

Electronic versions of this report are provided for information only and for the convenience of the reader. While reasonable efforts have been made to ensure the integrity of electronic statements, they should not be relied on. A copy of the printed financial statements will be provided upon written request made to: Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044: Attention: The office of the Vice-President of Administration and Finance.

HOWARD COMMUNITY COLLEGE
(A Component Unit of Howard County, Maryland)

**Financial Statements and
Report of Independent Public Accountants**

For the Year Ended June 30, 2020

HOWARD COMMUNITY COLLEGE

Table of Contents

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Net Position	38
Statements of Revenue, Expenses and Changes in Net Position	40
Statements of Cash Flows	42
Notes to the Financial Statements	44
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Howard Community College’s Proportionate Share of the Net Pension Liability - Maryland State Retirement and Pension Systems	76
Schedule of Howard Community College’s Contributions - Maryland State Retirement and Pension Systems	77
Notes to Required Supplementary Information for Pensions	78
Schedule of Howard Community College’s Proportionate Share of the Net OPEB Liability – Howard County Government	79
Schedule of Howard Community College’s Contributions – Howard County Government – OPEB	80
Notes to Required Supplementary Information for OPEB	81



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Howard Community College

Report on the Financial Statements

We have audited the accompanying financial statements of Howard Community College (the College), a component unit of Howard County, Maryland and its discretely presented component unit, the Howard Community College Educational Foundation, Inc., as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the College, as of June 30, 2020, and the respective changes in their 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Howard Community College's Proportionate Share of the Net Pension Liability- Maryland State Retirement and Pension Systems, the Schedule of Howard Community College's Contributions- Maryland State Retirement and Pension Systems, the Schedule of Howard Community College's Proportionate Share of Net OPEB Liability- Howard County Government- OPEB, and the Schedule of Howard Community College's Contributions- Howard County Government, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Owings Mills, Maryland
September 29, 2020

SB & Company, LLC

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Overview and Basis of Presentation

The following discussion and analysis provide an overview of Howard Community College's (referred to throughout as the "college" or "HCC") planning, enrollment, and financial activities. The intent of this section of the annual financial report is to provide an objective analysis of the college's financial activities based on currently known facts, decisions, or conditions that impacted the operations of the college during fiscal year (FY) 2020. In addition, this section should assist in assessing the financial position of the college and providing information about significant changes that have occurred. Finally, it presents an outlook on known conditions that may affect the college's financial position or operations in the coming years.

The college has presented the statements in compliance with the Governmental Accounting Standards Board (GASB) statement no. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and statement no. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

In compliance with GASB statement no. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements of the Howard Community College Educational Foundation, Inc. (referred to throughout as the "foundation" or "HCCEF") are presented discretely in the college's financial statements.

Comparative financial data are not presented in the financial statements; however, the college's comparative data are presented and discussed within this management discussion and analysis.

College Planning and Strategic Goals

The financial statements for the year ended June 30, 2020, reflect the financial results of the activities of the college, which are guided by the college's strategic planning and budget process. The strategic plan and the college's core work set the stage for the operational and financial goals the college expects to achieve. Long- and short-term goals guide the staff throughout the year and into the future. The college's mission, vision, and values follow.

Mission: Providing pathways to success

Vision: A place to discover greatness in yourself and others

Values: INSPIRES



HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

College Planning and Strategic Goals (continued)

The strategic goals implemented for a five-year period, 2016-2020, with 2016 being the base year, are listed on the next set of pages. Each year during the budget process, funds are allocated to achieve these initiatives. The report includes the action plans in place for FY20 and the fiscal year accomplishments related to these action plans that impacted the college's financial operations.

Strategic Goal #1. Student Success, Completion and Lifelong Learning			
1.1	Increase number of students graduating annually.		
For FY20 - 1,311. Year over year trend: ↑			
	Lead	Action Plans for FY20	Results by June 30, 2020

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

			Accomplished and Ongoing
1.1A	VPAA VPSS	Develop, evaluate, and revise program offerings (transfer and career) to meet the needs of students and the community, provide career opportunities [such as clinical placements, internships (see also strategic goal 3)] for students, and promote degree completion and transfer.	<p>Collaborated with faculty and staff teams to execute learning outcomes assessments of nine academic programs and 22 student services offerings and programs.</p> <p>Developed new general education health sciences degree with Maryland Higher Education Commission (MHEC) approval. To be implemented fall 2020. Developed five new general education core electives.</p> <p>Updated content of software applications, CMSY-110, computer concepts, applications, and ethical considerations, to meet employer demands raising the technical ability of students and to comply with general education requirements of ethics and technological literacy.</p> <p>Created a data analytics course (ACCT-245, introduction to data analytics) as a part of the certified public accountant program as demanded by the employer market and integrated some content into ACCT-111, 112, principles of accounting I and II.</p> <p>Program changes and enhancements to the culinary arts degree including baking and pastry arts management to comply with accreditation requirements and stay current with changing requirements in culinary arts careers.</p> <p>Worked with AT&T and continuing education to develop an apprenticeship program engaging 24 students, who are fully hired. We are prepared to accept another 24 for fall of 2020.</p> <p>Created courses that are foundational to the cloud operations and security certificate approved for fall 2021.</p> <p>Built partnerships with employers for internship and employment opportunities. The number of unique employer connections in FY20 was 359 compared to 315 in FY19. Facilitated 252 internships in FY20 compared to 238 in FY19, an increase of 5.9 percent.</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

1.1B	VPAA VPSS	Increase student participation in high impact (e.g., service learning) academic and specialized student engagement experiences that promote student success and completion.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>Increased the number of students in all years of the Schoenbrodt Scholars program by 6.6 percent, from 61 in fall 2018 to 65 in fall 2019. Supported 35 students in all years of the STEM Scholars program, up 9.4 percent from 32 in fall 2018. Rouse Scholars maintained an incoming cohort size of 47. Students participating in the scholars programs (Rouse, STEM, Schoenbrodt) were retained at a rate of 92.1 percent fall-to-spring, higher than the rates for FY19 (88.9 percent). Cumulative GPA for scholars cohorts at the end of fall 2019 was 3.49, higher than the fall 2018 term and 38 percent above the institutional average for fall 2019. The most recent data available for Rouse Scholars (fall 2017 cohort) demonstrates a graduation/transfer rate of 78.8 percent at two years, up from 70.3 percent for the fall 2016 cohort, and 87.9 percent at three years, up from 78.4 percent for the fall 2016 cohort.</p> <p>Step UP engaged 270 students in success coaching down slightly from 275 in FY19. Trend data from the matched cohort methodology continue to confirm that Step UP exerts a significantly positive impact on students' retention rates, term GPA, and ratio of completed to attempted credits.</p> <p>Engaged 673 students in service learning experiences as part of 47 courses and developed service partnerships with fourteen new community organizations. Service Learning participation declined by 12.4 percent compared to FY19 due to restrictions related to COVID-19 impacting spring 2020 service placements. The average course success rate for courses with a significant service learning component was 89.2 percent, up from 88.9 percent in FY19 and significantly exceeding the institutional average.</p> <p>Study abroad course success rates could not be tracked for FY20 due to the cancellation of all 2020 study abroad programs.</p> <p>Provided enhanced services for undocumented students: discussion groups, FIRM presentation, advisor outreach and scholarship facilitation.</p>
------	--------------	---	---

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

			<p>Silas Craft Collegians' retention rates at two years after entry significantly exceed the one-year institutional averages for developmental education students, with 76 percent of Silas Craft Collegians retained, up from 58 percent in FY19. Most recently available completion data (fall 2016 entering cohort) show a 75 percent graduation and transfer rate at three years, up from 46 percent for the fall 2015 cohort and significantly higher than institutional averages.</p> <p>Seventy-six percent of first-time students participated in cohort and new student orientation activities, meeting the goal of at-least 75 percent participation.</p>
1.1C	VPSS VPAA VPIT	Support a percentage increase in annual graduates by providing support services to include intrusive advising of students with 45 or more credits, promoting reverse transfer, and awarding scholarships. Continue development of a guided pathways program plan for new full-time students.	<p>Accomplished and Ongoing</p> <p>In FY20 56 students graduated as reverse transfer students which was 4.62 percent of the graduating class. This is up from 43 students, representing 3.25 percent of the 2019 graduating class.</p> <p>Through the intrusive advising initiative, 2,818 students were contacted in academic year (AY) 19-20, up from 1,986 in AY18-19.</p> <p>The admissions application was adjusted for guided pathways so that new students select a pathway along with an area of study; assigned first-time full-time students to advisors by pathway; delivered the Freshman Focus program using the pathway model.</p> <p>Increased completed scholarship applications by five percent from AY18-19 to AY19-20.</p>
1.1D	VPAA	Increase the use of open education resources.	<p>Accomplished and Ongoing</p> <p>Open education resources (OER) increased to 252 sections in fall 2019 and 604 sections in spring 2020 with zero textbook costs – an increase of 270 percent over FY19. A total of 17,976 students were served by courses with zero textbook costs, up 160 percent from FY19. Additionally, a total of 449 sections enrolling 9,429 students qualified for the newly launched Low Textbook Cost (LTC) designator, reserved for courses with textbook costs less than \$50.</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

1.2	<i>Increase % of developmental completers, 4 years after entry to HCC, from 35.8% (fall 2003 cohort) to 45% (fall 2016 cohort). (MHEC Indicator)</i>		
As of the fall 2015 cohort - 43.0% Year over year trend: ↑			
	Lead	Action Plans for FY20	Results by June 30, 2020
1.2A	VPAA	<p>Evaluate and revise as indicated the requirement for developmental mathematics students to also enroll in the First Year Experience course.</p> <p>Evaluate and expand English 121 Accelerated Learning Program.</p> <p>Implement and evaluate course redesign linked to revision of the Code of Maryland Regulations (COMAR) definition of college-level mathematics.</p> <p>Encourage eligible developmental students to concurrently enroll in same-subject, credit-bearing course (see 1.2B).</p>	<p>Accomplished and Ongoing</p> <p>FYEX-100, First Year Experience has been discontinued. There will be no similar requirement for developmental mathematics students to enroll in such a class. There has been a revision of developmental English to streamline the pathway and allow students who place even at the lowest level the ability to enroll in college-level English the following semester if they demonstrate substantial progress. GPA measures allow more students to enroll in accelerated learning program (ALP)/College Composition.</p> <p>In fall 2019, there were 10 sections of ENGL 121, college composition ALP. 61.1 percent earned a C or better in the class compared to the overall ENGL 121 success rate of 73.5 percent. Revisions are being made to course objectives and additional training is arranged for fall 2020.</p>

HOWARD COMMUNITY COLLEGE**Management's Discussion and Analysis
June 30, 2020**

			Accomplished and Ongoing
1.2B	VPAA VPSS VPIT	Evaluate College and Career Readiness and College Completion Act (CCCRA) requirement to include credit-bearing mathematics and English within the first 24 credit hours for first-time degree seeking students; encourage eligible developmental students to concurrently enroll in a same-subject, credit-bearing course; require students completing the developmental course sequence to immediately enroll in a same-subject, credit-bearing course the following semester.	<p>Mathematics and English departments work closely with admissions and advising to support this effort. In fall 2018, 1022 (62.2 percent) placed into some developmental course, mathematics or English, of the 1,643 first-time, full-time students. Of those, 61 percent completed their English developmental coursework within two academic years of taking 24 credits.</p> <p>Revised the developmental English sequence and reduced the number of credits: ENGL 090, academic reading and writing (6), and ENGL 095, advanced academic reading and writing (4), for a total of 10 versus ENGL 093, directed studies in reading (4), ENGL 094, directed studies in writing (4), ENGL 096 (4) and ENGL 097 (4), fundamentals of academic reading and writing combined, for a total of 16 makes this easier to accomplish.</p> <p>FYEX-100 is no longer a co-requisite for elementary algebra and mathematics foundations.</p> <p>MATH 037, mathematical foundations, an alternative developmental pathway to statistics and topics in math literacy, continues to run with a 65 percent success rates, which is comparable to other developmental courses at the same level. The course tends to serve a larger population of students served by the services (DSS) office because it is taught face-to-face.</p> <p>The co-requisite model for intermediate algebra and pre-calculus was introduced in the fall with a 66 percent success rate in the fall, when one section ran, and a 67 percent success rate in the spring, when two sections ran with added variation in the instructors. This is comparable with the regular sections of pre-calculus.</p> <p>The blended model of college algebra had a success rate of 100 percent in the fall and 60 percent in the spring. The curricular paperwork to change college algebra to a four-credit course, incorporating some new topics from the blended course and removing some other un-needed topics, and to change the pre-requisite to elementary algebra has been completed and approved by the curriculum council.</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

1.2C	VPAA VPSS	Expand the HCC Early Alert Program to attain positive outcomes in courses with low retention and success rates; establish a work group of faculty and staff to improve program processes and implement strategies to increase course completion and program effectiveness.	<p>Accomplished and Ongoing</p> <p>Expanded the HCC Early Alert Program to include all enrolled students, and for the first time opened early alert to students in summer classes. Expanded Early Alert for JumpStart students taking classes at HCC to include courses required for graduation, as well as those outside of graduation requirements.</p> <p>Early Alert is used within all developmental English and FYEX courses (fall 2019 - 74 sections, spring 2020 - 70 sections). In fall 2019, faculty set 1,539 flags, for attendance, late or missing work, low academic performance, danger of failing, and kudos.</p> <p>Early Alert use via Canvas within ACCT-111, 112, and CMSY-110 contributed to heavier use of the open lab.</p> <p>Zoom faculty hours implemented by 100 percent of full-time faculty.</p> <p>Active learning strategies implemented by 100 percent of full time faculty.</p> <p>The individualized program in entrepreneurship continues to increase in enrollment (12 percent spring 2019 to spring 2020) and has been especially useful for those entrepreneurs impacted by the pandemic. We anticipate this trend to continue.</p> <p>Established a communication plan for F-1 students receiving early alerts.</p>
------	--------------	--	---

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2020

1.3	Increase student successful-persistence rate after 4 years for all students from 73.2% (fall 2003 cohort) to 75% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)		
As of the fall 2015 cohort (all students overall) – 75.7%. Year over year trend: ↓ Black/African American: 70.1% ↑ Asian 84.1% ↓ Latino-Hispanics 77.8% ↑			
	Lead	Action Plans for FY20	Results by June 30, 2020
1.3A	VPSS VPAA	Increase participation in Ambiciones from 25 to at least 100 students by 2020. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.	Accomplished and Ongoing Ambiciones served 113 students in FY20, compared to 81 students in FY19, exceeding the goal of serving 100 students by 2020. The program has a fall 2019 to spring 2020 retention rate of 80 percent, compared to 69 percent for all Hispanic/Latino students at the same time frame. In fall 2019, 72 percent of program participants had at least a 2.0 GPA, compared with 66 percent in fall 2018. In FY20, 32 students graduated as compared to 15 graduates in FY19. In FY20, 19 students transferred, compared to nine students in FY19. Ten student-athletes participated in this cohort in FY20.
1.3B	VPSS VPAA	Increase Howard P.R.I.D.E. participation by 30 percent, from 129 to 168 students, by 2020. Continue to increase retention, academic standing, and transfer and graduation rates with a goal of matching the rates of all students.	Accomplished and Ongoing Howard P.R.I.D.E. participation exceeded the 2020 goal of 168 students. The program served 251 students in FY20, compared to 199 in FY19. The first-time student retention rate from fall 2019 to spring 2020 was 73 percent, compared with 78 percent in FY19. The fall 2019 to spring 2020 retention rate for all students was 77 percent (158/205), compared with 74 percent in FY19. In fall 2019, 71.4 percent of students were in good academic standing, compared with 76.1 percent in fall 2018. In FY20, 27 students applied for graduation, compared with 22 students in FY19. In FY20, 34 students transferred, compared to 23 transfers in FY19. Twenty-five student-athletes participated in this cohort in FY20.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2020

1.3C	VPAA VPSS VPIT	Complete investigation of using multiple assessment measures as a strategy for more accurate English and mathematics placements for fall 2019 registration.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>In fall 2019, 189 first-time, full-time students used the GPA exemption. Of those, 178 took the ENGL 121, and 151 (85 percent) of those students passed with a C or better. For the 374 first-time, full-time students determined to be college ready by means other than GPA, 351 took ENGL 121 and 94 percent of them passed.</p> <p>To analyze the effectiveness of the Next Generation (NG) Accuplacer placement, the test center identified 193 students in fall 2019 who placed into selected sections of developmental English and English composition courses via the test. The students who placed into their English course through NG were also given a writing task in the first week of the semester. This task was scored by faculty raters. Outcomes include:</p> <ul style="list-style-type: none"> • NG scores were not associated with, or a predictor of, course success. • Faculty raters had good interrater reliability and placement accuracy. • Students who took a course above their NG placement were as likely to be successful as students who took the course that the test placed them into. However, students who took a course above the faculty's placement were less likely to be successful. • Agreement between NG placements and the faculty's placements was fair to low. Faculty were more likely than NG to place students into college-level courses based on their writing sample. NG was more likely to place students into non-ESL developmental courses than faculty. <p>The mathematics division expanded placement by multiple measures. With a 3.0 GPA in high school coursework (2.0 for basic algebra and geometry), incoming students can place directly into higher level mathematics courses, and with additional criteria involving grades in high school mathematics courses, students can place directly into college algebra or pre-calculus. Success rates from the fall 19 for those placing with multiple measures are as follows: MATH 061, basic algebra and geometry: 73 percent; MATH-070, intermediate algebra: 77 percent; MATH-132, topics in math literacy: 100 percent; MATH-138, statistics: 77 percent; MATH-141, college algebra: 71 percent; and MATH-143, pre-calculus: 69 percent. In all of these courses, those placing with multiple measures had an equal or higher success rate than the course overall success rate.</p> <p>Implemented a new (XTMMS) Colleague screen needed for data collection for multiple measures; developed training materials and trained individuals who advise students about multiple measures and entering data.</p>
------	----------------------	---	--

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2020

1.4	Increase student graduation and transfer rate after 4 years for all students from 51.9% (fall 2003 cohort) to 55% (fall 2016 cohort). Close performance gaps as needed for Black, Asian, and Latino-Hispanic students. (MHEC Indicator)		
Fall 2015 cohort-All students: 53.6% Year over year trend: ↓			
Black/African American: 49.6% ↑ Asian: 60.8% ↓ Latino-Hispanic: 45.8% ↓			
	Lead	Action Plans for FY20	Results by June 30, 2020
1.4A	VPSS VPAA	Attract a critical mass of students to targeted programs (Howard P.R.I.D.E., Silas Craft Collegians, Ambiciones, Student Support Services, and Career Links) to provide supportive services to increase the graduation and transfer rates and close performance gaps of Black, Asian, and Latino-Hispanic students.	Accomplished and Ongoing In FY20, Howard P.R.I.D.E. served 251 students as compared to 99 in FY19; Ambiciones served 113 students, as compared to 88; TRIO-Student Support Services served 242 students, the same number as FY19; Career Links served 162 students, as compared to 149; and Silas Craft Collegians served 59 students, the same as last year, for a total of 828 students, as compared to 737 in FY 19. The goal is to build a critical mass of 1,000 students. The Howard P.R.I.D.E program constitutes about 21 percent of the African-American/Black male population and nine percent of the minority male student population at HCC, both highest since the inception of the program.
1.4B	VPAA	Continue the systematic evaluation plan for all academic programs.	Accomplished and Ongoing Execute learning outcomes assessments of nine academic programs and 2 general education goals. Also completed 54 course reviews.

HOWARD COMMUNITY COLLEGE**Management's Discussion and Analysis
June 30, 2020**

1.4C	VPAA	Continue and evaluate the undergraduate research program for STEM students with a goal that participants complete their degrees at a rate above the general population of STEM majors.	Accomplished and Ongoing The number of students participating in faculty-mentored STEM research projects in FY20 decreased to 31 students from 32 students (FY19) as a result of the end of the former NSF S-STEM grant; the fall-to-fall retention rate for students in the program is 82.6 percent, compared to an average retention rate of 58.1 percent for all STEM students. Fifty-two percent of the students participating in the program in between FY17 and FY20 earned a degree or certificate, compared to 14 percent for all STEM-3-year rate. The average GPA for students participating in the undergraduate research (UR) program in FY20 was 3.62, compared to an average GPA for all HCC students of 2.46.
1.4D	VPAA VPSS	Actively promote diversity in restricted enrollment and honors programs.	Accomplished and Ongoing Maintained or increased racial and ethnic diversity in most honors programs. Schoenbrodt Scholars: 60 percent in fall 2019, compared to 56 percent in fall 2018. Rouse Scholars: 45 percent in fall 2019, compared to 42 percent in fall 2018. STEM Scholars: 46 percent in fall 2019, down from 56 percent in fall 2018.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Strategic Goal #2. Organizational Excellence			
2.1	<i>Increase % of minority employees to reflect county demographics from fall 2007 rates of 22.1% faculty and 20.9% staff (administrators and professional/ technical) to 24% and 28%, respectively, by fall 2020. (MHEC Indicator)</i>		
Faculty: 29.1% Year over year trend: ↑ Staff: 31.4% Year over year trend: ↓			
	Lead	Action Plans for FY20	Results by June 30, 2020
2.1A	ALL	Improve faculty and staff recruitment efforts, outcomes, and retention.	Accomplished and Ongoing Since Fall 2015, the percent of minority faculty and staff steadily rose from 23.2 percent faculty and 27.7 percent staff to 29.2 percent faculty and 31.4 percent staff for fall 2019. Continued to advertise on sites and attend job fairs that are minority-specific and to evaluate the success of those efforts. Attended three job fairs with high minority representation.

2.2	<i>Increase stakeholder satisfaction for students from spring 2012 rates of: 86.6% for credit students; to spring 2020 rate of 87%, and for employees, from fall 2007 rate of 4.29 to fall 2019 rate of 4.35. Continuing education students will report 95% satisfaction.</i>		
Latest available- Spring 2018 for credit students (90.9%) Year over year trend: ↑ FY19 noncredit students (98.93%)↑, fall 2019 employees (4.18 out of 5)➡			
	Lead	Action Plans for FY20	Results by June 30, 2020
2.2A	ALL	Use systems thinking approach to improve (Plan-Do-Check-Act) a process or processes selected by the president's team to create cost	Accomplished and Ongoing Academic Affairs All academic divisions use Plan-Do-Check-Act (PDCA) through their program and course assessment/review. Example: Implementation of a business division dashboard that tracks vital signs, core work and divisional goals. This allows for actionable, critical data to be visually available to division leadership on a regular basis. Example: Adult basic skills and the English language center grant programs collaborated to streamline processes. English language center (ELC) and Adult Basic Education (ABE) registrations were combined, and course schedules were aligned. Students were better placed in classes, could take classes from both programs in the same semester, could be moved between programs based on pretest scores, and

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

		<p>efficiencies while ensuring quality service to students and one another.</p>	<p>test results improved in several areas. The collaboration produced greater program efficiency and resulted in a cost savings. June data shows ABE cost center to be \$115,000 ahead of where it was last year and the ELC cost center is \$91,000 ahead of where it was at this time last year.</p> <p>Administration and Finance</p> <p>Facilities selected and implemented a new web-based work order system with enhanced functions that allow real time data to create efficiencies in completing work orders, and to improve preventative maintenance scheduling. Human resources began the research and RFP process for a human resources information system (HRIS) platform to integrate with Ellucian/Colleague to increase time efficiencies within human resources, improve the on-boarding experience, to provide competency-based performance management, and expand the learning management resources.</p> <p>Information Technology, President's Areas, and Student Services</p> <p>The office of student life working in conjunction with web services and public relations and marketing is creating an online student handbook. As a result, printed copies will no longer be needed saving the college approximately \$13,000 annually. Disability support services instituted an online process for the distribution of accommodation memos for students. Rather than producing and distributing up to five memos each for approximately 700 students, students receive an online version to send to their faculty member resulting in decrease cost for paper, envelopes, printing, and staff time. Transitioned personal counseling services to telecounseling services resulting in over 300 appointments being made. This also improved client attendance rate making services more efficient and allowing more HCC students to be seen. Streamlined the process for recording board of trustees public meetings, reducing the offices involved from two to one, and the time involved from multiple days to one hour.</p>
--	--	---	--

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

2.3	Make progress toward achieving a 50/50 FT/PT faculty ratio and adequate staffing to meet organizational needs.		
FY20 FT:PT ratio was 46:54. Year over year trend: ↑			
	Lead	Action Plans for FY20	Results by June 30, 2020
2.3A	VPAA	Create scheduling efficiencies to meet the established benchmarks.	<p>Accomplished and Ongoing</p> <p>Data shows that HCC appropriately fell within its balanced course/section ratio benchmark range (70-90 percent) with a 76 percent seat fill in fall 2019 and 70 percent in spring 2020. Both numbers represent increases from the previous year. This analysis captures data at the time of census for each term, and excludes specialty music and open entry sections.</p> <p>A new process was piloted prior to the spring term in order to better assist divisions in making last minute decisions on cancellations and additions just before the beginning of classes. A subgroup of the enrollment management team analyzed real-time enrollment numbers compared to historical trends, and used the data to provide academic departments with recommendations to be acted upon one week prior to the first day of classes.</p>
2.3B	All	Analyze vacancies and determine recruitment action.	<p>Accomplished and Ongoing</p> <p>In FY20, the continuing education and workforce development division further reorganized utilizing open positions due to retirement and departures. The division evaluated the division's needs in light of the institution's strategic goals when filling vacant positions. This effort afforded the division to reorganize to enhance two growing programming areas, allied health and apprenticeships.</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

2.4	Increase development/training expenditure per FTE employee to stay in top quartile. 100% of budgeted employees will complete the campus-wide online training required in each annual professional development term.		
As of FY19 National Community College Benchmarking Project comparative data (FY18 data) – 63 percentile Year over year trend: ↑			
	Lead	Action Plans for FY20	Results by June 30, 2020
2.4A	VPAF	Continue to effectively and efficiently expend funds on professional development, including using an optimal mix of internal and external facilitators. Explore methods to capture the value of internal facilitators.	<p>Accomplished and Ongoing</p> <p>Sixty-nine employees shared their time and expertise with colleagues through professional development offerings.</p> <p>A new staff training program was planned, developed, and deployed as a pilot in one department, and is titled Rules of Engagement.</p>

2.5	Reduce HCC's carbon footprint 1% each year to achieve a 100% reduction in greenhouse gas emissions over 2009 levels by 2050.		
Latest reading: 19.51 kg/SF Year over year trend: ↓ Down is good			
	Lead	Action Plans for FY20	Results by June 30, 2020
2.4A	VPAF	Investigate best practices; examine and refine existing metrics; incorporate new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF) aligned with college's Facilities Master Plan and the President's Climate Leadership Commitment (PCLC) signatories' gross emissions by Carnegie class.	<p>Accomplished</p> <p>Incorporated new comparator for calculation of average gross emissions per square foot of built space (per 1,000 SF). Aligned college goals with President's Climate Leadership Commitment (PCLC) signatories for gross emissions per Carnegie class.</p> <p>Enrolled in the Association for Advancement of Sustainability in Higher Education's (AASHE's) sustainability tracking, assessment, and rating system (STARS). This is a transparent self-reporting framework for colleges and universities to measure their sustainability performance.</p> <p>Completed the third full year of Green Professor Teaching Certification Program to promote sustainability across the curriculum and reward faculty members who are green teachers, while giving green courses a familiar face on syllabi and Canvas sites for students. Worked with faculty to develop the framework for establishing the connections between sustainability, curriculum, and sustainability development goals (SDGs).</p> <p>Continued to revise goals to meet and exceed national standards including new goal to establish climate neutrality by 2050.</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Strategic Goal #3. Building and Sustaining Partnerships			
3.1	Increase resources to provide scholarships and facilities to students.		
See data below.			
	Lead	Action Plans for FY20	Results by June 30, 2020
3.1A	President	Raise \$1,500,000 for scholarships and endowments.	Accomplished Raised a total of \$2,384,814, exceeding the goal by 59 percent.
3.1B	President	Obtain \$2.4 million in competitive grants.	Partially Accomplished and Ongoing Obtained \$1,998,444, which is 83 percent of goal.
3.1C	VPAA VPAF	Continue the renovation construction of N (Howard Hall) and ST (Academic Commons) buildings.	Accomplished and Ongoing Completed all phases of the N and ST renovation on time and within budget. All additional work completed and project closeout completed. Final invoice and net change order expected in early FY21.
3.1D	VPAF	Continue the systematic renovation of McCuan Hall.(and other spaces)	Accomplished and Ongoing Completed a total of \$1.7 million in active systemic projects for FY20.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

3.2	Increase opportunities to serve the regional needs.		
See data below.			
	Lead	Action Plans for FY20	Results by June 30, 2020
3.2A	VPAA VPSS	Increase the draw rate of HCPSS recent high school graduates to 26 percent by continuing to promote the honors/scholars brand and by increasing JumpStart, dual enrollment and Early College.	Partially Accomplished and Ongoing Achieved a 23.3 percent draw rate in fall, 2019, as compared to 23.4 percent, in fall 2018. Achieved a 15 percent growth rate for the JumpStart Dual Enrollment Program. In FY19, 1,606 students participated in the program as compared to 2,102 in FY20.
3.2B	VPSS	Increase enrollment, transfer, and college completion of adult students by implementing the adult learner initiative recommendations.	Accomplished and Ongoing Admission and advising provided weekly pop-up advising for military and veteran populations including spouses and dependents. This was a new initiative, delivered in-person and virtually for an average of six students weekly. Prior to COVID-19 increased the number of clinical program information sessions by one for each program and increased the number of information sessions, which are presented virtually. In 2020, 52 sessions were offered with 740 students attending compared to 2019 when 46 sessions were offered for 531 students attending.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2020

3.2C	VPAA VPSS VPIT	Develop credit and noncredit courses that meet regional employment needs and expand internship/ap prenticeship/ stackable credential opportunities.	<p>Created ESL sections of CMSY-102 and MS Office courses to assist with needs in continuing education. CMSY-255 cross listed with continuing education.</p> <p>Development of ACCT 245, introduction to data analytics course to support career development of CPA and accounting students. Infused content into ACCT-111 and 112.</p> <p>Courses approved for Cloud Operations and Security Certificate that address the arising importance of cloud computing in technology careers. Culinary workshops, -macaroons and pasta making, offered through continuing education in February 2020, with both sessions nearly full. Other workshops planned for spring 2020 cancelled due to pandemic.</p> <p>In FY20, the college further added apprenticeship programs in information technology in partnership with AT&T and biomedical engineering technician program.</p> <p>The Division of Continuing Education and Workforce Development reports the following:</p> <ul style="list-style-type: none">• Graduating eight cohorts, 118 students, in the Healthcare Interpreter Certificate Program established in spring 2017.• Graduating 41 students in the certificate training program for ophthalmic technicians in partnership with Johns Hopkins Wilmer Eye Institute, established in FY18.• Serving 50 students in partnership with the credit health sciences division developed for certified computed tomography (CT) and magnetic resonance imaging (MRI) technician certificate programs.• Twenty-eight students completed coursework (designed in partnership with the credit dental hygiene program) in new noncredit courses (nitrous oxide and local anesthesia) designed to meet the Maryland State Board of Dental Examiners (MSBDE) requirements for licensed dental hygienists.• Nineteen students completed the training in a new certificate in social and emotional foundations of early learning (SEFEL) for educators in response to the national need for teachers to appropriately respond to children's social and emotional needs.• Five cohorts, including 46 students, completed the English language center's Multicultural Banking and Finance Institute, which has been relaunched as the Skilled Immigrant Program.• Training 17 students in newly launched fundamentals of health information technology course. The training program is funded through the Maryland Department of Labor Employment Advancement Right Now program.
------	----------------------	---	--

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2020

			<ul style="list-style-type: none"> • Training 52 students in Cardiac Electrophysiology Technologist Certification, Diagnostic Medical Vascular Sonographer Program, and Cardiac Sonographer Program (new in FY20), through a partnership between the continuing education and workforce development division and the health sciences division. • Serving four students in a new Child Development Associate Capstone course for the Child Development Associate national credential, new in FY20. * Began Google IT Support Professional certificate and enrolled 15 students.
3.2D	VPAA VPSS	Implement selected Commission on the Future recommendations.	<p style="text-align: center;">Accomplished and Ongoing</p> <p>The on-campus internship program continued to grow during FY20 with 46 students participating throughout 19 HCC departments. The college exceeded its goal of doubling the program from 18 on-campus interns in FY19, a 155.5 percent increase.</p> <p>The international education advisory board, and outgrowth of the Commission on the Future, held two full meetings and one working group session and continued to grow and diversify board membership. Outputs include: clarification of board charge and meeting structure; identification of key community stakeholder needs and priorities related to international education at HCC; and initiation of efforts to create a database of community experts in international topics who can support curriculum development and workforce alignment and enhance instruction in individual courses</p>

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

College Planning and Strategic Goals (continued)

The following are some core work accomplishments that occurred during the fiscal year that impacted FY20 revenue and spending. The college:

- advocated successfully for the college's legislative agenda with federal, state, and local governments:
 - Operating Budget - secured operating budget an increase of two percent from the county, representing an increase of more than \$716,860 and 16.7 percent from the state, which allows the college to hold its in-county tuition increase to \$2 per credit hour. Unfortunately, due to economic concerns at the state, the state budget increase for FY21 has since been reduced to flat funding at the FY20 level; and
 - Capital Budget - secured \$5,437,000 from the county and \$7,437,000 from the state to continue the design phase and begin the construction of the new Mathematics and Athletics Complex. Also received \$1 million from the county for systematic renovations-deferred maintenance projects. This represents a total capital budget of approximately \$13,874,000.
- participated in the Baldrige site visit, which resulted in the college being named a Malcom Baldrige National Quality Award recipient in the category of education.
- launched work with rpk Group to study ways to further enhance campus efficiencies. rpk Group is a leading national consulting firm supporting colleges in making sustainable investments in mission and student success.
- raised a total of \$2,384,814 exceeding the fundraising goal of \$1.5 million (includes gifts and pledges, based on gross event revenue).
- generated gross revenue of \$239,127 toward a goal of \$260,000 from the HCC 5K Challenge Race, Silas Craft Collegians Dinner at Hunan Manor, and other smaller events (due to COVID-19, Vino Scholastico was moved to FY21).
- generated \$1,998,444 in competitive grants toward the foundation's \$2.4 million goal.
- provided \$1,776,804 in overall support for scholarships and programs from the foundation to the college (\$1,435,703 for scholarships, \$306,526 for programs, and \$35,574 for grants).
- raised \$610,500 through named spaces in buildings to fund the donor's choice of scholarships, programs, or endowments.
- received a grant from Google to fund a new certificate program, Google IT support professional. This online program is provided to 60 students at no cost. The training prepares learners for an entry-level job in IT support in under six months and prepares them to take the A+ certification.
- helped secure the external funding and developed the new Math Academy.
- designed and implemented apprenticeship programs for biomedical engineering technology associate of applied science and additive manufacturing certificate students in collaboration with continuing education and workforce development, and submitted two successful grant applications to support program development and implementation.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

- successfully changed office supply vendor contracts, resulting in an estimated eight percent savings in office supply costs.
- implemented initiatives in order to further reduce college-wide bad debt, including additional outreach to students and working more closely with other student services offices.
- introduced the new self-service vending area (formerly Simply to Go).
- provided an inclusive access materials program - First Day through Barnes and Noble, which lowered cost to traditional materials and has saved students over \$200,000; Completed high priority recommendations and vulnerability remediation from the 2019 security audit.
- implemented security measures such as multifactor authentication for payment card industry (PCI) network equipment; virtual routing and forwarding configurations, Microsoft advance threat protect (ATP), vulnerability management system and improved insight into end-note computing.
- successfully completed the annual PCI assessment to maintain PCI data security standard (DSS) compliance.
- documented a system security plan and risk management framework for use in accessing risk and security controls. Updated the incident response plan and documented incident response playbook.
- helped implement open education resources indicator process in self-service to assist students.
- successfully shifted the entire campus to a virtual environment with a smooth transition to online learning platforms for previously in-person classes and collaborative environments and provided over 600 devices (laptops and hotspots) for students, staff and faculty.
- promoted military scholarship opportunities to the military and veteran student community resulting in an increase in awards throughout the year. Awarded over \$15,000 in the first award period during fall 2019 and over \$40,000 during the full academic year.
- created a plan to award and disburse CARES Act Higher Education Relief Funds spring semester. Compiled data, completed data validation, awarded, and disbursed \$990,900 to 2,292 students within one week.
- increased the number of disability support service graduates from 136 in FY19 to 146 in FY20, an increase of 7.3 percent.

HOWARD COMMUNITY COLLEGE

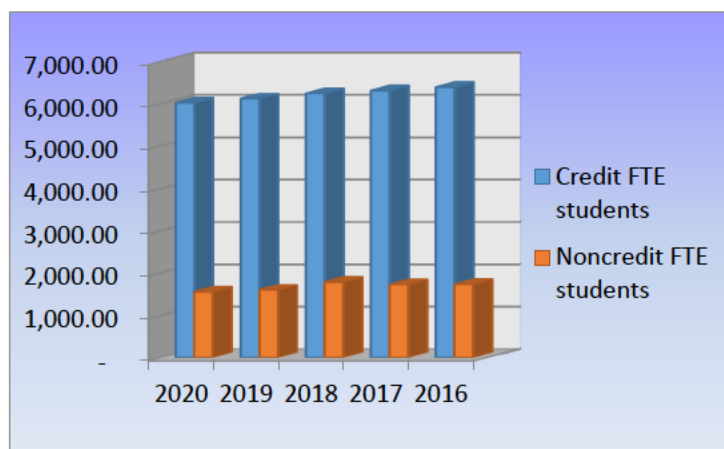
Management's Discussion and Analysis June 30, 2020

Enrollment Statistics and Analysis

For the year ended June 30, 2020, the college served approximately 14,314 credit and 12,313 noncredit students. Student enrollment data is defined and reported annually to the Maryland Higher Education Commission in terms of full-time equivalent (FTE) students; FTE represents 30 hours of instruction. FTE is an important statistic of the college as it is the basis for comparison among the various state colleges and is, in part, what determines the college's state funding.

During FY20, the state-approved credit and noncredit enrollments of 5,791.53 and 1,202.39 FTE. As compared to the prior year, this is a decrease of 70.68 credit FTE and a decrease of 192.94 noncredit FTE. State-funded FTE do not include out-of-state students, employees who took classes, and other ineligible students determined by the state. Overall, credit FTE of 6,016.37 decreased 96.87 FTE, or 1.6 percent. Noncredit FTE of 1,549.09 decreased 50.8, or 3.2 percent. Together this number created a total decrease in FTE of 147.67, or 1.9 percent. The college had anticipated enrollment to be flat in FY20. Nationwide, community colleges are experiencing declining enrollments, the strong economy earlier in the year attracted more people into the workforce and birthrates have continued to drop.

The chart below shows total FTE as opposed to state-funded FTE for fiscal years 2016 through 2020.



	2020	2019	2018	2017	2016
Credit	6,016.37	6,113.24	6,239.77	6,308.27	6,385.73
Noncredit	1,549.09	1,599.89	1,788.07	1,729.86	1,736.38
Total FTE	<u>7,565.46</u>	<u>7,713.13</u>	<u>8,027.84</u>	<u>8,038.13</u>	<u>8,122.11</u>

As seen in the data above, the 556.65 FTE decline was 6.9 percent for this five-year period.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Economic Impact

The college's economic stability comes primarily from three revenue sources: tuition and fees from students, and funding appropriations from Howard County Government and the State of Maryland. The original intent was that one-third of the college's operating funds would come from each of these sources; however, in FY20, the actual unrestricted revenue was 39 percent from students, 37 percent from the county, and 20 percent from the state, with the final four percent coming from auxiliary and miscellaneous revenue.

The college's per credit-hour tuition rate increased by two dollars. Even with the tuition increase, the student share of actual unrestricted revenue declined to 39 percent from 40 percent, due to the decline in enrollment and increased funding from the state.

State funds are distributed through the Cade funding formula, with the community colleges receiving a percentage of what the four-year institutions receive in funding from the state. The state increased the college's appropriation by five percent, or \$938,521 for FY20, support for the Regional Higher Education Center at the Laurel College increased by \$5,257. The state's share of actual unrestricted revenue increased one percent from the prior year.

The college received a 2.45 percent, or \$857,184 increase in FY20 operating funding from the county. The county's funding percentage of actual unrestricted revenue remained the same as the prior year.

The closures due the COVID-19 pandemic caused revenue from auxiliary services and miscellaneous revenue to decline 24 percent. The decline in revenue was due to losses in the theater, international, and other cultural programs. The closure of the children's learning center starting in March also had a significant impact on lost revenue in auxiliary services. In addition, a decrease in interest income contributed to the decline. The percentage share of actual unrestricted revenue remained the same as the prior year.

Financial Statement Highlights and Analyses

The financial statements, as prepared in accordance with Government Accounting Standards Board (GASB) statement nos. 34 and 35, are designed to present the college as a whole unit, consolidating the various funds (operating, continuing education, special, auxiliary, and facilities) and emulating corporate financial statements. The purpose of the statement of net position is to identify the college's financial and capital resources in one consolidated statement. The statement of revenue, expenses, and changes in net position identifies the college's operating revenue and expenses for its various programs, and also shows the support the college receives from Howard County Government, the State of Maryland, and various federal, state, and local grant programs. This statement also highlights spending in the various functional areas. Finally, the statement of cash flows identifies sources and uses of cash, and the change in the cash balance from the previous fiscal year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

The college's financial position remains positive, however, beginning in FY18, Howard County Government has required the college, as well as other county component units, to record its respective portion of the Other Post-Employment Benefits (OPEB) liability. The most recent liability was measured as of June 30, 2020, and calculated for each entity independently. This change had a negative fiscal impact on the college's financial position, creating a net negative unrestricted fund deficit. The FY19 ending unrestricted fund deficit and net assets were reduced by \$39,159,723 for the amount of the college's proportionate FY20 net OPEB liability. It should be noted that the college has an agreement with Howard County Government to fund this liability and the county intends to do so in the future. The county has included funding for this liability in the FY21 county budget.

The net position of the college experienced less than a one percent decline over the prior year. The college continues to make improvements to its current facilities with major renovations, however the majority of those projects were winding down in FY20 or just starting. Therefore, there was not a major increase in the overall net position. As capital projects are winding down, the state receivable and offsetting payable to the county have decreased. The county pays for state-funded project costs upfront. The state share is reimbursed only after the county has paid its share of the project costs. The net OPEB liability increased in FY20 primarily due to a change in actuarial assumptions and change in actual and expected experience to the OPEB trust. This is explained in the OPEB footnote disclosure and supplement information.

The primary decrease in operating revenue was due to a declining enrollments resulting in a decrease in tuition and fees. The COVID-19 pandemic caused the children's learning center, theater, international, and other cultural programs to shut down, causing significant revenue reductions in these areas. In addition, declining interest rates contributed to the decrease in operating revenues. The operating expenses decreased less than one percent from the prior year. Capital appropriations were reduced due to several capital projects winding down in FY20.

Efforts continue to be made college-wide to determine cost savings within departments and divisions. The college also works to create new opportunities for cost savings by partnering with other colleges and organizations on shared goals and objectives.

A major financial challenge facing the college today is funding, and its impact on affordability. With state support at only 20 percent of unrestricted revenue, the burden of education falls heavily on the Howard County Government and HCC students. With the COVID-19 pandemic impact, the college saw an increase in summer enrollments, however; fall enrollment is showing a decline and the college could continue to see major enrollment declines throughout FY21. With declining enrollment trending throughout our nation and potential reduced appropriations from government sources, the college will continue to look for ways to reduce operating costs.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF NET POSITION

	June 30, 2020	June 30, 2019	Dollar Variance	Percentage Variance
ASSETS				
Current assets	\$ 60,806,060	\$ 56,968,368	\$ 3,837,692	7%
Non-current assets, net	275,779,494	279,647,525	(3,868,031)	-1%
Total Assets	336,585,554	336,615,893	(30,339)	0%
Deferred outflows of financial resources				
– pension	803,753	779,251	24,502	3%
– other post-employment benefits	5,012,075	2,348,125	2,663,950	113%
Total Deferred Outflows of Financial Resources	5,815,828	3,127,376	2,668,452	86%
LIABILITIES				
Current liabilities	24,085,431	24,558,005	(472,574)	-2%
Non-current liabilities	51,941,599	47,618,405	4,323,194	9%
Total Liabilities	76,027,030	72,176,410	3,850,620	5%
Deferred inflows of financial resources				
– pension	281,376	273,396	7,980	3%
– other post-employment benefits	5,884,869	6,601,449	(716,580)	-11%
Total Deferred Inflows of Financial Resources	6,166,245	6,874,845	(708,600)	-10%
NET POSITION				
Net investment in capital assets	264,794,335	265,841,551	(1,047,216)	0%
Restricted funds, expendable	134,776	38,522	96,254	250%
Unrestricted	(4,721,004)	(5,188,059)	467,055	-9%
Total Net Position	\$ 260,208,107	\$ 260,692,014	\$ (397,317)	0%
Designations of unrestricted net position:	June 30, 2020	June 30, 2019	Variance	
Continuing education	\$ 5,523,493	\$ 4,712,529	\$ 810,964	
Auxiliary enterprises	4,779,409	4,547,968	231,441	
Special funds	18,812,463	13,166,283	5,646,180	
Facility funds	10,454,762	12,819,201	(2,364,439)	
Other	221,868	1,999,773	(1,777,905)	
Unfunded pension related items	(2,233,310)	(2,040,376)	(192,934)	
Unfunded other post-employment benefits	(40,032,517)	(38,497,228)	(1,535,289)	
Unfunded vacation liability	(2,247,172)	(1,896,209)	(350,963)	
Total unrestricted net position	\$ (4,721,004)	\$ (5,188,059)	\$ 467,055	

- *Total assets* decreased \$30,339, less than one percent over the prior year. The primary increase in *current assets* was in cash and cash equivalents. This increase was offset by a decrease in *Non-current assets* of one percent, or \$3,868,031 primarily due to additional accumulated depreciation on completed projects.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

- The increase in *non-current assets* is net of depreciation. Capital assets include land, buildings, renovation costs, furniture, equipment, software, library books, leaseholds, land improvements, and construction in progress (CIP). CIP, as of June 30, 2020, totaled \$1,677,232, which is the accumulated costs associated with the mathematics and athletics complex. The breakdown by asset category can be found in Note 7 of the financial statements.
- *Total liabilities* increased \$3,850,620, or five percent from the prior year. While there was an overall increase, there was a decrease in *current liabilities* primarily due to the payable to Howard County for construction projects that the county pays up front on behalf of the state. As major capital projects are winding down or in early start up stages, the payable has decreased.
- *Non-current liabilities* include the college's portion of the state pension liability for certain employees, the OPEB liability, and bond debt. The college's pension liability increased eight percent. The bond debt decreased by seven percent. The bonds are held by the county on behalf of the college and provided funding for the garage and other capital assets. The debt repayment schedule is detailed in Note 8 of the financial statements. The OPEB liability increased \$4,915,819, or 14 percent, primarily due to a change in assumptions. More information about the liability is found in Note 11.
- Deferred outflows of financial resources increased 86 percent and deferred inflows of financial resources decreased 10 percent. These items are related to the college's pension liability for certain employees, discussed in note 10 of the financial statements, and the OPEB liability, discussed in note 11 of the financial statements.
- These changes resulted in a decrease in the college's *net position* of \$483,907, a decrease of less than one percent from the prior year. *Restricted funds*, which increased 250 percent, will satisfy grant obligations in FY20.

The college's *unrestricted net position* is internally designated as outlined in the previous chart. The college's portion of the unfunded OPEB liability had a material negative effect on the unrestricted net position of the college. The unrestricted net position is now (\$4,721,004). The college has an agreement with the county to fund this liability. The county has funded the OPEB trust since its inception and has budgeted to fund the trust on the college's behalf in the FY21 budget.

The primarily increase in the special funds was from the increase in savings in the operating budget in FY20. These savings were transferred to the special funds and are planned to be used to help make up anticipated FY21 budgeted revenue shortfalls.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Total Operating Revenue	<u>\$ 31,648,185</u>	<u>\$ 34,449,123</u>	<u>\$ (2,800,938)</u>	-8%
Operating Expenses				
Instruction	46,376,957	46,859,530	(482,573)	-1%
Public service	831,623	833,965	(2,342)	0%
Academic support	12,087,405	11,213,439	873,966	8%
Student services	9,116,927	9,104,745	12,182	0%
Facilities	13,236,832	13,713,033	(476,201)	-3%
Institutional support	14,581,598	14,556,729	24,869	0%
Scholarships and related expenses	3,489,472	2,784,618	704,854	25%
Auxiliary enterprises	2,947,719	2,862,641	85,078	3%
Certain fringe benefits paid directly by the state	4,735,501	4,639,257	96,244	2%
Unallocated depreciation	11,398,093	11,500,922	(102,829)	-1%
Total operating expenses	<u>118,802,127</u>	<u>118,068,879</u>	<u>733,248</u>	<u>1%</u>
Operating loss	<u>(87,153,942)</u>	<u>(83,619,756)</u>	<u>(3,534,186)</u>	4%
Non-operating Revenue (Expenses)				
Government appropriations	55,652,410	53,856,705	1,795,705	3%
Grants and contracts	17,577,504	15,634,457	1,943,047	12%
In-kind contributions and certain fringe benefits paid directly by government	7,014,226	6,925,158	89,068	1%
Investment income	614,602	887,758	(273,156)	-31%
Interest on debt to Howard County	<u>(487,548)</u>	<u>(487,078)</u>	<u>(470)</u>	<u>0%</u>
Net Non-operating Revenue	<u>80,371,194</u>	<u>76,817,000</u>	<u>3,554,194</u>	5%
Loss before capital appropriations	<u>(6,782,748)</u>	<u>(6,802,756)</u>	<u>20,008</u>	<u>0%</u>
Capital appropriations	<u>6,298,841</u>	<u>21,990,363</u>	<u>(15,691,522)</u>	<u>-71%</u>
Change in net position	<u>(483,907)</u>	<u>15,187,607</u>	<u>(15,671,514)</u>	<u>-103%</u>
Net position, beginning of year	<u>260,692,014</u>	<u>245,504,407</u>	<u>15,187,607</u>	<u>6%</u>
Net Position, End of Year	<u>\$ 260,208,107</u>	<u>\$ 260,692,014</u>	<u>\$ (483,907)</u>	0%

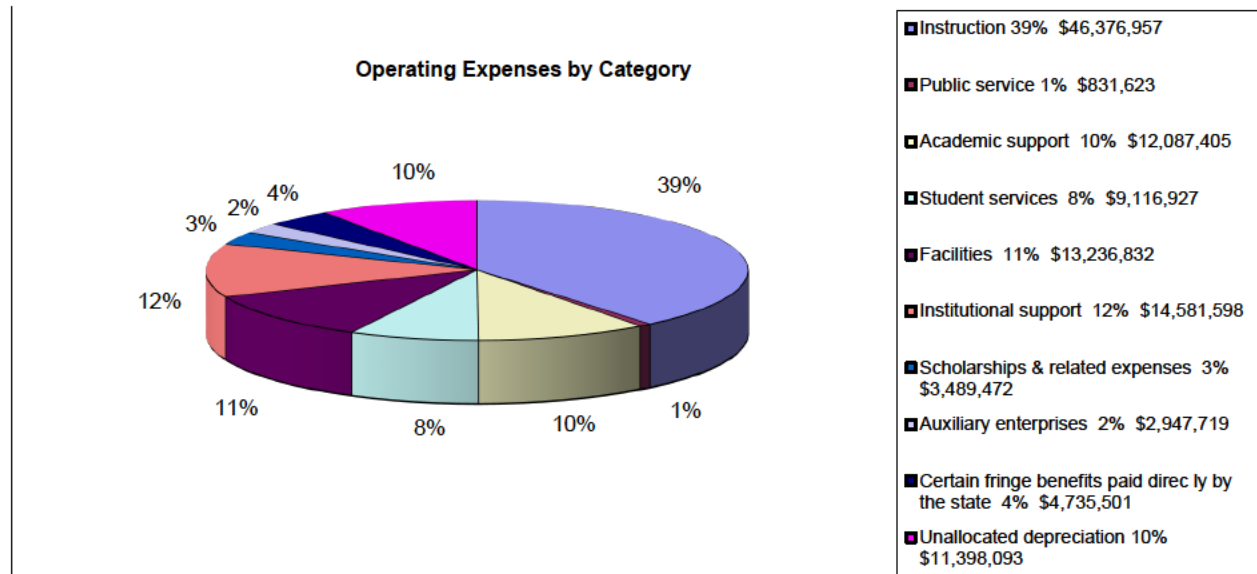
- *Operating revenue* had an eight percent, or \$2,800,938 decrease from the prior year. This decrease was primarily in tuition and fee revenue, which was down six percent. Cultural programs were also down 39 percent due to the COVID-19 pandemic shutdown of the theater, international, and other cultural programs. In addition auxiliary service revenue was down 13 percent primarily due to lost revenue from the children's learning center.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

- *Non-operating revenue* had a five percent, or \$3,554,194 increase from the prior year. The county appropriation increased 2.45 percent and the state appropriation increased five percent in FY20. Grants and contracts had a 12 percent increase, primarily due to CARES federal relief funding.



- Total *operating expenses* increased \$733,248, an increase of one percent over the prior year. *Instruction and academic support* together represent 49 percent of expenditures. This is consistent with the prior year. Direct instructional expenses decreased one percent while academic support costs increased one percent.
- The *academic support* function increased eight percent, or \$873,966 from the prior year. Additional funds for new positions added to disability services, advising and the English and world languages office, caused this increase in expenditures. In addition, funding required for benefit expenses increased in FY20.
- The *scholarships and related expenses* increased 25 percent or \$704,854 as compared to the prior year. This expense represents financial assistance paid directly to students for expenses other than their college charges of tuition and fees. The large increase was due to the CARES funding, which provided \$989,400 to students for emergency relief due to COVID-19.
- Expenses in *auxiliary enterprises* increased three percent, or \$85,078. Costs associated with the Children's Learning Center made up the majority of this increase and the food service operation increased slightly over the prior year.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

- *Capital appropriations* from the county and state government decreased \$15,691,522, or 71 percent from the prior year. Funding for the science, engineering, and technology building was completed, and funding for the Nursing, Science and Technology renovation decreased as expenditures are in their final phase. The Nursing, Science and Technology buildings were renamed Howard hall and Academic Commons, respectively.

	STATEMENTS OF CASH FLOWS			
	June 30, 2020	June 30, 2019	Dollar Variance	Percentage Variance
Cash Flows From Operating Activities				
Net cash used in operating activities	\$ (64,264,995)	\$ (66,332,009)	\$ 2,067,014	-3%
Cash Flows From Non-Capital Financing Activities				
Net cash provided by non-capital financing activities	73,069,124	69,265,589	3,803,535	5%
Cash Flows From Capital Financing Activities				
Net cash (used) provided by capital financing activities	(5,514,515)	807,988	(6,322,503)	-782%
Cash Flows From Investing Activities				
Net cash provided by investing activities	614,602	887,758	(273,156)	-31%
Net increase in cash and cash equivalents	3,904,216	4,629,326	(725,110)	-16%
Cash and cash equivalents, beginning of the year	42,689,898	38,060,572	4,629,326	12%
Cash and Cash Equivalents, End of Year	\$ 46,594,114	\$ 42,689,898	\$ 3,904,216	9%

- Cash and cash equivalents increased \$3,904,216, or nine percent from the prior year.
- The primary inflow of cash from operations continues to come from student tuition and fees. This inflow had a seven percent decline for the year, due to lower enrollment. The primary outflows of cash from operations are supplier payments, employee compensation, and employee benefits costs. These outflows collectively decreased five percent over the prior year. As a result, *net cash used in operating activities* decreased three percent.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Financial Statement Highlights and Analyses (continued)

- State and local appropriations are the primary cash inflows from *non-capital financing activities*. Other funds come from grants and contracts. Collectively, the county and state receipts increased three percent, while grant receipts increased 12 percent. The major increase was due to federal CARES funding, resulting in an increase in *net cash provided by non-capital financing activities* of five percent over the prior year.
- *Capital financing activities* include resources received from the county and state for the college's capital projects, purchase of capital assets, and the issuance and repayment of debt. Cash receipts for appropriations decreased 86 percent over the prior year and expenditures on capital projects declined 67 percent. This occurred as the Howard Hall renovation is winding down and the science, engineering, and technology project was closed out. Overall, the college had a 782 percent decrease in *net cash provided by capital financing activities*.
- The college's *investing activity* cash flows come from investment income. Interest rates remained high during the first half of FY20 prior to declining in the second half, resulting in a 31 percent decrease in *net cash provided by investing activities*.

The college believes that its liquidity position as of June 30, 2020, is adequate. The college's current assets are deemed to be sufficient to pay its current liabilities as of June 30, 2020.

As the college collects the majority of its tuition revenue at the beginning of each term and receives its grants and appropriations regularly, liquidity should not be an issue for the next fiscal year.

Economic Factors that Will Affect the Future

Howard County and the State of Maryland provide significant resources to the college for both its operating and capital budgets. Restricted funding from federal, state, and local governments cover significant expenses for college programs and provide support to students with financial need. This support, exclusive of capital appropriations, is reflected on the financial statements as non-operating revenue. In FY20, the college received an increase of five percent from the state and 2.45 from the county.

These funds covered 68 percent of operating expenses, therefore, the economic condition of the state and county are critical to the college's future financial health.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Economic Factors that Will Affect the Future (continued)

The college experienced a decline in enrollment in state-funded credit FTEs in FY20 of 3.61 percent and no enrollment increase is anticipated in FY21. In FY20, the college and the Howard County Public School System updated its memorandum of understanding for dual enrollment, which promoted the joint dual enrollment program called JumpStart. With this revised agreement, the college continues to see increases in the number of dually enrolled students. In FY20, dually enrolled students made up 6.5 percent of total FTEs. However, based on the current economic situation and unknown COVID impact, the college is expecting only a slight decrease in credit enrollment in FY21. The COVID-19 pandemic is having a significant impact on continuing education and workforce development non-credit enrollment. Enrollment in those areas is anticipated to see significant declines in FY21.

As enrollment declines, tuition and fees that supported 39 percent of the operating revenue in FY20 will decline, unless tuition rates continue to rise. In the FY21 budget, in-county tuition rates increased by two dollars per credit hour and out-of-county and out-of-state rates increased five and eight dollars, respectively. State guidelines on tuition rates caused the higher increases for non-county residents.

The college has received funding in FY21 for the remaining design of the new mathematics and athletic complex that was split-funded over two years. In addition, the first phase of construction will begin in FY21. The complex supports current enrollment and growth for the mathematics division and athletics programs while addressing existing facilities inadequacies and severe space deficits. Additional funding and continued construction costs will take place over a five-year period.

Due to funding limitations at the county and state, as well as the HCC's goal of keeping tuition affordable, the college continues to look for ways to reduce costs. During the FY21 budget development process, \$147,000 was saved. This included reductions, rebates, and savings in the areas of contracted services, supplies, printing, and travel.

This past March, the COVID-19 pandemic decimated the US economy, which contracted at the rate of 32.9 percent from April through June. This was the worst drop on record. The pandemic ground businesses to a halt and the US plunged into its first recession in 11 years, putting an end to the longest economic expansion in US history and wiping out five years of economic gains in a few months. Some consider the US economy to be in the deepest recession on record since the Great Depression. As the US wobbles with increased spikes in COVID-19 cases in multiple states, there is not a definitive answer as to when the crisis will be over. We probably will not be able to predict this until a vaccine is readily available to all. The State of Maryland has been fortunate because immediate actions were taken and the positivity rates in the state for COVID-19 have been lower than five percent since June 2020.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Economic Factors that Will Affect the Future (continued)

Under the more favorable state scenarios, Maryland could face a \$5 billion budget challenge over FY21 and FY22. In June 2020, the college received notice that its FY21 budget would be cut \$3.3 million from the state, which represents approximately 14 percent of HCC's state funding. The state has the ability to cut the college up to 25 percent in a fiscal year. While additional federal aid may help relieve pressures, significant state actions will be necessary to address the shortfall and position the state for the longer term.

Howard County lost \$35 million in revenue during the last quarter of FY20. To compare the significance of this, the county's general fund revenue has grown less than an average of \$25 million a year over the last few years.

With both the state and county losses, this will probably mean more cuts to the college's FY21 budget and/or additional cuts in the FY22 budget as additional actions will be needed to absorb the losses.

The pandemic brought a change in how the college delivers education. The college was able to rapidly move to remote instruction in a matter of weeks and will continue to hold the majority of classes remotely in the fall 2020 semester. The agility in making this change to remote instruction is a credit to our innovative faculty and staff who are constantly looking for ways to make positive change.

Prior to the pandemic, the college made the decision to undertake a major study of the academic area with the consulting firm of rpk Group. The academic area had already undertaken a major initiative to reduce program offerings and this study complemented the work that was already done. The study focused on the institution's economic engines and identifying opportunities for investment and reallocation toward institutional strategic goals. The project created a framework for moving the college toward the use of a return on investment lens.

In addition, to reviewing our academic areas, the college made the very difficult decision to close the Children's Learning Center in July 2020. The Children's Learning Center was originally founded to assist HCC students who needed childcare while they attended classes. However, over the years, student usage decreased and children from the community far exceeded the number of students whose parents attended the college, as well as children of faculty and staff. The growing deficits for the center were not sustainable and the difficult decision to close the center was made.

In FY18, the county made the decision to move the college's portion of the OPEB liability from the county to the college. However, it should be noted that the college has an agreement with the county, where the county funds the college's OPEB liability. The county has continued to allocate funding for our OPEB liability each year in the budget process. It is important to the financial stability of the college that funding of the OPEB trust remains the responsibility of the county.

HOWARD COMMUNITY COLLEGE

Management's Discussion and Analysis June 30, 2020

Economic Factors that Will Affect the Future (continued)

Moving forward, the college anticipates that FY21 will be an extremely challenging year, which will probably continue into FY22. However, the college is fortunate to be in Howard County where there is a highly educated workforce and an AAA bond rating. The county has growth corridors for development along with the re-development of Columbia, which will contribute to the long-term economic growth of the county.

The pandemic has shown how resilient and agile the college is and has ushered in a paradigm shift in how the college delivers instruction. More changes and challenges are expected on the road ahead, but the college is confident that it can navigate the path as HCC enters a new normal.

Requests for Information

The management's discussion and analysis financial report is intended to provide a general overview of the college's finances. Questions concerning information within this report or requests for additional information should be addressed to the office of administration and finance, Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044. Email questions can be sent to FinanceOffice@howardcc.edu.

Electronic versions of this audit report are provided for information only and for the convenience of the reader. While reasonable efforts have been made to ensure the integrity of electronic statements, they should not be relied on. A copy of the printed financial statements will be provided upon written request made to: Howard Community College, 10901 Little Patuxent Parkway, Columbia, Maryland 21044; Attention: The Office of the Vice President of Administration and Finance. Email requests should be sent to FinanceOffice@howardcc.edu.

FINANCIAL STATEMENTS

HOWARD COMMUNITY COLLEGE

Statements of Net Position June 30, 2020

	Howard Community College	Howard Community College Educational Foundation, Inc.
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 46,594,114	\$ 567,678
Investments	-	4,282,805
Tuition and other receivables, (net of allowance of \$3,171,276)	248,970	-
Federal, state, local, and other receivables	13,256,762	-
Contributions receivable, net	-	844,506
Prepaid expenses and other assets	706,214	29,565
Total current assets	60,806,060	5,724,554
Non-current Assets		
Investments and interest in irrevocable trust	-	9,193,070
Contributions receivable, net	-	176,897
Capital assets, net	275,779,494	-
Total non-current assets	275,779,494	9,369,967
Total Assets	336,585,554	15,094,521
Deferred outflow of financial resources		
Pension	803,753	
Other post-employment benefits	5,012,075	-
Total Deferred outflow of financial resources	5,815,828	-
LIABILITIES		
Current Liabilities		
Accounts payable and accrued wages	3,722,038	55,111
Accrued compensated absences	2,847,561	-
Payable to PGCC joint venture	534,709	
Payable to Howard County for construction	12,270,104	-
Other payables	363,380	-
Bonds payable, Howard County, current portion	802,081	-
Deposits	73,060	-
Agency funds	1,130,596	-
Unearned revenue	2,341,902	293,735
Total current liabilities	24,085,431	348,846

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

HOWARD COMMUNITY COLLEGE

Statements of Net Position (continued) June 30, 2020

	Howard Community College	Howard Community College Educational Foundation, Inc.
Non-current Liabilities		
Pension liability	\$ 2,755,687	\$ -
Bonds payable, Howard County, net of current portion	10,026,189	-
Other post-employment benefits	39,159,723	-
Total non-current liabilities	51,941,599	-
Total Liabilities	76,027,030	348,846
Deferred inflows of financial resources		
Pension	281,376	-
Other post-employment benefits	5,884,869	-
Total Deferred inflows of financial resources	6,166,245	-
Net investment in capital assets	264,794,335	-
Restricted for scholarships and program uses	134,776	13,017,090
Unrestricted	(4,721,004)	1,728,585
Total Net Position	\$ 260,208,107	\$ 14,745,675

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

HOWARD COMMUNITY COLLEGE

Statements of Revenue, Expenses and Changes in Net Position

For the Year Ended June 30, 2020

	Howard Community College	Howard Community College Educational Foundation, Inc.
Revenue		
Operating Revenue		
Student tuition and fees (net of discounts, allowances, and financial aid of \$13,199,137)	\$ 29,041,762	\$ -
Cultural, community, and other programs	650,978	-
Auxiliary enterprises revenue (net of financial aid of \$3,850)	1,248,408	-
Other operating revenue	707,037	-
Contributions, including in-kind	-	2,976,339
Special events	-	237,152
Total Operating Revenue	31,648,185	3,213,491
Operating Expenses		
Instruction	46,376,957	-
Public service	831,623	-
Academic support	12,087,405	-
Student services	9,116,927	-
Facilities	13,236,832	-
Institutional support	14,581,598	482,530
Scholarships and related expenses	3,489,472	-
Program expenses	-	1,792,950
Special events	-	42,859
Fundraising	-	407,200
Auxiliary enterprises	2,947,719	-
Certain fringe benefits paid directly by the State of Maryland	4,735,501	-
Unallocated depreciation	11,398,093	-
Total Operating Expenses	118,802,127	2,725,539
Operating Loss	(87,153,942)	487,952
Non-Operating Revenue (Expenses)		
Howard County government appropriations	35,843,000	-
State of Maryland appropriations	19,809,410	-
Federal, state, local, and other grants and contracts	17,577,504	41,699
In-kind contributions – Howard County Government	1,158,000	-
Certain fringe paid directly by the State of Maryland and Howard County Government	5,856,226	-
Investment income	614,602	256,493
Net realized and unrealized gain on investments	-	216,015
Interest expense	(487,548)	-
Net Non-Operating Revenue	80,371,194	514,207
(Loss) Income before Capital Appropriations	(6,782,748)	1,002,159

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

HOWARD COMMUNITY COLLEGE

Statements of Revenue, Expenses and Changes in Net Position (continued) For the Year Ended June 30, 2020

	Howard Community College	Howard Community College Educational Foundation, Inc.
Capital appropriations, State of Maryland	\$ 2,327,844	\$ -
Capital appropriations, Howard County	3,970,997	-
Total Capital Appropriations	6,298,841	-
Changes in net position	(483,907)	1,002,159
Net position, beginning of year	260,692,014	13,743,516
Net Position, End of Year	\$ 260,208,107	\$ 14,745,675

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

HOWARD COMMUNITY COLLEGE

Statements of Cash Flows For the Year Ended June 30, 2020

Howard Community College

Cash Flows From Operating Activities

Student tuition and fees	\$ 29,369,700
Payments to suppliers	(20,727,861)
Payments to employees	(61,329,403)
Payments for employee benefits	(14,183,854)
Auxiliary enterprises	1,248,408
Other receipts	1,358,015
Net Cash From Operating Activities	(64,264,995)

Cash Flows From Non-Capital Financing Activities

Local appropriations	35,843,000
State appropriations	19,809,410
Grant and contracts	17,575,381
Student loan receipts	6,497,880
Student loan disbursements	(6,497,880)
Agency fund receipts	309,308
Agency fund disbursements	(467,975)
Net Cash From Non-Capital Financing Activities	73,069,124

Cash Flows From Capital Financing Activities

Capital appropriations	3,307,030
Purchase of capital assets	(7,530,062)
Interest expense payments	(487,548)
New bond issue	0
Principal payments on bonds, net of refunding	(803,935)
Net Cash From Capital Financing Activities	(5,514,515)

Cash Flows From Investing Activities

Investment interest	614,602
Net Cash From Investing Activities	614,602

Net increase in cash and cash equivalents	3,904,216
Cash and cash equivalents, beginning of year	42,689,898

Cash and Cash Equivalents, End of Year	\$ 46,594,114
---	----------------------

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

HOWARD COMMUNITY COLLEGE

Statements of Cash Flows (continued) For the Year Ended June 30, 2020

Howard Community College

Reconciliation of Net Operating Loss to Net Cash Used in

Operating Activities:	
Operating loss	\$ (87,153,942)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,343,490
Loss on disposal of assets	54,603
In-kind contributions	2,123
Amounts paid directly by the state and county	7,014,226
Effects of changes in non-cash operating assets and liabilities:	
Receivables, net	741,090
Prepaid expenses and other assets	(2,388,088)
Accounts and other payables	1,776,675
Unfunded pension liability	157,412
Unfunded other post-employment benefits liability	4,259,263
Unearned revenue	(422,809)
Compensated absences	350,962
Net Cash From Operating Activities	\$ (64,264,995)

Howard Community College Educational Foundation, Inc.

Cash Flows From Operating Activities

Changes in net position	\$ 1,002,159
Adjustments to reconcile changes in net position to net cash used in operating activities:	
Net realized and unrealized gain on investments	(421,113)
Change in discount on contributions receivable	(10,005)
Change in allowance for uncollectible accounts	1,000
Effects of changes in non-cash operating assets and liabilities:	
Contributions receivable	(684,916)
Prepaid expenses and other assets	(7,470)
Accounts payable and accrued wages	(303)
Due to Howard Community College	(7,783)
Unearned revenue	202,535
Net Cash From Operating Activities	74,104
Cash Flows From Investing Activities	
Proceeds from sale of investments	2,989,842
Purchase of investments	(2,933,891)
Net Cash From Investing Activities	55,951
Net increase in cash and cash equivalents	130,055
Cash and cash equivalents, beginning of year	437,623
Cash and Cash Equivalents, End of Year	\$ 567,678

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

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

1. ORGANIZATION AND BACKGROUND

Howard Community College (the “college”), founded by the Board of Education of Howard County (the “county”), was formally authorized by the Howard County Commissioners to provide a full range of educational services to the county’s citizens; however, citizens of other counties and states also are eligible to attend. In FY20, 75 percent of the college’s credit student populations were county residents. The college is fully accredited by the Middle States Commission on Higher Education and authorized by the Maryland Higher Education Commission to offer programs of learning and to award associate degrees and certificates of proficiency.

A seven-member board of trustees, appointed by the Governor of Maryland, governs the college. The college president is a non-voting member of the board of trustees and serves as the secretary-treasurer.

The college has been defined as a component unit of Howard County, Maryland government, and the college’s financial statements are included in the comprehensive annual report of the county in accordance with generally accepted accounting principles in the United States of America.

The Howard Community College Educational Foundation, Inc. (the “foundation”) is a separate legal entity with a separate board of directors. The foundation is a nonprofit organization established in 1978 to provide charitable benefits to the college and financial aid to qualified students attending the college. The college’s president holds the position of secretary and the college’s director of development holds the position of executive director. The foundation operates independently of the college.

Since the foundation was established for the purpose of obtaining resources and to provide charitable benefits to the college, it is considered a component unit of the college, and is discretely presented in the college’s financial statements.

Complete financial statements of the foundation can be obtained by contacting the foundation’s administrative office located at Howard Community College, 10901 Little Patuxent Parkway, Columbia, MD 21044-3197. Email requests can be sent to Foundation@howardcc.edu.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared using accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB).

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Given the importance of tuition, fees, and other exchange-type transactions in financing higher education, the college adopted the financial reporting model required by GASB for business-type activities (BTA). Colleges reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. Accordingly, the accompanying college financial statements have been prepared on the accrual basis of accounting in accordance with governmental accounting standards generally accepted in the United States of America.

The foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB), including FASB Accounting Standards Codification Topic no. 958. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial reporting entity for these differences.

Use of Estimates

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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The college and the foundation consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Funds invested through the Maryland Local Government Investment Pool are also considered cash equivalents.

Investments and Interest in Irrevocable Trust

Investments of the foundation that are comprised of mutual funds and fixed income securities are reported at fair value, based upon the net asset value per share as determined by quoted market prices.

The foundation's investments in an external investment pool have no readily determined market value and are valued at fair value as estimated by the University System of Maryland Foundation (USMF) custodian based on values as reported by the record keeper. USMF's management estimates fair value of the underlying market values of the investments. Because of the inherent uncertainty of the valuation, it is reasonably possible that such estimated values may differ from the values that would have been used had a ready market for the securities existed.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Interest in Irrevocable Trust (Continued)

Changes in fair value are recognized in the statement of revenue, expenses, and changes in net position in the period in which the change occurs and are included in net realized and unrealized gains on investments.

Interest in irrevocable trust represents the foundation's interest in an irrevocable trust donated to the foundation during the year ended June 30, 2009. The foundation's interest is reported as the present value of the estimated fair value based on the foundation's share of the trust, the fair value of the assets in the trust, and the expected life of the donor.

Tuition and Other Receivables

The college's tuition receivable represents obligations of students resulting from course registrations. The receivable is due before the end of the semester for which it was incurred. Amounts that remain uncollected three weeks after the end of the semester are considered delinquent and are referred to a collection agency. The college has established a valuation allowance for the tuition receivable it estimates as uncollectible. As of June 30, 2020, the net tuition receivable was \$186,449. Included in other receivables are amounts due from the Howard Community College Educational foundation of \$54,521 and from Barnes and Noble of \$8,000, primarily for June's commission on sales.

Contributions Receivable

The foundation's contributions receivable represents unconditional promises to give from various contributors including individuals, foundations, local businesses, and governments. There was a \$4,500 allowance for uncollectible accounts recorded as of June 30, 2020.

Contributions receivable are recorded at the donated amount or net present value for those contributions expected to be collected in excess of one year. A discount rate of 0.25 percent was used as of June 30, 2020. The unamortized discount of \$772 will be accreted into contribution revenue in the future.

Capital Assets

Capital assets of the college are long-lived tangible assets that will benefit future periods. These assets have been capitalized and are depreciated over their estimated useful lives. Capital assets are defined as land, land improvements, buildings, building renovations, leasehold improvements, furniture and equipment (including software), and library books that have initial useful lives extending beyond a single reporting period.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The college has established a threshold of \$5,000 for furniture and equipment for items to be capitalized. Library books are capitalized as one component unit for the purchases within the fiscal year.

Capital assets constructed or purchased are capitalized at cost, while assets acquired by gift are capitalized at their fair market value at the time of donation. The college depreciates all capital assets, except for land. Depreciation expense is not allocated functionally on the financial statements. Cost incurred for construction in progress is capitalized as incurred and not depreciated until the assets are ready to be placed in service.

Depreciation is computed on a straight-line basis over estimated useful lives (as listed below), beginning the year after acquisition, except for buildings, which are depreciated in the first year of their use.

<u>Class of Assets</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Land improvements	25 years
Renovations and leasehold improvements	15 years (or lease term, if shorter)
Library books	8 years
Furniture, equipment and software	3–10 years

Accrued Compensated Absences

The college accrues for unused compensated absences at year-end. Accrued compensated absences as of June 30, 2020, were \$2,847,561.

Changes in the college's accrued compensated absences for the year ended June 30, 2020, were as follows:

	<u>June 30, 2019</u>	<u>Net change</u>	<u>June 30, 2020</u>
Payable	<u>\$ 2,496,599</u>	<u>\$ 350,962</u>	<u>\$ 2,847,561</u>

Agency Funds

Funds held by the college as custodian or fiscal agent for others, such as student organizations used to support various student activities not directly related to instructional activities, are accounted for as agency funds. The funds held for others are recorded as a liability on the statement of net position and agency transactions are not included in the revenue and expenses of the college.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Unearned revenue for the college is primarily comprised of tuition received for semesters beginning after June 30, 2020, and grant revenue received during the year that has restrictions on spending related to time or purpose, which has been deferred until those restrictions are met. The foundation collects advance receipts for fundraising events. Funds received for foundation fundraising events are recognized as special events revenue upon the occurrence of the event.

Deferred Inflows and Outflows Related to Pension and Other Post-Employment Benefits

Deferred inflows include differences between expected and actual experience, changes in actuarial assumptions, the net difference between projected and actual earnings, and a change in the college's proportional rate.

Deferred outflows includes amounts paid to the county for the college's related expense. They also include changes in actuarial assumptions, and the net difference between projected and actual earnings.

Deferred inflows and outflows are amortized over five years for the pension items, and five or 10 years for the other post-employment benefits items.

Net Position

Net position of the college is classified as restricted, unrestricted, or net investment in capital assets. Restricted net position is reported as either expendable or nonexpendable. Nonexpendable net position is to be maintained in perpetuity. Expendable net position, for which there are externally imposed constraints, are obligated or expensed within those condition(s). As of June 30, 2020, the college did not have any nonexpendable net position.

The restricted net position of \$134,776 represents grants given to the college for a specific use, designated by the grantor. The unrestricted balance of (\$4,721,004) represents auxiliary enterprise funds of \$4,779,409, continuing education funds of \$5,523,493, cultural, community, theatre and other funds of \$19,034,331, and \$10,454,762 designated for construction and debt repayment, net of \$2,247,172 of unfunded vacation liability, \$2,333,310 of unfunded pension liability, and \$40,032,517 of unfunded post-employment related benefits.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

The net investment in capital assets of \$264,794,335 is net of related debt that includes debt to Howard County of \$10,828,270, and outstanding payables related to construction projects as of June 30, 2020, of \$156,889.

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by the foundation have been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. As of June 30, 2020, there was \$3,824,020 in net assets with donor restrictions for a specific time period or purpose.

Net assets with donor restrictions also consist of contributions subject to donor-imposed stipulations that must be maintained in perpetuity by the foundation. Generally, the donors of these assets permit the foundation to use all or part of the income earned and capital gains, if any, on the related investments for general or specific purposes. Investment income earned from such contributions is restricted to support the purpose designated. Net assets with donor restrictions, in perpetuity, was \$9,193,070 for the year ended June 30, 2020.

Revenue Recognition

The financial statements of the college have been prepared on the accrual basis of accounting, whereby all revenue is recorded when earned and all expenses are recorded when they have been incurred. These financial statements are intended to report the public institution as an economic unit that includes all measurable assets and liabilities, financial and capital, of the institution. Internal activity between programs has been eliminated.

The college's tuition and fee revenue is shown net of scholarship allowances. A scholarship allowance is defined as the difference between the stated charge for tuition, fees, goods, and services provided by the college and the amount that is paid by the student and/or third-parties making payments on behalf of the student. The scholarship allowance represents the amount the college receives as tuition from outside sources, such as the Title IV Federal Grant Program, the foundation, other restricted grants, and the college's own scholarship program. Funds received on behalf of students from outside sources, such as third-party payers, are reported in the appropriate revenue classification.

Certain aid, such as loans and third-party payments, are credited to the student's account as if the student made the payment. For the year ended June 30, 2020, the college netted expenses

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

in the amount of \$13,202,987, reducing tuition revenue by \$13,199,137, and auxiliary enterprise revenue by \$3,850 for these payments.

Auxiliary Enterprises, Continuing Education, and Cultural, Community, and Other Programs

Auxiliary enterprises operated by the college include the Children's Learning Center and student athletic programs. The bookstore, food service, and vending are outsourced.

Continuing education and workforce development programs primarily represent noncredit courses offered by the college for a fee.

Cultural, community, and other programs are primarily events of Rep Stage, the Laurel College Center (LCC), summer instructional and sports camps, the youth music program, the international programs, various student services programs, and athletic activities sponsored by the college for the community. Net position for these programs are part of the unrestricted net position balance.

Contributions received are recorded as net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Howard Community College Educational Foundation statements of activities and changes in net assets as net assets released due to satisfaction of donor restrictions.

Defined Benefit Plan

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 Maryland State Retirement and Pension Systems (MSRPS) and additions to/deductions from MSRPS fiduciary net position have been determined on the same basis as they are reported by MSRPS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms.

Operating and Non-operating Components

The college has elected to report its operating expenses by functional classification, with the exception of certain fringe benefits paid directly by the state and depreciation expense, which are presented as distinct expenses. The statement of cash flows is presented as required using

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-operating Components (Continued)

the direct method that depicts cash flows from operating activities and a reconciliation of operating loss and operating cash flows.

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, non-capital financing, or investing activities. The college's principal ongoing operations determine operating activities. Ongoing operations of the college include, but are not limited to, providing intellectual, cultural, and social services through associate degree and certificate programs, along with continuing education and workforce development programs. Operating revenue of the college consists of tuition and fees; cultural, community, and other programs; auxiliary enterprise revenue; and other operating revenue.

Non-operating components include transactions and other events that are defined as non-capital financing activities, capital financing activities, and investing activities.

Non-capital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest.

Non-operating activities include certain intergovernmental receipts and payments, such as state and local appropriations, grants, payments paid on behalf of the college, investment earnings, and interest on debt. The college has also identified student financial aid assistance, including Pell Grants and Supplemental Educational Opportunity Grants, as non-operating revenue as the college does not consider them to be exchange transactions.

Capital financing activities include acquiring and disposing of capital assets used in providing services or producing goods; borrowing money for acquiring, constructing, or improving capital assets, and repaying the amounts borrowed, including interest; and paying for capital assets obtained from vendors on credit. Investing activities include acquiring and disposing of debt or equity instruments and the related investment earnings.

In-Kind Contributions

The foundation is the designated recipient for all college gifts. The foundation receives and records all in-kind gifts intended for the college, such as artwork, books, equipment, etc. This property is transferred to the college immediately upon receipt. Annually, the college records all in-kind gifts in the restricted fund.

The foundation receives contributions of various services from non-related sources. These contributions and their related expenses are reported at fair value in the period the services are performed. The estimated fair value of these contributions for the year ended June 30, 2020, was \$4,577. Additionally, the foundation receives in-kind support from the college consisting of personnel, legal, consulting, and office costs. The estimated value of these services for the year ended June 30, 2020, was \$860,097.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal and State Income Tax Status

The college is exempt from federal and state income taxes as it is essentially a political subdivision of the state. The foundation has been granted an exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

The IRS has also determined that the foundation is not a private foundation. The foundation is required to report unrelated business income to the IRS. The foundation did not have any unrelated business income for the year ended June 30, 2020. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The foundation has analyzed tax positions taken for filing with the IRS and all state jurisdictions where it operates. The foundation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the foundation's financial position or results of activities. Accordingly, the foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions as of June 30, 2020. The foundation is still open to examination by taxing authorities from FY17 forward.

New Accounting Pronouncements

GASB issued statements No. 84, *Fiduciary Activities*; No. 87, *Leases*; No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*; No. 91, *Conduit Debt Obligations*; No. 92, *Omnibus 92*; No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*; No. 96, *Subscription-Based Information Technology*; and No. 97, *Certain Component Unit Criteria, and Accounting and Financial*. The college is analyzing the effects of these pronouncements and if appropriate, will implement them by their effective dates. However, the college does not expect the adoption of these pronouncements to have a material effect on its financial statements.

Adopted

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows. The amendments in this ASU was effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The Foundation adopted ASU 2016-15 for the year ended June 30, 2020; however, the adoption did not have a significant effect on the financial statement.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted (Continued)

In June 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). This ASU clarifies and improves the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The foundation adopted ASU 2018-08 for the year ended June 30, 2020; however, the adoption did not have a significant effect on the financial statement.

Pending

In January 2020, the FASB issued Accounting Standards Update 2020-01, *Investments Equity Securities (Topic 321), Investments-Equity Method and Joint Venture (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)* (ASU 2020-01). The amendments in this ASU clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments in this ASU are effective for fiscal years beginning after December 15, 2021, with an option for early adoption. The foundation does not expect the adoption of ASU 2020-01 to have a significant effect on its financial statements.

3. CASH AND CASH EQUIVALENTS

A. Deposits

As of year-end, the carrying amount of the college's deposits was \$3,798,018 and the bank balance was \$4,522,754. The deposits of the college, as of June 30, 2020, were not exposed to custodial credit risk. The operating account is federally insured up to \$250,000 by the Federal Deposit Insurance Corporation and any amounts in excess of \$250,000 were collateralized by mortgage back securities with a market value of \$10,000,000, as of June 30, 2020. The collateral is held by the bank's agent in the college's name.

B. Investments

The college's allowable investments are determined by Article 95, Section 22 of the Annotated Code of the Public General Laws of Maryland and the college's investment policy. The college may invest in certificates of deposit with commercial banks in the State of Maryland, direct U.S. obligations, U.S. government agency obligations, repurchase agreements, banker's acceptances from approved banks with acceptable credit ratings, commercial paper from entities with an acceptable credit rating, money market funds, and the Maryland Local Government Investment Pool (MLGIP).

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

3. CASH AND CASH EQUIVALENTS (CONTINUED)

As of June 30, 2020, the college's investment balance consisted of \$42,792,796 in the MLGIP. The investment is considered a cash equivalent for financial statement purposes.

<u>Types</u>	<u>Amounts</u>
Cash on hand	\$ 3,300
Carrying amount of deposit	3,798,018
Carrying amount of MLGIP	<u>42,792,796</u>
Total cash and cash equivalents	<u>\$ 46,594,114</u>

Interest 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 term of investment maturities. As of June 30, 2020, the college's investments were limited to the MLGIP with maturity of less 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.

Investment income included interest and dividends in the amount of \$614,602 for the year ended June 30, 2020.

Credit Risk

The college invests in MLGIP, which is under the administration of the state treasurer. The MLGIP is rated AAAm by Standards & Poor's, its highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of one dollar per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, market-to-market, is calculated and maintained on a weekly basis to ensure a one dollar per unit constant value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the college will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The college's investments were all invested in the MLGIP and are not exposed to custodial credit risk.

Foreign Currency Risk

The college's investment policy does not allow for investments denominated in foreign currencies. The college did not have any investments denominated in any foreign currency for the year ended June 30, 2020.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

4. INVESTMENTS AND INTEREST IN IRREVOCABLE TRUST

The foundation's investments and interest in irrevocable trust as of June 30, 2020, were summarized as follows:

	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Fixed income - corporate bonds	\$ 3,395,035	\$ 189,674	\$ 3,584,709
Mutual funds - equities	6,579,110	467,190	7,046,300
Interest in external investment pool	1,278,889	1,430,113	2,709,002
Interest in irrevocable trust	87,262	48,602	135,864
Total	\$ 11,340,296	\$ 2,135,579	\$ 13,475,875

On January 29, 2009, the foundation received an irrevocable bequest expectancy in which the college would receive 20 percent of a charitable remainder trust. The value of the trust was \$2,329,309 as of June 30, 2020. As of June 30, 2020, the interest in irrevocable trust was recorded at \$135,864, net of the related discount of \$329,998. The foundation used the IRS guideline suggested discount rate of 6.8 percent as of June 30, 2020.

5. FAIR VALUE MEASUREMENTS

Fair value is defined under Accounting Standards Codification (ASC) topic no. 820, *Fair Value Measurements and Disclosures*, as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under ASC topic no. 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and are as follows:

Basis of Fair Value Measurement

Level 1 Inputs: Valuation based on quoted prices in active markets for identical unrestricted assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the foundation's assumptions

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following section describes the valuation methodologies used by the foundation to measure its financial assets at fair value:

- **Mutual funds and fixed income** - The foundation's investments in mutual funds and fixed income are valued based upon the net asset value per share as determined by quoted market prices and open market on which the fund is traded.
- **Interest in external investment pool** - The foundation's investment in the investment pool is held in the USMF investment pool which is valued based on Level 3 inputs within the fair value hierarchy. The investments of USMF related to the foundation's pool holds the majority of its investment assets in global equities, hedged global and US equity, private capital, absolute return, and real estate funds. USMF carries its investments at market value to the extent that market quotations are readily available and reliable. To the extent that market quotations are not available or are considered to be unreliable, fair value is estimated by the investment manager under the general oversight of the Board of Trustees of USMF after consideration of factors considered to be relevant, including but not limited to, the type of investment, position size, marketability (or absence thereof), cost, restrictions on transfer, and available quotations of similar instruments. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the investments existed, and the differences could be material.

Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that USMF might reasonably expect to receive upon the current sale of the investment in an arms-length transaction in the investment's principal market.

The foundation does not directly invest in the underlying securities of the USMF, but instead holds units in the overall United Investment Fund. The amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions. The foundation's interest in the external investment pool of USMF was 0.19 percent of the total investment portfolio as of June 30, 2020.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

Wilmington Trust began as the new investment manager on January 1, 2019. The USMF account is being transitioned over to Wilmington Trust. In March 2019, 50 percent of the original holdings or \$5.2 million was transferred. In March 2020, an additional 50 percent of the new asset value, \$1.6 million was transferred into the Wilmington Trust account. The remainder of the funds at USMF will be transferred over the next two years with a planned final transfer in December 2021. The transferred assets will follow the foundation's investment policy as directed to Wilmington Trust.

- **Interest in irrevocable trust** - The foundation's interest in an irrevocable trust is valued at the present value of the estimated fair value of the underlying market value of investments.

There have been no changes in the valuation methodologies used as of June 30, 2020.

The following tables set forth, by level within the fair value hierarchy, the foundation's investment assets at fair value as of June 30, 2020. As required by ASC topic no. 820, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	As of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 3,584,709	\$ -	\$ -	\$ 3,584,709
Mutual funds	7,046,300	-	-	7,046,300
Interest in external investment pool	-	-	2,709,002	2,709,002
Interest in irrevocable trust	-	135,864	-	135,864
Total	\$ 10,631,009	\$ 135,864	\$2,709,002	\$13,475,875

The following table presents the foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC topic no. 820-10 for the year ended June 30, 2020:

June 30, 2020	
Balance, beginning of year	\$5,006,807
Realized gains	326,957
Unrealized gains	(324,572)
Investment fees	(40,553)
Sales/redemptions	(2,266,727)
Purchases	7,090
Balance, end of year	\$ 2,709,002

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

The sales/redemptions of \$2,266,727 represent a \$1,627,732 transfer to the new investment manager Wilmington Trust and the withdrawal of \$638,995 to cover endowed scholarship expenses.

Unrealized gains in fair value are recorded in the statement of revenue, expenses, and changes in net position.

Quantitative information as of June 30, 2020, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) was as follows:

Description	Fair Value	Principal Valuation Technique	Unobservable input	Weighted Average
Interest in external investment pool	\$ 2,709,002	Net Asset Value	Values assigned to underlying fund investments, including capital activity (capital calls and distributions) and performance estimates as received from the fund manager	N/A

Level 3 Valuation Process

The USMF custodian determines the fair value of the overall investment pool and provides that information to the record keeper. A unitized accounting methodology is used for the valuation process. This methodology takes into account the beginning units along with the withdrawal units. The earnings are then allocated and any additions and transfers are added at the current month value. USMF personnel also have regular calls with management of the funds and meet periodically with the foundation's investment committee and report the performance of the funds.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the foundation's interest in the external investment pool are subject to market risks resulting from changes in the market value of its investments and other events that may occur over the life of the investments and may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable of the foundation as of June 30, 2020, were recorded as follows:

Due in:	Amounts
Less than one year	\$ 849,006
One to five years	177,669
Total	1,026,675
Less: discount for net present value of three percent	772
Less: allowance for uncollectible accounts	4,500
Contributions Receivable, Net	\$ 1,021,403

7. CAPITAL ASSETS

The following table presents the changes in the capital asset categories of the college, less depreciation expense for the year ended June 30, 2020:

	June 30, 2019	Additions/ Transfers	Retirements	June 30, 2020
Land	\$ 378,578	\$ -	\$ -	\$ 378,578
Land improvements	1,397,520	-	-	1,397,520
Buildings	260,289,933	-	-	260,289,933
Building renovations	72,706,651	32,803,074	(921,773)	104,587,951
Furniture and equipment	22,310,456	344,658	(334,974)	22,320,140
Library books	317,468	11,746	(45,211)	284,003
Leasehold improvements	332,648	-	-	332,648
Total	357,733,254	33,159,478	(1,301,958)	389,590,774
Less: accumulated depreciation	105,392,376	11,343,490	(1,247,355)	115,488,511
Assets, net of depreciation	252,340,878	21,815,988	(54,603)	274,102,263
Construction in progress	27,306,647	(25,629,416)	-	1,677,231
Total	\$ 279,647,525	\$(3,813,428)	\$ (54,603)	\$ 275,779,494

8. BONDS PAYABLE, HOWARD COUNTY

The college is indebted to the county for bond issues in the amount of \$10,828,270, as of June 30, 2020, for construction costs of the east parking garage, the college's portion of the Horowitz Visual and Performing Arts Center, and the Campus Roadway Project that includes the east parking garage expansion. Payments began in 2008 and are due through 2038 at interest rates ranging from three percent to five percent.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

8. BONDS PAYABLE, HOWARD COUNTY (CONTINUED)

The debt and interest payments in the future are as follows:

<i><u>For The Year Ending June 30,</u></i>	Principal	Interest
2021	\$ 802,081	\$ 459,700
2022	710,675	423,524
2023	795,673	387,926
2024	819,425	351,664
2025	845,403	310,682
2026-2030	3,158,948	1,051,245
2031-2035	2,398,435	480,419
2036-2039	1,297,630	84,596
Total	<u>\$ 10,828,270</u>	<u>\$ 3,549,756</u>

Changes in the college's long-term liabilities for the year ended June 30, 2020, are as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts Due in One Year</u>
Bonds payable	<u>\$ 11,632,205</u>	<u>\$ -</u>	<u>\$ 803,935</u>	<u>\$ 10,828,270</u>	<u>\$ 802,081</u>

9. RESTRICTED NET POSITION

Restricted for expendable net position of the college of \$134,776, as of June 30, 2020, consists of funds for grant programs. Restricted for expendable net position of the foundation of \$3,824,020 as of June 30, 2020, consists of funds restricted for scholarship purposes and other specified programs. Net position released from restrictions were funds restricted for scholarship purposes and other specified programs whose restrictions were satisfied. Nonexpendable net position of the foundation of \$9,193,070, as of June 30, 2020, are restricted in perpetuity, the income from which is expendable to support the general obligations of the foundation and to provide scholarships. The \$10,953,000, reflected with donor restriction in the endowment, is comprised of the \$9,193,070 to be held in perpetuity and the expendable earnings from those funds.

Endowment

The board of directors of the foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

9. RESTRICTED NET POSITION (CONTINUED)

Endowment (Continued)

endowment 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 expendable net position until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund;
- the purposes of the foundation and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the foundation; and
- the investment policies of the foundation.

Return Objectives and Risk Parameters

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The foundation has a policy of appropriating four percent of the average year-end balance for the prior three years of the endowment at the end of each fiscal year. The foundation board may spend more or less than the four percent because balances may not be sufficient due to deposits, withdrawals, and investment returns. The foundation board approved funding the endowments at a seven percent spending rate for the year ended June 30, 2020.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

9. RESTRICTED NET POSITION (CONTINUED)

Endowment (Continued)

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature reported in expendable net position, as of June 30, 2020.

Composition of the Endowment by Net Position

As of June 30, 2020, the composition of the endowments was as follows:

	As of June 30, 2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor- restricted and board designated funds	\$ 546,559	\$ 10,953,133	\$ 11,499,692

Change in Endowment Net Position

The changes in endowment net position were as follows:

	June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 545,559	\$ 10,317,463	\$10,863,022
Investment return:			
Investment income	-	195,292	195,292
Net appreciation	-	197,210	197,210
Total investment return	-	392,502	392,502
Contributions	-	741,304	741,304
Appropriated for expenditures	-	(650,894)	(650,894)
Transfers	1,000	152,758	153,758
Endowment Net Assets, June 30, 2020	\$ 546,559	\$ 10,953,133	\$11,499,692

During the year ended June 30, 2020, transfers were made among without donor restrictions net position and with donor restrictions net position. The transfers were based on a more accurate understanding of the donors' intentions for contributions received by the foundation.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

10. RETIREMENT BENEFITS

All budgeted full-time and budgeted part-time college employees participate in either the Maryland State Retirement and Pension Systems (MSRPS) or an Optional Retirement Program (ORP), primarily the Teachers Insurance and Annuity Association (TIAA). The college's total current-year payroll for all employees was \$61,473,926. The payroll of employees covered by either the MSRPS or an ORP was \$46,664,428.

MSRPS is a cost-sharing multiple employer Public Employees Retirement System (PERS) established and administered in accordance with State Personnel and Pension Article of the Annotated Code of Maryland. Annually, the State Retirement Agency publishes a publicly-available financial report that includes financial statements and required supplementary information for the PERS. That report may be obtained by writing to MSRPS at the State Retirement Agency, 301 West Preston Street, Baltimore, Maryland, 21201-2363.

MSRPS Benefits Provided

Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The system also provides disability and survivor benefits to DB plan members.

Employee benefits and contributions differ based on the employees' participation in either the retirement system (Teachers' Retirement System or Employees' Retirement System) or the pension system (Teachers' Pension System or Employees' Pension System). All new budgeted employees must join the pension system or an ORP. Employees who were members of the retirement system on December 31, 1979, can continue membership unless they elect to join the pension system or an ORP.

All employees have vested benefits after 10 years of creditable service. Retirement benefits under both the retirement and pension systems are based on years of service. Under the pension system, benefits are integrated with Social Security benefits and cost-of-living adjustments vary depending on the plan. The retirement system has no integration level.

The pension system requires individuals to contribute seven percent of their annual salary. Employees, who are members of the retirement system can, if elected by July 1984, contribute seven percent of their annual compensation and receive an unlimited cost-of-living adjustment.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

10. RETIREMENT BENEFITS (CONTINUED)

Employer Contributions

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The State of Maryland pays, on behalf of the college, the employer's share of retirement costs for teachers and related positions. During the fiscal year ended June 30, 2020, the state paid \$4,735,501 in retirement costs, equal to approximately 10.15 percent of the covered payroll costs. The college's share of retirement costs for other employees was calculated based on the accrued benefit cost method.

Optional Retirement

TIAA is a Fortune 100 financial services organization that is a leading retirement provider for people who work in the academic, research, medical, and cultural fields. Much of TIAA operates on a not-for-profit basis, with surplus returned to participants. The TIAA program is a money purchase plan under which the benefit is determined by the retirement income purchased by state and employee contributions. Fidelity is also an available employee option to establish an ORP. The state contribution rate is determined by state law and is currently 7.25 percent of salary. No employee contribution is required. Participants in an optional retirement plan may begin to receive their annuity income at any time after leaving the college; however, there is a penalty for those under retirement age.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

As of June 30, 2020, the college reported a liability of \$2,755,687, for its proportionate share of the MSRPS plans liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. As of June 30, 2020, the college's proportion was .0134 percent.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2020, the college recognized pension expense related to the employee's system, of \$460,959. This does not include amounts contained in the \$4,735,501 of state paid benefits. The net amount of \$522,377, reported as deferred outflows and

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

10. RETIREMENT BENEFITS (CONTINUED)

inflows of resources related to pensions, was recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

As of June 30, 2020, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ (141,273)
Net difference between projected and actual earnings on pension plan investments	125,021	(65,106)
Changes in assumption	17,305	(74,997)
Change in allocation rate	393,403	-
College contributions subsequent to the measurement date	268,024	-
Total	\$ 803,753	\$ (281,376)

The net amount of \$522,377, reported as deferred outflows of resources and (deferred inflows) of resources related to pensions, will be recognized in pension expense as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 364,387
2022	35,546
2023	83,423
2024	39,021

Actuarial Assumptions

Investment rate of return – 7.40 percent a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.10 percent to 11.6 percent, including inflation.

Inflation - 2.65 percent general, 3.15 percent wage

Mortality assumptions - The healthy life post-employment mortality table used in this valuation of the system was the Fully generational – Pub-2010/MP2018 Mortality Table.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

10. RETIREMENT BENEFITS (CONTINUED)

The long-term expected rate of return on pension plan investments

The long-term expected rate of return on pension plan investments was determined using a 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 weighing the expected future real rates of return adopted by the Maryland State Pension Plan Board after considering input from the system's investment consultant(s) and actuary(s). For each major asset class that is included in the systems target asset allocation, these best estimates are summarized in the following tables:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.3%
Private Equity	13%	7.5%
Rate Sensitive	19%	1.3%
Credit Opportunity	9%	3.9%
Real Assets	14%	4.5%
Absolute Return	<u>8%</u>	3.0%
Total	<u>100%</u>	

The above was the Maryland State Pension Plan Board adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2020.

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 6.44 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.40 percent was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.40 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these 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.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

10. RETIREMENT BENEFITS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.40 percent, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher.

	1% Lower (6.40%)	Discount Rate (7.40%)	1% Higher (8.40%)
Howard Community College proportionate share of the net pension liability	\$3,988,581	\$2,755,687	\$1,728,842

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Maryland State Retirement and Pension System Comprehensive Annual Financial Report.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The college contributes to the Howard County Other Post-Employment Benefits Trust, a cost-sharing multiple-employer defined benefit health care plan (the plan). The county established an irrevocable trust for administering the plan assets and paying health care costs on behalf of the participants. Howard County provides post-employment health insurance benefits to all eligible employees who retire from the county or its component units who wish to participate. In order to be eligible, the retiree must have a minimum of 10 years of service, and immediately preceding retirement, been enrolled in a medical, vision, or prescription drug insurance plan offered to active employees of the county or its components. The county will pay a percentage of the retiree's health insurance premium based upon certain criteria. This percentage varies with the number of years of service attained by the employee. Other retirees who do not meet the eligibility criteria must have five years of service to participate in the retirees' health insurance program by paying the full premium at the group rate.

Plan Funding Policy

The college's required annual contribution is based on its annual retiree expense. The county, as the plan sponsor, is responsible for funding the plan. For the year ended June 30, 2020, the college recognized the county payment made on behalf of the college of \$1,120,725, which was made during the measurement period.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Funding Status and Funding Process

While the college is paying an annual contribution, the college is not funding the plan. Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2020, the plan was 10.31 percent funded.

OPEB Liability, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2020, the college reported a liability of \$39,159,723 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The college's proportion of the net OPEB liability was based on an actuarial calculation of the college's OPEB liability on a standalone basis compared to the Plan's total OPEB liability. As of June 30, 2020, the college's proportion was 2.92 percent.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2020, the college recognized an OPEB expense of \$2,999,161. This amount includes the contribution of \$1,120,725, made by the county. As of June 30, 2020, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ (1,604,352)
Net difference between projected and actual earnings on OPEB plan investments	23,450	(52,514)
Changes in assumption	4,645,478	(3,324,632)
College contributions subsequent to the measurement date	343,147	-
Change in proportionate share	-	(903,370)
Total	\$ 5,012,075	\$ (5,884,868)

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

The college reported a \$343,147 deferred outflows of resources related to OPEB resulting from college contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. The prior year contribution of \$305,856 was included as OPEB expense in FY20. The deferred outflows of \$5,012,075 combined with the deferred inflows of resources of (\$5,884,868) related to OPEB will be recognized in OPEB expenses as follows:

<u>For The Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 79,180
2022	(263,968)
2023	(244,552)
2024	(239,989)
2025	(245,853)
Thereafter	42,389

The long-term expected rate of return on OPEB plan investments

The long-term expected rate of return on OPEB plan investments was determined for expected future real rates of return (expected returns, net of OPEB 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	3.14%
Fixed Income	1.13%
Total	

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)(CONTINUED)

Actuarial Methods and Assumptions

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

Significant valuation methods and assumptions are as follows:

Actuarial cost method	Entry Age Normal
Interest assumption	Discount rate of 3.56%
Healthcare Cost Trend Rate	3.8% based upon 2016 SOA model, 1.6% GDP, adjusted for the anticipated impact of the ACA Excise Tax
Inflation	2.20%
Municipal bond rate	3.13% as of 6/30/19 based on the Bond Buyer General Obligation 20-year Bond Municipal Bond Index
Projected cash flows	College and County contributions will continue to increase \$3 million per annum Long-term expected rate of return of 7.5% was applied to years when the projected benefit payouts are expected to be funded and 3.13 for benefits after 2039.
Mortality	Generational RP-2000 Combined Mortality Table for Males and Females

The OPEB liability is based on the methods, assumptions and participant data used as detailed in the 2019 GASB actuarial valuation report dated October 7, 2019. These calculations are based on the Entry Age Actuarial cost method as required by GASB 74 and 75. That actuarial cost methods requires a salary scale assumption.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.56 percent. The projection of cash flows used to determine the discount rate assumed that contributions from county and the college will be made at contractually required rates, actuarially determined. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Discount Rate (Continued)

projected OPEB payments for current active and inactive employees through 2039. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments through 2039 to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.56%) or one-percentage-point higher (4.56%) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB liability	\$ 48,090,857	\$ 39,159,723	\$ 32,159,622

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the college, as well as what the college's net OPEB liability would be if it were calculated using healthcare cost trend that are one-percentage-point lower (3.8 percent decreasing to 2.80 percent) or one-percentage-point higher (3.80 percent increasing to 4.80 percent) than the current healthcare cost trend rates:

	1% Decrease (2.80%)	Healthcare Cost Trend Rates (3.80% medical trend)	1% Increase (4.80%)
Net OPEB liability	\$ 31,178,868	\$ 39,159,723	\$ 49,921,459

12. RISK MANAGEMENT

The college is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The college is self-insured through Howard County Government's self-insurance program, which is underwritten by the Local Government Insurance Trust (LGIT). The self-insurance fund provides general liability insurance, all-risk property, and worker's compensation insurance for Howard County, Maryland. The fund is a self-insurance mechanism, authorized under Maryland Law, by which local governments' pool together to provide casualty self-insurance coverage.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

12. RISK MANAGEMENT (CONTINUED)

The limit of coverage for general liability is \$5,000,000 per occurrence for any single event, with the first \$1,000,000 covered under the Howard County fund and the \$4,000,000 additional through a policy of excess liability insurance directly through LGIT. The limit for property coverage is full replacement cost equal to the insurable value of real or personal property, with the first \$100,000 covered under the Howard County Fund and the remaining balance of full replacement through a policy of excess property insurance directly through LGIT. The limit of

coverage for workers' compensation is the statutory coverage as required by the State of Maryland, with the first \$1,000,000 covered under the Howard County Fund and \$4,000,000 additional through a policy of excess professional liability insurance directly through LGIT. The college maintains its primary and excess automobile coverage directly through LGIT with a limit of \$1,000,000 for each automobile claim. In addition, during this unprecedented time as a result of COVID-19, the college was able to increase the excess liability amount for its cyber policy to cover potential exposures associated with increased telework. The new limits for cyber liability are \$5,000,000 per claim and \$10,000,000 aggregate effective March 2020. These coverage amounts will continue into the next fiscal year.

Under the umbrella of Howard County, the college has additional coverage from LGIT for liability and property claims in excess as described above. The county pays annual premiums to LGIT for these coverages. LGIT was created to provide broader insurance than that available from commercial insurers, coverage that otherwise would be unavailable, and loss control and risk management services for local governments. The college is covered for workers' compensation claims in excess of the \$1,000,000 per claim as described above. Settled claims have not exceeded coverage in any of the past five years.

The college makes payments to the county and LGIT based on the premiums established by the county dependent on a combination of actuarial estimates and historical cost information. The college has no liability for covered claims other than paying the premium established by the county. The amount paid to the county and LGIT and expensed during the year ended June 30, 2020, was \$514,237.

The college has also entered into an agreement with Howard County to provide health care coverage for its employees under the county's self-insured plan. The college has the option to terminate the agreement at the end of each fiscal year. The college has no liability for covered claims other than paying the premiums established by the county, which were \$8,649,117 for the year ended June 30, 2020.

13. RELATED PARTY TRANSACTIONS

As discussed, the foundation has been determined to be a component unit of the college, after analyzing the requirements of accounting principles generally accepted for governmental accounting, and its financial activity is presented discretely in the college's financial statements.

For the year ended June 30, 2020, the college provided \$860,097 of in-kind administrative and overhead support to the foundation.

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

13. RELATED PARTY TRANSACTIONS (CONTINUED)

During the same period, the foundation provided \$1,435,703 in scholarships awarded to students and \$357,247 in non-scholarship benefits, including in-kind contributions, to the college in support of college programs and other services.

Howard County Government allows the college to use the Hickory Ridge Building and the first floor of the Gateway Building for classrooms and administrative offices. Both facilities are owned by the county. The college pays all maintenance and operating costs related to the use of this 74,247 square feet of space. The college has recognized \$1,158,000 in non-operating revenue and facilities expense for this in-kind county contribution.

14. JOINT VENTURE - LAUREL COLLEGE CENTER (LCC)

In FY01, the college entered into a joint-venture agreement with Prince George's Community College (PGCC) to form the LCC. The LCC offers both credit and noncredit courses. The college and PGCC split revenue of \$3,780,069 and expenses of \$3,978,017 associated with the LCC equally. For the year ended June 30, 2020, the college recorded 50 percent of revenue and 50 percent of expenses of the center in the statement of revenue, expenditures, and changes in net position, as per the agreement with PGCC. As of June 30, 2020, the amount of \$534,709 is due to PGCC from HCC.

As part of the joint venture agreement, the college and PGCC entered into a non-cancelable operating lease agreement, which contains a non-appropriation clause. This lease had an initial term of five years with the option to renew the lease for an additional five years in one-year increments. The lease payments have an escalation clause of three percent per year and the college has recognized its proportionate share of the rent expense in accordance with the terms of the lease agreement. HCC's proportionate share of the rent expense for the year ended June 30, 2020, was \$626,109.

In FY13, the colleges entered into a five-year lease, with two additional five-year renewal options. The lease contains a non-appropriation clause.

During FY14, the colleges agreed to increase the lease space by another 7,694 square feet on the fifth floor of the building and renewed the existing leased space agreement for five years. The colleges are now in the final year of renewal options for the lease. The rent abatement increased from \$450,000 to \$1,455,651, and will be spread evenly between September 1, 2014, and August 31, 2021.

The college's proportionate share of the future minimum lease payments under the terms of the leases as of June 30, 2020, were:

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 578,178
2022	96,918
TOTAL	<u>\$ 675,096</u>

HOWARD COMMUNITY COLLEGE

Notes to the Financial Statements June 30, 2020

15. COMMITMENTS AND CONTINGENCIES

Contingencies

In the normal course of business, the college becomes involved in legal actions from time to time. As of June 30, 2020 and subsequent to that date, the college is involved in claims. The college believes these claim are without merit and will vigorously defend these claims. During the year ended June 30, 2020, the college became part of a pending class action lawsuit along with other colleges related to tuition charged to students during the COVID-19 pandemic. While the pending class action lawsuit is in its preliminary stages, the college believes it is without merit and plans to vigorously defend the pending lawsuit.

As of June 30, 2020, the college has commitments of approximately \$8,298,377, to complete outstanding capital construction projects.

Grants

Most grants and cost-reimbursable contracts of the college and foundation specify the types of expenses for which the grant or contract funds may be used. The expenses made by the college under some of these grants and contracts are subject to audit. To date, the college has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

16. SUBSEQUENT EVENTS

The college's management evaluated the accompanying financial statements for subsequent events and transactions through September 29, 2020, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension Systems

	June 30, 2020*	June 30, 2019*	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
College's proportion of net pension liability	0.0134%	0.0121%	0.0106%	0.0117%	0.0124%	0.0110%
College's proportions share of net pension liability	\$ 2,755,687	\$ 2,546,231	\$ 2,295,602	\$ 2,757,041	\$ 2,579,875	\$ 1,878,075
College's covered-employee payroll	\$ 3,435,325	\$ 3,214,415	\$ 3,031,305	\$ 3,021,313	\$ 2,983,599	\$ 2,738,973
College's proportionate share of net pension liability as a percentage of its covered-employee payroll	80.22%	79.21%	75.73%	91.25%	86.47%	68.57%
Plan fiduciary net position as a percentage of total pension liability	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

*The amounts presented above were determined as of June 30, 2019, 2018, 2017, 2016, 2015, and 2014, respectively.

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.

Howard Community College

Schedule of Howard Community College's Contributions - Maryland State Retirement and Pension Systems

	June 30, 2020*	June 30, 2019*	June 30, 2018*	June 30, 2017*	June 30, 2016*	June 30, 2015*
Statutory required contributions	\$ 274,358	\$ 241,992	\$ 216,075	\$ 227,640	\$ 261,657	\$ 246,615
Contributions in relations to statutorily required contributions	\$ 274,358	\$ 241,992	\$ 216,075	\$ 227,640	\$ 261,657	\$ 246,615
Contribution deficiency (excess)	-	-	-	-	-	-
College's covered-employee payroll	\$3,435,325	\$ 3,214,415	\$ 3,031,305	\$ 3,021,313	\$ 2,983,599	\$2,738,973
Contributions as a percentage of covered-employee payroll	8.0%	7.5%	7.1%	7.5%	8.8%	9.0%

*The amounts presented above were determined as of June 30, 2019, 2018, 2017, 2016, 2015, and 2014, respectively.

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.

HOWARD COMMUNITY COLLEGE

Notes to Required Supplementary Information for Pensions June 30, 2020

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: There were the following changes in assumptions from the 2016 to 2019 valuation.

	2019	2018	2017	2016
Inflation	2.65%	2.60%	2.65%	2.00%
Salary Increase	3.10 to 11.6	3.10 to 9.10	3.15 to 9.15	3.30 to 9.20
Investment Rate of Return	7.40%	7.45%	7.50%	7.55%

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Proportionate Share of the Net OPEB Liability – Howard County Government

	June 30, 2020*	June 30, 2019*	June 30, 2018*
College's proportion of net OPEB liability	2.92%	2.92%	3.01%
College's proportions share of net OPEB liability	\$ 39,159,723	\$ 34,243,904	\$ 33,279,623
College's covered-employee payroll	\$ 44,031,241	\$ 43,128,303	\$ 40,876,378
College's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	88.94%	79.40%	81.42%
Plan fiduciary net position as a percentage of total OPEB liability	10.31%	9.94%	8.62%

*The amounts presented above were determined as of June 30, 2019, 2018, and 2017, respectively.

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.

HOWARD COMMUNITY COLLEGE

Schedule of Howard Community College's Contributions – Howard County Government - Other Postemployment Benefits (OPEB)

	June 30, 2020*	June 30, 2019*	June 30, 2018*
Statutory required contributions	\$ 305,856	\$ 269,612	\$ 250,080
Contributions in relations to statutorily required contributions	\$ 305,856	\$ 269,612	\$ 250,080
Contribution deficiency (excess)	-	-	-
College's covered-employee payroll	\$ 44,031,241	\$ 43,128,303	\$ 40,876,378
Contributions as a percentage of covered-employee payroll	0.7%	0.6%	0.6%

*The amounts presented above were determined as of June 30, 2019, 2018, and 2017, respectively.

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.

HOWARD COMMUNITY COLLEGE

Notes to Required Supplementary Information for OPEB June 30, 2020

Changes of benefits terms: There were not changes of benefit terms.

Changes of assumptions: There were the following changes in assumptions from 2016-2018

	2019	2018	2017	2016
Investment Rate of Return	3.56%	3.98%	3.94%	3.20%

Because this OPEB plan does not depend on salary, no salary information is shown.