

ANNUAL FINANCIAL REPORT



JUNE 30, 2023

**FREDERICK COMMUNITY COLLEGE
ANNUAL FINANCIAL REPORT
JUNE 30, 2023 AND 2022**

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

To the Board of Trustees
Frederick Community College

Opinion

We have audited the financial statements of the business-type activities and the discretely presented component unit of Frederick Community College (the College), a component unit of Frederick County, Maryland, as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2023 and 2022

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2023 and 2022, and the respective changes in their financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 audits 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 29, 2023, on our consideration of the College's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls 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 controls over financial reporting and compliance.

Owings Mills, Maryland
September 29, 2023

SB + Company, LLC

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2023 and 2022

Overview and Basis of Presentation

This section of the Frederick Community College (the College) basic financial statements presents management discussion and analysis (MD&A), which provides an overview of its financial activities as of and for the years ended June 30, 2023 and 2022, with 2021 for comparative purposes. 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 reporting entity includes the College and the Frederick Community College Foundation (the Foundation) as a component unit of the College, whose sole purpose is to serve the institution by providing resources for scholarships and other College projects. The financial statements of the Foundation as of and for the years ended June 30, 2023 and 2022, are displayed in the financial statements section of this report.

Significant Financial and Enrollment Highlights

- An unreserved fund balance of \$12.4 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 (\$1.4) million. These fund balances are included in the Unrestricted Net Position on the Statements of Net Position.
- The Reserve Policy and Procedures were revised and approved by the College Board of Trustees in May 2016. This policy created a goal of establishing a Contingency Fund Reserve (CFR) designated for fiscal stability equal to 5% of the current year operating budget. This policy also consists of 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 may be used to provide a funding source for opportunities that cannot be funded in the current fiscal year through the operating budget and the BAOR is to provide a funding source for unexpected expenses that may occur. As of June 30, 2023, the CFR was \$3.3 million, and the SFBR was \$1.3 million and both reserves are fully funded.
- Tuition rates were unchanged for fiscal year 2023 and remained at the fiscal year 2022 amounts of \$129/credit for in-county, \$282/credit for out-of-county, and \$382/credit for out-of-state.
- The county and state share of unrestricted revenue for fiscal year 2023 was 36.0% and 26.1%, respectively.
- The Bookstore had a net loss of \$248 thousand, the Children's Center had a net loss of \$46 thousand, and Dining Services had a net loss of \$172 thousand for fiscal year 2023. These losses were due to an adjustment to inventory increasing our cost of goods for the bookstore, the raise of hourly salary and addition of full College benefits to full time teachers at the Children's Center, and a greater than expected subsidy to Dining.

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Management's Discussion and Analysis June 30, 2023 and 2022

Significant Financial and Enrollment Highlights (continued)

- Full-time equivalent (FTE) enrollment increased by 528 students between fiscal year 2023 and fiscal year 2022. The following summarizes state-reimbursable FTE trends over the past five years:

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|
| Credit | 3,293 | 3,318 | 3,139 | 2,938 | 3,367 |
| Non-credit | 639 | 572 | 395 | 448 | 547 |
| Total | 3,932 | 3,890 | 3,534 | 3,386 | 3,914 |

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.

| | 2023 | 2022 | 2021 | 2023/2022 Change | 2022/2021 Change |
|-------------------------------------|-----------------------|-----------------------|----------------------|---------------------|----------------------|
| Assets | | | | | |
| Current assets | \$ 34,902,731 | \$ 30,218,110 | \$ 25,456,081 | \$ 4,684,621 | \$ 4,762,029 |
| Non-current assets | 95,135,028 | 92,721,994 | 86,245,530 | 2,413,034 | 6,476,464 |
| Total Assets | 130,037,759 | 122,940,104 | 111,701,611 | 7,097,655 | 11,238,493 |
| Liabilities and Net Position | | | | | |
| Liabilities: | | | | | |
| Current liabilities | 7,891,733 | 6,633,570 | 9,325,301 | 1,258,163 | (2,691,731) |
| Noncurrent liabilities | 5,722,809 | 5,355,497 | 4,836,241 | 367,312 | 519,256 |
| Total Liabilities | 13,614,542 | 11,989,067 | 14,161,542 | 1,625,475 | (2,172,475) |
| Net Position: | | | | | |
| Net Investment in Capital assets | 88,776,374 | 87,314,993 | 81,143,338 | 1,461,381 | 6,171,655 |
| Restricted | 510,632 | 616,907 | 618,390 | (106,275) | (1,483) |
| Unrestricted | 27,136,211 | 23,019,137 | 15,778,341 | 4,117,074 | 7,240,796 |
| Total Net Position | \$ 116,423,217 | \$ 110,951,037 | \$ 97,540,069 | \$ 5,472,180 | \$ 13,410,968 |

Net position increased to \$116.4 million in fiscal year 2023 and increased from \$97.5 million in fiscal year 2021 to \$111.0 million in fiscal year 2022. Current assets increased by \$4.7 million in fiscal year 2023 and increased by \$4.8 million in fiscal year 2022 due mainly to an increase in the ending cash balance for each fiscal year. Non-current assets increased by \$2.4 million in fiscal year 2023 and increased by \$6.5 million in fiscal year 2022 due mainly to an increase in fixed assets and SBITA right to use assets. Current liabilities increased by \$1.3 million in fiscal year 2023 due to increased payments owed to vendors, additional unearned revenue and the SBITA payable. In fiscal year 2023, noncurrent liabilities increased by \$367 thousand primarily due to the bond principal payment due in fiscal year 2024 and an increase in the SBITA payable.

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2023 and 2022

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.

| | 2023 | 2022 | 2021 | 2023/2022 Change | 2022/2021 Change |
|--|---------------------|----------------------|---------------------|-----------------------|----------------------|
| Operating Revenue | | | | | |
| Tuition and fees, net | \$ 16,838,802 | \$ 15,094,703 | \$ 15,573,992 | \$ 1,744,099 | \$ (479,289) |
| Grants and contracts | 4,816,669 | 8,992,297 | 4,950,107 | (4,175,628) | 4,042,190 |
| Auxiliary enterprises | 2,258,206 | 1,550,138 | 1,217,874 | 708,068 | 332,264 |
| Other revenue | 3,081,884 | 2,614,855 | 3,567,246 | 467,029 | (952,391) |
| Total Operating Revenue | 26,995,561 | 28,251,993 | 25,309,219 | (1,256,432) | 2,942,774 |
| Operating Expenses | | | | | |
| Education and general | 66,190,658 | 64,046,003 | 58,403,291 | 2,144,655 | 5,642,712 |
| Depreciation/amortization expense | 4,858,917 | 4,059,733 | 3,954,431 | 799,184 | 105,302 |
| Auxiliary enterprises | 3,796,980 | 4,090,762 | 1,362,264 | (293,782) | 2,728,498 |
| Other expenses | 202,214 | 63,163 | 61,703 | 139,051 | 1,460 |
| Total Operating Expenses | 75,048,769 | 72,259,661 | 63,781,689 | 2,789,108 | 8,477,972 |
| Operating Loss | (48,053,208) | (44,007,668) | (38,472,470) | (4,045,540) | (5,535,198) |
| Nonoperating Revenue (Expenses) | | | | | |
| Government appropriations | 39,047,455 | 35,082,141 | 31,406,689 | 3,965,314 | 3,675,452 |
| State retirement | 2,822,038 | 2,724,048 | 2,755,714 | 97,990 | (31,666) |
| Capital appropriations | 4,888,492 | 9,536,695 | 3,094,617 | (4,648,203) | 6,442,078 |
| Investment Income | 854,706 | 54,847 | 25,404 | 799,859 | 29,443 |
| Other | 5,912,697 | 10,020,905 | 4,096,001 | (4,108,208) | 5,924,904 |
| Total Nonoperating Revenue | 53,525,388 | 57,418,636 | 41,378,425 | (3,893,248) | 16,040,211 |
| Change in Net Position | \$ 5,472,180 | \$ 13,410,968 | \$ 2,905,955 | \$ (7,938,788) | \$ 10,505,013 |

County appropriations, including in-kind appropriations, in support of the operating budget increased \$800 thousand, 3.8% and \$1.5 million, 7.6% in fiscal year 2023 and 2022, respectively. State appropriations increased \$3.1 million, 23.7% and \$2.1 million, 19.1% in fiscal year 2023 and 2022, respectively.

Total educational and general expenses increased 3.3% and 9.7% in fiscal years 2023 and 2022, respectively, primarily due to pandemic driven Higher Education Emergency Relief Fund (HEERF) related expenses and increases in salary and benefit expenses. In fiscal year 2023, College employees received a 5% cost of living increase (COLA).

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2023 and 2022

Statements of Cash Flows

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

| | 2023 | 2022 | 2021 | 2023/2022 Change | 2022/2021 Change |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash and Cash Equivalents From | | | | | |
| Operating activities | \$ (39,797,861) | \$ (38,700,828) | \$ (28,891,138) | \$ (1,097,033) | \$ (9,809,690) |
| Non-capital financing activities | 46,913,816 | 43,320,033 | 32,449,032 | 3,593,783 | 10,871,001 |
| Capital and related financing activities | (381,079) | 745,887 | (111,777) | (1,126,966) | 857,664 |
| Investing activities | 854,706 | 54,847 | 25,404 | 799,859 | 29,443 |
| Net Change in Cash and Cash Equivalents | \$ 7,589,582 | \$ 5,419,939 | \$ 3,471,521 | \$ 2,169,643 | \$ 1,948,418 |

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 increased \$3.1 million and \$2.1 million in fiscal year 2023 and 2022 respectively. The County appropriation increased \$820 thousand and \$1.5 million in fiscal years 2023 and 2022, respectively. However, this is not guaranteed funding for future years.

Combined Credit and Continuing Education and Workforce Development (CEWD) enrollment has increased each year at the College since fiscal year 2021. From fiscal year 2021 to fiscal year 2022 enrollment increased 10% (11,209-12,351). From fiscal year 2022 to fiscal year 2023 enrollment increased 15% (12,251-14,190). Fiscal year 2024 is trending positively with an increase of 23% for Summer 2023 over Summer 2022 and a current increase of 17% for Fall 2023 over Fall 2022. This trend is expected to continue based on increased recruiting, retention, and outreach efforts, and provisions in the Blueprint for Maryland's Future that incentivize Frederick County Public Schools (FCPS) students to participate in the College dual enrollment programs tuition and fee free. The College gets reimbursed by FCPS for dually enrolled student tuition and gets a return on dual enrollment FTE from the state. These factors predict incremental increases in enrollment revenues over the next 10 years, if not impacted again by another environmental crisis like the COVID-19 pandemic.

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Management's Discussion and Analysis June 30, 2023 and 2022

A Bill legalizing collective bargaining at the state's community colleges passed the Maryland General Assembly in 2021 and went into effect September 1, 2022. Since that time, full-time faculty at the college have elected to organize and will be entering into collective bargaining this fall. This change will impact the college as fiscal items such as salaries/wages, benefits, paid time off, etc. are mandatory subjects of bargaining.

As shown in the Significant Financial and Enrollment Highlights above, an unreserved fund balance of \$12.4 million remains in the Current Unrestricted Educational and General Subfund to be used for unanticipated revenue shortfalls and changing fiscal conditions, if the need arises. These fund balances are included in the Unrestricted Net Position on the Statements of Net Position.

Contacting Frederick Community College Financial Management

This report is designed to provide interested parties with a general overview of the financial activities of the College. 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, 2023 and 2022

| | Frederick Community College | | Component Unit Frederick Community College Foundation, Inc. | |
|--|-----------------------------|-----------------------|--|----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 30,779,221 | \$ 23,189,639 | \$ 333,529 | \$ 276,955 |
| Investments | - | - | 20,487,599 | 19,856,050 |
| Accounts receivable: | | | | |
| Governmental | 2,631,591 | 5,585,253 | - | - |
| Student & third party, net of allowance | 315,053 | 128,096 | - | - |
| Other accounts receivable | 402,742 | 351,327 | - | - |
| Total accounts receivable | 3,349,386 | 6,064,676 | - | - |
| Prepaid expenses and other assets | 568,611 | 560,659 | 5,389 | 3,630 |
| Inventory | 205,513 | 403,136 | - | - |
| Total Current Assets | 34,902,731 | 30,218,110 | 20,826,517 | 20,136,635 |
| Noncurrent Assets: | | | | |
| Beneficial interest in charitable remainder trust | - | - | 22,831 | 28,335 |
| Capital assets including SBITA, net of accumulated depreciation | 95,135,028 | 92,721,994 | - | - |
| Total Noncurrent Assets | 95,135,028 | 92,721,994 | 22,831 | 28,335 |
| TOTAL ASSETS | 130,037,759 | 122,940,104 | 20,849,348 | 20,164,970 |
| LIABILITIES AND NET POSITION | | | | |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 2,026,509 | 1,594,581 | 64,919 | 124,630 |
| Accrued salaries | 957,072 | 896,067 | - | - |
| Accrued liabilities | 618,239 | 1,118,450 | - | - |
| Accrued leave | 1,883,269 | 1,716,869 | - | - |
| Bond payable | 320,000 | 80,000 | - | - |
| SBITA payable | 345,015 | - | - | - |
| Unearned revenue | 1,741,629 | 1,227,603 | 18,751 | 20,230 |
| Total Current Liabilities | 7,891,733 | 6,633,570 | 83,670 | 144,860 |
| Noncurrent Liabilities: | | | | |
| Bond payable, net of premium/discount | 4,931,902 | 5,327,001 | - | - |
| SBITA payable | 761,737 | - | - | - |
| Accrued leave | 29,170 | 28,496 | - | - |
| Total Noncurrent Liabilities | 5,722,809 | 5,355,497 | - | - |
| TOTAL LIABILITIES | 13,614,542 | 11,989,067 | 83,670 | 144,860 |
| NET POSITION | | | | |
| Net investment in capital assets | 88,776,374 | 87,314,993 | - | - |
| Net Assets Restricted by Purpose or Time | 510,632 | 616,907 | 11,501,223 | 11,204,639 |
| Net Assets Restricted in Perpetuity | - | - | 5,345,408 | 5,197,688 |
| Unrestricted Net Assets | 27,136,211 | 23,019,137 | 3,919,047 | 3,617,783 |
| TOTAL NET POSITION | \$ 116,423,217 | \$ 110,951,037 | \$ 20,765,678 | \$ 20,020,110 |

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

FREDERICK COMMUNITY COLLEGE

Statements of Revenue, Expenses, and Changes in Net Position For the Years Ended June 30, 2023 and 2022

| | Frederick Community College | | Component Unit Frederick Community College Foundation, Inc. | |
|--|-----------------------------|-----------------------|--|----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Operating Revenue | | | | |
| Tuition and fees, net of scholarship allowances of \$719,555 and \$1,017,409 | \$ 16,838,802 | \$ 15,094,703 | \$ - | \$ - |
| Grants and contracts | 4,816,669 | 8,992,297 | - | - |
| Auxiliary enterprises | 2,258,206 | 1,550,138 | - | - |
| Contributions | - | - | 448,966 | 478,243 |
| In-kind contributions | - | - | 408,118 | 313,237 |
| Other revenue | 3,081,884 | 2,614,855 | 420,320 | 340,833 |
| Total Operating Revenue | 26,995,561 | 28,251,993 | 1,277,404 | 1,132,313 |
| Operating Expenses | | | | |
| Instruction | | | | |
| Academic | 24,706,186 | 24,478,753 | - | - |
| Continuing education | 4,606,200 | 4,153,473 | - | - |
| Total Instruction | 29,312,386 | 28,632,226 | - | - |
| Academic support | 1,179,180 | 1,128,797 | - | - |
| Student services | 9,064,308 | 7,256,455 | - | - |
| Plant operations and maintenance | 8,500,417 | 6,717,809 | - | - |
| Institutional support | 11,816,459 | 11,139,794 | - | - |
| Scholarships | 2,327,084 | 6,398,248 | - | - |
| Student aid | 3,990,824 | 2,772,674 | - | - |
| Depreciation and amortization | 4,858,917 | 4,059,733 | - | - |
| Auxiliary enterprises | 3,796,980 | 4,090,762 | - | - |
| Direct Program services | - | - | 1,000,022 | 917,366 |
| Support services | - | - | 579,005 | 498,181 |
| Other expenses | 202,214 | 63,163 | - | - |
| Total Operating Expenses | 75,048,769 | 72,259,661 | 1,579,027 | 1,415,547 |
| Operating Loss | (48,053,208) | (44,007,668) | (301,623) | (283,234) |
| Nonoperating Revenue | | | | |
| State appropriations | 16,429,152 | 13,283,580 | - | - |
| County appropriations | 22,618,303 | 21,798,561 | - | - |
| State and County capital projects appropriations | 4,888,492 | 9,536,695 | - | - |
| Student aid | 4,912,697 | 7,667,150 | - | - |
| Investment income, net of fees | 854,706 | 54,847 | 130,895 | 119,290 |
| Net unrealized and realized gain (loss) on investments | - | - | 921,800 | 209,527 |
| Change in the value of charitable remainder trust | - | - | (5,504) | (6,148) |
| Other revenue | 1,000,000 | 2,353,755 | - | - |
| State paid benefits | 2,822,038 | 2,724,048 | - | - |
| Nonoperating Revenue | 53,525,388 | 57,418,636 | 1,047,191 | 322,669 |
| Change in Net Position | 5,472,180 | 13,410,968 | 745,568 | 39,435 |
| Net Position - Beginning of year | 110,951,037 | 97,540,069 | 20,020,110 | 19,980,675 |
| Net Position - End of year | \$ 116,423,217 | \$ 110,951,037 | \$ 20,765,678 | \$ 20,020,110 |

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows For the Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|----------------------|----------------------|
| Cash Flows From Operating Activities | | |
| Tuition and fees received | \$ 16,766,343 | \$ 15,199,594 |
| Payments to suppliers | (20,969,778) | (23,016,923) |
| Payments to employees | (45,997,241) | (41,416,060) |
| Auxiliary enterprise charges | 2,419,204 | 1,511,881 |
| Other receipts | 7,983,611 | 9,020,680 |
| Net Cash From Operating Activities | (39,797,861) | (38,700,828) |
| Cash Flows From Noncapital | | |
| Financing Activities | | |
| Federal revenue | 4,912,697 | 7,667,150 |
| State and County appropriations | 42,001,119 | 35,652,883 |
| Net Cash From Noncapital Financing Activities | 46,913,816 | 43,320,033 |
| Cash Flows From Capital and Related | | |
| Financing Activities | | |
| State and County capital appropriations | 4,888,492 | 9,536,695 |
| Other revenue | 1,000,000 | 2,353,755 |
| Purchase of capital assets | (5,925,244) | (11,486,921) |
| Payments of bonds and SBITA | (344,327) | (5,102,192) |
| Proceeds from bonds, including premium | - | 5,444,550 |
| Net Cash From Capital and Related Financing Activities | (381,079) | 745,887 |
| Cash Flows From Investing Activities | | |
| Investment income, net of fees | 854,706 | 54,847 |
| Change in Cash and Cash Equivalents | 7,589,582 | 5,419,939 |
| Cash and Cash Equivalents, Beginning of Year | 23,189,639 | 17,769,700 |
| Cash and Cash Equivalents, End of Year | \$ 30,779,221 | \$ 23,189,639 |

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows For the Years Ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|-------------------------------|-------------------------------|
| Operating Loss | \$ (48,053,208) | \$ (44,007,668) |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Amortization of deferred financing costs | (75,099) | (37,549) |
| Depreciation and amortization | 4,858,917 | 4,059,733 |
| State paid benefits | 2,822,038 | 2,724,048 |
| Loss on disposal of assets | 24,371 | 950,724 |
| Effect of the changes in non-cash operating assets and liabilities | | |
| Accounts receivable | (238,373) | 148,267 |
| Prepaid expenses | (7,952) | (220,397) |
| Inventory | 197,623 | 159,298 |
| Accounts payable | 431,928 | 377,868 |
| Accrued salaries | 61,005 | 81,265 |
| Accrued liabilities | (500,211) | (187,451) |
| Accrued leave | 167,074 | (105,674) |
| Unearned revenue | 514,026 | (2,643,292) |
| Net Cash From Operating Activities | <u>\$ (39,797,861)</u> | <u>\$ (38,700,828)</u> |

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

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

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; and
- 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 County Council of Frederick County approves the operating budget of the College, the College is also included as a component unit in the financial statements of Frederick County, Maryland (the County). 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 accompanying financial statements of the College. Complete financial statements for the Foundation can be obtained by contacting Frederick Community College Foundation, Inc., 7932 Opossumtown Pike, Frederick, MD, 21702.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

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.

Cash and Cash Equivalents

For purposes of the Statements of Net Position and Statements of Cash Flows, cash and cash equivalents include deposits and short-term (mature within 90 days of purchase) investment funds 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 the best estimate by management 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 \$100,000 and \$83,200, as of June 30, 2023 and 2022, respectively.

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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 policy of the College is to include only those capital assets with a purchase price or fair value at donation of at least \$5,000, 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 additions for each year 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:

| | <u>Number of Years</u> |
|----------------------------|------------------------|
| Buildings and improvements | 10-40 |
| Library collection | 10 |
| Furniture and equipment | 5-10 |
| SBITA right to use assets | 1-5 |

Inventory

Inventory is carried at the lower of average cost or market as of June 30, 2023 and 2022.

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 year end.

Operating Revenue and Expenses

The principal ongoing operations of the College 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

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, 2023 | June 30, 2022 |
| Salaries and benefits | \$ 46,524,809 | \$ 41,573,909 |
| Supplies and materials | 3,838,895 | 2,615,266 |
| Depreciation and amortization | 4,858,917 | 4,059,733 |
| Contracted services | 3,681,168 | 3,553,373 |
| Conferences and meetings | 830,934 | 508,002 |
| Communications | 112,455 | 255,841 |
| Utilities | 841,659 | 726,556 |
| Insurance | 261,241 | 232,538 |
| Scholarships | 6,317,908 | 9,170,922 |
| Campus projects and equipment | 2,573,959 | 1,383,579 |
| Cost of good sold (bookstore and food service) | 999,457 | 831,765 |
| Miscellaneous | 1,385,329 | 4,624,130 |
| Certain fringe benefits paid directly by the State of Maryland | 2,822,038 | 2,724,047 |
| Total | \$ 75,048,769 | \$ 72,259,661 |

Reclassification

Certain fiscal year 2022 amounts have been reclassified for consistency with the fiscal year 2023 presentation. The reclassifications did not affect the results of operations or net position.

Compensated Absences

Eligible full-time regular administrators, full-time regular support staff, and interpreter support staff on a full-time schedule will receive twenty (20) days (140 hours) of annual leave per year, which is earned monthly. All employees who are part-time regular administrators, part-time regular support staff, or interpreters on a part-time schedule and who work at least 17.5 hours per week are eligible for a prorated share of annual leave.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences (continued)

Regular employees hired and working prior to July 1, 1987, may accumulate a maximum of 40 days of annual leave and are paid up to a maximum of 30 days upon separation from employment for resignation, retirement, or non-renewal. Those hired after June 30, 1987, may accumulate a maximum of 30 days and there is no cash payout of unused annual leave upon separation from employment.

Annual leave 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.

All full-time regular administrators, full-time regular support staff, interpreter support staff on a full-time schedule, and full-time faculty are eligible for sick leave, earned at a rate of one (1) day (7 hours) of sick leave for each month worked. All employees who are part-time regular administrators, part-time regular support staff, or interpreters on a part-time schedule and who work at least 17.5 hours per week are eligible for sick leave earned on a prorated basis. Unlimited sick leave may be accumulated. Eligible staff employed prior to July 1, 1985, are eligible for payout upon termination of 40% of sick leave accumulated up to a maximum of 120 days. For those hired after June 30, 1985, there is no cash payout of unused sick leave upon separation from employment.

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 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.

Net Position

The College maintains the following net position classifications:

Net Investment in Capital Assets

Capital assets, including Subscription Based Information Technology arrangements (SBITA), net of accumulated depreciation, amortization and outstanding debt and SBITA liability.

Restricted

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 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Frederick Community College Foundation, Inc. (the Foundation)

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 the 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 benefit of students, faculty and the community at large. The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting.

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 financial information in the College financial statements for these differences.

Foundation Assets

On January 29, 2019, the Foundation was formally notified that they were one of several remainder beneficiaries of an irrevocable Charitable Remainder Unitrust (CRUT). A qualifying charitable remainder trust provides lifetime income to the donor and/or family members of the donor, with the remaining trust assets passing to the Foundation when the trust ends. The trust was created by donors independent of the Foundation and is neither in the possession nor under the control of the Foundation. The Trust is administered by outside fiscal agents as designated by the donors. The original trust agreement was signed on February 24, 1998.

The Foundation recorded the present value of the remainder interest in the Charitable Remainder Trust, discounted at a rate of 5.44%, totaling \$22,831 and \$28,335, for each of the years ended June 30, 2023 and 2022, respectively.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Endowment Fund Management Policy

The Foundation follows accounting principles generally accepted in the United States of America (GAAP). GAAP require that the amount classified as with donor restrictions shall be the amount of the fund (a) that must be retained in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the governing board of the organization, must be retained consistent with the relevant law. GAAP also expand the disclosures required for both donor-restricted and board-designated endowment funds.

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as it relates to making a determination to appropriate or accumulate donor restricted endowment funds and as requiring the preservation of the fair value of the original gift absent explicit donor stipulations to the contrary.

Fair Value Measurement

GAAP 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 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement (continued)

The asset or liability 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. Investment 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 monthly 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.

Classification of Net Assets

As required under generally accepted accounting principles in the United States, the Foundation reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Contributions not subject to donor imposed stipulations, or whose restrictions have been satisfied in the same reporting period, in which the contribution is received, are recorded as net assets without donor restrictions. As of June 30, 2023 and 2022, net assets without donor restrictions were \$3,919,047 and \$3,617,783, respectively.

Net assets with donor restrictions are contributions subject to donor-imposed stipulations that will be met by the Foundation through the passage of time, conduct of service, or incurrence of expenditures. When donor restrictions are met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions with donor restrictions that are received and expended in the same fiscal year are treated as revenue and net assets with donor restrictions released from restrictions in that year.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Net Assets (continued)

Net assets with donor restrictions by purpose as of June 30, 2023 and 2022, consisted of the following:

| | As of | |
|---|----------------------|----------------------|
| | June 30, 2023 | June 30, 2022 |
| Scholarships | \$ 4,831,186 | \$ 4,587,991 |
| Scholarship quasi-endowment | 5,847,736 | 5,751,522 |
| Program support | 659,936 | 713,069 |
| Academic purposes | 162,365 | 152,057 |
| Total Net Assets Restricted by Purpose | \$ 11,501,223 | \$ 11,204,639 |

Net assets released from donor restrictions during the years ended June 30, 2023 and 2022, were as follows:

| | For the Year Ended | |
|---|---------------------------|----------------------|
| | June 30, 2023 | June 30, 2022 |
| Scholarships | \$ 881,942 | \$ 832,662 |
| Program Services | 112,222 | 83,257 |
| Support Services (Events) | 32,176 | 10,813 |
| Administrative Fees (Endowment) | 69,164 | 70,971 |
| Total Net Assets Released from Restriction | \$ 1,095,504 | \$ 997,703 |

Certain net assets with donor restrictions are contributions subject to donor imposed restrictions that must be maintained in perpetuity by the Foundation. Net assets with donor restrictions in perpetuity as of June 30, 2023, and 2022, consisted of the following:

| | As of | |
|--|----------------------|----------------------|
| | June 30, 2023 | June 30, 2022 |
| Scholarships | \$ 5,253,926 | \$ 5,106,206 |
| Other program support | 91,482 | 91,482 |
| Total Net Assets Restricted in Perpetuity | \$ 5,345,408 | \$ 5,197,688 |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

Frederick Community College

GASB issued statements; No. 99, *Omnibus 2022*; No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*; and No. 101, *Compensated Absences*. The College is analyzing the effects of these pronouncements and if appropriate, will implement them by their effective dates. However, the College does not expect the adoption of these pronouncements to have a material effect on its financial statements.

During the year ended June 30, 2023, the College adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this statement, an organization is required to recognize a subscription liability and an intangible right to use subscription asset. The College evaluated its Subscription-Based Information Technology Arrangements (SBITAs) with terms longer than one year. The College calculated the net present values of the SBITA payments and reflected those in the financial statements. As of July 1, 2022, the College recorded a right to use SBITA asset of \$693,429 and a SBITA liability of \$693,429. The College did not restate the prior year presented as it was not practical.

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, 2023 and 2022, was \$4,100 and \$3,800, respectively.

Deposits

The carrying amount of the College deposits as of June 30, 2023 and 2022, was \$21,502,921 and \$14,233,437, respectively, and the bank balance was \$21,930,613 and \$14,705,626, respectively. All of the College bank balances are collateralized by federal agency securities held in safekeeping by the Federal Reserve.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

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 investment policy, determines the allowable investments the College can make. 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 investment balance in the MLGIP as of June 30, 2023 and 2022, was \$9,272,200 and \$8,962,402, respectively. This investment is considered to be a cash equivalent for financial statement purposes. The College has no unfunded commitments nor significant terms or conditions for redemption.

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

| | As of | |
|--|-----------------------------|-----------------------------|
| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
| Cash on hand | \$ 4,100 | \$ 3,800 |
| Carrying amount of deposits | 21,502,921 | 14,223,437 |
| Carrying amount of MLGIP | <u>9,272,200</u> | <u>8,962,402</u> |
| Total cash and cash equivalents per statement of net position | <u>\$ 30,779,221</u> | <u>\$ 23,189,639</u> |

Investment income includes net interest and dividends of \$854,706 and \$54,847, for the years ended June 30, 2023 and 2022, 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 exposure to fair value losses arising from increasing rates, the College investment policy limits the term of investment maturities. For the years ended June 30, 2023 and 2022, the College 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, 2023 and 2022, met the College investment policy.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (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 investments were all invested in the MLGIP.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Frederick Community College Foundation, Inc.

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund scholarships and programs. In addition, the Foundation receives support without donor restrictions.

The Foundation considers investment income without donor restrictions and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the fiscal year of the Foundation.

The Foundation has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. The Foundation operating account balance was \$333,529 as of June 30, 2023. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments including a Certificate of Deposit. The Foundation has a one-year Certificate of Deposit in the amount of \$204,323 as of June 30, 2023, at 2.05% APY with a one-time penalty free withdraw, which it can draw upon in the event of an unanticipated liquidity need. In addition, as of June 30, 2023, the Foundation has \$3,977,800 in unrestricted non-endowed investments at the University of Maryland System Foundation (USMF) that is readily available for withdrawal if needed, upon Board approval. The Foundation's endowment funds consist of donor-restricted and board restricted quasi-endowments. Investments and income from donor-restricted and quasi-endowments are restricted for specific purposes and therefore are not available for general expenditure.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents Foundation financial assets available for general expenditures within one year as of June 30, 2023:

| | <u>2023</u> |
|---|---------------------|
| Financial assets available within one year for general use | |
| Cash | \$ 333,529 |
| Certificate of Deposit | 204,323 |
| Unrestricted Investments available for current use | <u>3,977,800</u> |
| Total Financial Assets available within one year for general use | <u>\$ 4,515,652</u> |

4. RELATIONS WITH FREDERICK COUNTY, MARYLAND

Frederick Community College

The County provides approximately 37% of the operating budget of the College. The College budget is subject to the approval of the County Council. The County provided an in-kind appropriation for PeopleSoft and information technology support of \$206,522 and \$390,320 for the years ended June 30, 2023 and 2022, respectively. They also provided an in-kind appropriation for internal audit services and appraisals of \$35,278 and \$66,739, for the years ended June 30, 2023 and 2022, respectively, which has been included in the County appropriation revenue and as part of Institutional Support expenses in the accompanying financial statements.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

5. CAPITAL ASSETS

Frederick Community College

Schedules of capital assets and accumulated depreciation for the years ended June 30, 2023 and 2022, were as follows:

| | July 1, 2022 | Additions & Transfers | Retirements & Transfers | June 30, 2023 |
|---|---------------|--------------------------|----------------------------|---------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 271,620 | \$ - | \$ - | \$ 271,620 |
| Construction in Progress | 9,007,542 | 929,533 | (8,505,718) | 1,431,358 |
| Total capital assets not being depreciated | 9,279,162 | 929,533 | (8,505,718) | 1,702,978 |
| Capital assets being depreciated | | | | |
| Building and Improvements | 131,241,548 | 12,284,082 | - | 143,525,630 |
| Site Improvements | 8,130,751 | 476,226 | - | 8,606,977 |
| Furniture and Equipment | 7,691,592 | 741,119 | (177,649) | 8,255,062 |
| Library Collection | 2,082,167 | - | (2,269) | 2,079,898 |
| Right to Use Asset, SBITA | 693,429 | 677,650 | - | 1,371,079 |
| Total capital assets being depreciated | 149,839,486 | 14,179,077 | (179,918) | 163,838,645 |
| Less: Accumulated Depreciation and amortization | | | | |
| Building and Improvements | (52,006,486) | (3,686,245) | - | (55,692,731) |
| Site Improvements | (6,663,355) | (207,478) | - | (6,870,833) |
| Furniture and Equipment | (4,984,862) | (659,627) | 153,278 | (5,491,211) |
| Library Collection | (2,048,521) | (10,634) | 2,269 | (2,056,886) |
| Right to Use Asset, SBITA | - | (294,933) | - | (294,933) |
| Total accumulated depreciation | (65,703,225) | (4,858,917) | 155,547 | (70,406,595) |
| Total assets being depreciated, net | 84,136,261 | 9,320,160 | (24,371) | 93,432,050 |
| Capital assets, net | \$ 93,415,423 | \$ 10,249,693 | \$ (8,530,089) | \$ 95,135,028 |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

5. CAPITAL ASSETS (continued)

| | <u>June 30, 2021</u> | <u>Additions & Transfers</u> | <u>Retirements & Transfers</u> | <u>June 30, 2022</u> |
|--|----------------------|--------------------------------------|--|----------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 271,620 | \$ - | \$ - | \$ 271,620 |
| Construction in Progress | <u>1,700,461</u> | <u>8,252,308</u> | <u>(945,227)</u> | <u>9,007,542</u> |
| Total capital assets not being depreciated | <u>1,972,081</u> | <u>8,252,308</u> | <u>(945,227)</u> | <u>9,279,162</u> |
| Capital assets being depreciated | | | | |
| Building and Improvements | 130,021,440 | 1,220,108 | - | 131,241,548 |
| Site Improvements | 7,998,466 | 132,284 | - | 8,130,750 |
| Furniture and Equipment | 6,653,631 | 1,871,571 | (833,611) | 7,691,591 |
| Library Collection | <u>2,071,517</u> | <u>10,650</u> | <u>-</u> | <u>2,082,167</u> |
| Total capital assets being depreciated | <u>146,745,054</u> | <u>3,234,613</u> | <u>(833,611)</u> | <u>149,146,056</u> |
| Less: Accumulated Depreciation | | | | |
| Building and Improvements | (48,668,366) | (3,338,120) | - | (52,006,486) |
| Site Improvements | (6,495,690) | (167,665) | - | (6,663,355) |
| Furniture and Equipment | (5,273,848) | (539,127) | 828,114 | (4,984,861) |
| Library Collection | <u>(2,033,701)</u> | <u>(14,821)</u> | <u>-</u> | <u>(2,048,522)</u> |
| Total accumulated depreciation | <u>(62,471,605)</u> | <u>(4,059,733)</u> | <u>828,114</u> | <u>(65,703,224)</u> |
| Total assets being depreciated, net | <u>84,273,449</u> | <u>(825,120)</u> | <u>(5,497)</u> | <u>83,442,832</u> |
| Capital assets, net | <u>\$ 86,245,530</u> | <u>\$ 7,427,188</u> | <u>\$ (950,724)</u> | <u>\$ 92,721,994</u> |

6. LONG-TERM LIABILITIES

Frederick Community College

The College records a liability for accrued annual leave for eligible employees and a liability for sick leave based on expected retirement age and to the extent payable to its employees at retirement according to College policy. Employees hired after June 30, 1985, must use their sick leave prior to termination.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

6. LONG-TERM LIABILITIES (continued)

| | For the Years Ended June 30, | | | | |
|--------------------------|------------------------------|---------------------------------------|------------------|---------------------------------------|------------------|
| | 2021 | Addition (Reduction) in Accrual | 2022 | Addition (Reduction) in Accrual | 2023 |
| Annual Leave liability | \$ 1,654,815 | \$ (110,896) | \$ 1,543,919 | \$ 178,607 | \$ 1,722,526 |
| Sick Leave liability | 64,683 | 12,731 | 77,414 | (23,407) | 54,007 |
| Estimated Payroll Taxes | 131,541 | (7,509) | 124,032 | 11,873 | 135,905 |
| Total Liability | 1,851,039 | (105,674) | 1,745,365 | 167,073 | 1,912,438 |
| Less: Current Portion | (1,821,990) | 105,121 | (1,716,869) | (166,400) | (1,883,269) |
| Long-Term Portion | \$ 29,049 | \$ (553) | \$ 28,496 | \$ 674 | \$ 29,170 |

The College issued Certificates of Participation in December 2010 to finance a new parking garage and a portion of the enrollment services building. In December 2021 these bonds were refinanced at an average coupon rate of 3.452% for a par amount of \$4,820,000 and premium of \$624,550. Manufacturers and Traders Trust Company serves as trustee for the transaction and there is a term of approximately 13 years. Principal payments on this refinanced debt began in 2023.

The College has entered into intangible subscription-based information technology agreements for the right to use vendor-provided software. At the commencement of a SBITA, the College initially measures the liability at the present value of payments expected to be made during the term. Subsequently, the SBITA payable is reduced by the principal portion of lease payments made. The SBITA right to use asset is initially measured as the initial amount of the liability and is amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying asset.

The following table summarizes the bond and SBITA payable:

| | July 1, 2022 | Additions | Principal Payment | Amortization of Premium | June 30, 2023 | Current Portion |
|----------------------|--------------------|-------------------|----------------------|----------------------------|---------------------|--------------------|
| Bond payable | \$4,820,000 | \$ - | \$ (80,000) | \$ - | \$ 4,740,000 | \$ 320,000 |
| Premium | 587,001 | - | - | (75,099) | 511,902 | - |
| SBITA payable | 693,429 | 677,650 | (264,327) | - | 1,106,752 | 345,015 |
| Total | \$6,100,430 | \$ 677,650 | \$ (344,327) | \$ (75,099) | \$ 6,358,654 | \$ 665,015 |

| | June 30, 2021 | Additions | Principal Payment | Amortization of Premium | June 30, 2022 | Current Portion |
|-------------------------------|--------------------|---------------------|-----------------------|----------------------------|---------------------|--------------------|
| Bond payable | \$5,102,192 | \$ - | \$ (5,102,192) | \$ - | \$ - | \$ 80,000 |
| Refunding certificates | - | 4,820,000 | - | - | 4,820,000 | - |
| Premium | - | 624,550 | - | (37,549) | 587,001 | - |
| Total | \$5,102,192 | \$ 5,444,550 | \$ (5,102,192) | \$ (37,549) | \$ 5,407,001 | \$ 80,000 |

During the year ended June 30, 2022, the College issued Refunding Certificates of Participation, Series 2021 in the amount of \$4,820,000 with a premium of \$624,550 to refinance the bonds outstanding of \$5,102,192. The refunding resulted in an economic savings of \$605,760 over the life of the bonds.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

6. LONG-TERM LIABILITIES (continued)

The premium on the refunding certificates is being amortized using the effective interest method over the life of the certificates.

| Bond Component | Maturity Date | Original issue Amount | Rate of Interest | Premium |
|----------------|---------------|-----------------------|------------------|-------------------|
| Serial Bonds: | June 1, 2024 | \$ 320,000 | 4.00% | \$ 26,573 |
| | June 1, 2025 | 330,000 | 4.00% | 36,845 |
| | June 1, 2026 | 345,000 | 4.00% | 46,623 |
| | June 1, 2027 | 360,000 | 4.00% | 56,023 |
| | June 1, 2028 | 370,000 | 4.00% | 62,534 |
| | June 1, 2029 | 385,000 | 4.00% | 70,505 |
| | June 1, 2030 | 400,000 | 4.00% | 78,308 |
| | June 1, 2031 | 420,000 | 4.00% | 86,369 |
| | June 1, 2032 | 430,000 | 3.00% | 42,652 |
| | June 1, 2033 | 445,000 | 3.00% | 39,707 |
| | June 1, 2034 | 460,000 | 3.00% | 37,743 |
| | June 1, 2035 | 475,000 | 3.00% | 37,705 |
| | | <u>\$ 4,740,000</u> | | <u>\$ 621,587</u> |

The future principal and interest payable on the bonds as of June 30, 2023 are as follows:

| Fiscal Years ending June 30, | Principal | Interest |
|------------------------------|---------------------|---------------------|
| 2024 | \$ 320,000 | \$ 171,500 |
| 2025 | 330,000 | 158,700 |
| 2026 | 345,000 | 145,500 |
| 2027 | 360,000 | 131,700 |
| 2028 | 370,000 | 117,300 |
| 2029 | 385,000 | 102,500 |
| 2030 | 400,000 | 87,100 |
| 2031 | 420,000 | 71,100 |
| 2032 | 430,000 | 54,300 |
| 2033 | 445,000 | 41,400 |
| 2034 | 460,000 | 28,050 |
| 2035 | 475,000 | 14,250 |
| | <u>\$ 4,740,000</u> | <u>\$ 1,123,400</u> |

The future principal and interest payable on the SBITA payables as of June 30, 2023 are as follows:

| Fiscal Years ending June 30, | Principal | Interest |
|------------------------------|---------------------|------------------|
| 2024 | \$ 345,015 | \$ 28,330 |
| 2025 | 333,324 | 16,726 |
| 2026 | 236,614 | 7,819 |
| 2027 | 91,466 | 4,090 |
| 2028 | 100,333 | - |
| | <u>\$ 1,106,752</u> | <u>\$ 56,965</u> |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

7. PENSION AND RETIREMENT PLAN

Frederick Community College

All regular employees of the College are covered under one of the two cost-sharing multiple-employer pension/retirement plans. One of these plans is 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 or Fidelity, 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.

Maryland State Teachers Retirement and Pension System

Plan description. Eligible employees employed by the College are provided with pensions through the Teachers' Pension System of the State of Maryland (TPS) – a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of TPS to the MSRPS Board of Trustees. MSRPS issues a publicly available financial report that can be obtained at <https://sra.maryland.gov>.

Benefits provided. A member of the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.818%) of the member's Average Final Compensation (AFC) multiplied by the number of years of accumulated creditable service.

An individual who is a member of the Teachers' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

7. PENSION AND RETIREMENT PLAN (continued)

Maryland State Teachers Retirement and Pension System (continued)

Early Service Retirement

A member of the Teachers' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' Retirement System member is 30%.

An individual who is a member of the Teachers' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' Pension System is 42%. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' Pension System is 30%.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 60. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Cost of Living Adjustments

The benefit attributable to service on or after July 1, 2011, now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or the increase in the CPI, based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation.

Contributions. (TPS) The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7% of their annual pay. The State of Maryland is responsible for the net pension liability of TPS. The Board's required contribution is for the normal cost and does not include any contribution for past service cost. As such, the State of Maryland is responsible for 100% of the net pension liability related to TPS and qualifies for as a special funding situation.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

7. PENSION AND RETIREMENT PLAN (continued)

Maryland State Teachers Retirement and Pension System (continued)

Unfunded Pension Liability

In accordance with the parameters of generally accepted accounting standards, the College is not required to record its proportionate share of the unfunded pension liability since it is in a special funding situation. The Maryland Higher Education Commission (MHEC) makes the pension plan contribution directly to the Maryland State Retirement and Pension System (SRPS) on behalf of the College, and the College is not responsible for the contribution.

The College received State contributions toward retirement in the amount of \$2,822,038 and \$2,724,048, for the years ended June 30, 2023 and 2022, respectively. These amounts have been recorded as revenue and expenses in the accompanying financial statements.

Other Retirement Plans

A retirement plan is provided through TIAA/CREF or Fidelity 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.

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.

Summary of Pension and Retirement Plans

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

| Fiscal Years | MD State Teachers Retirement and Pension System Annual Cost | Percentage Contributed | Other Plans Annual Cost | Percentage Contributed |
|---------------------|--|-----------------------------------|------------------------------------|-----------------------------------|
| 2023 | \$ 1,915,203 | 100% | \$ 1,110,834 | 100% |
| 2022 | 1,846,842 | 100% | 1,079,542 | 100% |
| 2021 | 1,867,234 | 100% | 1,092,648 | 100% |
| 2020 | 1,850,720 | 100% | 1,134,001 | 100% |
| 2019 | 1,681,755 | 100% | 1,081,883 | 100% |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

8. RISK MANAGEMENT

Frederick Community College

The College is exposed to various risks of loss related to torts, theft, damage 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 worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. No significant reductions in insurance coverage have occurred.

The College is contingently liable with respect to lawsuits and other claims that may arise in the ordinary course of its operations. The College actively defends 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 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 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 financial statements.

Commitments

Total outstanding construction commitments as of June 30, 2023 were \$2.4 million.

10. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUST

Frederick Community College Foundation, Inc.

In determining fair value, the Foundation uses various valuation approaches within the GAAP fair value measurement framework. 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 (USMF) investment pool which includes investments in three investment levels, as described in note 1. Because these level 3 investments in the pool are significant to the pool, the Foundation has classified its investment in the pool as level 3 as of June 30, 2023 and 2022.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

10. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUST (continued)

The Foundation Certificate of Deposit is valued at the estimated market value based on the price of similar Certificates of Deposit. Due to the short maturity of the Certificate of Deposit, market value approximates cost.

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

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2023 and 2022.

| | As of June 30, 2023 | | | |
|--|---------------------|-------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment in external investment pool | \$ - | \$ - | \$ 20,283,276 | \$ 20,283,276 |
| Investment in Certificate of Deposit | 204,323 | - | - | 204,323 |
| Investment in charitable remainder trust | - | - | 22,831 | 22,831 |
| Total | \$ 204,323 | \$ - | \$ 20,306,107 | \$ 20,510,430 |

| | As of June 30, 2022 | | | |
|--|---------------------|-------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment in external investment pool | \$ - | \$ - | \$ 19,617,965 | \$ 19,617,965 |
| Investment in Certificate of Deposit | 238,085 | - | - | 238,085 |
| Investment in charitable remainder trust | - | - | 28,335 | 28,335 |
| Total | \$ 238,085 | \$ - | \$ 19,646,300 | \$ 19,884,385 |

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, 2023 and 2022:

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

10. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUST (continued)

| | USMF Pool | | Charitable Remainder Trust | Charitable Remainder Trust |
|--|----------------------|----------------------|----------------------------------|----------------------------------|
| | (Level 3) 2023 | (Level 3) 2022 | (Level 3) 2023 | (Level 3) 2022 |
| Balance, July 1, | \$19,617,965 | \$19,648,708 | \$ 28,335 | \$ 34,483 |
| Net Realized Gains | 378,649 | 1,575,903 | | |
| Net Unrealized (Loss)/Gains | 543,151 | (1,366,376) | (5,504) | (6,148) |
| Foundation's Share in Total Change in Market Value of the USMF Pool | 921,800 | 209,527 | (5,504) | (6,148) |
| Investment Income | 324,612 | 339,114 | - | - |
| Investment Fees | (203,946) | (222,322) | - | - |
| Additions/(Withdrawals) | (377,155) | (357,062) | - | - |
| Balance, June 30, | \$ 20,283,276 | \$ 19,617,965 | \$ 22,831 | \$ 28,335 |

On June 30, 2023, the Foundation had 370,694.19 units of the USMF Unitized Investment Fund valued at \$54.72 per unit with a total value of \$20,823,276. On June 30, 2022, the Foundation had 375,586.67 units of the USMF Unitized Investment Fund valued at \$52.23 per unit with a total value of \$19,617,965.

Investments are carried at cost and marked to market for financial statement presentation.

| | As of June 30, 2023 | | |
|--|----------------------|----------------------|--------------------------|
| | Cost | Market | Unrealized Gain(Loss) |
| Investment in USMF investment pool | \$ 19,340,808 | \$ 20,283,276 | \$ 942,468 |
| Investment in Certificate of Deposit | 204,323 | 204,323 | - |
| Investment in Charitable Remainder Trust | 21,604 | 22,831 | 1,227 |
| Total | \$ 19,566,735 | \$ 20,510,430 | \$ 943,695 |

| | As of June 30, 2022 | | |
|--|----------------------|----------------------|---------------------|
| | Cost | Market | Unrealized Gain |
| Investment in USMF investment pool | \$ 20,233,047 | \$ 19,617,965 | \$ (615,082) |
| Investment in Certificate of Deposit | 238,085 | 238,085 | - |
| Investment in Charitable Remainder Trust | 21,604 | 28,335 | 6,731 |
| Total | \$ 20,492,736 | \$ 19,884,385 | \$ (608,351) |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

10. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUST (continued)

Financial statement presentation of unrealized investment gains and losses follows the recommendations of accounting principles generally accepted in the United States of America. Unrealized gains and losses are recognized as changes in the net assets without donor restrictions and net assets restricted by purpose or time. For the years ended June 30, 2023 and 2022, the Foundation reported a net unrealized (loss)/gain on investments of \$543,151 and (\$1,366,376), respectively.

11. ENDOWMENTS

Frederick Community College Foundation, Inc.

The Foundation endowments consist of 132 funds established to support a variety of scholarships and programs at the 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 Directors of the Foundation have 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 net assets with donor restrictions in perpetuity as:

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

The Foundation will disclose any endowment contributed in perpetuity in which the present investment balance is below the original contribution. As of June 30, 2023, the Foundation had none to report. The remaining portion of the donor-restricted endowment fund not classified as restricted in perpetuity is classified as restricted by purpose or time until those amounts are appropriated for expenditure by the Foundation 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.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

11. 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 5.0% of a twenty-quarter trailing market value average ending December 31, provided the donor contributions (principal) are not invaded. The Finance Committee recommends to the Foundation Board 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 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.

Endowment Net Asset Composition by Type of Fund as of June 30, 2023:

| | Restricted by Purpose or Time | Restricted in Perpetuity | Total |
|---|--|---|---------------------|
| Donor restricted endowment funds | \$ 3,509,106 | \$5,345,408 | \$ 8,854,514 |
| Board designated Quasi endowments for General & Erwin Scholarships | 5,847,733 | - | 5,847,733 |
| Total Funds | \$ 9,356,839 | \$5,345,408 | \$14,702,247 |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

11. ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023:

| | Restricted by Purpose or Time | Restricted in Perpetuity | Total |
|---|-------------------------------------|--------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 9,064,714 | \$5,197,688 | \$14,262,402 |
| Investment return: | | | |
| Investment income | 83,302 | - | 83,302 |
| Net depreciation | 652,320 | - | 652,320 |
| Total | 735,622 | - | 735,622 |
| Contributions collected | 9,699 | 157,620 | 167,319 |
| Reclassification | (9,960) | (9,900) | (19,860) |
| Release of endowment assets for expenditure | (443,236) | - | (443,236) |
| Endowment Net assets, end of year | \$ 9,356,839 | \$5,345,408 | \$14,702,247 |

Endowment Net Asset Composition by Type of Fund as of June 30, 2022:

| | Restricted by Purpose or Time | Restricted in Perpetuity | Total |
|---|-------------------------------------|--------------------------------|---------------|
| Donor restricted endowment funds | \$ 3,313,193 | \$ 5,197,687 | \$ 8,510,880 |
| Board designated Quasi endowments for General & Erwin Scholarships | 5,751,522 | - | 5,751,522 |
| Total Funds | \$ 9,064,715 | \$ 5,197,687 | \$ 14,262,402 |

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

11. ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022:

| | Restricted by Purpose or Time | Restricted in Perpetuity | Total |
|---|--|---|----------------------|
| Endowment Net assets, beginning of year | \$ 9,213,258 | \$ 5,098,914 | \$ 14,312,172 |
| Investment return: | | | |
| Investment Income | 84,973 | - | 84,973 |
| Net appreciation | 154,710 | - | 154,710 |
| Total | 239,683 | - | 239,683 |
| Contributions collected | 15,427 | 96,126 | 111,553 |
| Reclassification | (5,598) | 2,648 | (2,950) |
| Release of endowment assets for expenditure | (398,056) | - | (398,056) |
| Endowment Net assets, end of year | <u>\$ 9,064,714</u> | <u>\$ 5,197,688</u> | <u>\$ 14,262,402</u> |

12. FREDERICK COMMUNITY COLLEGE FOUNDATION, INC.

The Frederick Community College Foundation, Inc. (the Foundation) is a component unit of Frederick Community College (the 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 the 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 \$369,942 and \$314,070, for the years ended June 30, 2023 and 2022, 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 \$982,433 and \$906,072 for the years ended June 30, 2023 and 2022, respectively.

FREDERICK COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2023 and 2022

13. RELATIONSHIP BETWEEN FREDERICK COMMUNITY COLLEGE FOUNDATION, INC. AND FOUNDATION FOR THE FCC FUND, INC.

The Foundation for the FCC Fund, Inc. (the Affiliate) was established during fiscal year 2000 to handle non-cash gifts, where potential liability may be involved (i.e. Gifts of land or buildings). The Foundation board governs the operations of the Affiliate and thus the Affiliate has been consolidated in accordance with the accounting principles generally accepted in the United States of America.

During the years ended June 30, 2023 and 2022, Foundation for the FCC Fund, Inc. received no gifts and incurred no expenses. As of June 30, 2023 and 2022, Foundation for the FCC Fund, Inc. had no assets or liabilities.

14. SUBSEQUENT EVENTS

All subsequent events have been evaluated through September 29, 2023, which is the date the financial statements were available to be issued. The review and evaluation revealed no other material event or transaction which would require an adjustment to or disclosure in the accompanying financial statements.



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**REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Trustees
Frederick Community College

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Frederick Community College (the College) as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal controls over financial reporting (internal controls) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal controls. Accordingly, we do not express an opinion on the effectiveness of the College's internal controls.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Owings Mills, Maryland
September 29, 2023

SB & Company, LLC