Frederick Community College

ANNUAL FINANCIAL REPORT

Frederick Community College
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Founded 1957
Frederick, Maryland

JUNE 30, 2017

FREDERICK COMMUNITY COLLEGE
ANNUAL FINANCIAL REPORT
JUNE 30, 2017

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SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Frederick Community College

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Frederick Community College (the College), a component unit of Frederick County, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2017 and 2016, and the respective changes in 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Hunt Valley, Maryland
September 29, 2017

SB & Company, LLC

FREDERICK COMMUNITY COLLEGE

Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017 and 2016, with 2015 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 Foundation financial statements as of and for the years ended June 30, 2017 and 2016, are displayed in the financial statements section of this report.

Significant Financial and Enrollment Highlights

- An unreserved fund balance of $3.5 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 $0.4 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, 2017, the CFR was $2.6 million, and the SFBR was $1.1 million and both reserves are fully funded.

- In-County tuition rates were increased by $3 per credit hour, out-of-county rates increased by $7 per credit hour and out-of-state rates increased by $9 per credit hour in fiscal year 2017. The county and state share of unrestricted revenue for fiscal year 2017 was 33.4% and 25.7%, respectively.

Significant Financial and Enrollment Highlights (continued)

- Bookstore had a net loss of $52 thousand and Dining Services had a net loss of $96 thousand for fiscal year 2017, mainly due to decreases in sales. A reorganization of the Bookstore and Dining Services is occurring at the beginning of fiscal year 2018. The Children's Center had net income of $24 thousand, which reflects an operating performance increase of $64 thousand from the prior fiscal year due to increased enrollment.

- Full-time equivalent (FTE) enrollment decreased by 136 students between fiscal year 2017 and fiscal year 2016. The improving national employment picture continues to influence the decline of students enrolling at the College. Other factors impacting enrollment were changes to summer term dates, which shifted enrollment headcounts from fiscal year 2017 to fiscal year 2018. The following summarizes state-reimbursable FTE trends over the past five years:

	2013	2014	2015	2016	2017
Credit	3,798	3,672	3,659	3,594	**3,424**
Non-credit	534	529	560	613	**647**
Total	4,332	4,201	4,219	4,207	**4,071**

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.

	2017	2016	2015	2017/2016 Change	2016/2015 Change
Assets					
Current assets	**$ 18,843,779**	$ 18,428,711	$ 20,168,178	$ 415,068	$ (1,739,467)
Non-current assets	**83,698,867**	78,140,750	77,976,741	5,558,117	164,009
Total Assets	**102,542,646**	96,569,461	98,144,919	5,973,185	(1,575,458)
Liabilities and Net Position					
Liabilities:					
Current liabilities	**5,867,212**	4,618,062	6,344,788	1,249,150	(1,726,726)
Noncurrent liabilities	**7,241,484**	7,636,071	7,832,971	(394,587)	(196,900)
Total Liabilities	**13,108,696**	12,254,133	14,177,759	854,563	(1,923,626)
Net Position:					
Capital assets	**77,478,405**	71,650,952	71,222,608	5,827,453	428,344
Restricted	**710,641**	700,144	570,333	10,497	129,811
Unrestricted	**11,244,904**	11,964,232	12,174,219	(719,328)	(209,987)
Total Net Position	**$ 89,433,950**	$ 84,315,328	$ 83,967,160	$ 5,118,622	$ 348,168

Net position increased to $89.4 million and $84.3 million in fiscal year 2017 and fiscal year 2016, respectively. Non-current assets increased by $5.6 million and $0.2 million in fiscal year 2017 and 2016, respectively, due mainly to the reconfiguration of the Monroe building and Central Plant project in fiscal year 2017 and Wayfinding and Campus Signage project in fiscal year 2016. Unrestricted net position decreased $0.7 million in fiscal year 2017 due mainly to the disbursement of funds for the CIP projects.

Statements of Revenue, Expenses, and Change in Net Position

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

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

	2017	2016	2015	2017/2016 Change	2016/2015 Change
Operating Revenue					
Tuition and fees, net	**$ 16,282,538**	$ 16,098,692	$ 16,132,042	$ 183,846	$ (33,350)
Grants and contracts	**2,484,495**	2,407,287	2,261,397	77,208	145,890
Auxiliary enterprises	**4,173,506**	4,487,076	4,733,601	(313,570)	(246,525)
Other revenue	**2,772,486**	3,964,391	3,830,757	(1,191,905)	133,634
Total Operating Revenue	**25,713,025**	26,957,446	26,957,797	(1,244,421)	(351)
Operating Expenses					
Education and general	**52,432,935**	53,865,578	52,766,392	(1,432,643)	1,099,186
Depreciation expense	**3,647,145**	3,363,260	3,326,538	283,885	36,722
Auxiliary enterprises	**4,275,694**	4,707,589	5,008,172	(431,895)	(300,583)
Other expenses	**230,512**	84,944	259,895	145,568	(174,951)
Total Operating Expenses	**60,586,286**	62,021,371	61,360,997	(1,435,085)	660,374
Operating Loss	**(34,873,261)**	(35,063,925)	(34,403,200)	(190,664)	(660,725)
Nonoperating Revenue (Expenses)					
Government appropriations	**25,450,514**	24,103,203	23,520,198	1,347,311	583,005
State retirement	**2,488,343**	2,282,158	2,203,032	206,185	79,126
Capital appropriations	**7,623,872**	3,986,671	10,706,471	3,637,201	(6,719,800)
Investment income	**51,464**	25,221	13,641	26,243	11,580
Other	**4,377,690**	5,014,840	5,633,572	(637,150)	(618,732)
Total Nonoperating Revenue	**39,991,883**	35,412,093	42,076,914	4,579,790	(6,664,821)
Change in Net Position	**$ 5,118,622**	$ 348,168	$ 7,673,714	$ 4,770,454	$ (7,325,546)

County appropriations, including in-kind appropriations, in support of the operating budget increased 4.5% and 4.0% in fiscal year 2017 and 2016, respectively. State appropriations increased 7.4% and 0% in fiscal year 2017 and 2016, respectively.

Total educational and general expenses decreased 2.7% in fiscal year 2017 and increased 2% in fiscal year 2016, primarily related to technology equipment purchases in fiscal year 2016. In fiscal year 2017, all College employees received a 1% cost of living increase and the College centralized several budget categories to better monitor and control College funds.

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.

	2017	2016	2015	2017/2016 Change	2016/2015 Change
Cash and Cash Equivalents From					
Operating activities	**$ (27,640,011)**	$ (31,208,572)	$ (27,901,634)	$ 3,568,561	$ (3,306,938)
Non-capital financing activities	**27,388,216**	31,366,769	27,552,142	(3,978,553)	3,814,627
Capital and related financing activities	**(1,819,951)**	320,448	(672,020)	(2,140,399)	992,468
Investing activities	**51,464**	25,221	13,641	26,243	11,580
Net Change in Cash and Cash Equivalents	**$ (2,020,282)**	$ 503,866	$ (1,007,871)	$ (2,524,148)	$ 1,511,737

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 $668 thousand in fiscal year 2017 and remained unchanged in fiscal year 2016. The county appropriation increased $679 thousand and $583 thousand in fiscal years 2017 and 2016, respectively. However, this is not guaranteed funding for future years. With no increase in enrollment expected, the College continues to work closely with the county government to maintain adequate funding for its operations.

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, 2017 and 2016

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
ASSETS	**2017**	**2016**	**2017**	**2016**
Current Assets:				
Cash and cash equivalents	**$ 12,996,462**	$ 15,016,744	**$ 1,446,514**	$ 675,360
Investments	**-**	-	**13,787,423**	11,728,585
Accounts receivable:				
Governmental	**3,787,878**	1,378,665	**-**	-
Student & third party, net of allowance	**386,778**	377,531	**-**	-
Pledges, net of discount	**-**	-	**4,749**	9,439
Other accounts receivable	**579,238**	671,666	**8,325**	-
Total accounts receivable	**4,753,894**	2,427,862	**9,439**	9,439
Prepaid expenses and other assets	**609,015**	502,351	**350**	525
Inventory	**484,408**	481,754	**-**	-
Total Current Assets	**18,843,779**	18,428,711	**15,247,361**	12,413,909
Noncurrent Assets:				
Beneficial interest in charitable remainder trusts	**-**	-	**-**	407,194
Capital assets, net of accumulated depreciation	**83,698,867**	78,140,750	-	-
Total Noncurrent Assets	**83,698,867**	78,140,750	**-**	407,194
TOTAL ASSETS	**102,542,646**	96,569,461	**15,247,361**	12,821,103
LIABILITIES AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	**2,978,828**	1,603,323	**66,020**	4,663
Accrued salaries	**178,792**	265,964	-	-
Accrued liabilities	**540,023**	912,877	-	-
Accrued leave	**14,946**	22,420	-	-
Bond payable	**285,000**	275,000	-	-
Unearned revenue	**1,705,907**	1,380,228	-	-
Deposits held for others	**163,716**	158,250	-	-
Total Current Liabilities	**5,867,212**	4,618,062	**66,020**	4,663
Noncurrent Liabilities:				
Bond payable, net of discount	**5,935,462**	6,214,798	-	-
Accrued leave	**1,306,022**	1,421,273	-	-
Total Noncurrent Liabilities	**7,241,484**	7,636,071	**-**	-
TOTAL LIABILITIES	**13,108,696**	12,254,133	**66,020**	4,663
NET POSITION				
Net investment in capital assets	**77,478,405**	71,650,952	-	-
Restricted – expendable	**710,641**	700,144	-	-
Temporarily restricted	**-**	-	**8,894,482**	7,103,159
Permanently restricted	-	-	**4,479,594**	4,316,441
Unrestricted	**11,244,904**	11,964,232	**1,807,265**	1,396,840
TOTAL NET POSITION	**$ 89,433,950**	$ 84,315,328	**$ 15,181,341**	$ 12,816,440

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

FREDERICK COMMUNITY COLLEGE

Statements of Revenue, Expenses, and Change in Net Position
For the Years Ended June 30, 2017 and 2016

	Frederick Community College		Component Unit Frederick Community College Foundation, Inc.	
Operating Revenue	**2017**	2016	**2017**	2016
Tuition and fees, net of scholarship allowances of $1,447,778 and $1,739,884	**$ 16,282,538**	$ 16,098,692	**$ -**	$ -
Grants and contracts	**2,484,495**	2,407,287	**-**	-
Auxiliary enterprises	**4,173,506**	4,487,076	**-**	-
Contributions	**-**	-	**1,652,325**	627,664
In-kind contributions	**-**	-	**317,026**	425,563
Pledge revenue, net of discounts	**-**	-	**310**	1,370
Other revenue	**2,772,486**	3,964,391	**146,196**	185,467
Total Operating Revenue	**25,713,025**	26,957,446	**2,115,857**	1,240,064
Operating Expenses				
Instruction:				
Academic	**20,423,939**	20,659,733	-	-
Continuing education	**4,088,085**	3,752,538	-	-
Total Instruction	**24,512,024**	24,412,271	-	-
Academic support	**1,207,907**	1,471,154	-	-
Student services	**6,876,150**	6,748,131	-	-
Plant operations and maintenance	**7,243,276**	7,432,733	-	-
Institutional support	**8,186,303**	9,203,882	-	-
Scholarships	**1,508,138**	1,447,832	-	-
Student aid	**2,899,137**	3,149,575	-	-
Depreciation	**3,647,145**	3,363,260	-	-
Auxiliary enterprises	**4,275,694**	4,707,589	-	-
Program services	**-**	-	**836,244**	694,700
Support services	-	-	**495,356**	532,992
Other expenses	**230,512**	84,944	-	-
Total Operating Expenses	**60,586,286**	62,021,371	**1,331,600**	1,227,692
Operating (Loss) Income	**(34,873,261)**	(35,063,925)	**784,257**	12,372
Nonoperating Revenue				
State appropriations	**9,643,621**	8,975,284	-	-
County appropriations	**15,806,893**	15,127,919	-	-
State and County capital projects appropriations	**7,623,872**	3,986,671	-	-
Student aid	**4,346,915**	4,889,459	-	-
Investment income	**51,464**	25,221	**44,006**	5,190
Net unrealized and realized gain on investments	**-**	-	**1,416,119**	(280,321)
Change in the value of Charitable Remainder Trusts	**-**	-	**120,519**	(27,141)
Other revenue	**30,775**	125,381	**-**	-
State paid benefits	**2,488,343**	2,282,158	-	-
Nonoperating Revenue	**39,991,883**	35,412,093	**1,580,644**	(302,272)
Change in Net Position	**5,118,622**	348,168	**2,364,901**	(289,900)
Net Position - Beginning of year	**84,315,328**	83,967,160	**12,816,440**	13,106,340
Net Position - End of year	**$ 89,433,950**	$ 84,315,328	**$ 15,181,341**	$ 12,816,440

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Tuition and fees received	$ 16,567,001	$ 15,644,462
Payments to suppliers	(14,253,022)	(18,443,266)
Payments to employees	(39,460,817)	(39,193,910)
Auxiliary enterprise charges	4,161,766	4,493,809
Other receipts	5,345,061	6,290,333
Net Cash From Operating Activities	(27,640,011)	(31,208,572)
Cash Flows From Noncapital Financing Activities		
Federal revenue	4,346,915	4,889,459
State and County appropriations	23,041,301	26,477,310
Net Cash From Noncapital Financing Activities	27,388,216	31,366,769
Cash Flows From Capital and Related Financing Activities		
State and County capital appropriations	7,623,872	3,986,671
Other revenue	30,775	125,381
Purchase of capital assets	(9,205,262)	(3,527,269)
Payments of bonds	(269,336)	(264,335)
Net Cash From Capital and Related Financing Activities	(1,819,951)	320,448
Cash Flows From Investing Activities		
Investment income	51,464	25,221
Change in Cash and Cash Equivalents	(2,020,282)	503,866
Cash and Cash Equivalents, Beginning of Year	15,016,744	14,512,878
Cash and Cash Equivalents, End of Year	$ 12,996,462	$ 15,016,744

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

FREDERICK COMMUNITY COLLEGE

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

Reconciliation of Net Operating Loss
To Net Cash From Operating Activities

	2017	2016
Operating Loss	$ (34,873,261)	$ (35,063,925)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	3,647,145	3,363,260
State paid benefits	2,488,343	2,282,158
Effect of the changes in non-cash operating assets and liabilities:		
Accounts receivable	83,181	214,445
Prepaid expenses	(106,664)	(430,783)
Inventory	(2,654)	85,564
Accounts payable	1,375,505	(716,056)
Accrued salaries	(87,172)	67,024
Accrued liabilities	(372,854)	(342,953)
Accrued leave	(122,725)	(63,266)
Unearned revenue	325,679	(523,288)
Deposits held for others	5,466	(80,752)
Net Cash From Operating Activities	$ (27,640,011)	$ (31,208,572)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frederick Community College (the College)

Basis of Presentation

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

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

Basis of Accounting

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

Reporting Entity

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Allowance for Doubtful Accounts

Accounts receivable is reduced by a valuation allowance that reflects management’s best estimate of the amount of accounts receivable that will not be collected. This valuation allowance is based on the age, historical trends and estimated collectability of receivables. The allowance for doubtful accounts was $179,713 and $188,571, as of June 30, 2017 and 2016, 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.

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

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

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

Inventory

Inventory is carried at the lower of average cost or market as of June 30, 2017 and 2016.

Revenue Recognition and Unearned Revenue

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

Unearned revenue is primarily tuition received for semesters beginning after June 30, 2017. Grant revenue received during the year that has restrictions on spending has been deferred until those restrictions are met.

Operating Revenue and Expenses

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

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

	For the Years Ended	
	June 30, 2017	**June 30, 2016**
Salaries and benefits	**$ 39,232,532**	$ 39,176,145
Supplies and materials	**1,859,110**	1,532,296
Depreciation	**3,647,145**	3,363,260
Contracted services	**3,078,858**	3,363,605
Conferences and meetings	**548,069**	523,979
Communications	**203,769**	233,687
Utilities	**1,071,656**	992,669
Insurance	**177,985**	169,289
Scholarships	**4,395,485**	4,665,130
Campus projects and equipment	**674,040**	1,568,206
Cost of goods sold (bookstore and dining)	**2,055,655**	2,402,157
Miscellaneous	**1,153,639**	1,748,790
Certain fringe benefits paid directly by the state of Maryland	**2,488,343**	2,282,158
Total	**$ 60,586,286**	$ 62,021,371

Reclassifications

Certain prior year amounts of revenue and expenses have been reclassified for consistency with the current presentation. These reclassifications did not affect the results of operations.

Postemployment Benefits

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

Compensated Absences

Qualified administrators and support staff as well as those at the Assistant Professor, Associate Professor and Professor levels employed on a 12-month basis earn annual leave at the rate of 20 working days per year. Assistant Instructors and Instructors earn annual leave at the rate of 15 days per year. Ten and eleven month administrative and supportive staff accrue annual leave at the same rates but will not accrue leave during the periods when they are not required to work. All part-time regular administrators and part-time regular support staff working at least 17.5 hours per week are eligible for a prorated share of annual leave.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences (continued)

Qualified 12-month faculty, administrators, and support staff hired prior to July 1, 1987, may accumulate a maximum of 40 days 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, and full-time faculty are eligible for sick leave. Qualified employees are entitled to a sick leave benefit of one day for each month employed. Sick leave for part-time employees is accrued on a prorated basis. Unlimited sick leave may be accumulated. Qualified staff employed prior to 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, net of accumulated depreciation and outstanding debt.

Restricted – Expendable

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

Unrestricted

Unrestricted net position may be designated for specific purposes by the College's Board of Trustees. When both restricted and unrestricted net position are available for expenditure, the decision as to which assets are used first is left to the discretion of the College.

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 Frederick Community College, a non-profit educational institute of higher learning, and to assist in developing and carrying out the educational functions of the College for the benefit of students, faculty and the community at large. The Foundation has been granted tax-exempt status under the Internal Revenue Code Section 501(c)(3). The 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

Pledges receivable – These pledges represent unconditional promises to give from various contributors including individuals, local businesses, and state and local governments. Pledges receivable in excess of one year have been discounted using a risk-free discount rate ranging from 0.3% to 0.7% and all pledges receivable are recorded at their estimated fair value. As of June 30, 2017 and 2016, pledges receivable was $4,749 and $9,439, respectively, net of the discount allowance of $251 and $538, respectively.

Charitable Remainder Trust – In 2007, the Foundation was named the beneficiary of a charitable remainder trust (Trust), in the amount of $674,690. This qualifying charitable remainder trust was created to provide lifetime income to the donor and donor family members, in an amount equal to 6% of the net fair value of the assets, with the remaining Trust assets passing to the Foundation when the Trust ended. The Trust was created by the donors independently of the Foundation and was neither in the possession nor under the control of the Foundation. The Trust was administered by outside fiscal agents as designated by the donor. The value of the Trust was recognized as revenue when the Foundation was named as the beneficiary. As of June 30, 2016, the Foundation recorded the present value of the remainder interest discounted at a rate of 3.0%, totaling $407,194. During fiscal year 2017, the charitable remainder trust was terminated and the remaining value was distributed to the Foundation, totaling $514,777.

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 permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the organization's governing board, must be retained permanently consistent with the relevant law. 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 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 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.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 unrestricted net assets. For the years ended June 30, 2017 and 2016, unrestricted net assets were $1,807,265 and $1,396,840, respectively.

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

Certain prior year amounts of temporarily restricted net assets have been reclassified for consistency with the current presentation. These reclassifications have no impact on the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Net Assets (continued)

Temporarily restricted net assets were restricted for the following purposes:

	As of	
	June 30, 2017	**June 30, 2016**
Scholarships	**$ 3,449,308**	$ 1,997,209
Scholarships Quasi-Endowment	**4,532,409**	4,220,961
Other Program Support	**912,765**	884,989
Total Temporarily Restricted Net Assets	**$ 8,894,482**	$ 7,103,159

Net assets released from restrictions were as follows:

	As of	
Scholarships	**June 30, 2017**	**June 30, 2016**
Program Services	**$ 715,309**	$ 455,920
Support Services	**120,935**	238,780
Administrative Fees	**10,114**	15,873
Total Net Assets Released from Restrictions	**74,712**	59,888
	$ 921,070	$ 770,461

Permanently restricted net assets are contributions subject to donor imposed restrictions that must be maintained in perpetuity by the Foundation. Permanently restricted net assets as of June 30, 2017, and 2016, were restricted for the following purposes:

	As of	
	June 30, 2017	**June 30, 2016**
Scholarships	**$ 4,388,137**	$ 4,224,984
Other Program Support	**91,457**	91,457
Total Permanently Restricted Net Assets	**$ 4,479,594**	$ 4,316,441

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

Frederick Community College

As of the year ended June 30, 2017, GASB issued statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB No. 80, *Blending Requirements for Certain Component Units – and amendment of GASB Statement No. 14*, GASB No. 81, *Irrevocable Split-Interest Agreements*, GASB No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, GASB No. 83, *Certain Asset Retirement Obligations*, GASB No. 84, *Fiduciary Activities*, GASB No. 85, *Omnibus 2017*, GASB No. 86, *Certain Debt Extinguishment Issues*, and GASB No. 87, *Leases*. These statements may have a material effect on the College's financial statements once implemented. The College will be analyzing the effects of these pronouncements and plans to adopt them, as applicable, by their effective date.

Fredrick Community College Foundation, Inc.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

In May 2015, the FASB issued ASU 2015-07, which simplifies FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures*, by removing the requirement to categorize, within the fair value hierarchy, all investments measured using the net asset value (NAV) per share practical expedient. Although classification within the fair value hierarchy is no longer required, an entity must disclose the amount of investments in the hierarchy to the corresponding line items in the statement of financial position. The amendments are effective retrospectively for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Foundation is currently evaluating the effect the provisions of ASU 2015-07 will have on the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to assess the ability of an entity to continue as a going concern. Management should evaluate whether conditions or events, considered in the aggregate, that raise substantial doubt about the ability of the entity to continue as a going concern within one year after the date that the financial statements are issued. It is effective for annual reporting periods, beginning after December 15, 2016. This pronouncement was implemented in fiscal year 2017, and no disclosures were required.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires all entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The FASB recently issued ASU 2015-14 to defer the effective date of its revenue recognition standard by one year. Based on the deferral of the effective date the ASU would not be effective for the Foundation until FY19. The Foundation is currently evaluating the effect that the provisions of ASU 2014-09 will have on the financial statements.

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, 2017 and 2016, was $8,800 and $8,000, respectively.

Deposits

The carrying amount of the College deposits as of June 30, 2017 and 2016, was $4,491,411 and $6,556,438, respectively, and the bank balance was $4,731,981 and $6,643,883, respectively. All of the College bank balances are collateralized by federal agency securities held in safekeeping by the Federal Reserve.

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP (continued)

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, 2017 and 2016, was $8,496,251 and $8,452,306, 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	
	June 30, 2017	**June 30, 2016**
Cash on hand	**$ 8,800**	**$ 8,000**
Carrying amount of deposits	**4,491,411**	**6,556,438**
Carrying amount of MLGIP	**8,496,251**	**8,452,306**
Total cash and cash equivalents per statement of net position	**$ 12,996,462**	**$ 15,016,744**

Investment income includes net interest and dividends of $51,464 and $25,221, for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, met the College investment policy.

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.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

MLGIP (continued)

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. RELATIONS WITH FREDERICK COUNTY, MARYLAND

Frederick Community College

Frederick County, Maryland provides approximately 31% of the College's operating budget. The College's budget is subject to the approval of the County Council. The County provided an in-kind appropriation for PeopleSoft and information technology support of $420,763 and $426,884, for the years ended June 30, 2017 and 2016, respectively. They also provided an in-kind appropriation for internal audit services and real estate appraisals of $9,628 and $24,533, for the years ended June 30, 2017 and 2016, respectively, which has been included in the County appropriation revenue and as part of Institutional Support expenses in the accompanying financial statements.

Notes to the Financial Statements
June 30, 2017 and 2016

4. CAPITAL ASSETS

Frederick Community College

Schedules of capital assets and accumulated depreciation for the years ended June 30, 2017 and 2016, were as follows:

	July 1, 2016	Additions & Transfers	Retirements & Transfers	June 30, 2017
Capital assets not being depreciated				
Land	$ 271,620	$ -	$ -	$ 271,620
Construction in Progress	119,400	5,465	(119.400)	5,465
Total capital assets not being depreciated	391,020	5,465	(119,400)	277,085
Capital assets being depreciated				
Building and Improvements	107,481,753	8,698,744	(20,448)	116,160,049
Site Improvements	7,248,260	215,600	-	7,463,860
Furniture and Equipment	5,834,212	425,814	(174,949)	6,085,077
Library Collection	2,051,358	11,920	-	2,063,278
Total capital assets being depreciated	122,615,583	9,352,078	(195,397)	131,772,264
Less: Accumulated Depreciation				
Building and Improvements	(33,290,492)	(2,945,087)	-	(36,235,579)
Site Improvements	(5,719,423)	(134,621)	-	(5,854,044)
Furniture and Equipment	(3,928,249)	(540,470)	162,516	(4,306,203)
Library Collection	(1,927,689)	(26,967)	-	(1,954,656)
Total accumulated depreciation	(44,865,853)	(3,647,145)	162,516	(48,350,482)
Total assets being depreciated, net	77,749,730	5,704,933	(32,881)	83,421,782
Capital assets, net	$ 78,140,750	$ 5,710,398	$ (152,281)	$ 83,698,867

4. CAPITAL ASSETS (continued)

Frederick Community College (continued)

	July 1, 2015	Additions & Transfers	Retirements & Transfers	June 30, 2016
Capital assets not being depreciated				
Land	$ 271,620	$ -	$ -	$ 271,620
Construction in Progress	4,977,058	119,400	(4,977,058)	119,400
Total capital assets not being depreciated	5,248,678	119,400	(4,977,058)	391,020
Capital assets being depreciated				
Building and Improvements	100,710,904	6,770,849	-	107,481,753
Site Improvements	6,413,789	834,471	-	7,248,260
Furniture and Equipment	5,170,560	803,642	(139,990)	5,834,212
Library Collection	2,031,547	19,811	-	2,051,358
Total capital assets being depreciated	114,326,800	8,428,773	(139,990)	122,615,583
Less: Accumulated Depreciation				
Building and Improvements	(30,553,987)	(2,736,505)	-	(33,290,492)
Site Improvements	(5,599,176)	(120,247)	-	(5,719,423)
Furniture and Equipment	(3,549,662)	(474,731)	96,144	(3,928,249)
Library Collection	(1,895,912)	(31,777)	-	(1,927,689)
Total accumulated depreciation	(41,598,737)	(3,363,260)	96,144	(44,865,853)
Total assets being depreciated, net	77,728,063	5,065,513	(43,846)	77,749,730
Capital assets, net	$ 77,976,741	$ 5,184,913	$ (5,020,904)	$ 78,140,750

5. LONG-TERM LIABILITIES

Frederick Community College

The College records a liability for accrued annual leave as earned to the extent payable to its employees upon termination. A liability is also recorded for sick leave payable at retirement according to College policy. Employees hired after June 30, 1985, must use their sick leave prior to termination. As those employees hired prior to June 30, 1985 retire, the College sick leave liability is declining. The annual leave liability decreased for fiscal year 2017 due to employees using leave.

	For the Years Ended June 30,				
	2015	**Addition (Reduction) in Accrual**	**2016**	**Addition (Reduction) in Accrual**	**2017**
Annual Leave Liability	$ 1,222,454	$ 894	$ 1,223,348	$ (110,539)	**$ 1,112,809**
Sick Leave Liability	177,415	(59,664)	117,751	(3,464)	**114,287**
Estimated Payroll Taxes	107,090	(4,496)	102,594	(8,722)	**93,873**
Total Liablity	1,506,959	(63,266)	1,443,693	(122,725)	**1,320,968**
Less: current portion	(158,121)	135,701	(22,420)	7,474	**(14,946)**
Long-Term Portion	$ 1,348,838	$ 72,435	$ 1,421,273	$ (115,252)	**$ 1,306,022**

The College issued Certificates of Participation in December 2010 to finance a new parking garage and a portion of the enrollment services building. Manufacturers and Traders Trust Company serves as trustee for the transaction and there is a term of approximately 25 years. Principal payments began in 2013. The following table summarizes this liability:

	June 30, 2016	**Principal Payment**	**Premium Discount Amortization**	**June 30, 2017**	**Current Portion**	**Long Term Portion**
Bond payable	$ 6,489,798	$ (275,000)	$ 5,664	**$ 6,220,462**	**$ 285,000**	**$ 5,935,462**

6. PENSION AND RETIREMENT PLANS

Frederick Community College

All permanent 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.

6. PENSION AND RETIREMENT PLANS (continued)

Maryland State Teachers Retirement and Pension System

Plan description. Teachers 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 www.sra.state.md.us/Agency/Downloads/CAFR.

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.

6. PENSION AND RETIREMENT PLANS (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.

6. PENSION AND RETIREMENT PLANS (continued)

Maryland State Teachers Retirement and Pension System (continued)

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.

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 $2,488,343 and $2,282,158, for the years ended June 30, 2017 and 2016, respectively. These amounts have been recorded as revenue and expenses in the 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.

6. PENSION AND RETIREMENT PLANS (continued)

Summary of Pension and Retirement Plans

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

Fiscal Years	MD State Teachers Retirement and Pension System Annual Cost	Percentage Contributed	Other Plans Annual Cost	Percentage Contributed
2017	$ 1,733,480	100%	$ 962,112	100%
2016	1,532,979	100%	934,949	100%
2015	1,479,245	100%	907,505	100%
2014	1,308,108	100%	881,572	100%
2013	1,163,276	100%	931,411	100%

7. POSTEMPLOYMENT HEALTHCARE PLAN

Frederick Community College

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

Funding Policy. The required contribution is based on projected pay-as-you-go financing requirements. For both fiscal years 2017 and 2016, retirees paid approximately $35 thousand in premiums, respectively.

Annual OPEB Cost and Net OPEB Obligation. The College annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years. The following table shows the components of the College annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation to the plan. The liability is included in accrued liabilities on the Statements of Net Position.

7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

Frederick Community College (continued)

	For the Years Ended	
	June 30, 2017	**June 30, 2016**
Annual Required Contribution	**$ 68,666**	$ 66,959
Interest on net OPEB obligation	**5,994**	5,220
Adjustment to annual required contribution	**(12,874)**	(11,212)
Annual OPEB cost	**61,786**	60,967
Contributions made	**(35,162)**	(35,162)
Increase in net OPEB obligation	**26,624**	25,805
Net OPEB obligation, July 1	**199,814**	174,009
Net OPEB obligation, June 30	**$ 226,438**	$ 199,814

The College annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended June 30, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 61,786	57%	$ 226,438
2016	60,967	58%	199,814
2015	41,145	65%	174,009
2014	40,449	66%	159,495
2013	33,744	98%	145,677

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

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

As of June 30, 2017, the plan was zero percent funded. The actuarial accrued liability was $495,245, which is equivalent to the unfunded actuarial accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was $24.5 million and the ratio of the UAAL to the covered payroll was 2.0% as the table on the next page reflects.

7. POSTEMPLOYMENT HEALTHCARE PLAN (continued)

Frederick Community College (continued)

Actuarial Valuation Date	Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	AAL as a Percentage of Payroll
June 30, 2017	$ -	$ 495,245	$ 495,245	0%	$ 24,509,002	2.0%
June 30, 2016	-	480,820	480,820	0%	23,801,152	2.0%
June 30, 2015	-	339,427	339,427	0%	23,229,822	1.5%
June 30, 2014	-	339,427	339,427	0%	22,326,743	1.5%
June 30, 2013	-	313,580	313,580	0%	22,562,946	1.4%

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

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 workers 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 which arise in the ordinary course of its operations. The College is actively defending its position in all cases. In the opinion of the College, resolution of these matters will not have a material adverse effect on the financial statements.

9. CONTINGENT LIABILITIES AND COMMITMENTS

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.

Mt. Airy Center for Health Care Education

The College entered into a joint-venture agreement with Howard Community College (HCC) and Carroll Community College (CCC) to form the Mt. Airy Center for Health Care Education (the Center) in fiscal year 2012. The Center offered both credit and noncredit courses. The three colleges shared both the revenue and expenses associated with the Center. HCC had the role of primary administrator for consolidating the financial information and invoicing the other colleges. During fiscal year 2016, a decision was made to close operations at the Center effective June 30, 2016. An agreement was reached with the landlord to buy-out the existing 10-year lease, which was terminated in fiscal year 2016.

For the year ended June 30, 2016, the College recorded accounts payable to HCC and CCC in the amount of $268,353 and $15,240, respectively, for expenses related to operating the facility.

The College incurred $99,864 in rent expenses during the year ended June 30, 2016.

Commitments

Total outstanding construction commitments as of June 30, 2017, were $1.4 million.

10. CONTRIBUTIONS AND PLEDGES AND GRANTS RECEIVABLE

Frederick Community College Foundation, Inc.

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

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

Pledges receivable as of June 30, 2017 and 2016, represented unconditional promises to give as follows:

	2017	**2016**
Unconditional promises to give	**5,000**	$ 10,000
Less: unamortized discount	**-**	23
Less: allowance for uncollectable promises to give	**251**	538
Total	**$ 4,749**	**$ 9,439**

11. INVESTMENTS AND INTEREST IN CHARITABLE REMAINDER TRUSTS

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, 2017 and 2016.

The methods 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 methods are 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.

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

Frederick Community College Foundation, Inc. (continued)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2017 and 2016.

	As of June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in external investment pool	**$ -**	**$ -**	**$13,787,423**	**$ 13,787,423**
Total	**$ -**	**$ -**	**$13,787,423**	**$ 13,787,423**

	As of June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in external investment pool	$ -	$ -	$11,728,585	$ 11,728,585
Investment in charitable remainder trusts	-	-	407,194	407,194
Total	$ -	$ -	$12,135,779	$ 12,135,779

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, 2017 and 2016:

	USMF Pool		Charitable Remainder Trusts	
	Level 3	**Level 3**	**Level 3**	**Level 3**
	2017	**2016**	**2017**	**2016**
Balance, July 1,	**$11,728,585**	$12,089,274	**$ 407,194**	$ 434,335
Realized/unrealized gains (loss), net	**1,416,119**	(280,321)	**107,583**	(27,141)
Purchases/(sales)	**642,719**	(80,368)	**(514,777)**	-
Balance, June 30,	**$13,787,423**	$11,728,585	**$ -**	$ 407,194

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

Frederick Community College Foundation, Inc. (continued)

On June 30, 2017, the Foundation had 381,884.1727 units of the USMF Unitized Investment Fund valued at $36.10367 per unit with a total value of $13,787,423. On June 30, 2016, the Foundation had 363,697.2468 units of the USMF Unitized Investment Fund valued at $32.24821 per unit with a total value of $11,728,585.

	June 30, 2017			June 30, 2016		
	Cost	**Market**	**Unrealized (Losses)**	**Cost**	**Market**	**Unrealized (Losses)**
USMF Pool Participation	**$14,094,316**	**$13,787,423**	**$ (306,893)**	$12,428,183	$11,728,585	$ (699,598)
Interest in charitable remainder trust	-	-	-	479,043	407,194	(71,849)
Total	**$14,094,316**	**$13,787,423**	**$ (306,893)**	$12,907,226	$12,135,779	$ (771,447)

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 unrestricted and temporarily restricted classes of net assets. The Foundation reported a net unrealized gain on investments of $392,705 for the year ended June 30, 2017 and a net unrealized loss of $539,200 for the year ended June 30, 2016.

12. ENDOWMENTS

Frederick Community College Foundation, Inc.

The Foundation endowments consist of 120 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.

12. ENDOWMENTS (continued)

Frederick Community College Foundation, Inc. (continued)

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 permanently restricted net assets as:

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

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation 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.

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 determines the spending rate in the spring preceding the fiscal year in which the distribution is planned.

12. ENDOWMENTS (continued)

Frederick Community College Foundation, Inc. (continued)

Spending Policy (continued)

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

Strategies Employed for Achieving Objectives

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$1,490,868	$ 4,479,594	$ 5,970,462
Board designated Quasi endowment for General & Erwin Scholarships	4,532,409	-	4,532,409
Total Funds	$6,023,277	$ 4,479,594	$10,502,871

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net assets, beginning of year	$5,284,452	$ 4,306,441	$ 9,590,893
Investment return:			
Investment income	31,273	-	31,273
Net appreciation	1,088,327	-	1,088,327
Total	1,119,600	-	1,119,600
Contributions collected	66,713	169,515	236,228
Reclassification	(1,471)	(1,362)	(2,833)
Release of endowment assets for expenditure	(446,017)	-	(446,017)
Endowment Net assets, end of year	6,023,277	4,474,594	10,497,871
Pledges receivable	-	5,000	5,000
Endowed Net Assets, Inclusive of Receivables, End of Year	$6,023,277	$ 4,479,594	$10,502,871

12. ENDOWMENTS (continued)

Frederick Community College Foundation, Inc. (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ 1,063,491	$ 4,316,441	$ 5,379,932
Board designated Quasi endowment for General & Erwin Scholarships	4,220,961	-	4,220,961
Total Funds	$ 5,284,452	$ 4,316,441	$ 9,600,893

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,771,956	$ 4,152,694	$ 9,924,650
Investment return:			
Investment income	1,655	-	1,655
Net depreciation	(212,890)	-	(212,890)
Total	(211,235)	-	(211,235)
Contributions collected	15,382	184,993	200,375
Reclassification	36,247	(31,246)	5,001
Release of endowment assets for expenditure	(327,898)	-	(327,898)
Endowment net assets, end of year	5,284,452	4,306,441	9,590,893
Pledges receivable	-	10,000	10,000
Endowed Net Assets, Inclusive of Receivables, End of Year	$ 5,284,452	$ 4,316,441	$ 9,600,893

13. 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 $314,879 and $405,693, for the years ended June 30, 2017 and 2016, 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 $834,103 and $694,700, for the years ended June 30, 2017 and 2016, respectively.

14. RELATIONSHIP BETWEEN FREDERICK COMMUNITY COLLEGE

FOUNDATION, INC. AND FOUNDATION FOR THE FCC FUND, INC.

The Foundation for the FCC Fund, Inc. (the Corporation) 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 Corporation and thus has been consolidated in accordance with the accounting principles generally accepted in the United States of America.

During the years ended June 30, 2017 and 2016, Foundation for the FCC Fund, Inc. received no gifts and incurred no expenses. As of June 30, 2017 and 2016, Foundation for the FCC Fund, Inc. had no assets or liabilities.

15. SUBSEQUENT EVENTS

The College and the Foundation evaluated the accompanying financial statements for subsequent events and transactions through September 29, 2017, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.