HAGERSTOWN COMMUNITY COLLEGE

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2019 AND 2018

HAGERSTOWN COMMUNITY COLLEGE
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YEARS ENDED JUNE 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hagerstown Community College
Hagerstown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Hagerstown Community College (the College) and its discretely presented component unit, the Hagerstown Community College Foundation, Inc. (the Foundation) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof 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 the management's discussion and analysis, schedule of College's proportionate share of the net pension liability – Maryland State Retirement and Pension System, schedule of College's contributions – Maryland State Retirement and Pension System, and schedule of changes in the College's net OPEB liability and related ratios, 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 October 30, 2019 on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 30, 2019

Financial Highlights

For the fiscal year ended June 30, 2019, the College recorded total operating revenues of $22,478,561 and total operating expenses of $43,356,241. The difference produced an operating loss of $20,877,680. Net non-operating revenue of $23,194,983 offset this loss and resulted in an overall increase in net position of $2,317,303.

Approximately $11.5 million of the College's operating revenue is generated from student tuition and fees net of the scholarship allowance. In FY19, credit tuition rates were increased making County tuition at $121, Out-of-County at $190, Out-of-State at $250, and the neighbor rate at $234. Fee projections were based on actualized fee revenue and enrollment projections. Overall, total credit FTE decreased 0.6% over FY18 and non-credit FTE increased by 0.8%. There is an increase in the scholarship allowance from FY18 ($3,804,599) to FY19 ($4,003,638). GASB Statements No. 34 and 35 requires public institutions to report all tuition and fee revenues net of any scholarship discounts and allowances. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is paid by the student and/or third parties making payments on behalf of the student. Determinations of scholarship allowances and student aid expenses by category are virtually impossible on a case by case basis since most institutions, including HCC, post financial aid to student's accounts as a batch process. It is permissible to use an alternate method of calculating the allowance. NACUBO Advisory Report 2000-05 provides a methodology for an alternate method which includes the calculation of the following categories:

1. Financial Aid not recognized as revenue
2. Financial aid being applied from resources recognized as revenue
3. Third party payments
4. Payments made directly by students
5. Refunds made to students
6. Non-Monetary institutional waivers
7. Charges applied to student accounts

Operating revenue from auxiliary enterprises, including the Campus Store, Food Services, the Children's Learning Center, and the Technical Innovation Center totaled $2.49 million, a 2.3% decrease from the previous year. With expenses totaling $2.75 million, auxiliary enterprises realized a net loss of $259,187. The FY18 loss for auxiliary operations was $251,353.

Operating revenue from federal grants and contracts of $7.3 million is a 6% decrease from FY18. The prior year reflected a 6.5% increase. Student financial assistance and funding to support career education, adult basic education, and student support services account for the majority of this revenue stream.

Non-operating revenue includes State and County appropriations of $9.2 million and $10 million, respectively. While the state revenue stream increased by 0.7%, the county contribution increased 3%. Capital appropriations increased from $1.1 million in FY18 to $1.5 million in FY19. This increase can be attributed to the state and county funding for the Energy and Trades Training Center, Student Center Parking and Learning Resource Center. Benefits paid on behalf of the College by the State of Maryland were $1.8 million, a slight decrease over the previous fiscal year.

The College's net position increased from $119.7 million to $121.9 million at June 30, 2019.

Statement of Net Position

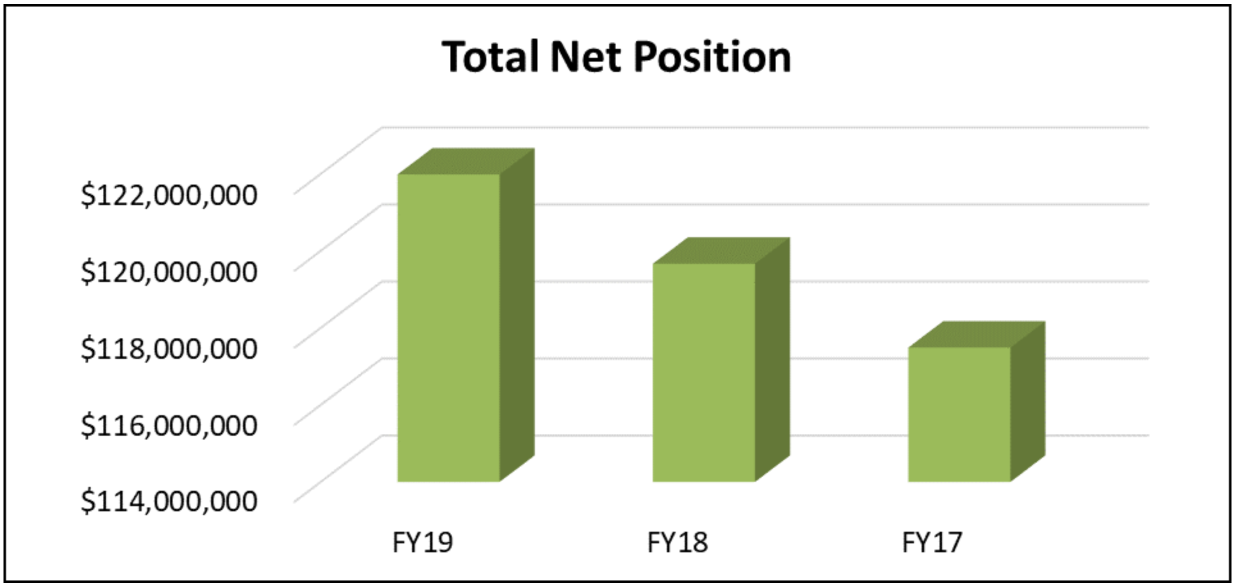
The Statement of Net position reports all of the College's financial and capital resources using the accrual basis of accounting. Under GASB 34, this financial statement reports the difference between assets and liabilities as net position. This is one way to measure the financial health of the College.

Net position is divided into three categories:

- Capital Net Assets are assets held net of debt in the property, plant and equipment of the College (the College currently has no debt for capital assets).
- Temporarily Restricted Net Assets are assets available to the College but reserved for a specific purpose or time period.
- Unrestricted Net Assets are assets available to the College with no restrictions.

Net Position
June 30, 2019, 2018, 2017

		FY19		FY18		FY17
Assets						
Current Assets	$	33,589,098	$	31,048,006	$	26,966,746
Non-Current Assets (net)		98,169,692		98,173,199		99,936,980
Total Assets	$	131,758,790	$	129,221,205	$	126,903,726
Deferred Outflows	$	652,987	$	590,757	$	395,022
Liabilities						
Current Liabilities	$	7,223,913	$	7,383,969	$	6,923,026
Non-Current Liabilities		2,024,959		1,844,356		2,082,523
Total Liabilities	$	9,248,872	$	9,228,325	$	9,005,549
Deferred Inflows	$	1,180,905	$	918,939	$	808,383
Net Position						
Capital Assets	$	97,763,574	$	97,727,054	$	99,936,980
Temporarily Restricted Assets		167,012		186,430		219,377
Unrestricted Assets		24,051,414		21,751,213		17,328,459
Total Net Position	$	121,982,000	$	119,664,697	$	117,484,816



Current Assets increased 8.2% to $33.6 million in FY19. Non-Current Assets decreased $3,507 to $98.2 million.

The most significant change to the total Non-Current assets was a decrease to Construction in Progress in the amount of $872,117.

Capital Assets, Net
June 30, 2019, 2018, and 2017

	FY19	FY18	FY17
Land & Land Improvements	$ 3,934,196	$ 3,934,196	$ 3,934,196
Building	119,432,578	117,018,748	116,893,501
Infrastructure	8,332,177	7,745,726	7,710,525
Furniture, Machinery & Equipment	20,081,985	18,752,825	18,575,801
Construction in Progress	113,385	1,028,573	176,353
Total property, plant & equipment	151,894,321	148,480,068	147,290,376
Less: Accumulated Depreciation	(54,130,747)	(50,753,015)	(47,353,396)
Total investment in plant	$ 97,763,574	$ 97,727,054	$ 99,936,980

Liabilities include accounts payable, accrued salaries and taxes, deferred revenue, compensated absences and state retirement payable. Total liabilities increased from FY18 to FY19 in the amount of $21 thousand. The most significant change is due to an increase to the net pension liability offset by a decrease to deferred revenue.

Unrestricted net assets increased from $21,751,213 in FY18 to $24,051,414 in FY19. In fund accounting, unrestricted net assets are referred to as fund balance. The increase is a result of adding approximately $2.3 million to fund balance.

The College's goal is to maintain unrestricted assets at levels sufficient to protect HCC's financial position from unforeseeable emergencies, revenue shortfalls, and expenditure overages. Given the financial challenges the State and County may face in the upcoming years, sufficient levels of unrestricted assets will become even more important. Additionally, discussions continue between College administration and the Board of Trustees regarding the possible use of unrestricted assets. The HCC Board of Trustees annually reviews prior commitments of unrestricted assets and considers new areas to designate these funds ensuring they align with institutional priorities and the overall mission of the college.

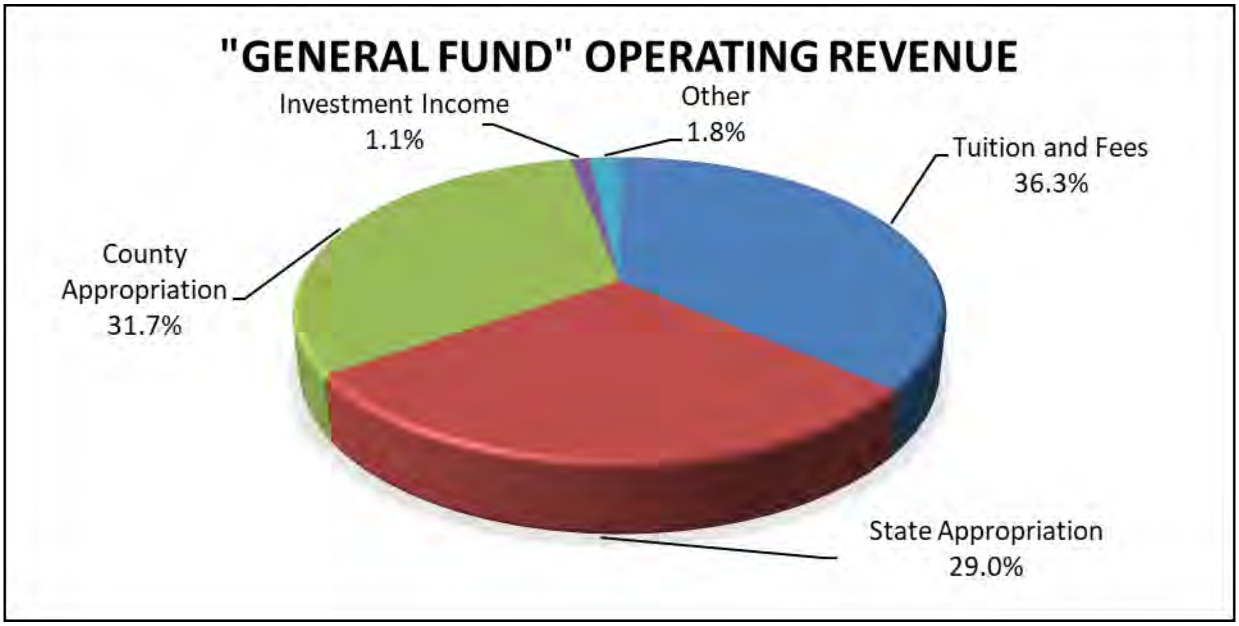
Statements of Revenues, Expenses, and Changes in Net Position

The purpose of this statement is to present the revenues realized and expenses incurred by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses realized or incurred by the institution.

Operating revenues are those receipts received for providing goods and services to students and customers of the College. Operating expenses are goods and services that are provided in return for operating revenues. Non-operating revenues are revenues for which goods and services are not provided. Examples of non-operating revenue are State and County Appropriations.

Revenues, Expenses and Changes in Net Position
June 30, 2019, 2018, and 2017

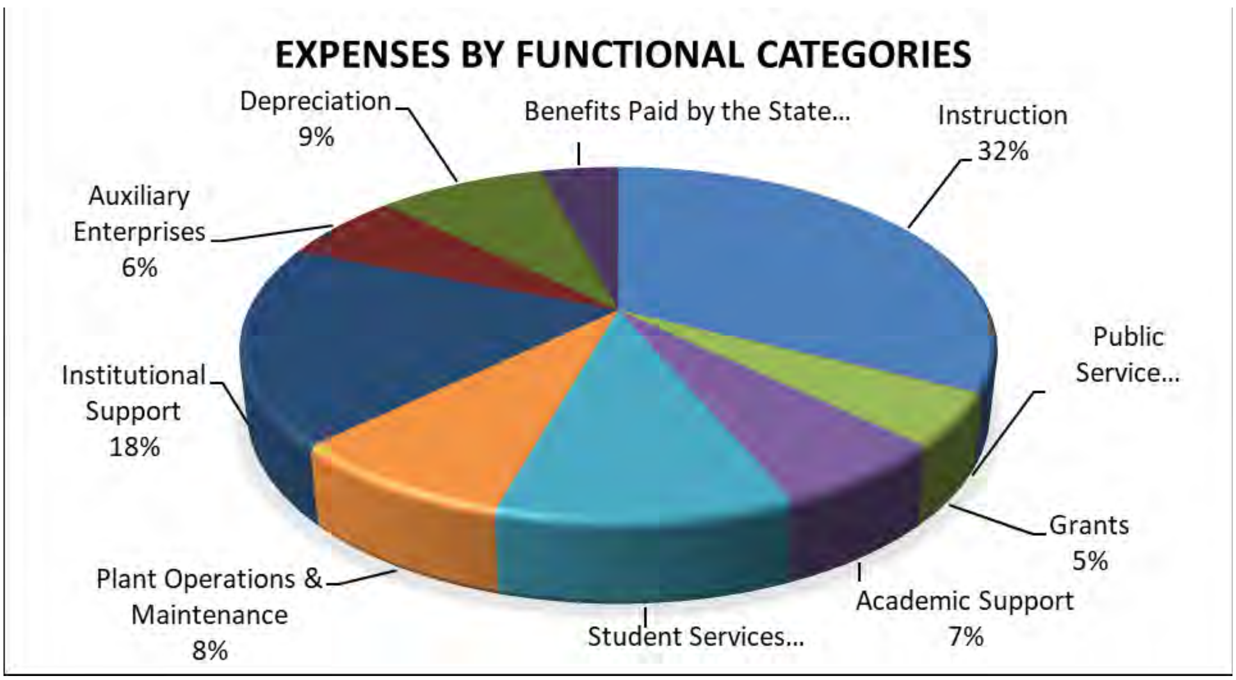
	FY19	FY18	FY17
Operating Revenues and Expenses			
Tuition and Fees (net)	$ 11,489,105	$ 11,197,555	$ 11,407,752
Auxiliary Enterprises	2,490,929	2,549,081	2,642,109
Grants and Contracts	7,955,125	8,606,197	7,931,438
Other	543,402	416,974	523,723
Total Operating Revenue	$ 22,478,561	$ 22,769,807	$ 22,505,022
Total Operating Expenses	$ 43,356,241	$ 42,641,617	$ 41,278,428
Non-Operating Revenues and Expenses			
State Appropriation	$ 9,177,996	$ 9,117,615	$ 8,995,300
County Appropriation	10,035,290	9,743,000	9,543,050
Capital Appropriation	1,845,796	1,279,535	2,198,984
Investment Income	361,362	169,330	56,229
Certain Fringe Benefits Paid Directly by the	1,747,380	1,770,834	1,958,156
Other Sources	27,159	(28,622)	62,210
Total Non-Operating Revenues	$ 23,194,983	$ 22,051,692	$ 22,813,929
Increase (Decrease) in Net Position	$ 2,317,303	$ 2,179,882	$ 4,040,523
Net Position – Prior Year	119,664,697	117,484,815	115,681,305
Restatement (OPEB GASB 75)	-	-	(2,237,012)
Net Position – Current Year	$ 121,982,000	$ 119,664,697	$ 117,484,815



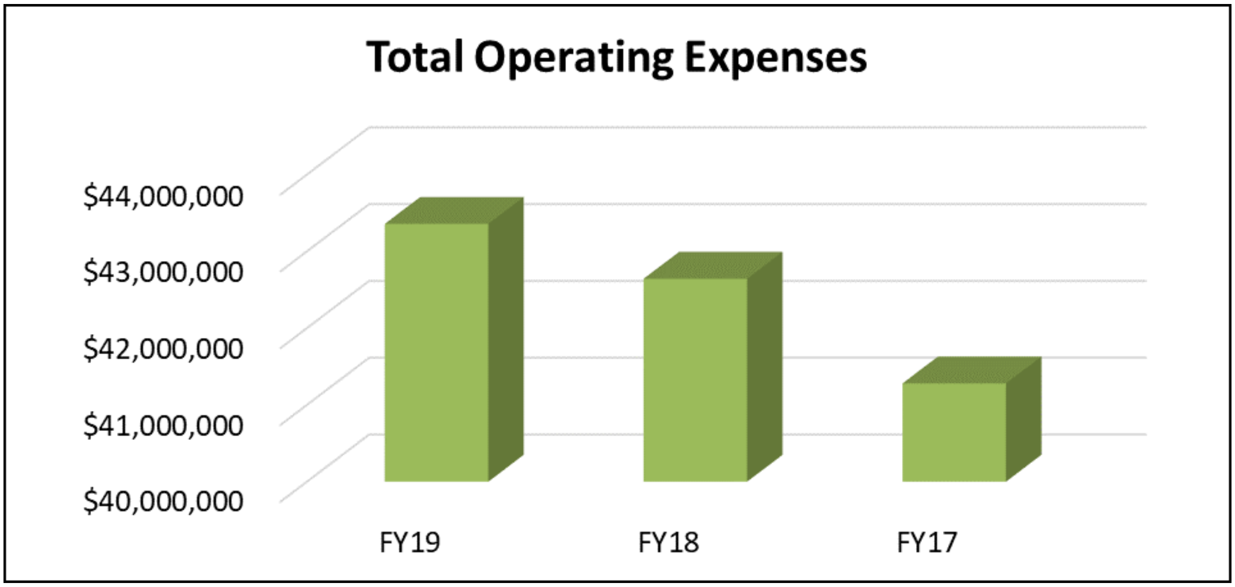
- Tuition and fees, net of scholarship allowances, accounts for 25% of the total revenue of the college. The absolute dollar amount increased by approximately $292 thousand from FY18. This can mainly be attributed to an increase in tuition; however, it is also offset slightly by additional scholarship allowances.
- Auxiliary Enterprises account for approximately 5.5% of the College's total revenue, which is a $58 thousand decrease from FY18. This revenue source includes the Campus Store, Children's Learning Center, Technical Innovation Center and Food Services.
- Grants and contracts account for approximately 16% of total revenues in FY19. The revenue of $8 million decreased approximately $600 thousand from FY18.
- State and County Appropriations, excluding capital appropriations, accounts for 42% of the total institutional revenue. As a percentage of total institutional revenue, this revenue source is up 1.9% when compared to the previous fiscal year.
- Capital appropriations from the State and County increased $344 thousand up to $1.5 million. Part of the increase was the final funding portion for the Learning Resource Center project and new Student Center parking lot. Funding also went to the new Energy and Trades Training Center.

Operating expenses by functional categories are:

		FY19		FY18		FY17
Instruction	$	14,021,800	$	14,142,122	$	13,773,071
Public Service		37,871		24,670		34,121
Grants		2,081,145		2,245,531		1,920,831
Academic Support		2,795,708		2,565,069		2,719,588
Student Services		4,654,910		4,648,247		4,365,226
Plant Operations & Maintenance		3,645,878		4,062,039		3,809,781
Institutional Support		7,879,715		6,538,606		6,891,880
Auxiliary Enterprises		2,750,116		2,800,434		2,742,671
Depreciation		3,741,718		3,844,065		3,063,103
Benefits Paid by the State		1,747,380		1,770,834		1,958,156
Total Operating Expenses	$	43,356,241	$	42,641,617	$	41,278,428



Overall, operating expenditures increased by $700 thousand. The most significant increase attributing to the overall increase is from instructional support which is $1.3 million more than FY18. Many functional areas decreased due to cost cutting efforts attributable to the challenging enrollment environment currently being experienced.



Statements of Cash Flows

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

Cash flow from operating activities consists of tuition and fees, auxiliary enterprises, and grants and contracts. Major cash outlays in operating activities consist of salaries and benefits of $25 million and payments to suppliers of $12 million. Net cash used for operating activities decreased by approximately $377 thousand from FY18 to FY19 primarily due to decreases in payments for salaries and benefits and payments to suppliers offset by a decline in cash from grants and contracts.
State and local appropriations are the primary source of non-capital financing activities. Generally Accepted Accounting Principles require that the College reflect this source of revenue as non-operating even though the College's budget depends on this to continue the current level of operations. These appropriations from FY18 to FY19 increased approximately 1.9%.

Capital financing activities represent funds that were used to purchase or add value to capital assets. There was a net increase in funds used from FY18 to FY19 of $1.6 million due primarily to the student center parking lot and energy and trades training center.

Cash flows from investing activities represent income earned on cash invested in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposits. Investment income in FY19 was $361,362. This increased from $169,330 in FY18 due to a more favorable interest rate environment.

Cash Flows
June 30, 2019, 2018, and 2017

	FY19	FY18	FY17
Cash, Beginning	$ 22,575,807	$ 19,181,049	$ 16,161,104
Cash Provided/(Used) By:			
Operating Activities	(14,916,593)	(15,293,918)	(14,825,295)
Non-Capital Financing Activities	19,238,028	18,873,950	18,552,128
Capital Financing Activities	(1,927,014)	(354,604)	(763,117)
Investing Activities	361,362	169,330	56,229
Net (Decrease) Increase in Cash	2,755,783	3,394,758	3,019,945
Cash, Ending	$ 25,331,590	$ 22,575,807	$ 19,181,049

Budget Adjustments

During the fiscal year, each cost center manager has the flexibility to move allocated operational funds from one-line item to another without requesting a budget revision through the executive staff level. These operational line items do not include salaries, benefits, memberships, professional development, lease agreements, software or capital outlays, which are considered institutional discretionary and designated funds as outlined in the College's Annual Plan and Budget.

Hagerstown Community College Foundation, Inc. (HCCF or Foundation)

Under Governmental Accounting Standards Board Statement No. 39, the Foundation was determined to be component unit of the College. The purpose of the Foundation is to encourage and seek private financial contributions for the progress of Hagerstown Community College as a vital community partnership between the College and the community. While the Foundation's primary focus has been on providing scholarship assistance, $763,675 in FY19 (which includes $198,310 in community scholarships awarded), it also has made progress with securing major gifts for projects such as the Center for Business and Entrepreneurial Studies (CBES). It is the Foundation's intent to disburse only the income received from the investments for scholarships; however, this is not a requirement.

The Foundation's net assets with donor restrictions consist of five separate divisions within the endowment: Regular Scholarships, Faculty Scholarships, Athletic Scholarships, the Arboretum, and Career Programs Building. The primary purpose of the Regular Scholarships is to provide financial assistance to students. The Faculty Scholarships were established to provide scholarships to attend Hagerstown Community College to students from the Washington County Area High Schools that have demonstrated scholastic achievement. Donations to the Arboretum were established to maintain the aesthetic beauty of Hagerstown Community College.

Net Assets for the Foundation increased just over $1 million to $12,556,640 in FY19. This is attributable to net gain on investments and an increase in funding donations for endowed scholarships and donations for CBES naming opportunities during FY 19.The HCC Foundation also realized revenue of $70,200 this fiscal year as a result of a distribution from a real estate limited partnership (RELP) interest carried at $1,044,400. There is an Indemnification Agreement whereby the Foundation cannot be asked for cash calls. Additional donations of $1,126,856 were realized in FY19. This includes $46,461 in non-cash donations. The College paid, on behalf of the Foundation, various overhead expenditures totaling

$236,053. This is included in the financial statements as contributions of in-kind services. The expenses are also reflected under the appropriate expenditure line item.

Major cash outlays in operating activities consist of scholarships of $763,675, transfers to the College for scholarships of $71,986, fundraising expenses of $24,103, and other expenses in the amount of $239,978.

The Foundation's investments include the aforementioned RELP and units in the Unitized Investment Fund (the Fund) of the University System of Maryland Foundation. The market value of these investments as of June 30, 2019 was $11,154,751. In FY19, there was a net investment return from investment activities in the amount of $650,480 from FY18.

Economic Factors Affecting the Future

The economic health of the College is closely tied to the appropriations provided by the County and State, as well as the revenue associated with the College's enrollment. As noted in the Statements of Revenues, Expenses, and Changes in Net Position, the County and State governments provide vital resources to the College's operating budget. The College must maintain its financial position and be prepared to reallocate resources if necessary. The annual unit planning process is comprehensive and provides a means to maintain the alignment of resources with institutional priorities. This will better assist the College in the development and implementation of strategies to ensure the future needs are met.

Currently, the College is in a pattern of enrollment decline. It is worth noting that the vast majority of community colleges in Maryland are experiencing a similar pattern. Typically, there is a direct correlation between community college enrollment, the unemployment rate, and overall economy. A prosperous economy coupled with a low unemployment rate will typically result in a lower enrollment, and vice versa.

Strategies to Strengthen the College's Financial Position

Projected economic conditions may place increased pressures on HCC's financial capabilities for the next three to five years. This will make it more difficult for the College to maintain low cost/high quality in all its mission based program and service areas. Consequently, the College will need to expand its private fundraising initiatives as well as further enhance its capabilities to secure grants and initiate other forms of revenue enhancement. Going forward, the reallocation of funds based on new institutional priorities, along with developing potential partnership arrangements that could result in significant savings, will be studied and implemented.

As part of the effort to strengthen the College's financial position, and to create a safer environment for current and future students, the College has begun investing in multiple safety and security solutions. Starting with the creation and hiring of a new Director of Campus Safety and Security, the College has moved swiftly with initiatives that have enhanced communication across campus and the ability to secure all classrooms and buildings within seconds. The College will continues these efforts as new technology becomes available and best practices are identified.

The College will continue discussions on possible avenues the College should consider for revenue enhancements, including, but not limited to, traditional revenue sources and increased donations to the

College from alumni and friends. In particular, the College will expand its efforts to increase grants revenue, especially in those areas where substantial curricular and/or student growth is anticipated.

The Grants Council continues to meet periodically to monitor grant opportunities and to discuss the implications for the institution in areas such as personnel, equipment, sustainability, etc. The College will pursue grants that will enhance the current quality of the student's educational experience and assist with expanding the current enrollment of the College.

The executive officers will also continue to lead cost-benefit studies and program reviews in their areas of responsibility, following established protocols. The goal is to make certain that HCC is using its resources wisely and producing quality outcomes in a cost effective manner. Selected areas of the College, based on internal data screenings, from instruction to administrative units, will be subject to cost-benefit reviews.

The College has made great effort to strengthen the institution's financial position. This success is documented through the maintenance of an adequate fund balance, growing investment in capital assets, and strong financial ratios. All of these elements provide a very positive picture of the College's financial health.

Contingency Planning

In the event that HCC does not receive the operational funding that it requests or enrollment declines at significant rate, the annual plan and budget is developed with contingencies in place. In addition, the College builds into its annual budget a general contingency line item for any unforeseen or emergency-type event.

HAGERSTOWN COMMUNITY COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

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	Hagerstown Community College		Component Unit Hagerstown Community College Foundation	
	2019	2018	2019	2018
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 25,331,590	$ 22,575,807	$ 255,239	$ 172,585
Accounts Receivable:				
Student Receivables (Net of Allowance of $2,871,396 and $2,758,708)	5,397,830	5,574,643	-	-
State of Maryland	670,577	418,536	-	-
Federal Government	461,150	427,233	-	-
Other	708,087	909,820	-	-
Due from Foundation	57,202	52,496	-	-
Due from Agency	894	8,257		-
Interest Receivable	13,895	12,541	-	-
Pledges Receivable, Net	-	-	77,178	28,093
Inventories	384,994	329,264	-	-
Prepaid Expenses	562,879	739,408	-	1,566
Total Current Assets	33,589,098	31,048,005	332,417	202,244
NONCURRENT ASSETS				
Property, Plant, and Equipment, Net	97,650,189	96,698,481	-	-
Construction in Progress	113,385	1,028,573	-	-
OPEB Asset	406,118	446,145	-	-
Investments, at Fair Value	-	-	11,154,751	10,317,157
Investments, at Cost	-	-	1,044,400	1,044,400
Pledges Receivable, Net	-	-	108,092	16,734
Total Noncurrent Assets	98,169,692	98,173,199	12,307,243	11,378,291
Total Assets	131,758,790	129,221,204	12,639,660	11,580,535
DEFERRED OUTFLOWS	652,987	590,757	-	-
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	1,061,784	1,033,925	15,680	16,432
Accrued Salaries and Taxes	1,293,699	1,259,117	-	-
Scholarships Payable	-	-	10,138	19,631
Due to College	-	-	57,202	52,496
Deferred Revenue	4,868,430	5,090,927	-	-
Total Current Liabilities	7,223,913	7,383,969	83,020	88,559
NONCURRENT LIABILITIES				
Compensated Absences	169,262	168,930	-	-
Net Pension Liability	1,855,697	1,675,426	-	-
Total Noncurrent Liabilities	2,024,959	1,844,356	-	-
Total Liabilities	9,248,872	9,228,325	83,020	88,559
DEFERRED INFLOWS	1,180,905	918,939	-	-
NET POSITION				
Net Investment in Capital Assets	97,763,574	97,727,054	-	-
Restricted	167,012	186,430	-	-
Unrestricted	24,051,414	21,751,213		
With Donor Restrictions	-	-	8,506,899	7,836,922
Without Donor Restrictions - Board Designated	-	-	2,798,770	2,604,592
Without Donor Restrictions	-	-	1,250,971	1,050,462
Total Net Position	$ 121,982,000	$ 119,664,697	$ 12,556,640	$ 11,491,976

See accompanying Notes to Financial Statements.

HAGERSTOWN COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018

	Hagerstown Community College		Component Unit Hagerstown Community College Foundation	
	2019	2018	2019	2018
REVENUES				
Operating Revenues:				
Tuition and Fees	$ 15,492,743	$ 15,002,154	$ -	$ -
Scholarship Allowances	(4,003,638)	(3,804,599)	-	-
	11,489,105	11,197,555	-	-
Federal Grants and Contracts	7,335,042	7,802,080	-	-
State, Local, and Other Grants and Contracts	620,083	804,117	-	-
Auxiliary Enterprises	2,490,929	2,549,081	-	-
Contributions	-	-	1,080,395	647,362
Income Distribution from RELP	-	-	70,200	69,662
Noncash Donations	-	-	46,461	48,841
Special Events:				
Gross Revenue including Contributions	-	-	125,918	62,696
Less: Direct Costs of Events	-	-	(50,627)	(41,412)
Contribution of In-Kind Services	-	-	236,053	256,312
Other Sources	543,402	416,974	5,526	26,414
Total Operating Revenues	22,478,561	22,769,807	1,513,926	1,069,875
EXPENSES				
Instruction	14,021,800	14,142,122	-	-
Public Service	37,871	24,670	-	-
Grants	2,081,145	2,245,531	-	-
Academic Support	2,795,708	2,565,069	-	-
Student Services	4,654,910	4,648,247	-	-
Plant Operations and Maintenance	3,645,878	4,062,039	-	-
Institutional Support	7,879,715	6,538,606	-	-
Auxiliary Enterprises	2,750,116	2,800,434	-	-
Fundraising	-	-	24,103	31,346
Scholarships Awarded	-	-	763,675	742,913
Contribution to the College	-	-	71,986	134,470
Other	-	-	239,978	267,705
Depreciation	3,741,718	3,844,065	-	-
Certain Fringe Benefits Paid Directly by the State of Maryland	1,747,380	1,770,834	-	-
Total Operating Expenses	43,356,241	42,641,617	1,099,742	1,176,434
OPERATING INCOME (LOSS)	(20,877,680)	(19,871,810)	414,184	(106,559)
NONOPERATING REVENUES				
County Appropriation	10,035,290	9,743,000	-	-
State Appropriation	9,177,996	9,117,615	-	-
State and County Capital Appropriation	1,474,171	1,130,658	-	-
Other Capital Appropriation	371,625	148,877	-	-
Investment Return (Loss), Net of Expenses	361,362	169,330	650,480	818,585
Certain Fringe Benefits Paid Directly by the State of Maryland	1,747,380	1,770,834	-	-
Other Sources	27,159	(28,622)	-	-
Total Nonoperating Revenues	23,194,983	22,051,692	650,480	818,585
INCREASE IN NET POSITION	2,317,303	2,179,882	1,064,664	712,026
Net Position - Beginning of Year	119,664,697	117,484,815	11,491,976	10,779,950
NET POSITION - END OF YEAR	$ 121,982,000	$ 119,664,697	$ 12,556,640	$ 11,491,976

See accompanying Notes to Financial Statements.

HAGERSTOWN COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	Hagerstown Community College		Component Unit Hagerstown Community College Foundation	
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and Fees	$ 11,481,070	$ 11,232,006	$ -	$ -
Grants and Contracts	7,833,251	8,598,224	-	-
Other Sources	543,402	416,974	-	-
Payments to Suppliers	(11,939,251)	(12,205,546)	-	-
Payments for Salaries and Benefits	(25,325,994)	(25,884,657)	-	-
Auxiliary Enterprises Revenue	2,490,929	2,549,081	-	-
Foundation Operating Activity	-	-	269,768	(39,854)
Net Cash Provided (Used) by Operating Activities	(14,916,593)	(15,293,918)	269,768	(39,854)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
County Appropriations	10,035,290	9,743,000	-	-
State Appropriations	9,177,996	9,117,615	-	-
Other Sources	24,742	13,335	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	19,238,028	18,873,950	-	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
State and County Capital Appropriation	1,474,171	1,130,658	-	-
Other Capital Appropriation	371,625	148,877	-	-
Purchases of Capital Assets	(3,779,843)	(1,678,633)	-	-
Proceeds from Sale of Fixed Assets	4,616	2,538	-	-
Loss from Sale of Fixed Assets	2,417	41,956	-	-
Net Cash Provided (Used) by Capital Financing Activities	(1,927,014)	(354,604)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Investments	-	-	(895,755)	(589,807)
Proceeds from Sale of Investments	-	-	708,641	633,543
Investment Income	361,362	169,330	-	-
Net Cash Provided (Used) by Capital Investing Activities	361,362	169,330	(187,114)	43,736
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,755,783	3,394,758	82,654	3,882
Cash and Cash Equivalents - Beginning of Year	22,575,807	19,181,049	172,585	168,703
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 25,331,590	$ 22,575,807	$ 255,239	$ 172,585
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (20,877,680)	$ (19,871,810)	$ 414,184	$ (106,559)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	3,741,718	3,844,065	-	-
In-Kind County, Plant, and State Paid Fringes	1,747,380	1,770,834	-	-
Bad Debts	-	-	822	3,436
Effects of Changes in Operating Assets and Liabilities:				
Student Receivable, Net	176,813	(192,976)	-	-
Accounts Receivable - State of Maryland	(252,041)	196,370	-	-
Accounts Receivable - Federal Government	(33,917)	204,251	-	-
Accounts Receivable - Local Government	164,084	(408,594)	-	-
Accounts Receivable - Other (Net)	37,649	(189,145)	-	-
Prepaid Expenses	176,315	(420,610)	1,566	1,409
Inventories	(55,730)	131,680	-	-
Deferred Outflows	(62,230)	(195,735)	-	-
Accounts Payable	49,759	79,878	(752)	(7,844)
Accrued Salaries and Taxes	11,188	(84,940)	-	-
Compensated Absences	332	(32,281)	-	-
Deferred Revenue	(222,497)	416,570	-	-
Net Pension Liability	180,271	(170,830)	-	-
Net OPEB Asset / Liability	40,027	(481,201)	-	-
Deferred Inflows	261,966	110,556	-	-
Pledges Receivable	-	-	(141,265)	61,527
Other Receivables	-	-	4,706	5,774
Other Liabilities	-	-	(9,493)	2,403
Net Cash Provided (Used) by Operating Activities	$ (14,916,593)	$ (15,293,918)	$ 269,768	$ (39,854)

See accompanying Notes to Financial Statements.

NOTE 1 REPORTING ENTITY

Hagerstown Community College (HCC or the College) is considered a "body politic" under Maryland State law as an instrumentality of the state of Maryland (the State). The College is governed by a seven-member board of trustees, who are appointed for six-year terms by the Governor of the State with the advice and consent of the State Senate.

Funding is received from both the State and Washington County (the County). Annual state funding is based upon a statutory formula that utilizes the number of full-time equivalent students reported two years earlier.

Hagerstown Community College Foundation, Inc. (HCCF or the Foundation) is considered a component unit of the College and is presented in the College's financial statements based on management's interpretation of Government Accounting Standards Board Statement (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*. The purpose of the Foundation is to encourage and seek private financial contributions for the progress of the College as a vital community partnership between the College and the community. While the Foundation's primary focus has been providing scholarship assistance, its role is to raise funds for the benefit of the College, its students, and faculty through public contributions. Complete financial statements for the Foundation can be obtained by contacting Hagerstown Community College Foundation, Inc. at 11400 Robinwood Drive, Hagerstown, MD 21742.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The College and the Foundation is presented to assist in understanding the College's and Foundation's financial statements. The financial statements and notes are representations of the College's and Foundation's management, who are responsible for their integrity and objectivity.

Basis of Presentation

In June 1999, the GASB approved Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments;* this statement has been in part amended by GASB 63. This was followed by Statement No. 35 *Basic Financial Statements and Management's Discussion Analysis for Public Colleges and Universities*. GASB Statement 34 identified three types of special-purpose governments (SPG): (1) those engaged only in governmental activities, (2) those engaged only in business-type activities, and (3) those engaged in both governmental and business type activities.

Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange transactions. On the other hand, business-type activities (BTAs) 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 reporting model required of SPG's engaged in business-type activities. Colleges reporting as BTA's follow GASB standards applicable to proprietary (enterprise) funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The BTA model requires the following component unit financial statement components.

* Management's Discussion and Analysis
* Statement of Net Position
* Statement of Revenues, Expenses, and Changes in Net Position
* Statement of Cash Flow
* Notes to the Financial Statements

The College's financial statements are prepared using the format of a special-purpose government engaged only in business-type activities with an economic resources measurement focus and the accrual basis of accounting. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal contractual obligation to pay. The statements are intended to report the public institution as an economic unit that includes all measurable assets, liabilities, financial results, and capital of the institution.

The statements of revenues, expenses, and changes in net position for special-purpose governments engaged in BTAs require an operating/nonoperating format to be used. The College has elected to report its operating expenses by functional classification. The statements of cash flows are presented utilizing the direct method, which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income.

One of the primary purposes of financial reporting is to account for resources received and used, as well as accounted for and reported. In certain situations, both restricted and unrestricted net position may be available to cover an expense incurred. In those few cases, as long as the expense meets all of the requirements of the restricted net position, restricted resources would be applied first.

The College's tuition and fee revenue is reported net of scholarship allowance. The scholarship allowance represents funds received as tuition from outside resources such as Title IV Federal Grant Program, restricted grants, board of trustee Scholarships, as well as waivers.

The Foundation is a private, nonprofit organization that reports under FASB ASC 958 *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Certain presentation reclassifications have been made to the Foundation's financial statement information included in the College's financial statements.

The Foundation has presented its financial statements in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Accordingly, the Foundation reports information regarding its financial position and activities according to three classes of net position; unrestricted net position (including board designated funds), temporarily restricted, and permanently restricted net position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Preparing Financial Statements (HCC and HCCF)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for doubtful accounts, allowance for uncollectible pledges, discounts on pledges receivable, the useful lives of depreciable assets, and fair value measurements.

Fair Value Measurements (HCCF)

The Foundation accounts for its financial instruments as well as certain assets and liabilities at fair value. Fair value is defined as the price that would be paid in an orderly transaction, or exit price, between market participants to sell the asset or transfer the liability in the principal or most advantageous market for the asset or liability. Fair value is a market based measurement, not an entity-specific measurement, and should therefore be determined based on the assumptions that market participants would use in pricing the asset or liability.

The Foundation is required by generally accepted accounting principles to categorize its financial instruments based on a three-level fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in this category include listed equities and listed bonds.

Level 2: Pricing inputs including inputs in markets that are not considered to be active for identical investments observable as of the reporting date. Investments which are generally included in this category include less liquid and restricted equity securities.

Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. Investments that are included in this category generally include investments in corporate private equity and investment funds as well as off-shore hedge funds in which the Foundation does not have readily available access due to lock up periods and/or partnership agreements. In addition, the Foundation depends on the General Partner or the Investment Manager of the investment for pricing information.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (HCCF) (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Federal Financial Assistance Programs (HCC)

The College participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and William D. Ford Direct Student Loan Programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, Code of Federal Regulations Title 2 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and U.S. Office of Management and Budget's Compliance Supplement.

Operating and Nonoperating Components (HCC)

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. 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 revenues.

Cash and Cash Equivalents (HCC and HCCF)

The College and the Foundation consider all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments (HCCF)

Investment securities are carried at fair value. Money market funds included therein are stated at cost, which approximates fair value. Fair value is the quoted market price of the investment or the net asset value for mutual funds. Accordingly, the change in unrealized appreciation or depreciation of marketable securities for the year is reflected in the statement of activities. Realized gains and losses on sales of investments are recorded on the settlement date of the transaction. Certain investments are effectively restricted as to use to the extent of permanently and temporarily restricted net assets.

The Foundation invests with the University System of Maryland Foundation (USMF) in a comingled investment fund. These investments are recorded at fair value.

The Foundation's investments also include a 6% interest in a real estate limited partnership (RELP). The limited partnership agreement contains an indemnification agreement whereby the Foundation cannot be asked for additional capital contributions. Cash distributions received from the partnership are treated as unrestricted donations in the accompanying statements of activities. The Foundation's investment in the RELP is carried at cost. Management has determined that no impairment loss is required for its interest in the RELP.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Receivables (HCC)

Student receivables are uncollateralized obligations of students resulting from course registration. The receivable is due at the start of the semester for which it was incurred. The College uses the allowance method to determine accounts receivables. The allowance is based on prior years' experience and management's analysis of collection history and specific promises made.

Contributions and Pledges Receivable (HCC and HCCF)

Unconditional promises to give that are expected to be collected within one year are reported at their net realizable values. Unconditional promises to give that are expected to be collected in future years are discounted to present value of their estimated future cash flows. The discounts on noncurrent amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is recognized as contribution revenue over the life of the pledge. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net position is reclassified to unrestricted net position and reported in the statements of activities as net position released from restrictions.

The College and the Foundation use the allowance method to evaluate the collectability of student accounts and promises to give based on prior years' experience and management's analysis of specific promises made. At June 30, 2019 and 2018, management has established an allowance for doubtful accounts as stated on the statement of net position (HCC) and in Note 6 to these financial statements (HCCF).

Inventories (HCC)

Inventories are comprised predominately of textbooks held for sale in the bookstore and are stated at cost using the First in First out (FIFO) method. Generally, unsold books are returned to the publishers.

Pension (HCC)

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the College's retirement plans and additions to/deductions from the retirement plans' fiduciary net position have been determined on the same basis as they are reported by the retirement plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefits and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Obligations (HCC)

GASB Statement 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, (GASB 75) was issued to provide a more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide OPEB as part of the compensation for services rendered by their employees. Postemployment healthcare benefits, the most common form of OPEB are a significant financial commitment for many governments.

Under GASB 75, the College is required to calculate and record a net other postemployment benefit obligation (OPEB). An actuarial study is conducted every two years to determine the OPEB with the most recent being conducted June 2019.

Contributed Goods and Services (HCCF)

Donated assets, including securities and property and equipment are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as temporarily restricted support. Absent donor stipulations regarding how long the donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor at which time temporarily restricted net position are reclassified to unrestricted net position. Donated services that require specialized skills or enhance nonfinancial assets are recorded as support at fair value at the time of donation with a corresponding charge to expense.

Net Position Classification and Endowments (HCCF)

The Foundation complies with the provisions of FASB ASC 958-205 *Endowments of Not-for-profit Organizations: Net Asset Classification of Funds* Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds, which provides guidance on net position classification of donor-restricted endowment funds and related disclosures. The Foundation's endowment funds include both donor-restricted and board designated endowment funds. As required by accounting standards generally accepted in the United States of America, net position associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The state of Maryland has adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). UPMIFA was issued by the National Conference of Commissioners on Uniform State Laws to, among other things, improve (a) protection of donor intent with respect to expenditures from endowments and (b) the endowment spending rule by eliminating the historic dollar value concept and provide better guidance regarding the operation of the prudence standard. The Maryland Law is called the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA). Under MUPMIFA, the term "endowment funds" does not include assets that an institution designates as an endowment fund for its own use. However, the disclosures required under ASC 958-205 apply to both donor-restricted and board-designated endowment funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal and State Income Tax Status (HCC and HCCF)

The College is exempt from federal and state income taxes as it is an instrumentality of the State.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation complies with ASC 740-10 Income Taxes, which establishes a threshold for determining when an income tax benefit of a tax position can be recognized. Under ASC 740-10, a tax position includes, among other things, (a) a decision not to file a tax return, (b) an allocation or a shift of income between jurisdictions, (c) the characterization of income or a decision to exclude reporting taxable income in a tax return, (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt, and (e) an entity's status, including its status as a tax-exempt nonprofit entity. Based on its interpretation of the requirements of ASC 740-10, management believes that the Foundation has no uncertain tax positions that qualify for either recognition or disclosure. The Foundation believes it is no longer subject to income tax examinations for years prior to 2012.

Net Position (HCCF)

Net position with donor restrictions is comprised of the following as of June 30:

	2019	2018
Regular Scholarship	$ 6,214,484	$ 5,630,350
Faculty Scholarship	149,582	186,008
Athletic Scholarship	1,729,799	1,624,960
Arboretum	395,693	378,263
CPB Capital Campaign	17,341	17,341
Total	$ 8,506,899	$ 7,836,922

The primary purpose of the Regular Scholarships is to provide financial assistance to students. The Faculty Scholarships were established to provide scholarships to attend Hagerstown Community College to students from Washington County High Schools that have demonstrated high scholastic achievement. Donations to the Arboretum were established to maintain the aesthetic beauty of the College's campus.

The Athletic Scholarship and Booster Leadership Group was established to generate fan support and raise funds to support and promote HCC athletics. In regard to raising funds, the club is associated with the HCC Foundation and all fundraising will be specifically addressed through the Athletic Scholarship and Booster Support Committee. In regard to fan support and community interest, the group continues to operate at their own discretion.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (HCCF) (Continued)

The Foundation was a partner in the Waltersdorf/Henson Endowment Challenge Campaign. The established goal of $800,000 was met in FY08. This matching gift program provided a dollar-for-dollar match creating a $1.6 million fund within the Community Foundation of Washington County (CFWC) to support the Foundation with scholarships and a teaching and learning excellence fund. The Foundation has transferred such funds, which are a component fund of CFWC, and granted variance power to CFWC with respect to such funds. Accordingly, the Foundation has not recognized such funds as an asset. The Foundation is a beneficiary of the investment return on such funds and, accordingly, has recognized the investment return on such fund as contributions. The fair market value of these funds were $2,204,308 and $2,285,464 as of June 30, 2019 and 2018, respectively.

NOTE 3 RISKS AND UNCERTAINTIES (HCC AND HCCF)

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters.

The College purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection concerning instruction of nursing and Allied health students. The College also purchases private stop-loss insurance for employee health coverage. Settled claims have not exceeded this commercial coverage for the past three fiscal years.

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash, cash equivalents, and investments. USMF, directed by the adopted investment policy, manages the majority of the Foundation's investment portfolio.

NOTE 4 CASH AND INVESTMENTS

Deposits (HCC)

As of June 30, 2019 and 2018, the College's carrying value of cash was $1,446,700 and $1,114,712, respectively, and the bank balance was approximately $1,500,000 for both years. All of these funds are insured by the FDIC or collateralized with securities held by the depository institutions.

Short-Term Investments (HCC)

The repurchase agreement as of June 30, 2019 and 2018 was $16,780,888 and $13,844,498, respectively. The College had $5,741,752 and $5,616,597 invested in the Maryland Local Government Investment Pool (MLGIP) at June 30, 2019 and 2018, respectively. The College had $1,362,250 and $2,000,000 in CDs with maturities of 1 year or less at June 30, 2019 and 2018, respectively. These investments are in accordance with Article 95 of the Annotated Code of Maryland.

NOTE 4 CASH AND INVESTMENTS (CONTINUED)

Short-Term Investments (HCC) (Continued)

The investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The categorizations are as follows:

Category 1 – Insured or registered, or securities held by the college or its agent in the College's name.

Category 2 – Uninsured and unregistered, with securities held by the counter party's trust department or agent in the College's name.

	2019			
	Category 1	Category 2	Carrying Amount	Fair Value
Repurchase Agreements	$ -	$ 16,780,888	$ 16,780,888	$ 16,780,888
Investments not Subject to Categorization:				
Investment in Maryland Local Government Investment Pool			5,741,752	5,741,752
Certificates of Deposit			1,362,250	1,362,250
Total Investments			23,884,890	23,884,890
Cash			1,446,700	1,446,700
Total			$ 25,331,590	$ 25,331,590

	2018			
	Category 1	Category 2	Carrying Amount	Fair Value
Repurchase Agreements	$ -	$ 13,844,498	$ 13,844,498	$ 13,844,498
Investments not Subject to Categorization:				
Investment in Maryland Local Government Investment Pool			5,616,597	5,616,597
Certificates of Deposit			2,000,000	2,000,000
Total Investments			21,461,095	21,461,095
Cash			1,114,712	1,114,712
Total			$ 22,575,807	$ 22,575,807

Investment rate risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the College's exposure to fair value losses arising from increasing interest rates, the College's investment policy limits the maturity date of direct investments, unless matched to a specific cash flow, to one year from the date of purchase. The College may invest in instruments that contain some underlying securities with maturity dates greater than one year. College management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the College from having to sell investments below original cost for that purpose. The investments at June 30, 2019, met the College's investment policy as of that date.

NOTE 4 CASH AND INVESTMENTS (CONTINUED)

Short-Term Investments (HCC) (Continued)

Credit Risk

College investment policy does not permit investments in commercial paper or corporate bonds, except as permitted under state law in the state investment pool. The College invests in the Maryland Local Investment Pool (MLGIP) which is under the administration of the State Treasurer. 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. The College maintains a repurchase agreement with Columbia Bank that is collateralized with Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) Notes.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2019, all of the College's investments were insured or collateralized in the College's name, or invested in the MLGIP or in instruments whose underlying securities are comprised solely with obligations of the U.S. Treasury.

Foreign Currency Risk

The College's investment policy does not allow for and does not have investments denominated in foreign currencies.

NOTE 5 INVESTMENTS (HCCF)

The Foundation does not own an undivided interest in the individual investments at USMF. The tables below represents the Foundation's proportional interest in the various investments as reported by USMF. The Foundations investments consisted of the following as of June 30:

	2019			
	Level 1	Level 2	Level 3	Total
Assets at USMF	$ -	$ -	$ 11,154,751	$ 11,154,751

	2018			
	Level 1	Level 2	Level 3	Total
Assets at USMF	$ -	$ -	$ 10,317,157	$ 10,317,157

There were no transfers of assets between Level 1, 2 or 3 classifications for the years ended June 30, 2019 and 2018.

NOTE 5 INVESTMENTS (HCCF) (CONTINUED)

The Foundation's Investment in USMF

The Foundation's USMF investment is held in a commingled investment fund. The Foundation owns an undivided interest in the whole of USMF and does not have the ability to dispose of individual assets and liabilities at USMF, and there are no restrictions on redemptions such as lockup or gate provisions. Therefore, the Foundation reports the fair value of its investment in USMF using the net asset value as reported by USMF. In calculating the net asset value there are a significant amount of USMF's investments that have Level 3 inputs, and as such, the Foundation's investment in USMF is considered a Level 3 investment.

University System of Maryland Foundation

The following describes the investment valuation methodologies used by USMF to arrive at their net asset value which is used to value the Foundation's investment in USMF. Some of USMF's investments may be illiquid and USMF may not be able to vary the portfolio in response to changes in economic and other conditions. Some of the investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if USMF is required to liquidate all or a portion of its portfolio quickly, the Foundation may realize significantly less than the value at which it previously recorded those investments.

Money market funds and short-term investments include amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash. USMF invests in these assets to maintain liquidity for spending needs and unfunded commitment liability. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore bear a risk of loss. USMF has not experienced such losses on these funds.

For investments in U.S. treasury notes and bonds, corporate and foreign bonds, and collateralized mortgage obligations and mortgage-backed securities, fair value is based upon quotes for similar securities.

The value, liquidity, and related income of the investments are sensitive to changes in economic conditions, including real estate value, delinquencies and/or defaults, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates and credit downgrades. USMF invests in these assets to protect in the event of sudden interest rate changes as well as to maintain liquidity for spending needs and unfunded commitment liability.

NOTE 5 INVESTMENTS (HCCF) (CONTINUED)

University System of Maryland Foundation (Continued)

In general, equity securities traded on national securities exchanges are valued at the last quoted sales price, except securities traded on the NASDAQ Stock Market, Inc. (NASDAQ), which are valued in accordance with the NASDAQ Official Closing price. Over the counter securities are valued at the mean between the latest bid and asked prices as furnished by dealers who make markets in such securities. USMF invests in equities to gain exposure to the overall direction of global equity markets.

Absolute return assets consist of investments that involve the purchase and sale of shares in companies that are the subject of publicly announced transactions, including corporate combinations (for cash or exchange of shares), tender offers, restructurings, liquidations, bankruptcies, capitalizations and deals in distressed securities, which are discounted securities of a company in financial distress or bankruptcy. The fair value of these investments is estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments have liquidity provisions that extend past one year, notice period for redemption of investments range from one-month to six-months. There are no outstanding unfunded commitments to this asset category.

Long/short strategies take long and short positions in publicly traded equity securities in an effort to achieve attractive returns with moderate risk. Also included in these categories are off-shore investment vehicles. The investment managers, as noted in the audited financial statements, value the assets held in the fund at all hierarchy levels. However, USMF's subscription agreement locks up its investment for a period of time and does not allow for sale to another. Also, early withdrawal carries a penalty. The fair value of these investments has been estimated using the net asset value per share of the investments. The majority of these investments can be redeemed within one year. The remainder of these investments has liquidity provisions that extend past one year. Notice period for redemption ranges from one-month to six-months. There are no outstanding commitments to this asset category.

Private capital consists of private equity and venture capital investments. Private equity investments represent purchases of all or a portion of the equity interest in a company and the arrangement allows the purchasing group to take control. Venture capital investments are made in nonmarketable securities of new companies or companies considered to be in the early stages of growth.

Real estate and energy and natural resources investments include investments in partnerships where the underlying investment is real estate or related to the energy sector. Investments in private equity investment companies and funds are presented at fair value as approved by USMF's management, based in part, on information and valuations provided by the general partner of the partnerships or investment manager.

NOTE 5 INVESTMENTS (HCCF) (CONTINUED)

University System of Maryland Foundation (Continued)

The general partner or manager generally values the investments at fair value. Securities with no readily available market are initially valued at cost, with subsequent adjustment to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by USMF's management. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment company/fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Such value represents USMF's proportionate share of the capital in the investment company/fund. Accordingly, the value of the investment is generally increased by additional contributions and the share of net earnings from the investments, and decreased by distributions from the partnerships and the partner's share of net losses. These investments have been labeled as Level 3 based on their lock up periods and the transparency of their assets. Redemption of these investments is left to the discretion of the general partner/manager of the funds. Distributions from each fund will be received as the underlying investments are liquidated. As of June 30, 2019, unfunded commitments within the private capital category equal approximately 38.6% of the assets in those categories, respectively.

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 the Foundation 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.

Net investment return (loss) consisted of the following for the years ended June 30:

	2019	2018
Interest, Dividends, and Other Activity	$ 165,563	$ 155,947
Realized Gain on Sale of Investments	366,679	317,925
Unrealized Gain (Loss) on Investments	206,755	444,579
Total Investment Return	738,997	918,451
Less: Investment Management Fees	88,517	99,866
Investment Return, Net	$ 650,480	$ 818,585

NOTE 6 PLEDGES RECEIVABLE (HCCF)

Pledges receivable consisted of the following at June 30:

	2019	2018
Receivable in Less than One Year	$ 76,150	$ 28,750
Receivable in One to Five Years	129,414	27,776
Total Unconditional Promises to Give	205,564	56,526
Less: Discounts to Net Present Value	10,294	1,699
Less: Allowance for Uncollectible Promises	10,000	10,000
Net Unconditional Promises to Give	$ 185,270	$ 44,827
Pledges Receivable, Current Portion	$ 77,178	$ 28,093
Pledges Receivable, Long-Term	108,092	16,734
Total Pledges Receivable	$ 185,270	$ 44,827

Unconditional promises to give have been discounted at 2.12% and 2.34%, respectively.

NOTE 7 CAPITAL ASSETS (HCC)

Capital assets are stated at cost, if purchased, and at acquisition value, if donated. Depreciation of physical plant and equipment is provided on a straight-line basis over the useful lives of the assets ranging from 5 to 50 years. Included under the equipment category for financial reporting purposes is the College's investment in library books.

	2018	Additions	Deletions	2019
Land and Land Improvements	$ 3,934,196	$ -	$ -	$ 3,934,196
Buildings	117,018,748	2,413,830	-	119,432,578
Infrastructure	7,745,726	586,451	-	8,332,177
Equipment	18,752,825	1,694,750	(365,590)	20,081,985
Construction in Progress	1,028,573	70,314	(985,502)	113,385
Total Property, Plant, and Equipment	148,480,068	4,765,345	(1,351,092)	151,894,321
Less: Accumulated Depreciation	50,753,015	3,741,718	(363,986)	54,130,747
Capital Assets, Net	$ 97,727,053	$ 1,023,627	$ (987,106)	$ 97,763,574

	2017	Additions	Deletions	2018
Land and Land Improvements	$ 3,934,196	$ -	$ -	$ 3,934,196
Buildings	116,893,501	125,247	-	117,018,748
Infrastructure	7,710,525	35,201	-	7,745,726
Equipment	18,575,801	665,966	(488,942)	18,752,825
Construction in Progress	176,353	852,220	-	1,028,573
Total Property, Plant, and Equipment	147,290,376	1,678,634	(488,942)	148,480,068
Less: Accumulated Depreciation	47,353,396	3,844,065	(444,446)	50,753,015
Capital Assets, Net	$ 99,936,980	$ (2,165,431)	$ (44,496)	$ 97,727,053

NOTE 8 RETAINAGE (HCC)

As of June 30, 2019, the College withheld retainage totaling approximately $157,109. The retainage predominately relates to the Smart House construction projects. This represents less than 4% of completed work as of June 30, 2019.

NOTE 9 INTERFUND BORROWINGS (HCC)

Interfund borrowings have been made principally by current funds from plant and agency funds to finance expenditures until related receivables from governmental agencies are collected. All amounts are due currently.

NOTE 10 DEFERRED REVENUE (HCC)

Deferred Revenue consists primarily of tuition and fees resulting from registrations received for summer classes and fall school programs starting after July 1st. Deferred revenue as of June 30, 2019 and 2018 was $4,868,430 and $5,090,927, respectively.

NOTE 11 AGENCY FUNDS (HCC)

Funds held by the College as custodian or fiscal agent for others, such as student organizations, used to support various student activities not directly related to instructional activities, are accounted for as agency funds and are excluded from these financial statements.

NOTE 12 RETIREMENT PLANS (HCC)

Plan Description

The employees of the College are covered by one of the following defined benefit pension plans affiliated with the State Retirement and Pension System of Maryland (the System).

The Teachers Retirement System of the State of Maryland
Employees Retirement System of the State of Maryland
Pension System for Teachers of the State of Maryland
Pension System for Employees of the State of Maryland

These systems provide pension and death and disability benefits to plan members and beneficiaries. The plans are administered by the State Retirement Agency (Agency). The responsibility for the administration and operation of the System is vested in a 14-member board of trustees. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System.

NOTE 12 RETIREMENT PLANS (HCC) (CONTINUED)

Plan Description (Continued)

That report may be obtained by writing to the Office of Legislative Audits, State Office Building, 301 West Preston Street, Baltimore, Maryland, 21201, or by calling (410) 225-1400.

Funding Policy

The State Personnel and Pensions Article require active members to contribute to the System at the rate of 5% or 7% of their covered salary depending upon the retirement option selected. The contribution rate under the state Employees' and Teachers' Pension Enhancement Benefit Act of 2006, which became effective July 1, 2006, was increased to 7% in FY13 of the member's earnable compensation. The combined State contribution rate for 2018 and 2019 of 15.71% and 15.79%, respectively, of covered payroll. The unfunded actuarial accrued liability which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

Contributions

For the years ended June 30, 2019 and 2018, the College's annual pension cost of $1,549,829 and $1,572,090, respectively, was equal to its required and actual contributions made in accordance with an actuarial valuation performed as of June 30, 2019 and 2018. The state of Maryland contributed $1,354,304 in 2019 and $1,395,726 in 2018. This amount is included as both revenue and expense (Certain Fringe Benefits Paid by the State of Maryland) in the accompanying statements as required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

The College has a responsibility for funding employees' contributions that are members of the Employees' Retirement System of the State of Maryland. Therefore, the College has been instructed to treat this plan as a cost-sharing multi-employer defined benefit pension plan.

Pension Costs

At June 30, 2019 and 2018, the College reported a liability of $1,855,697 and $1,675,426, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's contributions to the System in relation to total system contributions including direct aid from the state of Maryland. At June 30, 2018 and 2017, the College's proportionate share was 0.0088% and 0.0077%, respectively.

NOTE 12 RETIREMENT PLANS (HCC) (CONTINUED)

Pension Costs (Continued)

For the years ended June 30, 2019 and 2018, the College recognized pension expense of $312,030 and $123,740, respectively.

At June 30, 2019 and 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	2019	2018
Changes in Assumptions	$ 47,367	$ 57,528
Change in Proportion	312,416	181,898
Net Difference Between Projected and Actual Investment Earnings	56,465	174,967
Contributions Subsequent to the Measurement Date	195,525	176,364
Total	$ 611,773	$ 590,757

Deferred Inflows of Resources	2019	2018
Change in Proportion	$ 11,560	$ 14,534
Net Difference Between Projected and Actual Experience	137,160	47,875
Total	$ 148,720	$ 62,409

Deferred inflows and outflows of resources are made up of employer contributions, changes in actuarial assumptions, differences in actual and expected experience, and net differences in the projected and actual investment earnings. Deferred outflows related to employer contributions made subsequent to the plan's actuarial measurement date reduce net pension liability in the fiscal year in which the related actuarial measurement date is used to measure the net pension liability, generally the following fiscal year. Employer contributions included in deferred outflows as of year-end reduces net pension liability for the subsequent year. The deferred inflows and outflows related to noninvestment activity are being amortized over the remaining service life of 5.78 years. The deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for is being amortized over a closed five-year period. The following table shows the amortization of the balances:

Fiscal Year Ending	Amount
2020	$ (134,394)
2021	(94,020)
2022	(2,663)
2023	(13,231)
2024	(23,220)

NOTE 12 RETIREMENT PLANS (HCC) (CONTINUED)

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2018 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Amortization method – Level Percentage of Payroll, Closed
- Inflation – 2.60%, general, 3.10% wage (2019); 2.65%, general, 3.15% wage (2018)
- Salary increases – 3.40% to 9.10%(2019); 3.15% to 9.15% (2018), including inflation
- Discount rate – 7.45% (2019); 7.50%(2018)
- Investment rate of return – 7.45% (2019); 7.50%(2018)
- Mortality – RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

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

2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	5.80%
Private Equity	13%	6.70%
Rate Sensitive	19%	1.10%
Credit Opportunity	9%	3.60%
Real Assets	14%	4.80%
Absolute Return	8%	3.20%
Total	100%	

NOTE 12 RETIREMENT PLANS (HCC) (CONTINUED)

Actuarial Assumptions (Continued)

2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.45% in 2019 and 7.5% in 2018. This single discount rate was based on the expected rates of return on pension plan investments of 7.45% and 7.50% in 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the College's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

2019

Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.45%	7.45%	8.45%
College's Proportionate Share of the Net Pension	$ 2,672,840	$ 1,855,697	$ 1,177,527

2018

Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
College's Proportionate Share of the Net Pension	$ 2,374,410	$ 1,675,426	$ 1,095,467

NOTE 12 RETIREMENT PLANS (HCC) (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the System's fiduciary's net position is available in a separately-issued System financial report which may be requested by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202 or by calling 410-625-5555.

Optional Retirement Plan

Professional employees otherwise eligible to join the state of Maryland Plan may choose instead to join the Optional Retirement Plan (ORP) administered by the state of Maryland. This plan is a noncontributory defined contribution plan. The plan provides for retirement and death benefits. The plan was established by and can be amended by the State Legislature. The state of Maryland contributes 7.25% of eligible salaries on behalf of the College. Contributions were $393,076 and $375,108 for 2019 and 2018, respectively. This amount is included as both revenue and expense (Certain Fringe Benefits Paid by the State of Maryland) in the accompanying statements as required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*

Deferred Compensation Plan

The College offers a defined contribution 403(B) plan to all of its eligible employees. The plan is contributory on a voluntary basis with all contributions being paid to the trustee. The College makes no basic or matching contributions on behalf of its employees.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB) (HCC)

Plan Description

The College offers postemployment medical benefits (medical, prescription drug, and dental) to eligible retirees and their dependents. One plan is offered for medical plus prescription and one plan is offered for dental coverage. Both plans are self-funded and eligible retirees are required to pay a premium based on their years of service. Premiums are approved by the board of trustees. Employees (and spouses) are eligible to receive benefits from the Retiree Medical Plan upon retirement, if they are enrolled in the active medical plan immediately prior to retiring. The eligibility for retirement is the same as under the Maryland State Pension System (regardless of the actual pension plan enrolled in) with the added requirement of at least 10 years of service. These requirements include either 30 years of service, or age 55 and 15 years of service, or age 62 and 10 years of service. Retired employees and their spouse are eligible to continue participation for life.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

Employees Covered by Benefit Terms

Substantially all full-time employees may qualify for these benefits. At June 30, 2019 and 2018, the following employees were covered by the benefit terms:

Retirees Currently Receiving Benefits	104
Active Employees	255
Total Plan Members	359

Contributions

During fiscal year 2017, the College's board of trustees elected to provide funding to the OPEB Trust of $1,038,078. The College will continue to pay benefits on a pay-as-go basis with the College's general funds. The trust balance as of June 30, 2019 was $6.6 million.

Net OPEB Liability

The College's total and net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of June 30, 2019.

Actuarial Methods and Assumptions

The total OPEB liability actuarial valuation for June 30, 2019 and 2018 was determined using entry age normal method and the following actuarial assumptions:

Inflation Rate	3.0%
Salary Increases	4.0%
Investment Rate of Return	7.3%
Healthcare Cost Trends Rates	4.50 - 6.50%
Dental Cost Trend Rate	4.0%

Long-term Expected Rate of Return

The long-term expected total rate of return is 7.3% for June 30, 2019 and 2018. The allocation was based on the best estimates of arithmetic real rates of return by major asset class presented below:

Asset Class	Targeted Allocation	Expected Rate of Return
Domestic Equity	65%	8.5%
Fixed Income	30%	5.7%
Cash Equivalents	5%	1.0%

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

Discount Rate

A projection of cash flows was used to determine the discount rate. The analysis shows that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments for the lifetime of every individual in the census. As such, the discount rate used to measure the total OPEB liability was 7.3%, which is the long-term expected rate of return.

Net OPEB Plan's Fiduciary Net Position

The elements of the OPEB Plan are summarized below:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Beginning Balance - June 30, 2018	$ 5,757,442	$ 6,203,587	$ (446,145)
Changes for the Year:			
Service Cost	154,573	-	154,573
Interest	404,354	-	404,354
Experience Losses	(41,626)	(39,014)	(2,612)
Employer Contributions	-	-	-
Net Investment Income	-	413,848	(413,848)
Changes in Assumptions	373,213	39,014	334,199
Benefit Payments	(436,639)	-	(436,639)
Net Changes	453,875	413,848	40,027
Ending Balance - June 30, 2019	$ 6,211,317	$ 6,617,435	$ (406,118)

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Beginning Balance - June 30, 2017	$ 5,828,400	$ 5,793,344	$ 35,056
Changes for the Year:			
Service Cost	121,996	-	121,996
Interest	121,438	-	121,438
Experience Losses	(204,867)	-	(204,867)
Employer Contributions	-	-	-
Net Investment Income	-	410,243	(410,243)
Changes in Assumptions	(1,460)	-	(1,460)
Benefit Payments	(108,065)	-	(108,065)
Net Changes	(70,958)	410,243	(481,201)
Ending Balance - June 30, 2018	$ 5,757,442	$ 6,203,587	$ (446,145)

The plan funded status is 106.5% and 107.7% as of June 30, 2019 and 2018, respectively.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following presents the net OPEB liability if it were calculated using a discount rate that is 1% point lower and 1% higher than the current discount rate.

	Discount Rate		
2019	1% Increase	Valuation Rate	1% Decrease
Net OPEB Liability (Asset)	$ (1,356,541)	$ (406,118)	$ 376,307

	Discount Rate		
2018	1% Increase	Valuation Rate	1% Decrease
Net OPEB Liability (Asset)	$ (1,234,836)	$ (446,145)	$ 342,546

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the years ended June 30, 2019 and 2018, the College recognized OPEB expense of $408,604 and $37,108, respectively. At June 30, 2019 and 2018, the College reported deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources	2019	2018
Net Difference Between Projected and Actual Investment Earnings	$ 41,214	$ -
Total	$ 41,214	$ -
Deferred Inflows of Resources		
Change in Assumptions	$ 378,196	$ 6,173
Net Difference Between Projected and Actual Experience	653,989	850,357
Total	$ 1,032,185	$ 856,530

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending	Amount
2020	$ 203,550
2021	203,550
2022	203,550
2023	192,553
2024	112,870
2025	62,658
2026	12,241

NOTE 14 ENDOWMENT (HCCF)

The Foundation's endowments consist of approximately 180 named funds established to support a variety of scholarship programs and other activities at Hagerstown Community College. The endowment may include both donor-restricted endowment funds and funds designated by the board of directors to function as endowment funds. The 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.

The Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) has been interpreted as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the gifts donated, (b) the original value of the subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions is classified as board designated unrestricted net assets until those amounts are appropriated for expenditure by the board in a manner consistent with MUPMIFA.

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 endowment fund
2) The purpose of the Institution and the endowment fund
3) The general economic conditions
4) The possible effect of inflation or deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Institution
7) The investment policies of the Foundation

The Foundation has adopted investment policies employed by USMF for the Foundation's Endowment which seeks to provide a steady and sustainable distribution of funds to provide a source of income for scholarship assistance and other financial assistance for the benefit of the College's students and faculty. USMF governs according to fundamental investment principles approved by its investment committee and board of directors, with the objective of achieving superior risk adjusted returns in order to grow the corpus of the capital base and provide capital for spending distributions. Specifically, the goal of the Endowment is to achieve returns in excess of inflation plus spending plus fees.

NOTE 14 ENDOWMENT (HCCF) (CONTINUED)

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (liquid investments), private risk assets (illiquid portion of the portfolio), and safe assets (cash and U.S. Government securities). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overlay class (liquid, exchange traded instruments that aim to hedge against undesired risks). The asset allocation target ranges inclusive of these securities as of June 30, 2019 is as follows:

Safe Assets	0% - 25%
Intermediate Assets	15% - 25%
Portfolio Overlay	0% - 5%
Public Risk Assets	45% - 75%
Private Risk Assets	20% - 40%

The Endowment Portfolio is constructed based on the following principles:

1) Allocation: The overall goal of the investment committee at USMF is to establish asset classes in a range to create balance across the portfolio between sources of return, liquidity timeliness, and types of risk. The allocation to safe assets is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Portfolio overlay is another line of defense for capital preservation. The target allocation is set to 0% because allocating capital to this asset class will only be on an as needed opportunistic basis. The public risk assets are actually parsed in four sub-asset classes which further define the portfolio's risk. These sub classes are (a) public equity, which is the primary growth drive of the portfolio (b) public credit provides a differentiated source of return from the overall equity markets and diversify our public market risk, (c) real return represents a hedge against inflation, so as to preserve the endowment's corpus, and (d) pure alpha, which is a portion of the portfolio that invests with niche investment managers that provide idiosyncratic sources of investment return. Private risk assets are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. These investments are also further defined into two sub-asset classes. They are: (a) private equity transactions that take ownership in companies across the spectrum of their life cycles and (b) private credit investments.

NOTE 14 ENDOWMENT (HCCF) (CONTINUED)

2) Diversification: By allocating funds to asset classes whose returns are not highly correlated over time, USMF's Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions that might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in one fund and no more than 10% of the Fund's assets may be invested in one manager. The Investment Committee, however, may make an exception in special circumstances.

3) Rebalancing: In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations ranges.

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be distributed for current spending. If the agreement with the donor so provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Some agreements provide that the corpus can be invaded to provide for spending stability.

NOTE 14 ENDOWMENT (HCCF) (CONTINUED)

Endowment net asset composition by type of fund consisted of the following as of:

	June 30, 2019		
	Without Donor Restriction	With Donor Restriction	Total
Board Designated Endowment Funds	$ 2,798,770	$ -	$ 2,798,770
Donor Restricted Endowment Funds	-	8,355,981	8,355,981
Total	$ 2,798,770	$ 8,355,981	$ 11,154,751

	June 30, 2018		
	Without Donor Restriction	With Donor Restriction	Total
Board Designated Endowment Funds	$ 2,626,742	$ -	$ 2,626,742
Donor Restricted Endowment Funds	-	7,690,415	7,690,415
Total	$ 2,626,742	$ 7,690,415	$ 10,317,157

The changes in endowment net assets for the years ended June 30, 2019 and 2018 were as follows:

	June 30, 2019		
	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets - June 30, 2018	$ 2,626,742	$ 7,690,415	$ 10,317,157
Investment Return:			
Investment Income, Net	19,774	57,272	77,046
Net Appreciation	147,010	426,424	573,434
Total Investment Return	166,784	483,696	650,480
Contributions	232,592	663,163	895,755
Appropriation of Endowment Assets for Expenditure	(227,348)	(481,293)	(708,641)
Endowment Net Assets - June 30, 2019	$ 2,798,770	$ 8,355,981	$ 11,154,751

	June 30, 2018		
	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets - June 30, 2017	$ 2,491,888	$ 7,050,421	$ 9,542,309
Investment Return:			
Investment Income, Net	13,903	42,178	56,081
Net Appreciation	198,665	563,839	762,504
Total Investment Return	212,568	606,017	818,585
Contributions	190,940	398,867	589,807
Appropriation of Endowment Assets for Expenditure	(268,654)	(364,890)	(633,544)
Endowment Net Assets - June 30, 2018	$ 2,626,742	$ 7,690,415	$ 10,317,157

NOTE 15 RELATED PARTY TRANSACTIONS (HCC & HCCF)

The following is a summary of transactions between the Foundation and the College as of and for the years ended June 30:

	2019	2018
Contributions to the College for Scholarships	$ 753,144	$ 742,913
Other Contributions to the College	71,986	134,470
In-Kind Services Performed by the College	236,053	256,312
Due to (from) the College - Operating Expenses	57,202	52,496
Due to (from) the College - Scholarships Expenses	9,100	19,631
Due to (from) the College - Grants Payable	16,330	16,117

NOTE 16 RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current period presentation. The reclassifications had no effect on the reported results of operations.

NOTE 17 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The College has determined there was no effect on its financial statements during the adoption of this standard.

The GASB has also issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The College has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The College has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

NOTE 17 RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS (CONTINUED)

The GASB has also issued Statement No. 90, *Majority Equity Interests*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The College has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

The GASB has also issued Statement No. 91, *Conduit Debt Obligations*, which is effective for fiscal years beginning after December 15, 2020. Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitment extended by issuers (2) arrangement associated with conduit debt obligations, and (3) related note disclosures. The College has not yet determined the effect that the adoption of GASB Statement No. 91 may have on its financial statements.

NOTE 18 SUBSEQUENT EVENTS (HCC AND HCCF)

The College and Foundation have evaluated events and transactions subsequent to June 30, 2019 through October 30, 2019, the date these financial statements were available to be issued. Based on the definitions and requirements of accounting principles generally accepted in the United States of America, management has not identified any events that have occurred subsequent to June 30, 2019 through October 30, 2019, that require recognition or disclosure in the financial statements.

HAGERSTOWN COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

June 30,	2019	2018	2017
College's Proportion of Net Pension Liability*	0.008%	0.008%	0.008%
College's Proportionate Share of Net Pension Liability*	$ 1,855,697	$ 1,675,426	$ 1,846,256
College's Covered-Employee Payroll	$ 10,642,152	$ 10,515,194	$ 10,411,083
College's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	17.44%	15.93%	17.73%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability*	69.38%	69.38%	62.97%

*Amounts were determined as of the end of the previous fiscal year.

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

HAGERSTOWN COMMUNITY COLLEGE
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

June 30,	2019	2018	2017
Statutorily Required Contributions	$ 195,525	$ 176,364	$ 157,699
Contributions in Relation to Statutorily Required Contributions	195,525	176,364	157,699
Contribution Deficiency (Excess)	$ -	$ -	$ -
College's Covered-Employee Payroll	$ 10,642,152	$ 10,515,194	$ 10,411,083
Contributions as a Percentage of Covered-Employee Payroll	1.8%	1.7%	1.5%

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

Methods and Assumptions used in Calculations of Actuarially Determined Contributions:

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system
Asset Valuation Method	5-year smoothing market; 20% collar
Inflation	2.6% general, 3.1% wage
Salary Increases	3.15% to 9.15% including inflation
Investment Rate of Return	7.45%
Retirement Age	Experienced based table of rates that are specific to the eligibility condition. Last update for 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality tables

HAGERSTOWN COMMUNITY COLLEGE
SCHEDULE OF CHANGES IN COLLEGE'S NET OPEB LIABILITY AND RELATED RATIOS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

June 30,	2019	2018
Total OPEB Liability:		
Service Costs	$ 154,573	$ 121,996
Interest	404,354	121,438
Experience Losses	(41,626)	(204,867)
Changes in Assumptions	373,213	(1,460)
Benefit Payments	(436,639)	(108,065)
Net Change in Total OPEB Liability	453,875	(70,958)
Total OPEB Liability:		
Beginning	5,757,442	5,828,400
Ending	6,211,317	5,757,442
Plan Fiduciary Net Position:		
Employer Contributions	-	-
Net Investments Income	413,848	410,243
Net Change in Fiduciary Net Position	413,848	410,243
Fiduciary Net Position:		
Beginning	6,203,587	5,793,344
Ending	6,617,435	6,203,587
College's Net OPEB (Asset) Liability - Ending	$ (406,118)	$ (446,145)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	106.5%	107.7%
Covered-Employee Payroll	$ 14,866,877	$ 14,719,680
College's Net OPEB Liability as a Percentage of Covered-Employee Payroll	-2.7%	-3.0%

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

NOTE 1 CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE 2 CHANGES OF ASSUMPTIONS – PENSION

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

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

Board of Trustees
Hagerstown Community College
Hagerstown, Maryland

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 business-type activities, and the discretely presented component unit of Hagerstown Community College (the College), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 30, 2019.

The financial statements of Hagerstown Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting of reportable noncompliance associated with Hagerstown Community College Foundation, Inc.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the 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 control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 control, such that there is a reasonable possibility that a material misstatement of the entity'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 control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 determination of financial statement amounts. 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 control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control 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 control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 30, 2019