HAGERSTOWN COMMUNITY COLLEGE

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2023

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HAGERSTOWN COMMUNITY COLLEGE
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hagerstown Community College
Hagerstown, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and the aggregate remaining fund information of Hagerstown Community College (the College), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of Hagerstown Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

Emphasis of Matter

During the fiscal year ended June 30, 2023, the College adopted GASB Statement No. 96, *Subscripted-Based Information Technology Arrangements*. Our auditors' opinion is not modified with respect to this restatement.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

Board of Trustees
Hagerstown Community College

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Net OPEB Liability and Related Ratios, the Schedule of the College's Proportionate Share of the Net Pension Liability, and the Schedule of the College's Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 14, 2023 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 14, 2023

Financial Highlights

For the fiscal year ended June 30, 2023, the College recorded total operating revenues of $15,915,180 and total operating expenses of $48,882,456. The difference produced an operating loss of $32,967,276. Net nonoperating revenue of $33,292,009 offset this loss and resulted in an overall increase in net position of $324,733.

Approximately $11.1 million of the College's operating revenue is generated from student tuition and fees net of the scholarship allowance. The credit tuition rates remained the same during the fiscal year at In-County tuition at $123, Out-of-County at $192, Out-of-State at $252, and the neighbor rate at $236. Fee projections were based on actualized fee revenue and enrollment projections. Overall, total credit FTE increased 2.5% over FY22 and noncredit FTE increased by 22.5%. Scholarship allowance decreased from FY22 ($4,007,076) to FY23 ($3,254,426). Public institutions 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, and the Technical Innovation Center totaled $1.65 million, a 22.7% increase from the previous year. With expenses totaling $2.0 million, auxiliary enterprises realized a net loss of $353,159. The FY22 net loss from auxiliary operations was $472,158.

Operating revenue from federal grants and contracts of $1.8 million is a 33.7% increase from FY22. The prior year reflected a 1.2% decrease. Student financial assistance and funding to support career education, adult basic education, and student support services account for the majority of this revenue stream.

Nonoperating revenue includes State appropriations of $13.9 million, County appropriations of $10.0 million, and Federal appropriations of $5.5 million. While the state revenue stream increased by 22.9%, the county contribution remained flat. Capital appropriations declined by $3.7 million in FY23 to $1.3 million. Benefits paid on behalf of the College by the state of Maryland were $1.8 million, a slight increase over the previous fiscal year.

The College's net position increased from $139.8 million to $140.1 million at June 30, 2023.

Statement of Net Position

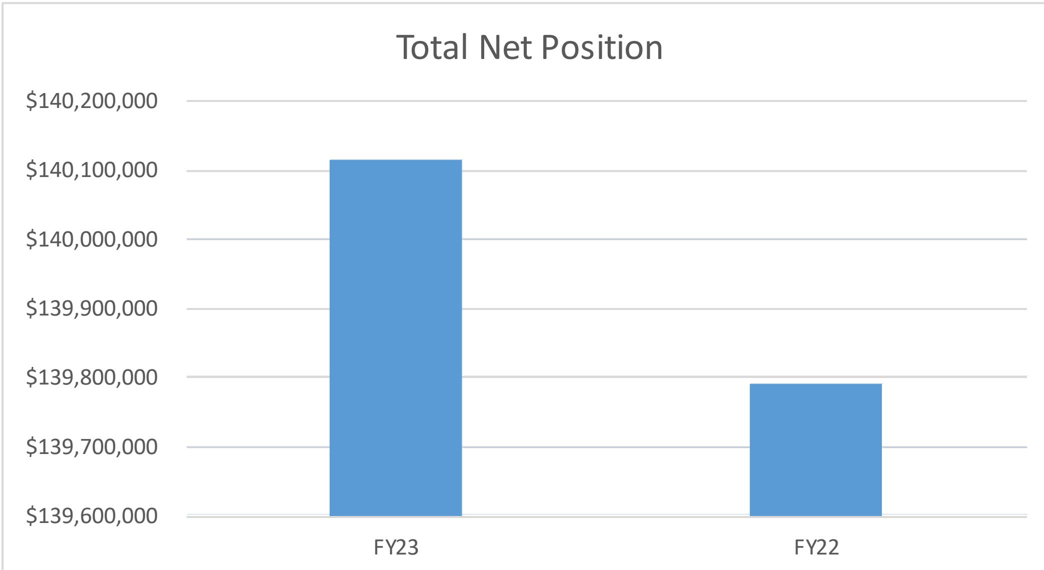
The Statement of Net position reports all of the College's financial and capital resources using the accrual basis of accounting. Under GASB 34, this financial statement reports the difference between assets and deferred outflows and liabilities and deferred inflows as net position. This is one way to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

Net position is divided into three categories:

- Net investment in capital assets are assets held net of debt in the property, plant and equipment of the College.
- Restricted net position are assets available to the College but reserved for a specific purpose by a third-party or legislation.
- Unrestricted net position are assets available to the College without restrictions.

Net Position
June 30, 2023 and 2022

	FY23	FY22
Assets		
Current Assets	$ 40,443,617	$ 38,970,530
Noncurrent Assets, Net	109,588,894	108,065,206
Total Assets	$ 150,032,511	$ 147,035,736
Deferred Outflows	$ 2,407,655	$ 2,801,226
Liabilities		
Current Liabilities	$ 7,709,324	$ 5,521,329
Noncurrent Liabilities	4,070,808	2,289,574
Total Liabilities	$ 11,780,132	$ 7,810,903
Deferred Inflows	$ 545,806	$ 2,236,564
Net Position		
Net Investment in Capital Assets	$ 107,215,260	$ 106,598,253
Restricted	168,658	168,659
Unrestricted-Board Designated	26,647,147	23,015,757
Unrestricted	6,083,163	10,006,826
Total Net Position	$ 140,114,228	$ 139,789,495



Current Assets increased $1.5 million to $40.4 million in FY22. Noncurrent Assets increased 1.4% to $109.6 million.

The most significant changes to the total Noncurrent assets were an increase to capital assets in the amount of $1.9 million and a decrease to OPEB asset of $283K.

Capital Assets, Net
June 30, 2023 and 2022

	FY23	FY22
Land and Land Improvements	$ 5,269,419	$ 5,269,419
Buildings	134,765,141	133,389,183
Infrastructure	8,848,500	8,848,500
Equipment	27,728,567	25,224,699
Right-To-Use Assets - Leases	1,207,206	1,453,831
Right-To-Use Assets - SBITA	2,200,638	-
Construction in Progress	992,460	106,840
Total Property, Plant, and Equipment	181,011,931	174,292,472
Less: Accumulated Depreciation/Amortization	(71,465,754)	(66,621,444)
Capital Assets, Net	$ 109,546,177	$ 107,671,028

Liabilities include accounts payable, accrued salaries and taxes, unearned revenue, compensated absences, lease and subscription liability and net pension liability. Total liabilities increased from FY22 to FY23 in the amount of $4.0 million. The most significant changes are due to increases in unearned revenue of $1.4 million, lease and subscription liability of $930K, accounts payable of $324K, OPEB liability 463K, and net pension liability of $413K.

Unrestricted net position decreased from $33,022,583 in FY22 to $32,730,310 in FY23. The decrease is a result of additional investments in capital assets.

The College's goal is to maintain unrestricted net position, not otherwise designated by the Board of Trustees, 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 net position will become even more important. Additionally, discussions continue between College administration and the board of trustees regarding the possible use of unrestricted net position. The HCC Board of Trustees annually reviews prior commitments of unrestricted net position and considers new areas to designate these funds ensuring they align with institutional priorities and the overall mission of the College.

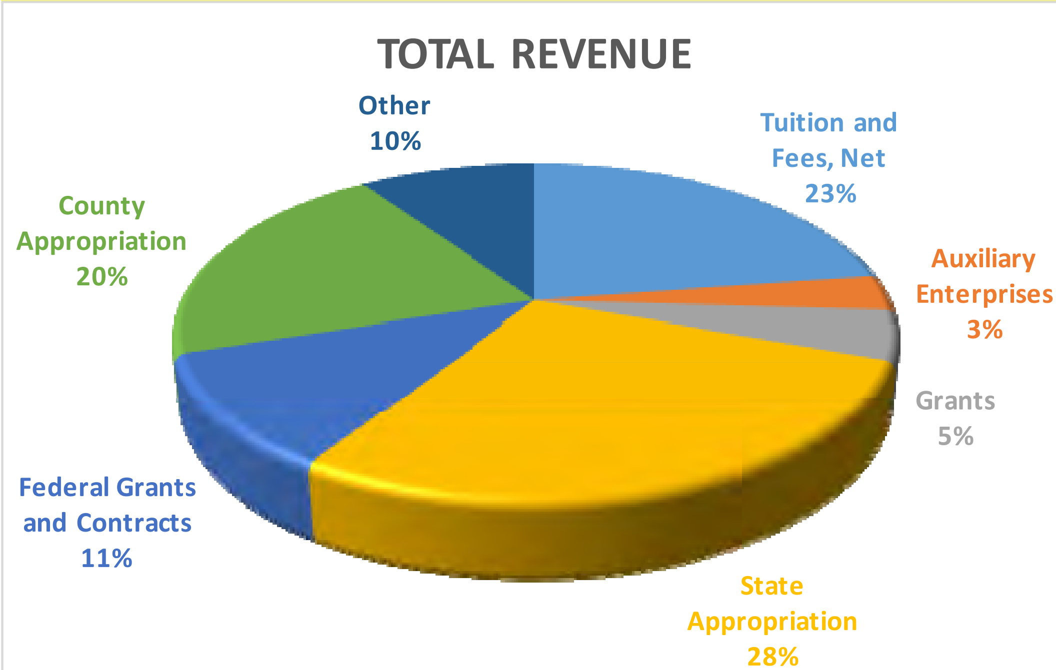
Statements of Revenues, Expenses, and Changes in Net Position

The purpose of this statement is to present the revenues realized and expenses incurred by the College, both operating and nonoperating, 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. Nonoperating revenues are revenues for which goods and services are not provided. Examples of nonoperating revenue are State and County Appropriations.

Revenues, Expenses and Changes in Net Position
June 30, 2023 and 2022

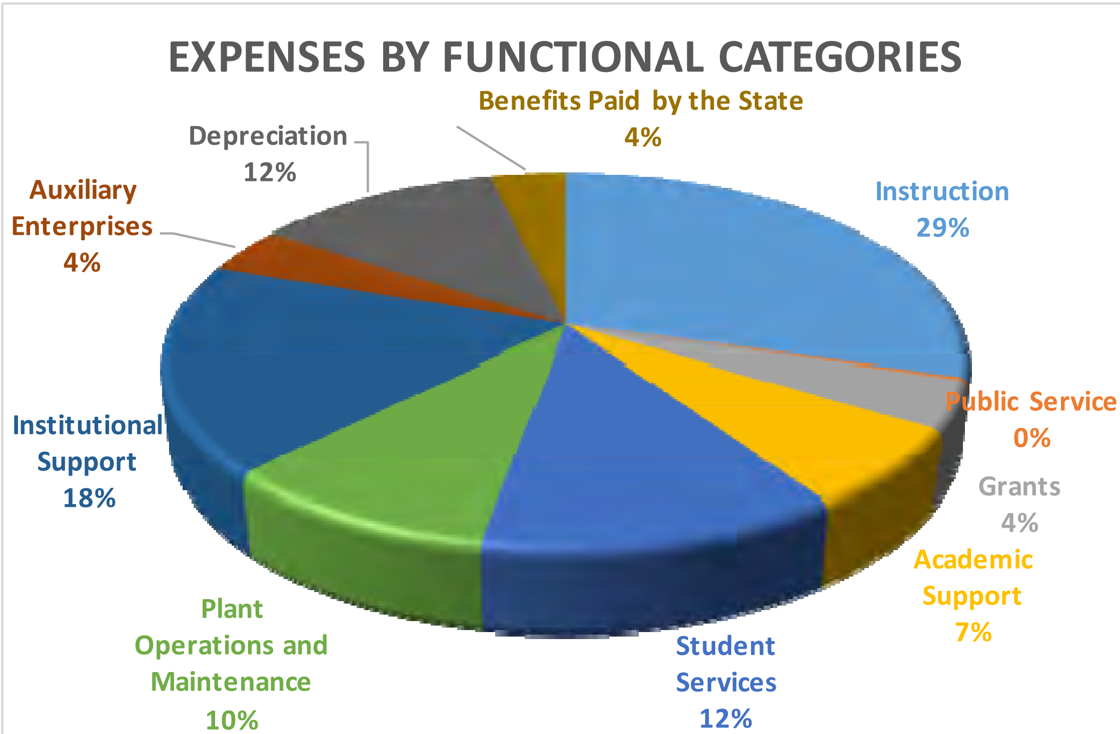
	FY23	FY22
Operating Revenues and Expenses		
Tuition and Fees, Net	$ 11,118,216	$ 9,926,050
Auxiliary Enterprises	1,652,224	1,348,725
Grants and Contracts	2,282,085	2,067,329
Other	862,655	2,911,972
Total Operating Revenue	$ 15,915,180	$ 16,254,076
Total Operating Expenses	$ 48,882,456	$ 54,071,913
Nonoperating Revenues and Expenses		
State Appropriation	$ 13,959,737	$ 11,357,531
Federal Grants and Contracts	5,467,854	16,142,012
County Appropriation	10,035,290	10,035,290
Capital Appropriation	1,327,015	4,996,061
Investment Income	733,850	26,919
Certain Fringe Benefits Paid by State	1,758,039	1,822,296
Other Sources (Uses)	10,224	25,324
Total Nonoperating Revenues and Expenses	33,292,009	44,405,433
Increase in Net Position	324,733	6,587,596
Net Position - Beginning of Year	139,789,495	133,201,899
Net Position - Current Year	$ 140,114,228	$ 139,789,495



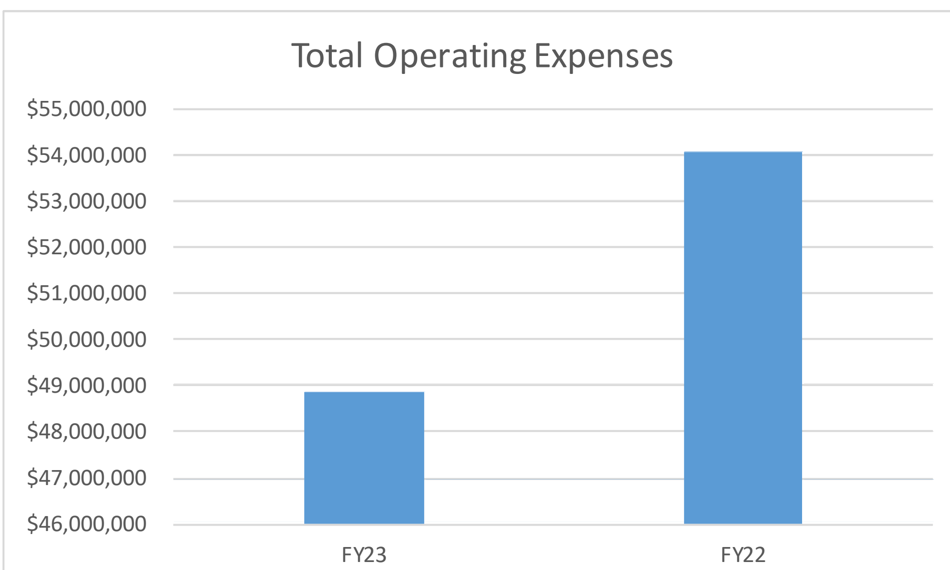
- Tuition and fees, net of scholarship allowances, accounts for 23% of the total revenue of the College. The absolute dollar amount increased by approximately $1.2 million from FY22.
- Auxiliary Enterprises account for approximately 3% of the College's total revenue, which is a $303 thousand increase from FY22. This revenue source includes the Campus Store, Technical Innovation Center and Food Services.
- Federal grants and contracts account for approximately 11.1% of total revenues in FY23. The revenue of $7.3 million decreased approximately $10.2 million from FY22.
- State and County Appropriations, excluding capital appropriations, accounts for 48.8% of the total institutional revenue. As a percentage of total institutional revenue, this revenue source increased 12.2% when compared to the previous fiscal year.
- Capital appropriations from the State and County decreased $3.7 million to $1.3 million.

Operating expenses by functional categories are:

	FY23	FY22
Instruction	$ 14,381,977	$ 13,076,916
Public Service	111,498	242,571
Grants	1,992,996	6,029,911
Academic Support	3,319,590	3,147,202
Student Services	6,007,079	4,767,562
Plant Operations and Maintenance	4,718,255	5,021,907
Institutional Support	8,754,586	13,198,186
Auxiliary Enterprises	2,009,614	1,819,386
Depreciation and Amortization	5,828,822	4,945,976
Benefits Paid by the State	1,758,039	1,822,296
Total	$ 48,882,456	$ 54,071,913



Overall, operating expenditures decreased by $5.2 million. The most significant change attributing to the overall decrease is from institutional support which is $4.4 million less than FY22.



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 $29.8 million and payments to suppliers of $13.3 million. Net cash used for operating activities decreased by approximately $20.8 million from FY22 to FY23 primarily due to decrease in payments for salaries and benefits and an decrease in payments to suppliers.

State, federal and local appropriations are the primary source of noncapital financing activities. Generally Accepted Accounting Principles require that the College reflect this source of revenue as nonoperating even though the College's budget depends on this to continue the current level of operations. These appropriations from FY22 to FY23 decreased approximately 21.5%.

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 FY22 to FY23 of $2.0 million.

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 FY23 was $662,980. This increase is due to higher interest rates.

Cash Flows
June 30, 2023 and 2022

	FY23	FY22
Cash, Beginning	$ 24,196,717	$ 28,223,700
Cash Provided (Used) by:		
Operating Activities	(17,649,198)	(38,480,380)
Noncapital Financing Activities	29,473,106	37,560,158
Capital Financing Activities	(5,183,224)	(3,164,149)
Investing Activities	662,980	57,388
Net Increase (Decrease) in Cash	7,303,664	(4,026,983)
Cash, Ending	$ 31,500,381	$ 24,196,717

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)

The Foundation is a 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, $833,888 in FY23 (which includes $214,341 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 four separate divisions within the endowment: Regular Scholarships, Faculty Scholarships, Athletic Scholarships, and the Arboretum. 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 position for the Foundation increased $1,243,282 to $23,683,168 in FY23. This is mainly attributable to an investment returns of $996,179 during FY23. Donations included noncash donations of $44,650 and $61,427 in FY23 and FY22, respectively. The HCC Foundation also realized revenue of $74,880 this fiscal year as a result of a distribution from a real estate limited partnership (RELP) interest carried at $1,046,830. There is an Indemnification Agreement whereby the Foundation cannot be asked for cash calls. The College paid, on behalf of the Foundation, various overhead expenditures totaling $437,136. 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 $833,888, transfers to the College for college initiatives of $254,269, fundraising expenses of $68,768, and other expenses in the amount of $373,310.

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, 2023 was $19,608,987. In FY23, there was a net investment return from investment activities in the amount of $996,179, up from $163,659 in FY22.

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. As predicted in the discussion of earlier audits, the plan was for HCC to emerge from the Covid pandemic in an even stronger position ever before. That goal was accomplished this year.

As stated in previous audit reports, the College took conservative measures in forecasting enrollment, and built budgets around those conservative estimates during the pandemic. Enrollment did decline, but not to the level of our peer institutions. These enrollment patterns led to greater percentages of increases in revenue from the State as the Maryland Legislature finally provided full Cade funding for its community colleges in FY22, not seen since the inception of the formula itself some twenty-three years earlier. Once full funding was achieved, the College was well positioned from a financial perspective. Full Cade funding continued for FY23. Even though there are projected deficits forecast for the State, there is no reason to believe that Maryland will once again back down on the commitment made to its community colleges.

Once again, enrollment has presented a pleasant surprise. The College had been on a slow decline in credit enrollment since 2014. This mirrors much of the activity at community colleges across the nation. During FY23, our enrollment stabilized and then experienced a dramatic increase in the Summer 2023 term. Much of this growth can be attributed towards active recruiting, especially in the border counties of Pennsylvania. The beginning of FY24 is the strongest in the history of the College, and much of this is due to the implementation of The Blueprint.

Two years ago, we expressed concern over the implementation of the law known as The Blueprint for Maryland's Future" (commonly called The Blueprint) which went into effect in FY22. As the future became the present, our initial concern over the statutorily mandated discount rate for tuition in dual credit classes turned to a sense of opportunity. After performing some research, we found that prior to the implementation of this law, the pricing structure of dual credit courses led many students to stop taking them after the fourth course. This has changed.

Under the Blueprint, dual credit classes are free to the student and their parents. The local school district provides HCC with 75% of the tuition cost, with full payment of fees, and book expenses. This created a powerful incentive for HCC Leadership to work closely with Washington County Public Schools (WCPS) and permeate the high school dual credit market as never done before.

HCC and WCPS were one of the first to have their MOU adopted by the Maryland Accountability & Implementation Board (AIB) for Blueprint implementation. By working closely with our partner in education, our fall enrollment is up over 57% in headcount. Full Time Equivalent (FTE) production, on which state funding is based, is up almost 44% over last year.

At this writing looking into FY24, HCC expects to double the number of high school students taking courses full time at the College. We expect to quintuple the number of part time high school students taking courses at the College, and almost triple the number of high school students opting to take dual credit courses in their home high school. These increases in enrollment are going to create a significant increase in both tuition and FTE production from the State.

We believe that these changes will be long term in nature, as they create a winning situation for parents, students, and the College. Ultimately the State of Maryland, who made a huge financial commitment statewide, is the biggest winner of them all.

Washington County kept operational funding level for FY23, but they provided a 2% increase for FY24. The County appropriated significant capital resources for the Scholar Drive Realignment Project, the D.M. Bowman Family Workforce Training Center, and for the upcoming renovation of the Advanced Technology Center. We have additional capital projects slated for future years, and will continue to work with our County leaders for their local funding match to accompany state support.

Strategies to Strengthen the College's Financial Position

The College has witnessed success in its 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 positive picture of the College's financial health.

Post pandemic, the College has now returned to scheduling course modalities based on student demand. Online enrollments continue to deteriorate as traditional instruction sections escalate. It is believed that online enrollments will stabilize somewhere above the level pre-pandemic, but nowhere near the last two fiscal years.

In addition to the positive enrollments brought by the Blueprint as mentioned herein, there are other opportunities for credit enrollment increases moving forward. Congress and the U.S. Department of Education are returning Pell Grants for incarcerated individuals after nearly a 30 year hiatus. This program returned on July 1, 2023. HCC is presently making application to provide credit instruction in three state correctional institutions in the next fiscal year.

Noncredit enrollment within the Workforce Solutions and Continuing Education division continues to grow year over year. FY23 was no different. Due to changes within the Maryland Department of Labor, this division had to pivot away from noncredit training in correctional facilities and develop new strategies for FTE production. Their efforts were quite successful, and their growth rates continue to look prosperous in future years.

Our plans for the D.M. Bowman Family Workforce Training Center are ongoing and moving forward. It is our hope to open this center in October, 2024, and be able to provide skilled trades training in partnership with the Cumberland Valley Chapter of the Associate Builders and Contractors (ABC).

During FY23, college leadership made the decision to use surplus revenues to address many long term nonrecurring needs on campus. Leveraging matching funding from the Appalachian Regional Commission, the College fully funded new and updated equipment for its Allied Health programs. From dental chairs, to microscopes, to new lab equipment, no need went unaddressed as we sought to bolster our reputation in training for health care careers. These purchases were strategic with the knowledge that Meritus Health is constructing a College of Osteopathic Medicine slated to open in 2025. HCC will become an integral part of the education pipeline for those seeking health care professions that pass through the new medical school. In addition to our expenditures in health care programs, we were able to address all nonrecurring departmental equipment needs across the College, an unprecedented accomplishment.

The College has a fully-funded other post-employment benefits (OPEB) trust that can provide a revenue stream in the future to pay for retiree health care expenses. Maintaining a fully funded trust results in less expense being recorded each year, therefore, not decreasing the College's fund balance.

Contingency Planning

In the event that HCC does not receive the operational funding that it requests, the State fails to meet its obligations under the Cade Formula, or enrollment declines at a 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. As HCC President James Klauber often says, "We pay our bills. There is money in the bank. We are prepared for our future!"

HAGERSTOWN COMMUNITY COLLEGE
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2023

	Hagerstown Community College 2023	Component Unit Hagerstown Community College Foundation 2023
ASSETS		
CURRENT ASSETS		
Cash and Short-Term Investments	$ 31,500,381	$ 180,979
Accounts Receivable:		
Student Receivables (Net of Allowance of $3,308,287)	5,196,410	-
State of Maryland	1,115,179	-
Federal Government	170,665	-
Other	588,959	-
Due from Foundation	62,097	-
Interest Receivable	54,944	-
Lease Receivable	82,585	-
Pledges Receivable, Net	-	339,398
Inventories	118,719	-
Prepaid Expenses	1,553,678	7,136
Total Current Assets	40,443,617	527,513
NONCURRENT ASSETS		
Property, Plant, Equipment, and Right-to-Use Assets, Net	108,553,717	-
Construction in Progress	992,460	-
Lease Receivable	42,717	-
OPEB Asset	-	-
Investments, at Fair Value	-	19,608,987
Investments, at Cost	-	1,046,830
Pledges Receivable, Net	-	2,610,965
Total Noncurrent Assets	109,588,894	23,266,782
Total Assets	150,032,511	23,794,295
DEFERRED OUTFLOWS	2,407,655	-
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 1,176,439	$ 5,150
Accrued Salaries and Taxes	763,252	-
Lease and Subscription Liability	579,008	-
Scholarships Payable	-	43,880
Due to College	-	62,097
Unearned Revenue	5,190,625	-
Total Current Liabilities	7,709,324	111,127
NONCURRENT LIABILITIES		
Compensated Absences	332,522	-
Lease and Subscription Liability	1,549,543	-
Net OPEB Liability	463,071	-
Net Pension Liability	1,725,672	-
Total Noncurrent Liabilities	4,070,808	-
Total Liabilities	11,780,132	111,127
DEFERRED INFLOWS	545,806	-
NET POSITION		
Net Investment in Capital Assets	107,215,260	-
Restricted	168,658	-
With Donor Restrictions	-	18,535,598
Without Donor Restrictions, Board-Designated	-	4,023,752
Unrestricted-Board Designated Capital Funding and Reserve	26,647,147	-
Unrestricted	6,083,163	1,123,818
Total Net Position	$ 140,114,228	$ 23,683,168

HAGERSTOWN COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

	Hagerstown Community College 2023	Component Unit Hagerstown Community College Foundation 2023
REVENUES		
Operating Revenues:		
Tuition and Fees	$ 14,372,642	$ -
Scholarship Allowances	(3,254,426)	-
Total	11,118,216	-
Federal Grants and Contracts	1,787,962	-
State, Local, and Other Grants and Contracts	494,123	-
Auxiliary Enterprises	1,652,224	-
Contributions	-	1,105,126
Income Distribution from RELP	-	74,880
Noncash Donations	-	44,650
Special Events:		
Gross Revenue Including Contributions	-	148,230
Less: Direct Costs of Events	-	(51,822)
Contribution of In-Kind Services	-	437,136
Other Sources	862,655	19,138
Total Operating Revenues	15,915,180	1,777,338
EXPENSES		
Instruction	14,381,977	-
Public Service	111,498	-
Grants	1,992,996	-
Academic Support	3,319,590	-
Student Services	6,007,079	-
Plant Operations and Maintenance	4,718,255	-
Institutional Support	8,754,586	-
Auxiliary Enterprises	2,009,614	-
Fundraising	-	68,768
Scholarships Awarded	-	619,547
CSA Scholarships Awarded	-	214,341
Contribution to the College	-	254,269
Other	-	373,310
Depreciation and amortization	5,828,822	-
Certain Fringe Benefits Paid Directly by the State of Maryland	1,758,039	-
Total Operating Expenses	48,882,456	1,530,235
OPERATING INCOME (LOSS)	(32,967,276)	247,103
NONOPERATING REVENUES		
County Appropriation	10,035,290	-
Federal Grants and Contracts	5,467,854	-
State Appropriation	13,959,737	-
Capital Appropriation	1,327,015	-
Investment Return (Loss), Net of Expenses	733,850	996,179
Certain Fringe Benefits Paid Directly by the State of Maryland	1,758,039	-
Other Sources (Uses)	10,224	-
Total Nonoperating Revenues	33,292,009	996,179
CHANGE IN NET POSITION	324,733	1,243,282
Net Position - Beginning of Year, as Restated	139,789,495	22,439,886
NET POSITION - END OF YEAR	$ 140,114,228	$ 23,683,168

HAGERSTOWN COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

	Hagerstown Community College 2023	Component Unit Hagerstown Community College Foundation 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 11,435,468	$ -
Grants and Contracts	11,337,320	-
Direct Loan Receipts	4,695,510	-
Direct Loan Disbursements	(4,695,510)	-
Other Sources	990,153	-
Payments to Suppliers	(13,311,260)	-
Payments for Salaries and Benefits	(29,753,103)	-
Auxiliary Enterprises Revenue	1,652,224	-
Foundation Operating Activity	-	1,070,515
Net Cash Provided (Used) by Operating Activities	(17,649,198)	1,070,515
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County Appropriations	10,035,290	-
Federal Appropriations	5,467,854	-
State Appropriations	13,959,737	-
Other Sources	10,225	-
Net Cash Provided by Noncapital Financing Activities	29,473,106	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State and County Capital Appropriation	1,327,015	-
Purchases of Capital Assets	(6,348,191)	-
Payments on Lease Liability	(560,979)	-
Gain (Loss) from Sale of Fixed Assets	398,931	-
Net Cash Used by Capital Financing Activities	(5,183,224)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	-	(1,945,558)
Proceeds from Sale of Investments	-	768,211
Investment Income	662,980	-
Net Cash Provided (Used) by Capital Investing Activities	662,980	(1,177,347)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,303,664	(106,832)
Cash and Cash Equivalents - Beginning of Year	24,196,717	287,811
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 31,500,381	$ 180,979
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ (32,967,276)	$ 247,103
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	5,828,822	-
In-Kind County, Plant, and State Paid Fringes	1,758,039	-
Bad Debts	-	27,127
Effects of Changes in Operating Assets, Deferred Inflows, Liabilities, and Deferred Outflows		
Student Receivable, Net	(670,891)	-
Accounts Receivable - State of Maryland	(1,115,179)	-
Accounts Receivable - Federal Government	8,412,375	-
Lease Receivable	127,498	-
Accounts Receivable - Other (Net)	(385,495)	-
Prepaid Expenses	(475,848)	(4,924)
Inventories	77,197	-
Deferred Outflows	393,571	-
Accounts Payable	351,224	(12,820)
Accrued Salaries and Taxes	167,487	-
Compensated Absences	7,226	-
Deferred Revenue	1,373,638	-
Net Pension Liability	412,850	-
Net OPEB Asset / Liability	746,322	-
Deferred Inflows	(1,690,758)	-
Pledges Receivable	-	815,753
Other Receivables	-	26,496
Other Liabilities	-	(28,220)
Net Cash Provided (Used) by Operating Activities	$ (17,649,198)	$ 1,070,515
	-	-

HAGERSTOWN COMMUNITY COLLEGE
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2023

	OPEB Trust Fund 2023
ASSETS	
Cash and Cash Equivalents	$ 348,457
Investments	7,995,353
Accrued Interest	15,300
Total Assets	$ 8,359,110
NET POSITION	
Net Position Restricted for OPEB	$ 8,359,110
Total Net Position	$ 8,359,110

HAGERSTOWN COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2023

	OPEB Trust Fund 2023
Additions:	
Other Receipts	$ -
Investment Earnings:	
Net Appreciation (Depreciation) in Fair Value of Investments	856,027
Total Additions	856,027
Deductions:	
Administrative Expense	15,069
Total Deductions	15,069
CHANGE IN NET POSITION	840,958
Net Position - Beginning of Year	7,518,152
NET POSITION - END OF YEAR	$ 8,359,110

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 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 generally accepted accounting principles in the United States of America for nonprofit organizations. Accordingly, the Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions (including board-designated) and with donor restrictions.

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 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include among others, quoted prices for similar assets or liabilities in active market or nonactive markets.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, certain 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 net assets with donor restrictions.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 with or without donor restrictions depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets 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, 2023, 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.

Capital Assets (HCC)

Capital Assets are stated at cost, if purchased, and at fair 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.

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.

Other Postemployment Obligations (HCC)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the College's OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB trust. For this purpose, member contributions are recognized as revenue in the period in which the contributions are due. Employer contributions are recognized when due

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Obligations (HCC)

and a formal commitment has been made to provide the contributions. Investments are reported at fair value, except for money market investments which cost approximates fair value.

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 net assets with donor restrictions. 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 restricted net assets are reclassified to unrestricted net assets. 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal and State Income Tax Status (HCC and HCCF) (Continued)

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 are comprised of the following as of June 30:

	2023
Regular Scholarship	$ 15,577,393
Faculty Scholarship	226,918
Athletic Scholarship	2,230,357
Arboretum	500,930
Total	$ 18,535,598

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. Regarding 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. Regarding 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 was $2,298,992 as of June 30, 2023.

Leases

The College is a lessee for noncancellable leases of equipment and real estate. The College recognizes a lease liability and an intangible right-to-use lease asset in the Statement of Net Position. The College recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease, the College initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

The College is a lessor for noncancellable lease of real estate. The College recognizes a lease receivable and a deferred inflow of resources in the Statement of Net Position. The College recognizes lease receivables with an initial, individual value of $5,000 or more.

At the commencement of a lease, the College initially measures the lease receivable at the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow is initially measured as the initial amount of the lease liability, adjusted for lease payments received at or before the lease commencement date, plus certain initial direct costs. Subsequently, the deferred inflow is amortized on a straight-line basis over the leases term.

Key estimates and judgments related to lease include how the College determines (1) the discount relate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The College uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the College generally reviews similar debt on the market and uses the rate charged for the debt as the discount rate for leases.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

- The lease term includes the noncancellable period of the lease. Lease payments include in the measurement of the lease liability are composed of fixed payments and purchase option price that the College is reasonably certain to exercise.

Subscription-Based Information Technology Agreements

When the College enters into subscription-based agreements for educational and organizational software, it records a right-to-use asset and a corresponding liability for the duration of the agreement. This means that the College has the right to use the software for a specific period, and it is obligated to pay for it during that time. The College recognizes these agreements with an initial value of $10,000 or more.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expenditure) until the future period. The College recognized $508,858 as deferred outflows of financial resources related to Pension and $1,898,797 related to OPEB for the fiscal year 2023.

Deferred Inflow of Resources

A deferred inflow of resources represents an addition to net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until the future period. The College recognized $277,313 as deferred inflows of financial resources related to Pension, $144,179 related to OPEB, and $124,314 related to leases for the fiscal year 2023.

Adoption of New Accounting Standards

The College has implemented GASB Statement No. 96. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) which are defined as a contract that conveys control of the right to use another party's information technology software for a period of time in an exchange or exchange-like transaction. Accordingly, a right-to-use subscription asset is recognized when the subscription asset is placed in service. Correspondingly, a subscription liability, measured at the present value of subscription payments over the subscription term, is recognized at the same time. Prior to implementation, these contracts were recognized as an expense when incurred.

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, 2023, the College's carrying value of cash was $7,759,109 and the bank balance was $6,926,357. All these funds are insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the depository institutions.

Short-Term Investments (HCC)

The repurchase agreement as of June 30, 2023 was $12,388,234. The College had $7,094,865 invested in the Maryland Local Government Investment Pool (MLGIP) at June 30, 2023. The College had $5,090,925 in CDs with maturities of one year or less at June 30, 2023. These investments are in accordance with Article 95 of the Annotated Code of Maryland.

	2023	
	Bank Balance	Book Balance
Investments not Subject to Fair Value:		
Repurchase Agreements	$ 12,388,234	$ 12,388,234
Investment in Maryland Local Government Investment Pool	7,094,865	7,094,865
Certificates of Deposit	5,090,925	5,090,925
Total Investments	24,574,024	24,574,024
Cash	7,759,109	6,926,357
Total	$ 32,333,133	$ 31,500,381

NOTE 4 CASH AND INVESTMENTS (CONTINUED)

Short-Term Investments (HCC) (Continued)

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The valuation technique uses a three-level hierarchy of inputs to measure fair value. Investments classified in Level 1 within the fair value hierarchy are valued using prices quoted in active markets for identical assets. Level 2 investment valuations utilize inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. If fair value inputs are unobservable, the investments will be classified as Level 3.

Fair value measurements at June 30, 2023 for the OPEB Trust Fund:

	2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by Fair Value Level:				
Fixed Income	$ 2,458,372	$ -	$ -	$ 2,458,372
Equities	5,536,981	-	-	5,536,981
Total Investments by Fair Value Level	$ 7,995,353	$ -	$ -	$ 7,995,353

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, 2023, 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, 2023, 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 represent the Foundation's proportional interest in the various investments as reported by USMF. The Foundations investments consisted of the following as of June 30:

	2023			
	Level 1	Level 2	Level 3	Total
Assets at USMF	$ -	$ -	$ 19,608,897	$ 19,608,897

There were no transfers of assets between Levels 1, 2, or 3 classifications for the year ended June 30, 2023.

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 and managed accounts 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.

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.

In general, equity securities and mutual funds 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. USMF invests in equities to gain exposure to the overall direction of global equity markets.

Separately managed accounts represent vehicles that are managed by external investment managers that trade and hold securities on USMF's behalf. The investments held in these separately managed accounts are largely publicly traded common stock and fixed income securities that are easily converted into cash, however the vehicle through which USMF invests is a separately managed account with a fair value that is not observable but maintains observable inputs that external managers use to determine the fair value of the portfolio.

NOTE 5 INVESTMENTS (HCCF) (CONTINUED)

University System of Maryland Foundation (Continued)

Private investments measured at NAV consists of investments in partnership-based structures where the general partner or investment manager generally values their investments at fair value. The fair value of these investments has been estimated either by using the NAV per share of the investment of the ownership percentage of the fund's net assets as allowed as a practical expedient under fair value guidance.

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, 2022, unfunded commitments within the intermediate assets category equal approximately 42.2% of the assets in that category.

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 year ended June 30:

	2023
Interest, Dividends, and Other Activity	$ 299,872
Realized Gain (Loss) on Sale of Investments	351,528
Unrealized Gain (Loss) on Investments	526,331
Total Investment Return	1,177,731
Less: Investment Management Fees	181,552
Investment Return, Net	$ 996,179

NOTE 6 PLEDGES RECEIVABLE (HCCF)

Pledges receivable consisted of the following at June 30:

	2023
Receivable in Less than One Year	$ 339,398
Receivable in One to Five Years	3,063,415
Total Unconditional Promises to Give	3,402,813
Less: Discounts to Net Present Value	442,450
Less: Allowance for Uncollectible Promises	10,000
Net Unconditional Promises to Give	$ 2,950,363
Pledges Receivable, Current Portion	$ 339,398
Pledges Receivable, Long-Term	2,610,965
Total Pledges Receivable	$ 2,950,363

Unconditional promises to give have been discounted using the short-term and long-term rates of return provided by the IRS. The rate were 4.43% for short-term and 3.79% for long-term for June 30, 2023.

NOTE 7 CAPITAL ASSETS (HCC)

	2022	Additions	Deductions/ Transfers	2023
Land and Land Improvements	$ 5,269,419	$ -	$ -	$ 5,269,419
Buildings	133,389,183	1,513,530	(137,572)	134,765,141
Infrastructure	8,848,500	-	-	8,848,500
Equipment	25,224,699	2,831,002	(327,134)	27,728,567
Right-to-Use Assets - Leased Equipment	1,059,491	623,290	(869,915)	812,866
Right-to-Use Assets - Leased Building	394,340	-	-	394,340
Right-to-Use Assets - SBITA	-	2,200,638	-	2,200,638
Construction in Progress	106,840	885,620	-	992,460
Total Property, Plant, and Equipment	174,292,472	8,054,080	(1,334,621)	181,011,931
Less: Accumulated Amortization - Leases	525,770	286,877	(584,014)	228,633
Less: Accumulated Amortization - SBITA	-	486,803	-	486,803
Less: Accumulated Depreciation	66,095,674	5,055,141	(400,497)	70,750,318
Capital Assets, Net	$ 107,671,028	$ 2,225,259	$ (350,110)	$ 109,546,177

The College implemented GASB No. 96, *Subscription-Based Information Technology Agreements*. The impact on prior year amounts was not significant, so the effect of implementation was recorded in the current year additions.

NOTE 8 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 9 UNEARNED REVENUE (HCC)

Unearned Revenue consists primarily of tuition and fees resulting from registrations received for summer classes and fall school programs starting after July 1st. Unearned revenue as of June 30, 2023 was $5,190,625.

NOTE 10 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

The System provides retirement allowances and other benefits to State teachers and employees of participating governmental units, among others. For individuals who become members of the Teachers' Retirement and Pension Systems and the Employees' Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Teachers' Pension System and Employees' Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retirees' benefits allowance will be computed. Some of these options require actuarial reductions based on the retirees' and/or designated beneficiary's attained age and similar actuarial factors.

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC) multiplied by the number of years of accumulated creditable service.

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

Plan Description (Continued)

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

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

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.

Contributions

For the year ended June 30, 2023, the College's annual pension cost of $242,509 was equal to its required and actual contributions made in accordance with an actuarial valuation performed as of June 30, 2022. The state of Maryland contributed a total of $1,335,779 for all plans in 2023. 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.

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

Pension Costs

At June 30, 2023, the College reported a liability of $1,725,672 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that dates, respectively. 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, 2022, the College's proportionate share was .0086% compared to June 30, 2021's proportionate share .0088%.

For the year ended June 30, 2023, the College recognized pension expense of $308,084.

At June 30, 2023, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	2023
Changes in Assumptions	$ 195,230
Change in Proportion	71,497
Net Difference Between Projected and Actual Investment Earnings	-
Change in Proportionate Share of Contributions	-
Contributions Subsequent to the Measurement Date	242,131
Total	$ 508,858

Deferred Inflows of Resources	2023
Change in Proportion	$ 127,946
Change in Assumptions	19,201
Change in Proportionate Share of Contributions	25
Net Difference Between Projected and Actual Investment Earnings	5,303
Net Difference Between Projected and Actual Experience	124,838
Total	$ 277,313

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 reduce net pension liability for the subsequent year. The deferred inflows and outflows related to noninvestment activity are being amortized over the remaining service life ranging from 5.50 to 5.87 years. The deferred outflows not related to investment activity are being amortized over the remaining service life of five years. The net difference in investment earnings for is being amortized over a closed five-year period.

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

Pension Costs (Continued)

The following table shows the amortization of the balances:

Fiscal Year Ending	Amount
2024	$ 1,670
2025	(31,082)
2026	(73,870)
2027	101,571
2028	(8,875)

Teachers Retirement and Pension Systems

At June 30, 2023, the College did not report a liability related to the Teachers' Retirement and Pension Systems due to a special funding situation. The state of Maryland pays the unfunded liability for the College and the College pays the normal cost related to the Colleges members in the Teachers Retirement and Pension Systems; therefore, the College is not required to record its share of the unfunded pension liability but instead, that liability is recorded by the state of Maryland. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

State's Proportionate Share of the Net Pension Liability	$ 12,462,836
Board's Proportionate Share of the Net Pension Liability	-
Total	$ 12,462,836

For the year ended June 30, 2023, the College recognized pension expense of $1,335,779 and revenue of $1,335,779 for support provided by the State. Due to the special funding situation noted above related to the Teachers Retirement and Pension Systems, the College did not report deferred outflows of resources and deferred inflows of resources related to the Teachers Retirement and Pension Systems.

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

Actuarial Assumptions

The total pension liability as of June 30, 2023 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2022 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 – 2.25% general, 2.75% wage
- Salary increases – 2.75% to 11.25% including inflation
- Discount rate – 6.80%
- Investment rate of return – 6.80%
- Mortality – Pub-2010 Mortality Tables with projected mortality improvements based on the MP-2018 fully generational mortality improvement scale.

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:

	2023	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37 %	6.00%
Private Equity	13	8.40%
Rate Sensitive	21	1.20%
Credit Opportunity	8	4.90%
Real Assets	15	5.20%
Absolute Return	6	3.50%
Total	100 %	

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 6.80%. This single discount rate was based on the expected rate of return on pension plan investments of 6.80%. 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:

2023			
Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	5.80%	6.80%	7.80%
College's Proportionate Share of the Net Pension	$ 2,647,736	$ 1,725,676	$ 960,580

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.

NOTE 10 RETIREMENT PLANS (HCC) (CONTINUED)

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 $422,260 for 2023. 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 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 11 OTHER POSTEMPLOYMENT 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.

Employees Covered by Benefit Terms

Substantially all full-time employees may qualify for these benefits. At June 30, 2023, the following employees were covered by the benefit terms:

Retirees Currently Receiving Benefits	102
Active Employees	248
Total Plan Members	350

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

Contributions

During fiscal year 2010, the College's board of trustees elected to fully fund the OPEB Trust. The College made contributions from fiscal year 2010 to 2017 totaling $3,583,384. The College will continue to pay benefits on a pay-as-go basis with the College's general funds. The trust balance was $8.3 million as of June 30, 2023.

Net OPEB Liability

The College's total and net OPEB liability was determined by an actuarial valuation dated July 1, 2022 with a June 30, 2023 measurement date.

Actuarial Methods and Assumptions

The total OPEB liability actuarial valuation for June 30, 2023 was determined using entry age normal method and the following actuarial assumptions:

Inflation Rate	3.0%
Salary Increases	4.0%
Investment Rate of Return	7.0%
Health Care Cost Trends Rates	4.5% - 6.0%
Dental Cost Trend Rate	3.0%

Long-term Expected Rate of Return

The long-term expected total rate of return is 7.0% for June 30, 2023. 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 %	7.7%
Fixed Income	30	6.0%
Cash Equivalents	5	3.5%
	100 %	

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.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

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, 2022	$ 7,234,901	$ 7,518,152	$ (283,251)
Changes for the Year:			
Service Cost	161,763	-	161,763
Interest	512,561	-	512,561
Experience Losses	-	-	-
Employer Contributions	-	-	-
Net Investment Income	-	825,658	(825,658)
Changes in Assumptions	1,324,687	-	1,324,687
Benefit Payments	(427,031)	-	(427,031)
Administrative Expenses	-	-	-
Net Changes	1,571,980	825,658	746,322
Ending Balance - June 30, 2023	$ 8,806,881	$ 8,343,810	$ 463,071

The plan funded status is 94.7% as of June 30, 2023.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care 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		
2023	1% Increase	Valuation Rate	1% Decrease
Net OPEB Liability (Asset)	$ (480,326)	$ 463,071	$ 1,618,354

	Health Care Trend		
2023	1% Increase	Valuation Rate	1% Decrease
Net OPEB Liability (Asset)	$ 1,712,642	$ 463,071	$ (555,138)

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2023, the College recognized a gain on OPEB benefits of $136,477. At June 30, 2023, the College reported deferred outflows and inflows of resources related to OPEB from the following sources:

	2023
Deferred Outflows of Resources	
Net Difference Between Projected and Actual Investment Earnings	$ 432,571
Difference Between Projected and Actual Experience	588,254
Change in Assumptions	877,972
Total	$ 1,898,797
Deferred Inflows of Resources	
Change in Assumptions	$ 85,174
Difference Between Projected and Actual Experience	59,005
Net Difference Between Projected and Actual Investment Earnings	-
Total	$ 144,179

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (HCC) (CONTINUED)

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

Fiscal Year Ending	Amount
2024	$ 422,139
2025	330,003
2026	599,131
2027	169,311
2028	218,131
2029	15,903

NOTE 12 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 in 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

NOTE 12 ENDOWMENT (HCCF) (CONTINUED)

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.

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, 2022 is as follows:

Safe Assets	0% - 25%
Intermediate Assets	5% - 25%
Public Risk Assets	25% - 75%
Private Risk Assets	10% - 75%

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 12 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.

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	$ 3,964,372	$ -	$ 3,964,372
Donor Restricted Endowment Funds:			
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	-	12,903,843	12,903,843
Accumulated Investment Gains	-	2,740,772	2,740,772
Invested Endowments	3,964,372	15,644,615	19,608,987
Pledges Receivable, Net of Discount	59,380	2,890,983	2,950,363
Total Endowment Net Assets	$ 4,023,752	$ 18,535,598	$ 22,559,350

NOTE 12 ENDOWMENT (HCCF) (CONTINUED)

The changes in endowment net assets for the year ended June 30 were as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Invested Endowments - June 30, 2022	$ 3,712,252	$ 13,723,421	$ 17,435,673
Investment Return:			
Investment Income, Net	24,001	94,107	118,108
Net Appreciation	181,966	695,893	877,859
Total Investment Return	205,967	790,000	995,967
Contributions	254,469	1,691,089	1,945,558
Appropriation of Endowment Assets for Expenditure	(208,316)	(559,895)	(768,211)
Invested Endowments - June 30, 2023	$ 3,964,372	$ 15,644,615	$ 19,608,987

NOTE 13 RELATED PARTY TRANSACTIONS (HCC & HCCF)

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

	2023
Contributions to the College for Scholarships	$ 833,888
Other Contributions to the College	254,269
In-Kind Services Performed by the College	437,136
Due to (from) the College - Operating Expenses	62,097
Due to (from) the College - Scholarships Expenses	43,880

NOTE 14 LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

	2022	Additions	Deductions/ Transfers	2023	Current Portion
Lease Liability	$ 934,818	$ 616,401	$ (560,979)	$ 990,240	$ 204,160
SBITA Liability	-	1,138,311	-	1,138,311	374,848
	$ 934,818	$ 1,754,712	$ (560,979)	$ 2,128,551	$ 579,008

Leases

The College leases equipment as well as an operating facility for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2027 and provide for renewal options.

Future minimum lessee lease payments under the lease agreements for the years ending June 30 are as follows:

	Principal	Interest	Total
2024	$ 204,160	$ 34,305	$ 238,465
2025	214,771	26,282	241,053
2026	224,498	17,850	242,348
2027	207,310	9,455	216,765
2028	139,501	2,122	141,623
Total Minimum Lease Payments	$ 990,240	$ 90,014	$ 1,080,254

Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class:

	Right-to-Use Asset - Leases
Equipment	$ 812,866
Buildings	394,340
Less: Accumulated Amortization	228,633
Total	$ 978,573

The College, acting as a lessor, leases a building for childcare and CBES office space under long-term, noncancelable lease agreements. The lease expires in 2026 and provide for a renewal option of one year. During the year ended June 30, 2023, the College recognized $118,717 and $3,292 in lease revenue and interest revenue, respectively, pursuant to these contracts.

NOTE 14 LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (CONTINUED)

Future minimum lessor receipts under the lease agreement for the years ending June 30 are as follows:

	Principal	Interest	Total
2024	$ 82,585	$ 3,253	$ 85,838
2025	24,962	1,001	25,963
2026	17,755	245	18,000
Total Minimum Lease Payments	$ 125,302	$ 4,499	$ 129,801

Subscription-Based Information Technology Arrangements

Effective July 1, 2022, the College has adopted GASB Statement No. 96 (GASB 96) entitled, Subscription-Based Information Technology Arrangements. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) which are defined as a contract that conveys control of the right to use another party's information technology software for a period in an exchange or exchange-like transaction. Accordingly, a right-to-use subscription asset is recognized when the subscription asset is placed in service. Correspondingly, a subscription liability, measured at the present value of subscription payments over the subscription term, is recognized at the same time. The following table represent the subscription liabilities through 2027 which includes renewal options ranging from one to four years.

Qualifying software includes enterprise-wide software for learning and administrative purposes.

	Principal	Interest	Total
2024	$ 374,848	$ 46,551	$ 421,399
2025	402,505	31,726	434,231
2026	326,828	14,638	341,466
2027	34,130	1,536	35,666
	$ 1,138,311	$ 94,451	$ 1,232,762

NOTE 15 SUBSEQUENT EVENTS (HCC AND HCCF)

The College and Foundation have evaluated events and transactions subsequent to June 30, 2023 through October 14, 2023, 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, 2023 through October 14, 2023, 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

	2023	2022	2021	2020	2019	2018
College's Proportion of Net Pension Liability*	0.0086%	0.0088%	0.0094%	0.0095%	0.0088%	0.0077%
College's Proportionate Share of Net Pension Liability*	$ 1,725,676	$ 1,312,822	$ 2,133,523	$ 1,963,888	$ 1,855,697	$ 1,675,426
College's Covered-Employee Payroll	$ 10,833,815	$ 10,856,029	$ 10,856,059	$ 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	15.93%	12.09%	19.65%	18.45%	17.65%	16.09%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability*	71.75%	76.76%	66.29%	67.98%	68.36%	66.71%

*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,	2023	2022	2021	2020	2019
Statutorily Required Contributions	$ 242,131	$ 196,841	$ 192,827	$ 202,395	$ 195,525
Contributions in Relation to Statutorily Required Contributions	242,131	196,841	192,827	202,395	195,525
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
College's Covered-Employee Payroll	$ 11,082,993	$ 10,853,815	$ 10,726,549	$ 10,620,346	$ 10,515,194
Contributions as a Percentage of Covered-Employee Payroll	2.2%	1.8%	1.8%	1.9%	1.9%

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	2.25% General, 2.75% Wage
Salary Increases	2.75% to 11.25% Including Inflation
Investment Rate of Return	6.80%
Retirement Age	Experienced Based Table of Rates That are Specific to the Eligibility Condition. Last Update for 2018 Valuation Pursuant to an Experience Study of the Period 2014-2018.
Mortality	Pub-2010 Mortality Tables

HAGERSTOWN COMMUNITY COLLEGE
SCHEDULE OF CHANGES IN COLLEGE'S NET OPEB LIABILITY AND RELATED RATIOS
HAGERSTOWN COMMUNITY COLLEGE OPEB TRUST PLAN

June 30,	2023	2022	2021	2020
Total OPEB Liability:				
Service Costs	$ 161,763	$ 163,589	$ 139,007	$ 150,020
Interest	512,561	494,002	458,941	438,842
Experience Losses	-	-	(99,468)	-
Changes in Assumptions	1,324,687	-	349,790	64,347
Benefit Payments	(427,031)	(379,731)	(356,190)	(399,565)
Net Change in Total OPEB Liability	1,571,980	277,860	492,080	253,644
Total OPEB Liability:				
Beginning	7,234,901	6,957,041	6,464,961	6,211,317
Ending	$ 8,806,881	$ 7,234,901	$ 6,957,041	$ 6,464,961
Plan Fiduciary Net Position:				
Employer Contributions	$ -	$ 14,906	$ -	$ -
Net Investments Income	825,658	(1,293,961)	1,956,165	226,607
Net Change in Fiduciary Net Position	825,658	(1,279,055)	1,956,165	226,607
Fiduciary Net Position:				
Beginning	7,518,152	8,797,207	6,841,042	6,614,435
Ending	$ 8,343,810	$ 7,518,152	$ 8,797,207	$ 6,841,042
College's Net OPEB (Asset) Liability - Ending	$ 463,071	$ (283,251)	$ (1,840,166)	$ (376,081)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	94.7%	103.9%	126.5%	105.8%
Covered-Employee Payroll	$ 15,525,072	$ 15,371,358	$ 15,165,701	$ 15,015,546
College's Net OPEB Liability as a Percentage of Covered-Employee Payroll	3.0%	-1.8%	-12.1%	-2.5%

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.

NOTE 1 CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE 2 CHANGES OF ASSUMPTIONS – PENSION

- Inflation assumptions changed as follows:
  - June 30, 2022 2.25%
  - June 30, 2021 2.25%
  - June 30, 2020 2.60%
  - June 30, 2019 2.60%
  - June 30, 2018 2.60%
  - June 30, 2017 2.65%

- Investment return assumptions changed as follows:
  - June 30, 2022 6.80%
  - June 30, 2021 6.80%
  - June 30, 2020 7.40%
  - June 30, 2019 7.40%
  - June 30, 2018 7.50%
  - June 30, 2017 7.50%

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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, the discretely presented component unit, and the aggregate remaining fund information of Hagerstown Community College (the College), as of and for the year ended June 30, 2023 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 14, 2023.

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

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal 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 or significant deficiencies may exist that were not identified.

Board of Trustees
Hagerstown Community College

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 14, 2023