708	26,125,638	2,145,630	720,070
Capital and related financing activities	**191,100**	2,852,379	(9,624,490)	(2,661,279)	12,476,869
Investing activities	**14,141**	15,998	18,597	(1,857)	(2,599)
Net Change in Cash and Cash Equivalents	**$ 1,240,385**	$ (1,335,580)	$ (8,680,524)	$ 2,575,965	$ 7,344,944

The primary cash receipts from operating activities consist of tuition and fees, auxiliary enterprises, and grants and contracts. Major cash outlays in operating activities consist of salaries and benefits, outsourced services, and technology spending. State and local appropriations are the primary source of non-capital financing.

Capital and related financing activities include appropriations for renovation and construction projects from state and county sources.

The investment activity of the College is related to money management accounts and the Maryland Local Government Investment Pool (MLGIP), which generate interest revenue.

Economic Factors That Will Affect the Future

State funding for fiscal year 2014 increased $694 thousand from fiscal year 2013, which had not changed since fiscal year 2012. In fiscal year 2013, the County assumed the debt service payments for the Monroe Center in the amount of $4.2 million. The College's county appropriation increased $239 thousand in fiscal year 2014 and $552 thousand in fiscal year 2013. However, this is not guaranteed funding for future years. With zero growth in enrollment expected, the College continues to work closely with the county government to maintain adequate funding for its operations.

New Accounting Pronouncement

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68), effective for the fiscal years beginning after June 15, 2014. While the College is still in the process of determining the effect of implementing GASB 68 it is expected to have a material effect on the financial position of the College.

Contacting Frederick Community College's Financial Management

This report is designed to provide interested parties with a general overview of Frederick Community College's finances. If you have questions about this report or would like additional financial information, contact Frederick Community College, Finance Office, 7932 Opossumtown Pike, Frederick, Maryland, 21702.

FREDERICK COMMUNITY COLLEGE

Statements of Net Position
As of June 30, 2014 and 2013

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
ASSETS	**2014**	**2013***	**2014**	**2013**
Current Assets:				
Cash and cash equivalents	**$ 15,520,749**	$ 14,280,364	**$ 630,576**	$ 591,287
Investments	**-**	-	**11,753,671**	10,644,141
Accounts receivable:				
Governmental	**2,322,071**	2,939,928	**-**	-
Student & third party, net of allowance	**378,461**	353,554	**-**	-
Pledges, net of discount	**-**	-	**58,639**	84,387
Other accounts receivable	**680,749**	684,208	**-**	-
Total accounts receivable	**3,381,281**	3,977,690	**58,639**	84,387
Prepaid expenses and other assets	**54,106**	221,306	**-**	-
Inventory	**839,125**	538,431	**-**	-
Total Current Assets	**19,795,261**	19,017,791	**12,442,886**	11,319,815
Noncurrent Assets:				
Beneficial interest in charitable remainder trusts	**-**	-	**427,872**	365,730
Capital assets, net of accumulated depreciation	**70,013,198**	69,189,990	**-**	-
Total Noncurrent Assets	**70,013,198**	69,189,990	**427,872**	365,730
TOTAL ASSETS	**89,808,459**	88,207,781	**12,870,758**	11,685,545
LIABILITIES AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	**1,905,426**	1,626,657	**13,605**	12,608
Accrued salaries	**373,810**	365,051	-	-
Accrued liabilities	**699,452**	1,122,703	-	-
Accrued leave	**48,103**	105,303	-	-
Bond payable	**265,000**	260,000	-	-
Unearned revenue	**1,795,034**	1,999,386	-	-
Deposits held for others	**238,788**	244,172	-	-
Total Current Liabilities	**5,325,613**	5,723,272	**13,605**	12,608
Noncurrent Liabilities:				
Bond payable, net of discount	**6,748,469**	7,007,805	-	-
Accrued leave	**1,440,931**	1,400,171	-	-
Total Noncurrent Liabilities	**8,189,400**	8,407,976	**-**	-
TOTAL LIABILITIES	**13,515,013**	14,131,248	**13,605**	12,608
NET POSITION				
Net investment in capital assets	**62,999,729**	61,922,185	-	-
Restricted – expendable	**558,343**	480,969	-	-
Temporarily restricted	-	-	**7,481,663**	6,644,137
Permanently restricted	-	-	**4,105,077**	4,053,183
Unrestricted	**12,735,374**	11,673,379	**1,270,413**	975,617
TOTAL NET POSITION	**$ 76,293,446**	$ 74,076,533	**$ 12,857,153**	$ 11,672,937

*2013 restatement consisted of ($720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

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

FREDERICK COMMUNITY COLLEGE

Statements of Revenue, Expenses, and Change in Net Position
For the Years Ended June 30, 2014 and 2013

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
Operating Revenue	**2014**	**2013***	**2014**	**2013**
Tuition and fees, net of scholarship allowances of $1,733,327 and $2,134,589	$ 16,224,781	$ 16,249,364	$ -	$ -
Grants and contracts	2,317,084	2,074,205	40,000	65,150
Auxiliary enterprises	4,432,509	4,406,528	-	-
Contributions	-	-	357,696	978,073
In-kind contributions	-	-	498,828	474,797
Pledge revenue, net of discounts	-	-	11,736	15,174
Other revenue	3,045,029	2,510,042	211,473	183,762
Total Operating Revenue	26,019,403	25,240,139	1,119,733	1,716,956
Operating Expenses				
Instruction:				
Academic	20,038,959	19,133,959	-	-
Continuing education	3,104,798	3,323,950	-	-
Total Instruction	23,143,757	22,457,909	-	-
Academic support	1,736,292	2,421,654	-	-
Student services	5,628,402	5,971,201	-	-
Plant operations and maintenance	5,829,662	5,508,138	-	-
Institutional support	8,998,191	8,660,466	-	-
Scholarships	1,524,980	1,436,394	-	-
Student aid	3,595,255	3,116,430	-	-
Depreciation	3,046,773	2,952,110	-	-
Auxiliary enterprises	4,331,245	4,546,958	-	-
Program services	-	-	684,738	727,147
Support services	-	-	558,555	605,975
Other expenses	679,276	1,023,774	-	-
Total Operating Expenses	58,513,833	58,095,034	1,243,293	1,333,122
Operating Loss	(32,494,430)	(32,854,895)	(123,560)	383,834
Nonoperating Revenue (Expenses)				
State appropriations	8,839,216	8,145,648	-	-
County appropriations	14,205,683	13,966,874	-	-
State and County capital projects appropriations	3,640,140	3,574,196	-	-
County contribution	-	4,206,398	-	-
Student aid	5,328,583	5,251,019	-	-
Investment income	14,141	15,998	28,069	34,457
Net unrealized and realized gain on investments	-	-	1,217,565	579,896
Change in the value of Charitable Remainder Trusts	-	-	62,142	55,480
Gain on disposal of assets	-	1,247	-	-
Other revenue	675,277	870,711	-	-
State paid benefits	2,008,303	1,906,850	-	-
Nonoperating Revenue	34,711,343	37,938,941	1,307,776	669,833
Increase (Decrease) in Net Position	2,216,913	5,084,046	1,184,216	1,053,667
Adjustments to restate net position	-	(720,395)	-	-
Net Position - Beginning of year	74,076,533	69,712,882	11,672,937	10,619,270
Net Position - End of year	$ 76,293,446	$ 74,076,533	$ 12,857,153	$ 11,672,937

*2013 restatement consisted of ($720,395) to write off unamortized bond issuance expense as required by GASB Statement No. 65.

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Tuition and fees received	**$ 15,995,346**	$ 16,849,542
Payments to suppliers	**(16,292,974)**	(19,065,668)
Payments to employees	**(37,458,344)**	(37,803,345)
Auxiliary enterprise charges	**4,428,334**	4,422,632
Other receipts	**5,371,445**	4,547,174
Net Cash From Operating Activities	**(27,956,194)**	(31,049,665)
Cash Flows From Noncapital Financing Activities		
Federal revenue	**5,328,583**	5,251,019
Direct loan revenue	**3,856,349**	3,031,416
Direct loan expenditures	**(3,856,349)**	(3,031,416)
State and County appropriations	**23,662,755**	21,594,689
Net Cash From Noncapital Financing Activities	**28,991,338**	26,845,708
Cash Flows From Capital and Related Financing Activities		
State and County capital appropriations	**3,640,140**	3,574,196
County contribution	**-**	4,206,398
Other revenue	**675,277**	870,710
Purchase of capital assets	**(3,869,981)**	(5,269,593)
Bond issuance cost	**-**	(279,997)
Payments of bonds	**(254,336)**	(249,335)
Net Cash From Capital and Related Financing Activities	**191,100**	2,852,379
Cash Flows From Investing Activities		
Investment income	**14,141**	15,998
Net Increase in Cash and Cash Equivalents	**1,240,385**	(1,335,580)
Cash and Cash Equivalents, Beginning of Year	**14,280,364**	15,615,944
Cash and Cash Equivalents, End of Year	**$ 15,520,749**	$ 14,280,364

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

Reconciliation of Net Operating Loss
To Net Cash From Operating Activities

	2014	2013
Operating Loss	**$ (32,494,430)**	$ (32,854,895)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	**3,046,773**	2,986,414
State paid benefits	**2,008,303**	1,906,850
Effect of the changes in operating assets and liabilities		
Accounts receivable	**(21,447)**	(66,752)
Prepaid expenses	**167,200**	150,984
Inventory	**(300,694)**	178,295
Accounts payable	**278,769**	(350,708)
Accrued salaries	**8,759**	23,876
Accrued liabilities	**(423,251)**	(3,613,511)
Accrued leave	**(16,440)**	(48,212)
Unearned revenue	**(204,352)**	652,794
Deposits held for others	**(5,384)**	(14,800)
Net Cash From Operating Activities	**$ (27,956,194)**	**$ (31,049,665)**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frederick Community College (the College)

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The College is considered a business-type special-purpose government using the activities reporting model. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the College adopted the financial model required by business-type activities (BTA). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. The BTA model requires the following financial statement components:

- Management’s Discussion and Analysis
- Statements of Net Position
- Statements of Revenue, Expenses and Change in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles whereby all revenue is recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. The summer semesters of the College overlap fiscal years. Consistent with generally accepted accounting principles, summer semester revenue is recorded as earned and expenditures are recorded as incurred in each fiscal year.

Reporting Entity

The College is a separate legal entity created by state law and accordingly prepares its own financial statements and reports. Since the Board of County Commissioners of Frederick County approves the College’s operating budget, the College is also included as a component unit in the financial statements of Frederick County, Maryland. Although the College does not control the timing or amount of receipts from the Frederick Community College Foundation, Inc. (the Foundation), all of the resources or income thereon that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for, the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. Complete financial statements for the Foundation can be obtained by contacting Frederick Community College Foundation, Inc., 7932 Opossumtown Pike, Frederick, MD, 21702.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Accounting

The College maintains a system of budgetary control for management purposes and to meet requirements of State Law. Encumbrance accounting is used for budgetary purposes. Encumbrances outstanding do not constitute expenses or liabilities and are not reflected in these financial statements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. These reclassifications did not result in a change to net position.

Operating Revenue and Expenses

The College's principal ongoing operations determine operating flow activities. Ongoing operations of the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs.

Operating revenue of the College consists of tuition and fees, grants and contracts and auxiliary enterprise income. Operating expenses include those expenses required to be incurred to generate the operating revenue of the College. All other expenses and revenue are considered non-operating.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

The Statements of Revenue, Expenses, and Change in Net Position categorize expenses by function. The following summarizes expenses by type:

	For the Years Ended	
	June 30, 2014	**June 30, 2013**
Salaries and benefits	**$ 37,388,017**	$ 37,728,060
Supplies and materials	**1,500,731**	1,475,736
Depreciation	**3,046,773**	2,986,414
Contracted services	**2,457,747**	2,355,051
Conferences and meetings	**585,115**	527,894
Communications	**237,341**	249,999
Utilities	**962,144**	991,801
Insurance	**147,593**	139,058
Scholarships	**5,137,675**	4,599,911
Campus projects and equipment	**1,091,627**	859,617
Cost of good sold (bookstore and food service)	**2,172,764**	2,377,856
Miscellaneous	**1,778,003**	1,896,787
Certain fringe benefits paid directly by the state of Maryland	**2,008,303**	1,906,850
Total	**$ 58,513,833**	$ 58,095,034

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents include deposits and money-market fund investments held at financial institutions.

Accounts Receivable

Accounts receivable relates to transactions involving student tuition and fee billings, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions.

Allowance for Doubtful Accounts

Accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amount of accounts receivable that will not be collected. This valuation allowance is based on the age, historical trends and estimated collectability of receivables. The allowance for doubtful accounts was $209,259 and $230,812 for the fiscal years 2014 and 2013, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Scholarship Allowance

Student tuition and fees are reported net of any scholarship allowance. A scholarship allowance is the difference between the stated charge for tuition, goods and services provided by the College and the amount that is paid by the student or third parties making payments on behalf of the student. These scholarship allowances represent funds received from outside resources such as the Title IV Federal Grant Program.

Capital Assets

Capital assets are either recorded at cost or, in the case of contributed assets, at the fair value at the date of donation. The College's policy is to include only those capital assets with a purchase price or fair value at donation of at least $2,500 and a minimum life of 1 year. The library collection is recorded and valued annually as a group at cost or estimated cost without regard to individual item cost. It is depreciated on a unit basis with each year's additions comprising an individual unit.

Capital asset additions constructed using funding provided by the State or County government agencies are stated at the cost incurred for such additions by the agency. Depreciation is expensed over the estimated economic life of the asset on a straight line basis as follows:

	Number of Years
Buildings and improvements	10-40
Library collection	10
Furniture and equipment	5-10

Inventory

Inventory is carried at the lower of average cost or market as of June 30, 2014 and 2013.

Revenue Recognition and Unearned Revenue

Tuition revenue is recognized when instruction is provided. Grant and appropriation revenue is recognized when all of the conditions are met.

Unearned revenue is primarily tuition received for semesters beginning after June 30, 2014. Grant revenue received during the year that has restrictions on spending has been deferred until those restrictions are met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Postemployment Benefits

The College's employees participate in retirement plans as more fully discussed in Note 6. Also, the College offers other post-employment benefits described in Note 7.

Compensated Absences

Qualified administrative staff as well as those at the Assistant Professor, Associate Professor and Professor levels employed on a 12-month basis earn annual leave at the rate of 20 working days per year. Assistant Instructors and Instructors earn annual leave at the rate of 15 days per year. Supportive staff employed on a 12-month basis in their first through third year earn annual leave at a rate of 10 days per year. Those with four through seven years of continuous employment accrue 15 days per year. Those with continuous employment greater than eight years accrue 20 days per year. Ten and eleven month administrative and supportive staff accrue annual leave at the same rates but will not accrue leave during the periods when they are not required to work.

Qualified 12-month faculty, administrative, and supportive staff hired before July 1, 1987, may accumulate a maximum of 40 days and are paid up to a maximum of 30 days earned at termination. Those hired after July 1, 1987, may accumulate a maximum of 30 days.

Vacation benefits earned but not yet taken are charged to expense in the current fiscal year. These benefits will be funded by future appropriations when paid.

Qualified employees are entitled to a sick leave benefit of one day for each month employed. Sick leave for part-time employees is accrued on a prorated basis. Unlimited sick leave may be accumulated. Qualified staff employed prior to June 30, 1985, are eligible for payout upon termination of 40% of sick leave accumulated up to a maximum of 120 days. Those hired after June 30, 1985, are not eligible for payout at termination.

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 Frederick Community College Foundation, Inc. (the Foundation) is exempt from taxation under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no income taxes are reflected in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

The College maintains the following net position classifications:

Net Investment in Capital Assets

Capital assets, net of accumulated depreciation and outstanding principal debt.

Restricted – Expendable

Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

Unrestricted

Unrestricted net position may be designated for specific purposes by the College's Board of Trustees.

When both restricted and unrestricted net position are available for expenditure, the decision as to which assets are used first is left to the discretion of the College.

Revenue Recognition

The Foundation is a private non-profit organization that accounts for its activities under FASB standards, as denoted in the FASB Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial statements for these differences.

Basis of Accounting

The Foundation is a publicly supported foundation, incorporated under the laws of the State of Maryland. The Foundation is organized exclusively for charitable, scientific, literary and educational purposes; to promote, augment and further the educational purposes and programs of Frederick Community College, a non-profit educational institute of higher learning and to assist in developing and carrying out the educational functions of the College for the benefits of students, faculty and the community at large. The Foundation has been granted tax-exempt status under the Internal Revenue Code Section 501(c)(3). Financial statements of the Foundation have been prepared on the accrual basis of accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under accounting principles generally accepted in the United States of America are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Realized and unrealized gains and losses are reflected in the Statements of Revenue, Expenses, and Change in Net Position. Interest income from money market funds is recognized on a monthly basis. Investment income from the University System of Maryland Foundation (USMF) is recorded on a quarterly basis as notified by the fund. At year-end an accrual is made for interest earned through that date. The investment objectives of the Foundation are to provide stable and predictable spendable cash income from year to year, and to preserve the capital value of the fund protecting it from wide variations in market value. The investment manager and custodial management fees are deducted from investment income earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Net Assets

As required under generally accepted accounting principles in United States, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – Contributions not subject to donor-imposed stipulations or whose restrictions have been satisfied.

Temporarily Restricted Net Assets – This net asset group includes expendable donor-restricted gifts and earnings on permanently restricted net assets, which are restricted for the following purposes:

	June 30, 2014	June 30, 2013
Scholarships	**$ 2,555,509**	$ 1,844,479
Scholarships Quasi-Endowment	**4,049,215**	4,074,036
Other Program Support	**876,939**	725,622
Total	**$ 7,481,663**	$ 6,644,137

Net assets released from restrictions were as follows:

	June 30, 2014	June 30, 2013
Scholarships	**$ 417,065**	$ 438,426
Program Services	**182,393**	243,973
Support Services	**23,586**	20,778
Administrative Fees	**57,588**	54,661
Total	**$ 680,632**	$ 757,838

Permanently Restricted Net Assets – This net asset group reflects non-expendable donor-restricted principal, which is restricted for the following purposes:

	June 30, 2014	June 30, 2013
Scholarships	**$ 4,013,970**	$ 3,962,176
Other Program Support	**91,107**	91,007
Total	**$ 4,105,077**	$ 4,053,183

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foundation Assets

Pledges receivable – These pledges represent unconditional promises to give from various contributors including individuals, local businesses, and state and local governments. Pledges receivable in excess of one year have been discounted using a risk-free discount rate ranging from 0.11% to 0.90% as of June 30, 2014 and 2013, respectively, and all pledges receivable are recorded at fair value as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, the allowance was $1,223 and $1,848, respectively.

Charitable Remainder Trust – The Foundation has been named beneficiary of two charitable remainder trusts. A qualifying charitable remainder trust provides lifetime income to the donor and/or the donor's family members, with the remaining trust assets passing to the Foundation when the trust ends. These trusts were created by donors independently of the Foundation and are neither in the possession nor under the control of the Foundation. The trusts are administered by outside fiscal agents as designated by the donor. The Foundation records the present value of the remainder interest discounted at a rate of 3% for both 2014 and 2013. Charitable remainder trusts are recognized as revenue when the Foundation is notified that they have been named as a beneficiary.

Contributions of temporarily restricted net assets that are received and expended in the same fiscal year are treated as temporarily restricted revenue and net assets released from restrictions in that year.

The Foundation's Endowment Fund Management Policy

Under accounting principles generally accepted in the United States of America, Endowments of Non-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. Accounting principles generally accepted in the United States of America requires that the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the organization's governing board, must be retained permanently consistent with the relevant law. Accounting principles generally accepted in the United States of America also expands the disclosures required for both donor-restricted and board-designated endowment funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In fiscal year ended June 30, 2014, the College implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to either (a) properly classify items that were previously reported as assets and liabilities as deferred outflows of resources and (b) recognize these items as outflows of resources (expenses) or inflows of resources (revenues). Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as an expense. This is recorded as a prior period adjustment for the fiscal year ended June 30, 2013.

Net position of the College has been restated and reduced by $720,395, as of July 1, 2012, due to the write off of previous bond issuance costs which were being amortized over the life of the bonds.

Upcoming pronouncement, GASB Statement No. 68, entitled Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and GASB Statement No. 71, entitled Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, are effective for fiscal year ending June 30, 2015. As part of GASB 68 the College will be required to record its share of the Maryland State Retirement and Pension System's (SRPS) net funded pension liability. The College's share of the unfunded liability will be calculated by dividing the College's contribution to SRPS by the total contributions to SRPS multiplied by SRPS' unfunded liability. Currently SRPS' total unfunded liability and total contributions are not known. The College is analyzing the effects of these pronouncements, which is expected to be material, and plans to adopt them as applicable by their effective date.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Frederick Community College

The College includes cash on hand, cash in bank accounts and cash invested in the Maryland Local Government Investment Pool (MLGIP) as cash and cash equivalents in the accompanying financial statements.

Cash on hand for petty cash and change funds as of June 30, 2014 and 2013, was $7,500 and $7,500, respectively.

Deposits

The carrying amount of the College's deposits for the years ended June 30, 2014 and 2013, was $7,081,385 and $5,845,997, respectively, and the bank balance was $7,077,674 and $5,976,344, respectively. All of the College's bank balances are collateralized by Federal agency securities held in safekeeping by the Federal Reserve.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP

Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the College's investment policy, determines the College's allowable investments. 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, bankers 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). The College's investment balance in the MLGIP as of June 30, 2014 and 2013, was $8,431,864 and $8,426,867, respectively. This investment is considered to be a cash equivalent for financial statement purposes.

Reconciliation of Cash, Cash Equivalents and Investments as shown on the Statements of Net Position:

	June 30, 2014	June 30, 2013
Cash on hand	**$ 7,500**	$ 7,500
Carrying amount of deposits	**7,081,385**	5,845,997
Carrying amount of MLGIP	**8,431,864**	8,426,867
Total cash and cash equivalents per statement of net position	**$ 15,520,749**	$ 14,280,364

Investment income includes net interest and dividends of $14,141 and $15,998, for the years ended June 30, 2014 and 2013, respectively.

Investment Rate Risk

Fair value fluctuates with interest rates and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing rates, the College's investment policy limits the term of investment maturities. For the years ended June 30, 2014 and 2013, the College's investments were limited to the MLGIP. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the College from having to sell investments below original cost for that purpose. The investments as of June 30, 2014 and 2013, met the College's investment policy.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP (continued)

Credit Risk

The College invests in MLGIP which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95, Section 22G, of the Annotated Code of Maryland and is rated AAAm by Standard & Poors, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of $1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a $1.00 per unit constant value.

Custodial Credit Risk

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 possession of an outside party. The College's investments were all invested in the MLGIP.

3. RELATIONS WITH FREDERICK COUNTY, MARYLAND

Frederick Community College

Frederick County, Maryland provides approximately 29% of the College's operating budget. The College's budget is subject to the approval of the County Commissioners. The County provided an in-kind appropriation for data processing of $371,502 and $361,340, for the years ended June 30, 2014 and 2013, respectively. They also provided an in-kind appropriation for internal audit services and real estate appraisals of $34,679 and $56,032, for the years ended June 30, 2014 and 2013, respectively, which has been included in the County appropriation revenue and as part of Institutional Support expenditures in the financial statements.

4. CAPITAL ASSETS

Frederick Community College

Schedules of capital assets and accumulated depreciation for the years ending June 30, 2014 and 2013 were as follows:

	July 1, 2013*	Additions & Transfers	Retirements & Transfers	June 30, 2014
Capital assets not being depreciated				
Land	$ 271,620	$ -	$ -	$ 271,620
Construction in Progress	3,760,735	3,101,925	(3,353,643)	3,509,017
Total capital assets not being depreciated	4,032,355	3,101,925	(3,353,643)	3,780,637
Capital assets being depreciated				
Building and Improvements	88,575,273	3,697,599	(483,020)	91,789,852
Site Improvements	6,031,146	40,597	-	6,071,743
Furniture and Equipment	4,301,095	460,108	(62,609)	4,698,594
Library Collection	1,975,831	37,372	-	2,013,203
Total capital assets being depreciated	100,883,345	4,235,676	(545,629)	104,573,392
Less: Accumulated Depreciation				
Building and Improvements	(26,008,210)	(2,346,898)	369,043	(27,986,065)
Site Improvements	(4,948,483)	(313,945)	-	(5,262,428)
Furniture and Equipment	(2,948,467)	(345,877)	62,609	(3,231,735)
Library Collection	(1,820,550)	(40,053)	-	(1,860,603)
Total accumulated depreciation	(35,725,710)	(3,046,773)	431,652	(38,340,831)
Total assets being depreciated, net	65,157,635	1,188,903	(113,977)	66,232,561
Capital assets, net	$ 69,189,990	$ 4,290,828	$ (3,467,620)	$ 70,013,198

*2013 restatement consisted of $34,305 to write off unamortized bond issuance cost accumulated depreciation expense as required by GASB Statement No. 65.

4. CAPITAL ASSETS (continued)

Frederick Community College (continued)

	July 1, 2012	Additions & Transfers	Retirements & Transfers	June 30, 2013*
Capital assets not being depreciated				
Land	$ 271,620	$ -	$ -	$ 271,620
Construction in Progress	11,535,334	3,359,019	(11,113,618)	3,760,735
Total capital assets not being depreciated	11,806,954	3,359,019	(11,113,618)	4,032,355
Capital assets being depreciated				
Building and Improvements	75,822,171	12,753,102	-	88,575,273
Site Improvements	6,016,920	14,226	-	6,031,146
Furniture and Equipment	4,452,026	242,076	(393,007)	4,301,095
Library Collection	1,933,958	41,873	-	1,975,831
Total capital assets being depreciated	88,225,075	13,051,277	(393,007)	100,883,345
Less: Accumulated Depreciation				
Building and Improvements	(23,741,232)	(2,266,978)	-	(26,008,210)
Site Improvements	(4,637,245)	(311,238)	-	(4,948,483)
Furniture and Equipment	(3,003,880)	(331,757)	387,170	(2,948,467)
Library Collection	(1,778,413)	(42,137)	-	(1,820,550)
Total accumulated depreciation	(33,160,770)	(2,952,110)	387,170	(35,725,710)
Total assets being depreciated, net	55,064,305	10,099,167	(5,837)	65,157,635
Capital assets, net	$ 66,871,259	$ 13,458,186	$ (11,139,455)	$ 69,189,990

*2013 restatement consisted of $34,305 to write off unamortized bond issuance cost accumulated depreciation expense as required by GASB Statement No. 65.

5. LONG-TERM LIABILITIES

Frederick Community College

The College records a liability for accrued vacation pay as earned to the extent payable to its employees upon termination. A liability is also recorded for sick leave payable at retirement according to College policy. Employees hired after June 30, 1987 must use their sick leave prior to termination. As those employees hired prior to June 30, 1987 retire, the College's sick leave liability is declining. The vacation liability increased for fiscal year 2014 due to fewer employees using leave.

5. LONG-TERM LIABILITIES (continued)

Frederick Community College (continued)

	2012	Addition (Reduction) in Accrual	2013	Addition (Reduction) in Accrual	2014
Accrued Vacation Liability	$ 1,162,056	$ 24,874	$ 1,186,930	$ 7,297	**$ 1,194,227**
Sick Leave Retirement Liability	281,220	(69,660)	211,560	(22,568)	**188,991**
Estimated Payroll Taxes	110,411	(3,427)	106,984	(1,168)	**105,816**
Total Liablity	1,553,687	(48,213)	1,505,474	(16,440)	**1,489,034**
Less: current portion	(26,185)	(79,118)	(105,303)	57,200	**(48,103)**
Long-Term Portion	$ 1,527,502	$ (127,331)	$ 1,400,171	$ 40,760	**$ 1,440,931**

The College entered into an agreement with Frederick County, Maryland (the County) in February 2010 in order to purchase the previously leased space at 200 Monroe Avenue. The College was to pay the County debt service payments until the amount had been paid in full. However, during the budgeting process for FY 2013, the County agreed to extinguish the debt owed them from the College. Therefore, this liability was eliminated in FY 2013 and recognized as a county contribution in the accompanying statements of revenue, expenses, and changes in net position. In addition, the College issued Certificates of Participation in December 2010 to finance a new parking garage and a portion of the enrollment services building. Manufacturers and Traders Trust Company serves as trustee for the transaction and there is a term of approximately 25 years. Principal payments began in 2013. The following table summarizes this liability:

	June 30, 2013	Principal Payment	Premium Discount Amortization	June 30, 2014	Current Portion	Long Term Portion
Bond payable	$ 7,267,805	$ (260,000)	$ 5,664	**$ 7,013,469**	**$ 265,000**	**$ 6,748,469**

6. PENSION AND RETIREMENT PLANS

Frederick Community College

Substantially all permanent employees of the College are covered under one of the three cost-sharing multiple-employer pension/retirement plans. Two of these plans are provided directly by the State of Maryland, and the employer funding for eligible College employees is provided directly by the State. The other retirement plan, provided through TIAA/CREF, is an option for certain professional employees and is also provided for those College employees for which the State does not provide employer share funding of retirement benefits.

6. PENSION AND RETIREMENT PLANS (continued)

Maryland State Teachers Retirement and Pension System

Employee benefits and contributions differ based on the employee's participation in either the retirement or pension system. Employees who were members of the retirement system on December 31, 1979 can continue membership, unless they elect to join the pension system. All employees have vested benefits after 5 years of creditable service. Members of the retirement system may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1.8% of a member's average final compensation multiplied by the number of years of creditable service. Members of the pension system may retire with full benefits after completing 30 years of eligible service regardless of age, or at age 62 or older with specified years of eligible service. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation and years of creditable service.

Both systems have provisions for early retirement and death and disability benefits. Employees who are members of the retirement system can contribute 7% of their annual compensation and receive an uncapped cost of living adjustment. Other employees can elect to remain members of the retirement system and contribute 5% of their annual compensation; however, their retirement benefits are subject to a 5% limit on their annual cost of living adjustment. Current employees who are members of the pension system are required to contribute 7% of their regular salaries and wages in excess of the social security wage base.

Effective July 1, 1989, in accordance with the State law governing the plans, all benefits are funded in advance. The System uses the individual entry age normal method with projection to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (UAL). During the 2013 legislative session, the Legislature changed the method used to fund the System. The unfunded accrued liability is being amortized over a single closed 25-year period and annual increases in members' salaries ranging from approximately 1.69% to 3.45%. A rate of return on investments of 7.70% compounded annually is used to compute pension benefit obligations. The employer share of contributions for eligible employees is the responsibility of the State. The State contribution for these employees is estimated at $1,308,108, based on covered payroll of $8,864,920, for fiscal year 2014 and $1,163,276 based on payroll of $8,236,353, for fiscal year 2013. Total payroll for Frederick Community College was $30,996,013 and $31,560,996, for the years ended June 30, 2014 and 2013, respectively. A substantial portion of Frederick Community College employees are not enrolled in a retirement plan due to the temporary, part-time nature of their work. This includes temporary part-time hourly and adjunct faculty. A complete report of the Maryland State Teachers Retirement and Pension System can be obtained by contacting this agency at 301 W. Preston Street, Baltimore, Maryland 21201.

6. PENSION AND RETIREMENT PLANS (continued)

Other Retirement Plans

A retirement plan is provided through TIAA/CREF for permanent employees of the College who are not eligible for the Maryland State Teachers Retirement or Pension systems. The State also provides employer share funding for professional employees of the College who choose certain other retirement plans in lieu of participating in the State's retirement systems. These other plans include TIAA/CREF and Fidelity. The other plans are defined contribution plans requiring an employer contribution of 7.25% of the employee's base salary.

Employer contributions and covered payroll were as follows:

	June 30, 2014		June 30, 2013	
	Covered Payroll	Employer Contributions	Covered Payroll	Employer Contributions
Professional Employees - funded by State and College Contributions	**$ 9,657,857**	**$ 700,195**	$ 10,266,262	$ 744,304
Employees ineligible for State Teacher Pension or Retirement system funded by College contributions	**2,501,757**	**181,377**	2,580,791	187,107
Total	**$ 12,159,614**	**$ 881,572**	$ 12,847,053	$ 931,411

Employee contributions to a selected plan are not mandatory. Employees are 100% vested upon enrollment in a plan. All assets of the plan are held and managed by the other retirement plan providers who issue individual annuity contracts to each employee.

Certain Fringe Benefits Paid Directly by State

The College received State contributions toward retirement in the amount of $2,008,303 and $1,906,850 for the years ended June 30, 2014 and 2013, respectively. These amounts have been recorded as revenue and expenses in the financial statements.

6. PENSION AND RETIREMENT PLANS (continued)

Summary of Pension and Retirement Plans

The annual pension and retirement cost and the percentage of that amount contributed for the past three years for the aforementioned plans are as follow:

Fiscal Years	MD State Teachers Retirement and Pension System Annual Cost	Percentage Contributed	Other Plans Annual Cost	Percentage Contributed
2014	$ 1,308,108	100%	$ 881,572	100%
2013	1,163,276	100%	931,411	100%
2012	1,208,270	100%	885,977	100%
2011	1,192,413	100%	882,971	100%
2010	1,005,917	100%	874,586	100%

7. POSTEMPLOYMENT HEALTHCARE PLAN

Frederick Community College

Plan Description. The Frederick Community College Healthcare Plan is approved by the Board of Trustees and is defined in Policy 3.20. This policy provides for those retirees who are collecting benefits through either the Maryland State System or one of the state-approved Optional Retirement Plans (ORPs) to continue their healthcare coverage at their expense indefinitely. The healthcare premiums charged have not been age adjusted and, as a result, the plan is deemed to provide an implied subsidy to retirees. Coverage for retirees will be governed by contracts in effect with the insurance carriers.

Funding Policy. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2014 and 2013, retirees paid approximately $27,000 and $33,000 in premiums, respectively.

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

7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

Frederick Community College (continued)

	June 30, 2014	June 30, 2013
Annual Required Contribution	**$ 45,465**	$ 38,733
Interest on net OPEB obligation	**4,370**	4,348
Adjustment to annual required contribution	**(9,386)**	(9,337)
Annual OPEB cost	**40,449**	33,744
Contributions made	**(26,631)**	(32,985)
Increase in net OPEB obligation	**13,818**	759
Net OPEB obligation, July 1	**145,677**	144,918
Net OPEB obligation, June 30	**$ 159,495**	$ 145,677

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending June 30, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 40,449	66%	$ 159,495
6/30/2013	33,744	98%	145,677
6/30/2012	33,038	100%	144,918
6/30/2011	71,546	9%	144,865

Since the plan covers only retirees and current employees are not included, there is no covered payroll.

Funded Status and Funding Progress. Frederick Community College is not funding the plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of July 1, 2013, the plan was zero percent funded. The actuarial accrued liability was $0.3 million, which is equivalent to the unfunded actuarial accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was $22.3 million and the ratio of the UAAL to the covered payroll was 1.5% as the table on the next page reflects.

7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

Frederick Community College (continued)

Actuarial Valuation Date	Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	AAL as a Percentage of Payroll
June 30, 2014	$ -	$ 339,427	$ 339,427	0%	$ 22,326,743	1.5%
June 30, 2013	-	313,580	313,580	0%	22,562,946	1.4%
June 30, 2012	-	313,580	313,580	0%	21,542,902	1.5%
June 30, 2011	-	870,921	870,921	0%	20,982,339	4.2%
June 30, 2010	-	870,921	870,921	0%	20,669,959	4.2%

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

The assumptions for fiscal year 2014 are consistent with prior valuation with the exception of the removal of employees who elected to receive a voluntary termination benefit of a 3 year, $500/month subsidy toward the cost of health insurance. In FY14, employees retiring who elected to waive health insurance received a lump sum payment of $18,000. These retirement incentives have now been accrued separately from this valuation. For these voluntary termination benefits, in accordance with GASB 47, the College has recognized a liability and expense for $90,000, which is the amount of the remaining benefit to be provided to those who elected this voluntary termination benefit. The projected unit credit cost method with unfunded actuarial accrued liability amortized as a level percentage of payroll was used.

Healthcare costs assumed a 10.0% increase, decreasing 1% per year to an ultimate rate of 5.0%. In the fiscal year 2014 actuarial valuation, the actuarial cost method was used.

8. RISK MANAGEMENT

Frederick Community College

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 carries commercial insurance to insure against major loss related to these risks. The College also carries commercial insurance for employee health, long-term disability, life and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. No significant reductions in insurance coverage have occurred.

8. RISK MANAGEMENT (continued)

Frederick Community College (continued)

The College is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The College is actively defending its position in all cases. In the opinion of the College, resolution of these matters will not have a material adverse effect on the financial statements.

9. CONTINGENT LIABILITIES AND COMMITMENTS

Frederick Community College

Grants and Contracts

Most grants and cost-reimbursable contracts specify the types of expenditure for which the grant or contract funds may be used. The expenditures made by Frederick Community College under some of these grants and contracts are subject to audit. To date, Frederick Community College has not been notified of any significant unallowable costs relating to its grants and contracts. In the opinion of management, the expenditures that have been made for grants and contracts were made in accordance with the provisions of such grants and contracts. In the opinion of management, any adjustments for unallowable costs that would result from audits will not have a material effect on the College's financial statements.

Mt. Airy Center for Health Care Education

The College entered into a joint-venture agreement with Howard Community College (HCC) and Carroll Community College (CCC) to form the Mt. Airy Center for Health Care Education (the Center) in fiscal year 2012. The Center offers both credit and noncredit courses. The three colleges share both the revenue and expenses associated with the Center equally. HCC has the role of primary administrator for consolidating the financial information and invoicing the other colleges. For the year ended June 30, 2014 and 2013, the College recorded accounts payable to HCC in the amount of $60,424 and $71,026, respectively, for expenses related to operating the facility.

As part of the joint-venture agreement, the colleges entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease has an initial term of ten years starting in August 2012 and concluding July 2022. The lease payments have an escalation clause of 1.75 percent per year. The College incurred $94,032 and $82,850 in rent expenses during the years ended June 30, 2014 and 2013, respectively.

Commitments

Total construction commitments outstanding at June 30, 2014 were $6.5 million.

10. CONTRIBUTIONS AND PLEDGES AND GRANTS RECEIVABLE

Frederick Community College Foundation, Inc.

Unrestricted contributions are recorded as Unrestricted Net Assets and are expended as approved by the Foundation's Member-Directors. Donor restricted contributions are recorded as Temporarily Restricted or Permanently Restricted Net Assets consistent with donor restrictions.

In fiscal year 2010, the Foundation received an estate gift of $2.5 million for scholarships. The remainder of the estate gift of $597,112 was received in fiscal year 2011.

Pledges are recorded as receivables and revenue upon receipt of signed pledge agreements. Pledges are shown at fair value, which was calculated using discount rates for United States Treasury Securities for the applicable terms. The unamortized discount will be accreted into revenue in the future. Accounting principles generally accepted in the United States of America establishes accounting standards for all contributions received or made.

The following schedule presents the anticipated date of receipt of recorded pledges:

	June 30, 2014	June 30, 2013
Less than one year	**$ 48,070**	$ 61,734
One to five years	**12,030**	24,958
Total	**$ 60,100**	$ 86,692

Pledges receivable represent unconditional promises to give as follows:

	June 30, 2014	**June 30, 2013**
Unconditional promises to give	**$ 60,100**	$ 86,692
Less:		
unamortized discount	**(238)**	(457)
allowance for uncollectible	**(1,223)**	(1,848)
Total	**$ 58,639**	$ 84,387

11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS

Frederick Community College Foundation, Inc.

In determining fair value, the Foundation uses various valuation approaches within accounting principles generally accepted in the United States of America. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. The Foundation is invested in the University System of Maryland Foundation investment pool which includes investments in three investment levels. Because these investments in the pool that are level 3 are significant to the pool, the Foundation has classified its investment in the pool as level 3 as of June 30, 2014 and 2013.

11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS (continued)

Frederick Community College Foundation, Inc. (continued)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2014 and 2013.

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in external investment pool	**$ -**	**$ -**	**$11,753,671**	**$11,753,671**
Investment in charitable remainder trusts	**-**	**-**	**427,872**	**427,872**
Total	**$ -**	**$ -**	**$12,181,543**	**$12,181,543**

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in external investment pool	$ -	$ -	$10,644,141	$10,644,141
Investment in charitable remainder trusts	-	-	365,730	365,730
Total	$ -	$ -	$11,009,871	$11,009,871

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

	USMF Pool		**Charitable Remainder Trusts**	
	Level 3 2014	**Level 3 2013**	**Level 3 2014**	**Level 3 2013**
Balance, July 1,	**$10,644,141**	$ 9,546,180	**$ 365,730**	$ 334,539
Realized/unrealized gains (loss)	**1,217,565**	579,908	**62,142**	55,480
Purchases	**(108,035)**	518,053	**-**	(24,289)
Balance, June 30,	**$11,753,671**	$10,644,141	**$ 427,872**	$ 365,730

11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS (continued)

Frederick Community College Foundation, Inc. (continued)

On June 30, 2014, the Foundation had 368,875.28 units of the University System of Maryland Foundation, Inc. Unitized Investment Fund valued at $31.86353 per unit with a total value of $11,753,671. On June 30, 2013, the Foundation had 372,552.43 units of the University System of Maryland Foundation, Inc. Unitized Investment Fund valued at $28.57085 per unit with a total value of $10,664,141.

	June 30, 2014			June 30, 2013		
	Cost	**Market**	**Unrealized Losses**	**Cost**	**Market**	**Unrealized Losses**
USMF Pool Participation	**$12,068,135**	**$11,753,671**	**$ (314,464)**	$11,221,284	$10,644,141	$ (577,143)
Interest in charitable remainder trust	**479,043**	**427,872**	**(51,171)**	479,043	365,730	(113,313)
Total	**$12,547,178**	**$12,181,543**	**$ (365,635)**	$ 11,700,327	$11,009,871	$(690,456)

Financial statement presentation of unrealized investment gains and losses follows the recommendations of accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America, unrealized gains and losses are recognized as changes in the unrestricted and temporarily restricted classes of net assets. The Foundation reported a net unrealized gain on investments of $262,176 for the year ended June 30, 2014 and a net unrealized loss of $25,782 for the year ended June 30, 2013.

During the year ended June 30, 2007, donors (husband and wife) made a gift of $674,690 in the form of a Charitable Remainder Trust. The Trust requires that the Trustee pay a Unitrust Amount equal to 6% of the net fair market value of the assets of the Trust during the lifetime of the donors. The value of the trust was $427,872 and $365,730 as of June 30, 2014 and 2013, respectively, net of discount.

During the year ended June 30, 2011, management was notified that the Foundation was named beneficiary in a 35.00% interest in a Charitable Remainder Annuity Trust established in October 1999. The Trust requires that the Trustee pay an amount equal to eight percent (8.00%) of the net fair value of the assets at establishment of the Trust quarterly during the lifetime of the donor. The donor passed away in fiscal year 2013 and the trust was liquidated. The Foundation received proceeds of $24,289 from the trust. As of June 30, 2013, there was no outstanding balance on the trust.

12. ENDOWMENTS

Frederick Community College Foundation, Inc.

The Foundation's endowments consist of 117 funds established to support a variety of scholarships and programs at Frederick Community College. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. Consequently, the Foundation classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment; and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation's Board. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Foundation and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Foundation; and
7. The investment policies of the Foundation.

12. ENDOWMENTS (continued)

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 the programs supported by the endowments. The endowment assets are invested in a manner that is intended to preserve and enhance the principal value of the fund while protecting it from wide variations in market value.

Spending Policy

The Foundation has a policy of appropriating up to 5% of a twenty-quarter trailing market value average ending December 31st, provided the donor contributions (principal) are not invaded. The Finance Committee determines the spending rate in the spring preceding the fiscal year in which the distribution is planned.

In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the Foundation expects that the current spending policy will allow its endowment to retain the original fair value of the gift.

Strategies Employed for Achieving Objectives

The Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The Foundation targets a diversified asset allocation that emphasizes fixed income securities to achieve its long-term objectives within prudent risk constraints.

12. ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 1,622,112	$ 4,105,077	$ 5,727,189
Board designated Quasi endowment for General Scholarships	-	4,398,612	-	4,398,612
Total Funds	$ -	$ 6,020,724	$ 4,105,077	$ 10,125,801

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 5,169,454	$ 4,019,421	$ 9,188,875
Investment return:				
Investment Income	-	21,676	-	21,676
Net appreciation/ depreciation	-	981,602	-	981,602
Total	-	1,003,278	-	1,003,278
Contributions collected	-	131,383	65,980	197,363
Reclassification	-	5,862	(1,004)	4,858
Appropriation of endowment assets for expenditure	-	(289,453)	-	(289,453)
Endowment net assets, end of year	-	6,020,524	4,084,397	10,104,921
Pledges receivable	-	200	20,680	20,880
Endowed net assets, inclusive of receivables, end of year	$ -	$ 6,020,724	$ 4,105,077	$ 10,125,801

12. ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 1,097,585	$ 4,053,183	$ 5,150,768
Board designated Quasi endowment for General Scholarships	-	4,074,036	-	4,074,036
Total Funds	$ -	$ 5,171,621	$ 4,053,183	$ 9,224,804

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ (2,687)	$ 4,676,107	$ 3,919,203	$ 8,592,623
Investment return:				
Investment income	-	28,284	-	28,284
Net appreciation/ depreciation	2,687	502,832	-	505,519
Total	$ -	$ 531,116	$ -	$ 533,803
Contributions collected	-	247,519	103,457	350,976
Reclassification	-	(749)	-	(749)
Appropriation of endowment assets for expenditure	-	(284,539)	(3,239)	(287,778)
Endowment net assets, end of year	-	5,169,454	4,019,421	9,188,875
Pledges receivable	-	2,167	33,762	35,929
Endowed net assets, inclusive of receivables, end of year	$ -	$ 5,171,621	$ 4,053,183	$ 9,224,804

13. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC.

The Frederick Community College Foundation, Inc. (the Foundation) is a component unit of Frederick Community College. The Foundation operates exclusively for charitable and educational purposes, including but not limited to receiving contributions, accepting holdings and investing and reinvesting any gifts or other donations for the benefit of the College, its students and faculty. The Foundation and College have a written agreement specifying the details of their relationship. State regulations require that the Foundation reimburse the College for any costs or services provided to the Foundation, or that the cost of these services be offset, by the Foundation providing contributions or services to the College.

The College estimates the approximate value of services (including staff time) provided to the Foundation to be $457,445 and $445,331 for the years ended June 30, 2014 and 2013, respectively. These amounts have been included in the financial statements of the Foundation. The value of contributions and support provided by the Foundation to the College is $684,738 and $727,147 for the years ended June 30, 2014 and 2013, respectively.

14. RELATIONSHIP BETWEEN FREDERICK COMMUNITY COLLEGE FOUNDATION, INC. & FOUNDATION FOR THE FCC FOUNDATION, INC.

During the year ended June 30, 2014, Foundation for the FCC Foundation, Inc. received no gifts and incurred no expenses. As of June 30, 2014 and 2013, there were no assets or liabilities.

15. SUBSEQUENT EVENTS

The College and the Foundation evaluated the accompanying financial statements for subsequent events and transactions through September 24, 2014, 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.