MONTGOMERY COLLEGE
Rockville, Maryland

FINANCIAL STATEMENTS
June 30, 2010 and 2009

TABLE OF CONTENTS

MONTGOMERY COLLEGE
BOARD OF TRUSTEES
AND SECRETARY-TREASURER TO THE BOARD OF TRUSTEES
June 30, 2010

BOARD OF TRUSTEES

SECRETARY-TREASURER TO THE BOARD OF TRUSTEES

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Trustees
Montgomery College
Rockville, Maryland

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and each major fund of Montgomery College (the College), a component unit of Montgomery County, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College as of June 30, 2009 were audited by other auditors whose report dated September 30, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate discretely presented component unit of the College as of June 30, 2010, and respective changes in financial position and cash flows of its business-type activities and changes in net assets of its discretely presented component unit, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Board of Trustees and Secretary-Treasurer to the Board of Trustees as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
October 15, 2010

The objective of Management's Discussion and Analysis is to help readers of Montgomery College's (the College) financial statements better understand the financial position and operating activities as of and for the fiscal years ended June 30, 2010 and 2009, with comparative information as of and for the year ended June 30, 2008. The financial statements are presented in three columns: Montgomery College, Montgomery College Foundation, and a Total column. The following discussion and analysis provides an overview of the College's financial activities. This discussion and analysis should be read in conjunction with the financial statements and notes to the financial statements.

In 1999, the Governmental Accounting Standards Board (GASB) released 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* which established a new reporting model for public institutions. The College has presented the statements in compliance with this reporting model.

In addition, the College has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their financial statements. Under the previous accounting standards, the College had no component units. Under the new standards, the Montgomery College Foundation, Inc. (the Foundation) meets criteria qualifying it as a component unit. The Foundation is included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include the Foundation's financial condition and activities.

Overview of the Financial Statements

The College's financial statements consist of three basic financial statements and the notes that provide information on the accounting alternatives used, and explanatory information and detail on certain financial statement elements. The three basic financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The *Statement of Net Assets* presents information on the College's assets, liabilities and net assets, all as of the end of the reporting period. Net assets represents the difference between assets and liabilities, and is detailed into classifications that help readers understand the constraints that the College must consider in making decisions on expending assets. Over time, changes in net assets can help in understanding whether the financial condition of the College is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information on the changes in net assets during the year. All changes in net assets are reported as soon as the underlying event takes place, regardless of the timing of the related cash flows. Thus, revenues and expenses are recorded for some items that will result in cash flows in future fiscal years (for example tuition and fees owed by students, or vacation earned by employees but not used at year-end).

The *Statement of Cash Flows* presents information on sources and uses of cash during the year. This statement details the changes in cash and cash equivalents from the amounts reported at the end of the preceding year, to the amounts reported in the Statement of Net Assets as of the end of the current year. Sources and uses are organized into operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The emphasis of this Management's Discussion and Analysis is on the College itself. Reference should be made to the separately audited financial statements of the component unit for additional information.

Financial and Enrollment Highlights

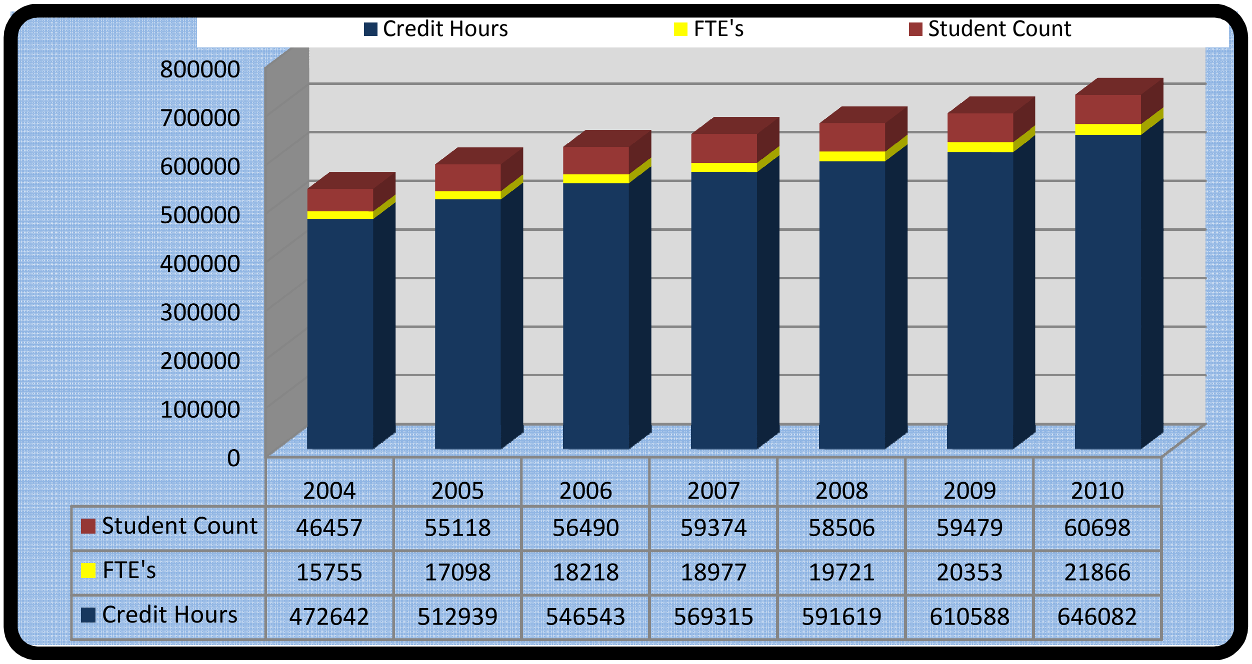
- The College's financial position continued to show growth as assets totaled $465.55 million at June 30, 2010, an increase of $62.66 million or 15.55% over June 30, 2009. This resulted primarily from a $50.54 million increase in capital assets. Net assets increased $44.84 million or 13.47% in fiscal year 2010. This contrasts with the increase in total assets of $44.15 million at June 30, 2009 compared to the prior year ending June 30, 2008. The change in net assets from June 30, 2008 to June 30, 2009 equaled $49.02 million.

- Operating revenues increased $7.34 million or 7.15% as a result of increases in tuition rates, enrollment increases, and grants. By comparison, operating revenues in 2009 increased $5.33 million or 5.48% over the prior year 2008, a result of increases in tuition rates, enrollment increases, and grants.

- Net non-operating revenues decreased $510,979 or -0.33% as a result of decreased interest income. By contrast, net non-operating revenues increased $8.82 million or 6.12% from 2008 to 2009 primarily as a result of increased County appropriations.

- Operating expenses increased $14.82 million or 5.7% from June 30, 2009 to June 30, 2010 as a result of salary increases ($0.850 million) and employee benefit increases ($1.850 million) and Contractual Services ($1.71 million) within Institutional Support. Other expenses included $7.4 million related to OPEB costs. Depreciation expenses were down $1.862 million and $1.807 respectively, while other College expenses were up ($3.54 million) due to an increase in non capitalized equipment.

- Enrollment based on FTEs (full time equivalent students) increased 1,513 FTEs to 21,866 or by 7.43% for 2010. FTEs for 2008 and 2009 were 19,721 and 20,353, an increase of 632 students or 3.20% respectively.



Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities of the College using the accrual basis of accounting which is similar to the accounting methods used by most private sector institutions. Net assets measures the difference between assets and liabilities and is one way to measure the financial health of the College. A summarized comparison of the College's assets, liabilities, and net assets at June 30, 2010, 2009, and 2008 is as follows:

As of June 30,	2010	2009	2008
Assets			
Current assets	$ 98,853,498	$ 83,396,614	$ 75,130,588
Non-current assets	366,693,191	319,492,168	283,608,658
Total assets	$465,546,689	$402,888,782	$358,739,246
Liabilities and Net Assets			
Liabilities			
Current liabilities	$ 33,430,268	$ 30,799,464	$ 35,533,948
Non-current liabilities	54,304,184	39,116,751	39,257,478
Total liabilities	87,734,452	69,916,215	74,791,426
Net assets	377,812,237	332,972,567	283,947,820
Total liabilities and net assets	$465,546,689	$402,888,782	$358,739,246

- Net current assets increased 18.53%, consisting primarily of the following items: cash and short-term investments (increase of 28.03%), while receivables decreased 4.34% and inventories decreased 3.75% respectively. By contrast, the changes in net current assets from 2008 to 2009 showed cash and short term investments increasing by 8.49%, while CIP receivables reflected an increase of 49.52% and governmental appropriations receivables increased 14.92%.

- Non-current assets increased to $366.69 million from $319.49 million or 14.77% on the strength of increased capital assets (increased 16.99%). With the current construction of new buildings for the Takoma Park/Silver Spring Campus expansion and the Rockville Science Center, capital assets increased $50.5 million. By comparison, non-current assets increased 12.65% from 2008 to 2009 on the strength of increased capital assets, an increase of 13.92%. Also, new building construction on the Takoma Park/Silver Spring Campus in 2009 increased capital assets by $36.34 million over the prior year ending June 30, 2008.

- Current liabilities increased by $2.63 million or 8.54% in 2010 due mainly to a 10.29% increase of vendor payables and accrued liabilities amounting to $2.53 million. By comparison, current liabilities in 2009 decreased -13.32% over 2008 mainly due to decreases of vendor payables and accrued liabilities of -15.69%, which included the transfer of $7.72 million of OPEB funds to an outside trust account along with the decrease in the current portion of compensated absences (-49.77%).

- Non-current liabilities increased 38.83% which resulted from a 50.32% or $15.36 million dollar increase in long-term liabilities resulting mainly from the recognition of capital lease payments from the Takoma Park Parking deck. By comparison, non-current liabilities declined -0.36% when 2009 financial results were measured against 2008 actuals. This result came from a $1.01 million dollar decrease in long-term liabilities, primarily due to the recognition of capital lease payments tied to the Cafritz Foundation Arts Center and a $0.87 million increase in compensated absences.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present the operating results of the College, as well as the non-operating revenues and expenses. Annual County and State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles as detailed by GASB No. 35, even though these appropriated funds are used to support operating activities. A summarized comparison of the College's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008 is presented on the following page:

Operating revenues and expenses	2010	2009	2008
Total operating revenues	$ 109,958,422	$ 102,621,799	$ 97,288,301
Total operating expenses	272,640,562	257,817,238	237,100,760
Operating income (loss)	(162,682,140)	(155,195,439)	(139,812,459)
Non-operating revenues (expenses)			
Net non-operating revenues & expenses	152,474,699	152,985,678	144,163,615
Income (loss) before other revenues and expenses	(10,207,441)	(2,209,761)	4,351,156
Total other revenues & expenses	55,047,111	51,234,508	45,078,920
Increase in net assets	44,839,670	49,024,747	49,430,076
Net assets-beginning of year	332,972,567	283,947,820	234,517,744
Net assets-end of year	$ 377,812,237	$ 332,972,567	$ 283,947,820

Fiscal Years 2008 through 2010 - Total Revenues

	2010		2009		2008	
Student tuition and fees	$ 62,947,088	57.25%	$ 60,257,629	58.72%	$ 58,083,353	59.70%
Grants and contracts	32,267,884	29.35%	26,467,651	25.79%	24,678,041	25.37%
Auxiliary enterprises	13,546,012	12.32%	13,825,550	13.47%	13,509,623	13.89%
Other operating revenues	1,197,440	1.09%	2,070,969	2.02%	1,017,284	1.05%
Operating revenue	$ 109,958,424		$ 102,621,799		$ 97,288,301	
State & local appropriations	$ 155,543,398	73.42%	$ 152,153,404	73.93%	$ 143,666,589	75.05%
Interest income and rebates	157,716	0.07%	2,323,618	1.13%	1,994,457	1.04%
Capital appropriations	55,834,834	26.35%	50,553,908	24.56%	45,439,650	23.74%
Capital grants	321,432	0.15%	780,845	0.38%	338,065	0.18%
Non-operating and other revenue	$ 211,857,380		$ 205,811,775		$ 191,438,761	

- The table above showing revenue by source includes both operating and non-operating revenues for the year ended June 30, 2010. Revenue from all sources increased $13.38 million or 4.34% in FY2010. By comparison, revenue from all sources increased by $19.7 million in 2009, up 6.83% from the prior year ending June 30, 2008.

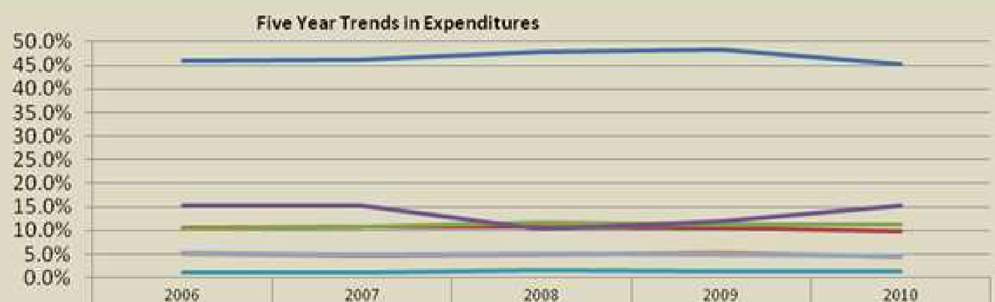
- Tuition and fees, net of scholarship allowances, makes up 57.25%, 58.72% and 59.70% of the total operating revenue for the College for the years 2010, 2009 and 2008, respectively. While the percentage dropped slightly each year it resulted in a $2.69 million increase for FY2010. By comparison the increase in this revenue category from 2008 to 2009 amounted to $2.17 million.

- Grants and Contracts makes up a significant portion of the College operating revenue (29.35% in FY2010 and 25.79% in FY2009), for an increase of $5.8 million and $1.8 million in FY2010 and FY2009, respectively.

- State and local appropriations makes up the largest contribution of non-operating revenue, 73.42%, 73.93% and 75.05% for the years 2010, 2009, and 2008, respectively. The total non-operating revenue resulted in a $3.4 million increase for FY2010 and $8.5 million in FY2009. As a percentage of non-operating revenue, State and Local appropriations have dropped by 1.4% since FY2008.

- Capital appropriations for land, building, and some equipment are also from governmental funds. This category makes up 26.35% of the non operating revenue and resulted in a $5.3 million increase for FY2010. Similar results also are reflected in FY2009, where the increase in this revenue category rose $5.1 million over the prior year, FY2008.

Expenses by Functional Classification



	2006	2007	2008	2009	2010
Instruction & Acad Support	46.1%	46.3%	48.0%	48.3%	45.2%
Student Services	10.5%	10.7%	10.7%	10.6%	9.9%
Operation of Plant	10.4%	10.8%	11.7%	11.2%	11.2%
Institutional Support	15.2%	15.2%	10.4%	12.0%	15.3%
Scholarships	1.1%	1.2%	1.6%	1.3%	1.4%
Depreciation	5.1%	4.6%	4.9%	5.3%	4.4%
Other	5.4%	4.9%	5.1%	4.8%	4.7%

- Due to the current economic climate, the rate of growth for expenses for all of the functional categories continued to grow at a 5.8% overall growth rate. College operating expenditures total $272.6 million.

- Instructional and academic support expenditures represent 45.2% of the total College FY2010 expenses and resulted in a decrease of $1.27 million of the total College increase of $14.8 million. For FY2009 instructional and academic support expenditures represent 48.3% and 48.0% for FY2008. Instructional expenditures total $96 million, an increase of $0.45 million and academic support total of $27.2 million, a decrease of $1.7 million. Institutional support function expenditures increased $10.56 million or an increase of 34.0% from fiscal year 2009. As a percentage of total operating expenses, institutional support was 15.3% for FY2010, 12.0% for FY2009 and 10.4% for FY2008.

- Salaries and benefits continue to be the major component of all functional categories, except scholarships, depreciation and disposals which contain no salary expenses. Salaries and benefits account for 74.1% of all College expenditures. College salary and benefit expenditures total $194.1 million (including State paid retirement costs). This is a $2.7 million increase over FY2009 or 1.4%. In FY 2009 College salary and benefit expenditures total $191.5 million (including State paid retirement costs), a $16 million increase over FY2008 or 9.1%.

- Scholarships and related expenses include only that portion of student aid which was paid to the student and not used to offset tuition and fees. Scholarship expenditures in the amount of $25.2 million were offset against tuition and fee income.

Statement of Cash Flows

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

	2010	2009	2008
Net cash used in operating activities	$ (137,240,340)	$ (134,604,936)	$ (129,056,602)
Net cash provided by non-capital financing activities	145,006,773	142,567,128	114,148,873
Net cash provided by (used in) capital and related financing activities	7,665,3494	(5,952,973)	(13,695,775)
Net cash provided by (used in) investing activities	9,970,945	(5,914,354)	(1,860,628)
Increase (decrease) in cash and cash equivalents	25,402,727	(3,905,135)	(30,464,132)
Cash and cash equivalents, beginning of year	12,664,883	16,570,018	47,034,150
Cash and cash equivalents, end of year	$ 38,067,610	$ 12,664,883	$ 16,570,018

- The College's cash and cash equivalents increased by $25.4 million for fiscal year 2010. This was due mainly to an increase in cash use of $2.6 million over fiscal year 2009 for operating activities compared to an increase in cash use of $5.5 million over fiscal year 2008. Non-capital financing activities provided a $2.4 million increase in cash in 2010 compared to $28.4 increase in fiscal year 2009. Cash flows from capital and related financial activities provided an increase in cash of $13.6 million over FY2009 compared to an increase in cash of $7.7 million over FY2008.

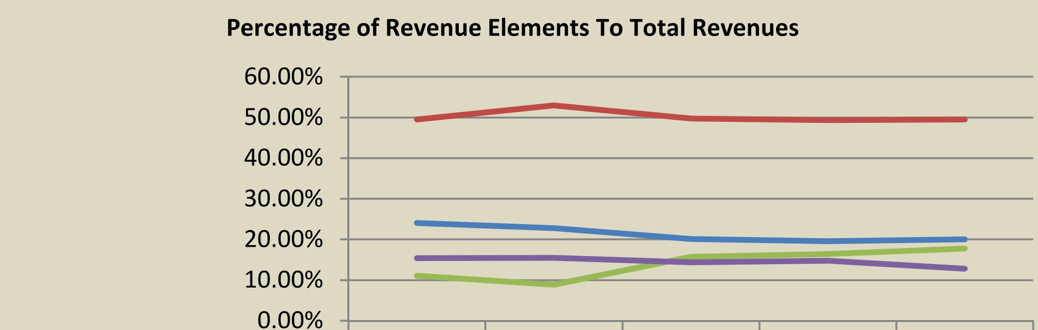
- A large portion of the increase provided by capital financing activities is a result of the number of large construction projects the current fiscal year funded through Capital appropriations. The next largest increase is from operations from an increase in tuition followed by grants and contracts revenue and a decrease in payments to vendors over Fiscal 2009.

Economic Factors that will Affect the Future

Listed below are significant challenges that will impact the future of Montgomery College:

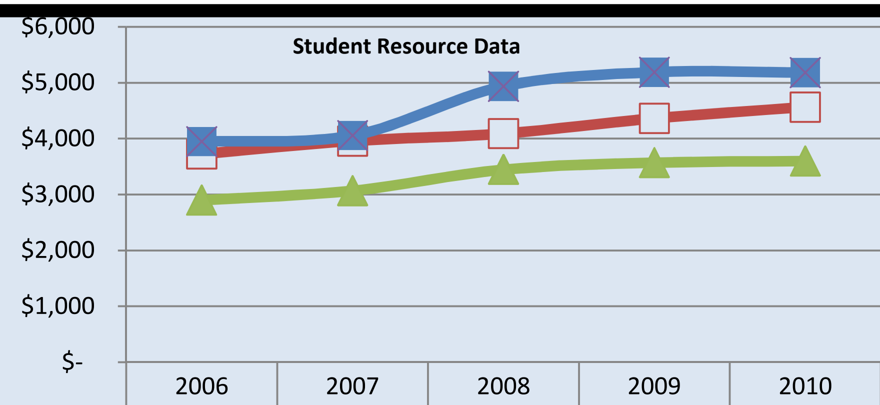
- While the economy has 'slowed' in growth over the past several fiscal years, closely managed fiscal responsibility with the expenditure of College resources is now more critical. The financial condition of the College is closely tied to that of the County and State governments. The County and State governments provide vital resources to the College's operating budget as noted in the Statement of Cash Flows at $144.8 million. Therefore, the level of State and Local support, compensation increases, and student tuition and fee increases will impact the College's ability to expand programs, undertake new initiatives, and meet core mission and on-going operational needs.

- Data for the chart below was taken from Statement of Revenues**,** Expenses, and Changes in Net Assets for each of the fiscal years noted.



	2006	2007	2008	2009	2010
% Tuition & Fees	24.02%	22.79%	20.12%	19.54%	20.01%
% Gov Appropriations	49.50%	52.93%	49.76%	49.33%	49.45%
% Capital Appropriations	11.09%	8.84%	15.74%	16.39%	17.75%
% Other Revenues	15.39%	15.45%	14.39%	14.74%	12.78%

- A growing and diverse public school population that increasingly looks to Montgomery College for its education will also make demands on our resources unlike any we have seen in the past. New programs are being developed with local and grant resources to prepare the diverse public school population for College entry.



	2006	2007	2008	2009	2010
Cost per std	$3,724	$3,957	$4,090	4,361	4,563
T&F+Gov App per std	$2,902	$3,070	$3,448	3,571	3,600
Total Rev per std	$3,947	$4,055	$4,935	5,186	5,182

- The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs and maintenance, equipment replacement, and new construction projects are also a major challenge facing the College in the years to come.

- Also, as noted in the line chart on the preceding page, tuition & fees plus governmental appropriations, covered 68.87% and 69.46% of the total College expenditures for fiscal years 2009 and 2010, respectively.

- In February 2003, the College purchased a 20-acre site adjacent to the current Germantown Campus for $6 million. With this additional acreage, the College determined that the Germantown Campus could support the development of a Life Sciences and Technology Park comprised of approximately 40 acres. In January 2004, the College issued a Request for Proposal for an 'at-risk developer' to construct and operate the Montgomery College Life Sciences and Technology Park. In fiscal year 2006, a developer was selected and plans are being developed to proceed with the Life Science and Technology Park. Currently, Holy Cross Hospital is in the process of obtaining the necessary governmental agency approvals to locate a hospital in the Life Sciences and Technology Park. In addition to the developed park, College plans call for the construction of a 126,900 square foot Bioscience Education Center for approximately $64.3 million. $3.4 million of planning and design funds for this building were included in the College's FY2007 capital budget with an additional $6.1 million included in the FY2009 capital budget. $64.3 million were appropriated in the College's fiscal year 2010 capital budget for a total appropriation of $73.87 million for this project.

The College is fiscally responsible and is always vigilant about the factors, both external and internal, that have the potential to impact its ability to conduct its financial business and fulfill its mission. With the help of our public and private partners, and through the extraordinary talent of our faculty and staff, we resolve to meet these challenges so the College will continue to move forward.

Contacting the College's Financial Management

The financial report is designed to provide interested parties with a general overview of Montgomery College's finances. If you have questions about this report or require additional financial information, contact Montgomery College, Administration Office, 900 Hungerford Drive, Rockville, Maryland 20850.

FINANCIAL STATEMENTS

MONTGOMERY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2010

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
ASSETS			
ASSETS			
Cash assets:			
Cash and cash equivalents:	$ 38,067,610	$ 6,663,801	$ 44,731,411
Short-term investments	33,125,002	-	33,125,002
CIP receivable	14,380,410	-	14,380,410
Student accounts receivable	4,308,987	-	4,308,987
Student loans receivable	177,439	-	177,439
Grants and contracts receivable	1,170,661	-	1,170,661
Governmental appropriations receivable	2,120,760	-	2,120,760
Pledges receivable	-	800,813	800,813
Other receivables	1,405,930	-	1,405,930
Inventory	1,641,351	-	1,641,351
Prepaid expenses	2,455,348	95,761	2,551,109
Total current assets	98,853,498	7,560,375	106,413,873
Non-current assets:			
Student loans - net	1,732,494	-	1,732,494
Pledges receivable	-	1,914,850	1,914,850
Deposits	63,497	-	63,497
Investments	-	18,358,415	18,358,415
Assets held in charitable remainder trusts	-	374,209	374,209
OPEB asset value	16,950,982	-	16,950,982
Deferred financing costs	-	618,563	618,563
Net investment in capital lease	-	30,285,000	30,285,000
Capital assets - net	347,946,218	18,252,057	366,198,275
Total non-current assets	366,693,191	69,803,094	436,496,285
TOTAL ASSETS	$ 465,546,689	$ 77,363,469	$ 542,910,158
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities**:**			
Accounts payable and accrued expenses	$ 25,633,469	$ 678,448	$ 26,311,917
Compensated absences	480,681	-	480,681
Unearned revenue	4,548,397	8,500	4,556,897
Due to other organizations	1,302,721	-	1,302,721
Current portion of long-term liabilities	1,465,000	-	1,465,000
Total current liabilities	33,430,268	686,948	34,117,216
Non-current liabilities:			
Compensated absences	8,415,192	-	8,415,192
Long-term liabilities	45,888,992	47,852,216	93,741,208
Annuities payment from charitable remainder trusts	-	1,155,291	1,155,291
Total non-current liabilities	54,304,184	49,007,507	103,311,691
TOTAL LIABILITIES	87,734,452	49,694,455	137,428,907
NET ASSETS			
Invested in capital assets - net of related debt	300,853,138	-	300,853,138
Restricted for:			
Expendable- student loan programs	2,022,556	-	2,022,556
Unrestricted	74,936,543	6,388,089	81,324,632
Temporarily restricted	-	6,747,843	6,747,843
Permanently restricted	-	14,533,082	14,533,082
TOTAL NET ASSETS	377,812,237	27,669,014	405,481,251
TOTAL LIABILITIES AND NET ASSETS	$ 465,546,689	$ 77,363,469	$ 542,910,158

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

MONTGOMERY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2009

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
ASSETS			
ASSETS			
Cash assets:			
Cash and cash equivalents	$ 12,664,883	$ 10,901,152	$ 23,566,035
Short-term investments	42,942,438	12,448,911	55,391,349
CIP receivable	16,847,523	-	16,847,523
Student accounts receivable	3,492,560	-	3,492,560
Student loans receivable	148,240	-	148,240
Grants and contracts receivable	1,085,717	-	1,085,717
Governmental appropriations receivable	2,241,011	-	2,241,011
Pledges receivable	-	1,052,102	1,052,102
Other receivables	819,384	-	819,384
Inventory	1,705,223	-	1,705,223
Other assets	-	85,421	85,421
Prepaid expenses	1,449,635	89,075	1,538,710
Total current assets	83,396,614	24,576,661	107,973,275
Non-current assets:			
Student loans - net	1,805,133	-	1,805,133
Pledges receivable	-	1,827,488	1,827,488
Deposits	63,497	-	63,497
Investments	-	13,182,010	13,182,010
Assets held in charitable remainder trusts	-	409,569	409,569
OPEB asset value	20,214,167	-	20,214,167
Deferred financing costs	-	647,715	647,715
Net investment in capital lease	-	31,225,000	31,225,000
Capital assets - net	297,409,371	8,504,782	305,914,153
Total non-current assets	319,492,168	55,796,564	375,288,732
TOTAL ASSETS	$ 402,888,782	$ 80,373,225	$ 483,262,007
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities**:**			
Accounts payable and accrued expenses	$ 23,555,286	$ 5,045,605	$ 28,600,891
Compensated absences	284,401	-	284,401
Unearned revenue	4,863,890	10,100	4,873,990
Due to other organizations	1,080,887	-	1,080,887
Current portion of long-term liabilities	1,015,000	-	1,015,000
Total current liabilities	30,799,464	5,055,705	35,855,169
Non-current liabilities:			
Compensated absences	8,589,549	-	8,589,549
Long-term liabilities	30,527,202	47,448,490	77,975,692
Annuities payment from charitable remainder trusts	-	1,248,002	1,248,002
Total non-current liabilities	39,116,751	48,696,492	87,813,243
TOTAL LIABILITIES	69,916,215	53,752,197	123,668,412
NET ASSETS			
Invested in capital assets - net of related debt	266,184,371	-	266,184,371
Restricted for:			
Expendable- student loan programs	2,019,987	-	2,019,987
Unrestricted	64,768,209	6,325,145	71,093,354
Temporarily restricted	-	6,550,743	6,550,743
Permanently restricted	-	13,745,140	13,745,140
TOTAL NET ASSETS	332,972,567	26,621,028	359,593,595
TOTAL LIABILITIES AND NET ASSETS	$ 402,888,782	$ 80,373,225	$ 483,262,007

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

MONTGOMERY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
OPERATING REVENUES AND EXPENSES			
Operating revenues:			
Student tuition and fees, net of scholarship allowance of $24,101,334	$ 62,947,084	$ -	$ 62,947,084
Federal grants and contracts	26,188,029	-	26,188,029
State grants and contracts	4,092,455	-	4,092,455
Local grants and contracts	1,987,399	-	1,987,399
Gifts and contributions	-	2,581,828	2,581,828
Auxiliary enterprises	13,546,012	-	13,546,012
Other operating revenues	1,197,439	168,351	1,365,790
Total operating revenues	109,958,418	2,750,179	112,708,597
Operating expenses:			
Educational and general			
Instruction	96,011,817	-	96,011,817
Academic support	27,171,916	-	27,171,916
Student services	27,086,110	76,153	27,162,263
Operation of plant	30,657,968	-	30,657,968
Institutional support	41,617,082	-	41,617,082
Scholarships and related expenses	3,893,616	1,033,672	4,927,288
Depreciation expense	11,973,317	-	11,973,317
Student and faculty support	-	714,531	714,531
Administrative and resource development	-	713,559	713,559
Auxiliary enterprises	12,690,577	-	12,690,577
Other expenditures	10,659,446	-	10,659,446
State paid benefits	10,878,709	-	10,878,709
Total operating expenses	272,640,558	2,537,915	275,178,473
OPERATING INCOME (LOSS)	(162,682,140)	212,264	(162,469,876)
NON-OPERATING REVENUES (EXPENSES)			
State and local appropriations	155,543,398	-	155,543,398
Investment and interest income	157,716	2,783,560	2,941,276
Interest expense	(3,226,415)	(1,947,838)	(5,174,253)
NON-OPERATING REVENUES	152,474,699	835,722	153,310,421
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(10,207,441)	1,047,986	(9,159,455)
Capital appropriations	55,834,834	-	55,834,834
Capital grants, contracts and gifts	321,431	-	321,431
Disposal of capital assets	(1,109,154)	-	(1,109,154)
	55,047,111	-	55,047,111
INCREASE IN NET ASSETS	44,839,670	1,047,986	45,887,656
NET ASSETS, BEGINNING OF YEAR	332,972,567	26,621,028	359,593,595
NET ASSETS, END OF YEAR	$ 377,812,237	$ 27,669,014	$ 405,481,251

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

MONTGOMERY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2009

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
OPERATING REVENUES AND EXPENSES			
Operating revenues:			
Student tuition and fees, net of scholarship allowance of $18,318,603	$ 60,257,629	$ -	$ 60,257,629
Federal grants and contracts	19,840,626	-	19,840,626
State grants and contracts	4,658,593	-	4,658,593
Local grants and contracts	1,968,432	-	1,968,432
Gifts and contributions	-	3,462,649	3,462,649
Auxiliary enterprises	13,825,550	-	13,825,550
Other operating revenues	2,070,969	170,780	2,241,749
Total operating revenues	102,621,799	3,633,429	106,255,228
Operating expenses:			
Educational and general			
Instruction	95,561,995	-	95,561,995
Academic support	28,892,397	-	28,892,397
Student services	27,370,002	38,927	27,408,929
Operation of plant	28,760,401	-	28,760,401
Institutional support	31,054,421	-	31,054,421
Scholarships and related expenses	3,339,880	1,206,632	4,546,512
Depreciation expense	13,780,740	-	13,780,740
Student and faculty support	-	816,541	816,541
Administrative and resource development	-	455,768	455,768
Auxiliary enterprises	12,419,000	-	12,419,000
Other expenditures	7,115,894	-	7,115,894
State paid benefits	9,522,508	-	9,522,508
Total operating expenses	257,817,238	2,517,868	260,335,106
OPERATING INCOME (LOSS)	(155,195,439)	1,115,561	(154,079,878)
NON-OPERATING REVENUES (EXPENSES)			
State and local appropriations	152,153,404	-	152,153,404
Investment and interest income	2,323,618	(2,601,519)	(277,901)
Interest expense	(1,491,344)	(1,466,628)	(2,957,972)
NON-OPERATING REVENUES (EXPENSES)	152,985,678	(4,068,147)	148,917,531
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,209,761)	(2,952,586)	(5,162,347)
Capital appropriations	50,553,908	-	50,553,908
Capital grants, contracts and gifts	780,845	-	780,845
Disposal of capital assets	(100,245)	-	(100,245)
	51,234,508	-	51,234,508
INCREASE (DECREASE) IN NET ASSETS	49,024,747	(2,952,586)	46,072,161
NET ASSETS, BEGINNING OF YEAR	283,947,820	29,573,614	313,521,434
NET ASSETS, END OF YEAR	$ 332,972,567	$ 26,621,028	$ 359,593,595

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

MONTGOMERY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 61,815,168	$ 60,080,473
Grants and contracts	32,182,940	27,353,069
Payments to suppliers	(12,117,068)	(16,420,938)
Payments for utilities	(5,123,144)	(7,636,839)
Payments to employees	(155,025,361)	(152,815,388)
Payments for benefits	(25,531,342)	(11,854,618)
Payments for scholarships	(3,893,616)	(3,339,880)
Payments for contracted services	(20,676,484)	(29,003,252)
Payments for non-capitalized equipment	(19,006,356)	(15,165,089)
Payments for other services	(4,069,628)	(1,684,118)
Loans issued to students	(133,000)	(111,600)
Collection of loans from students	180,645	148,240
Auxiliary enterprises	13,546,012	13,825,550
Other receipts	610,894	2,924,454
Net cash used in operating activities	(137,240,340)	(133,699,936)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State and local appropriations	144,784,939	142,340,012
Federal Family Education Loans lending receipts	9,193,533	7,928,676
Federal Family Education Loans lending disbursements	(9,193,533)	(7,928,676)
Student organization agency transactions - net	221,834	227,116
Net cash provided by non-capital financing activities	145,006,773	142,567,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	58,301,947	44,974,500
Capital gains	321,432	780,845
Purchase of capital assets	(46,791,615)	(50,216,974)
Payments for capital lease	(940,000)	(905,000)
Interest	(3,226,415)	(1,491,344)
Net cash provided by (used in) capital and related financing activities	7,665,349	(6,857,973)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	61,577,910	77,368,528
Interest on investments	153,509	2,343,947
Purchase of investments	(51,760,474)	(85,626,829)
Net cash provided by (used in) investing activities	9,970,945	(5,914,354)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,402,727	(3,905,135)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,664,883	16,570,018
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 38,067,610	$ 12,664,883
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (162,682,140)	$ (155,195,439)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,904,647	13,780,738
Governmental non-exchange	10,878,709	9,522,508
OPEB benefit cost	3,263,185	367,792
Effects of changes in operating assets and liabilities:		
Receivables - net	(1,487,918)	1,670,691
Inventory	63,872	(22,180)
Loans to students - net	47,645	36,640
Other assets	791,645	336,638
Accounts payable	(726,415)	(4,675,202)
Unearned revenue	(315,493)	(108,944)
Compensated absences	21,923	586,822
NET CASH USED IN OPERATING ACTIVITIES	$ (137,240,340)	$ (133,699,936)
SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS		
Capital assets acquired under capital lease	$ 16,825,000	$ -

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

MONTGOMERY COLLEGE
STATEMENTS OF PLAN NET ASSETS
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and short-term investments	$ 2,563,139	$ 15,130,552
Interest and dividends receivable	80,832	9,419
Investments, at fair value:		
Mutual Funds - equity	5,603,465	3,657,444
Mutual Funds - fixed income	4,135,086	1,834,685
US Government Issues	9,577,653	-
Total investments	19,316,204	5,492,129
Total assets	21,960,175	20,632,100
Liabilities	-	-
Net assets held in trust for other postemployment benefits	$ 21,960,175	$ 20,632,100

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

MONTGOMERY COLLEGE
STATEMENTS OF CHANGES IN PLAN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
Additions		
Employer contributions	$ 549,538	$ 8,687,103
Investment income:		
Net appreciation in fair value of investments	615,579	(6,242,022)
Interest	44,272	29,102
Dividends	239,118	519,939
Total investment income (loss)	898,969	(5,692,981)
Total additions	1,448,507	2,994,122
Deductions		
Administrative expense	120,432	84,950
Net increase	1,328,075	2,909,172
Net assets held in trust for other postemployment benefits		
Beginning of year	20,632,100	17,722,928
End of year	$ 21,960,175	$ 20,632,100

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

NOTE 1 – Reporting Entity (MC & MCF)

Reporting Entity

Montgomery College (the College or MC) is considered a "body politic" under Maryland state law as an instrumentality of the State of Maryland (the State).

The College is governed by a ten member Board of Trustees, nine of whom are appointed for six-year terms by the Governor of Maryland with the advice and consent of the State Senate, and one of whom is a student appointed by the Governor to serve a one-year term.

The College's budget is subject to approval by the Montgomery County Council (the County). The Annotated Code of Maryland states that "in order for a board (College) to receive an increase in the State share of support, the County share, in the aggregate, that supports the community college shall be equal to or exceed the aggregate amount of operating fund appropriations made to the board by the County in the previous fiscal year". State funding is based on enrolled eligible full-time equivalent students (marginal cost component) and a fixed cost component (see Note 13 for additional information on State and County funding).

Montgomery College Foundation (the Foundation or MCF) is a legally separate, tax-exempt organization established to enhance the College's mission through fund-raising that benefits the College and its programs. The twenty-two member board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Complete financial statements for the Foundation can be obtained from the administrative office listed below:

Montgomery College Foundation, Inc.
Director of Finance
900 Hungerford Drive, Suite 200
Rockville, Maryland 20850

During the years ended June 30, 2010 and 2009, the Foundation distributed $1,589,239 and $1,647,106, respectively, to the College for both restricted and unrestricted purposes.

Although the College is not a County agency, as a result of the College's relationship with the County, the College's financial statements are considered component unit statements and are properly included in the Comprehensive Annual Financial Report of the County, in accordance with generally accepted accounting principles. Transactions with the County relate primarily to appropriations for operations and capital improvements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (MC & MCF)

In June 1999, the Governmental Accounting Standards Board (GASB) approved GASB No. 34, entitled *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*; followed by GASB No. 35, entitled *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

GASB Statement No. 34 identified three types of special-purpose governments (SPG): 1) those engaged only in governmental activities, 2) those engaged only in business-type activities, and 3) those engaged in both governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities, on the other hand, are financed in whole or in part by fees charged to external parties for goods and services. Given the importance of tuition, fees and other exchange-type transactions in financing higher education, the College adopted the financial reporting model required of SPG's engaged in business-type activities (BTA). Colleges reporting as BTA's follow GASB standards applicable to proprietary (enterprise) funds. The BTA model requires the following financial statement components:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

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

The Statement of Revenues, Expenses, and Changes in Net Assets for special-purpose governments engaged in business-type activities (BTA) requires an operating/nonoperating format to be used. The College has elected to report its operating expenses by functional classification. The Statement of Cash Flows is presented as the direct method which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income.

Colleges engaged in business-type activities (BTA) and reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended by GASB Statement No. 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities permits such entities to apply all those Financial Accounting Standards Board (FASB) Statements and

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (MC & MCF) (continued)

Interpretations issued after November 30, 1989 that are developed for business enterprises except for those that conflict with or contradict GASB pronouncements. The College has elected not to implement FASB pronouncements issued after that date for any proprietary fund type activity.

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

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-For-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Limited presentation modifications have been made to the Foundation's financial statement format and included in the College's financial statements.

Use of Estimates in Preparing Financial Statements

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 disclosures of contingent assets and liabilities at 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.

Scholarship Allowances (MC)

The College's tuition and fees revenue is reported net of any scholarship allowance. A scholarship allowance is defined as the difference between the stated charge for tuition, 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 of dollars the College receives as tuition from outside resources such as the Title IV Federal Grant Program, restricted grants, and the College's own Board of Trustees grants. Funds received for tuition costs from outside resources 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 fiscal year 2010 and 2009, the College allocated student aid expense in the amount of $25,151,435 and $18,968,487 against tuition revenue of $24,101,334 and $18,318,603 and auxiliary enterprises revenue of $1,050,100 and $649,884, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (MC)

Revenue is recognized on the accrual basis with the establishment of corresponding accounts receivable. Tuition receivables are uncollateralized obligations of students resulting from course registrations. Accounts receivable also include transactions involving governmental appropriations, student loans, grants and contracts, and financial aid. The allowance method for accounts receivable is used to measure bad debts. The allowance for doubtful accounts is determined based upon aging analysis and management's estimation of collectability of such accounts.

Federal Financial Assistance Programs (MC)

The College participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Perkins Loan programs. Federal programs are audited in accordance with the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement*.

Operating and Non-Operating Components (MC)

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 principle ongoing operations determine operating flow activities. Ongoing operations of the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs. Operating revenues of the College consists of tuition and fees, grants and contracts, and auxiliary enterprises revenues.

Financial statement 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. Also included are certain interfund and intergovernmental receipts and payments such as State appropriations, Federal Family Education loans, and student organization agency transactions. Capital financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit. Investing activities includes acquiring and disposing of debt or equity instruments.

Encumbrances (MC)

The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials and services not received during the year. Encumbrances at year-end were approximately $42,137,167, which represents the estimated amount of expense ultimately to result if unperformed obligations are completed. Encumbrances outstanding at June 30, 2010 do not constitute expenses or liabilities and are not reflected in these financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (MC)

GASB Statement No. 34 requires equity to be reported as "net assets" rather than "fund balance". Net assets are classified according to external restrictions or availability of assets for satisfaction of College obligations. Restricted net assets are reported as either expendable or nonexpendable. The unrestricted net assets for the years ended June 30, 2010 and 2009 consisted of the following:

	2010	2009
Reserve for encumbrances	$17,516,142	$ 9,736,508
Reserve for emergency repairs and maintenance	552,322	598,146
Reserve for major facility projects	7,914,986	7,145,820
Reserve for OPEB contribution	16,942,482	20,214,167
Quasi-endowment	618,446	627,560
Other purposes	31,392,165	26,446,008
Total	$74,936,543	$64,768,209

Expenditures of quasi-endowment funds require approval by the Board of Trustees.

Net Assets (MCF)

Net assets, which result from contributions or other inflows of assets from donors, are reported as unrestricted or restricted based on stipulations of the donor. Unrestricted net assets are the portion of net assets that are neither temporarily nor permanently restricted by donor stipulations or their use. Temporarily restricted net assets are the portion of net assets whose use is limited by donor-imposed stipulations that can be removed by the passage of time or action of the Foundation pursuant to those stipulations. Permanently restricted net assets are the portion of net assets whose use is limited by donor-imposed stipulations that cannot be removed by the passage of time or action of the Foundation.

Temporarily restricted net assets of $6,747,841 and $6,550,743 as of June 30, 2010 and 2009, respectively, consisted of funds restricted for scholarship purposes and other specified programs. Net assets released from restrictions were funds restricted for scholarship purposes and other specified programs whose restrictions were satisfied. Permanently restricted net assets are restricted in perpetuity, the income from which is expendable to support the general obligations of the Foundation and to provide scholarships.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets - Expendable and Nonexpendable (MC)

The College's restricted net assets have constraints placed upon them either: (a) externally imposed by creditors, grantors, contributors, or laws/regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. As such, GASB No. 34 requires the College's restricted net assets to be delineated on the financials as either expendable or nonexpendable. Nonexpendable net assets are required to be maintained in perpetuity. The College had no nonexpendable net assets at June 30, 2010 or 2009. Expendable net assets, for which there are externally imposed constraints, are obligated or expended within the condition(s) of the constraints. Expendable net assets represent amounts in the Perkins revolving loan fund.

Cash and Cash Equivalents (MC & MCF)

Cash equivalents are items that are readily convertible to cash while carrying an insignificant risk of change in value. Cash equivalents have original maturities at date of purchase of three months or less. Short-term investments with original maturities of less than 90 days have been included as cash and cash equivalents and consist of banker's acceptances, U.S Government Agency and Sponsored Instruments, and the Maryland Local Government Investment Pool. All such short-term investments for the College are carried at amortized cost. Short-term investments held by the Foundation classified as cash and cash equivalents are carried at fair value.

Current and Non-Current (MC & MCF)

Current asset is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or consumed during a normal operating cycle of business, usually one year or less, without interfering with the normal business operation. They can consist of cash, inventories, accounts receivable, notes receivable, marketable securities, and prepaid expenses which meet the conditions stated above. Current liabilities are defined as obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. Other assets and liabilities which extend past the one year period are classified as non-current.

Unamortized Interest Adjustment (MCF)

Notes payable between the Foundation and the Montgomery County Revenue Authority (the Authority) are funded by bonds issued by the Authority. These bonds have been sold at a premium or discount to their par value. The Foundation received the proceeds from these bond issues net of the costs to issue the bonds and reduced for or increased by the discount or premium on the bonds. The discount or premium has been recorded as an interest adjustment that is being amortized over the life of the note to interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (MC)

Inventories, consisting principally of bookstore merchandise and supplies, are determined on the first-in, first-out (FIFO) method and are stated at the lower of cost or market. The cost is recorded as an expense as the inventory is consumed.

Deferred Revenue (MC)

Tuition and fee revenues received and related to the period after June 30, 2010 have been deferred.

Investment in Capital Assets (MC)

Capital assets are long-lived tangible assets which include real property (land and buildings) and personal property (equipment, library books, art works). This class of assets will benefit future periods as an asset rather than being treated as an expense in the period that the expenditure occurs. Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art, infrastructure, and other tangible assets that have initial useful lives extending beyond a single reporting period. Normally, a dollar threshold is established for each individual item in this class prior to being classified as a capital asset. Prior to fiscal year 2006 this threshold was $2,500. Effective for fiscal year 2006, this threshold was increased by a change in College policy to $5,000, with the implementation of a new integrated fixed asset system which captures capital assets in the payment process. The College has elected to depreciate the capital assets under $5,000 in the old system in lieu of a significant purge and disposal of prior assets with a value of less than $5,000.

The basis of valuation for assets constructed or purchased is cost, while assets acquired by gift are their fair values at the date of donation. The College records depreciation on all capital assets in accordance with GASB Statement No. 35, except for land and art works, and is not allocated to the functional expenditure categories. Land is not depreciated as it is considered to have an indefinite useful life. Expenditures for construction in progress are capitalized as incurred and will be subject to depreciation when completed and available for use by the College. Depreciation is computed on a straight-line basis over estimated useful lives as noted below (depreciation starts in the first full year after the year of acquisition):

Buildings (including infrastructures, alterations, renovations, and renewals and replacements)	35 years
Library books	10 years
Furniture and equipment - acquired prior to July 1, 2005	7 years
Furniture and equipment - acquired subsequent to July 1, 2005 as follows:	
Computer equipment	3 years
Computer infrastructure	5 years
Equipment	3-7 years
Vehicles	7 years
Instructional equipment	7 years

NOTE 2– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land (MCF)

Land has been recorded at its appraised value upon receipt of the donation to the Foundation. The land is held primarily for use by the College in support of its operations. Expenditures for any maintenance of the land are paid by the College.

Management reviews the carrying value of the land asset for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If such review indicates that the asset is impaired, given that the carrying amount of the asset exceeds its fair value as of the measurement date, the asset's carrying amount is written down to fair value. Long-lived assets to be disposed of are written down to the lower of cost or fair value, less estimated costs to sell. Impairment was recognized in the amounts of $1,032,600 and $0 for the years ended June 30, 2010 and 2009, respectively, and is included in capital assets on the Statement of Net Assets.

Valuation of Investments (MCF)

Investments are stated at fair value as determined by quoted market price. Both realized and unrealized gains and losses in fair value are reflected in the Statement of Activities.

Pledges (MCF)

Legally enforceable pledges are recorded as support in the year the pledges are made. Payments to be received in periods beyond one year are reflected at their present value based on a risk-free discount rate. Pledges deemed uncollectible are charged directly against gift and contribution revenue and pledges receivable is reduced. The current allowance for uncollectible pledges is 3%.

Contributions of temporarily restricted net assets that are received and expended in the same fiscal year are treated as temporarily restricted revenue and net assets released from restriction in that year.

Permanently Restricted Contributions – Contributions subject to donor-imposed stipulations that must be maintained in perpetuity by the Foundation are included in permanently restricted net assets. Generally, the donors of these assets permit the Foundation to use all or part of the income earned and capital gains on related investments, if any, for general or specific purposes.

Temporarily Restricted Contributions – Contributions subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time are included in temporarily restricted net assets.

Unrestricted Contributions – Contributions not subject to donor-imposed stipulations, or whose restrictions have been satisfied, are recorded as unrestricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-cash Contributions (MCF)

Non-cash contributions are recorded at their fair value on the date of receipt. Certain non-cash items received are donated to the College for educational support.

Concentration of Credit Risk (MCF)

The Foundation maintains its cash, cash equivalents and investments in accounts which are insured by the FDIC up to specified limits and may, at times, exceed the federally insured limits. Cash in bank as of June 30, 2010 and 2009 was $6,785,430 and $11,120,357, respectively. The Foundation has not experienced any losses on such accounts and management does not believe that it is exposed to any significant financial risk.

Reclassification (MC & MCF)

Certain amounts as of and for the year ended June 30, 2009 have been reclassified to be in conformity with the presentation at June 30, 2010. These reclassifications had no impact on net assets.

NOTE 3 – CASH AND INVESTMENTS (MC & MCF)

Montgomery College Cash, Cash Equivalents and Investments

As of June 30, 2010 and 2009, the College's carrying amount of cash, cash equivalents, and short-term investments consisted of the following:

	2010	2009
Cash	$ (969,777)	$ (321,276)
Cash equivalents	39,037,387	12,986,159
Short-term investments	33,125,002	42,942,438
Total	$71,192,612	$55,607,321

The carrying amount for College deposits was $(1,084,973) and $(449,356) as of June 30, 2010 and 2009, respectively. Petty cash and cashier's change funds of $115,198 and $128,080 as of June 30, 2010 and 2009, respectively, are excluded from these amounts. Actual bank statement balances for accounts at PNC and Wachovia totaled $357,215 and $645,274 at the end of fiscal years 2010 and 2009, respectively. Pledged holdings at The Bank of New York with a current book value of $0 and $18,163,169 were received as collateral as of June 30, 2010 and 2009, respectively. Collateral was maintained during the year to secure all deposits and investments as specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Article 95, Section 22 and Section 6-222 of the State Finance and Procurement Article of the Annotated Code of Maryland authorizes, and the College's adopted investment policy authorizes, the College to invest surplus cash in U.S. Treasury obligations, U.S. governmental agencies and instrumentalities securities, collateralized certificates of deposit, repurchase agreements, the Maryland Local Government Investment Pool (MGLIP), and bankers' acceptances. In the opinion of management, the College is in compliance with all provisions of the Annotated Code of Maryland and the College's investment policy.

During the year, the College invested in bankers' acceptances, Certificates of Deposit and U.S. Government agency and instrumentalities securities with no maturities extending past April 29, 2011. The College also invested in the MLGIP with collateral being held for the pool consisting of U.S. Government and agency securities, bankers' acceptances, commercial paper, and corporate bonds. The MLGIP is managed by PNC Bank under contract with the State of Maryland. Collateral was held at The Bank of New York in the College's name. The collateral balance was maintained throughout the year in sums in excess of any single day bank balance.

The longest length to maturity at time of purchase of any one investment was one year. These investments are reported in the College's balance sheet at amortized cost. The College also invests funds in the MLGIP, an external investment pool, a "2a-7 like pool". All securities in the MLGIP are valued daily by MLGIP on an amortized basis. In conformance with the implementation of GASB 31 entitled *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, these assets are carried at an amortized basis in the College's balance sheet.

The College's investments as of June 30, 2010 and 2009 in MLGIP consist of the following:

	Unrestricted	Restricted	Other Post Employment Benefits	Total
June 30, 2010				
Cash equivalents	$10,094,770	$ -	$ 849	$10,095,619
Accrued interest	2,716	-	-	2,716
	$10,097,486	$ -	$ 849	$10,098,335
June 30, 2009				
Cash equivalents	$10,499,475	$ 1,476,927	$ 846	$11,977,248
Accrued interest	8,928	628	-	9,556
	$10,508,403	$ 1,477,555	$ 846	$11,986,804

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

The College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3. This Statement establishes and modifies disclosure requirements related to investment and deposit risks:

- Credit Risk
- Custodial Credit Risk
- Concentrations of Credit Risk
- Interest Rate Risk
- Foreign Currency Risk

As of June 30, 2010, the College had the following investments and maturities.

		Investment Maturities (in Months)			
Investment Type	**Fair Value**	**Less than 6**	**7 – 12**	**13 – 18**	**19 – 24**
U.S. Agency:					
FHLB coupon	$ 5,026,519	$ -	$ 5,017,000	$ -	$ -
FHLB discount note	16,989,901	13,985,514	2,995,713	-	-
Farmer Mac coupon	3,000,000	-	3,000,000	-	-
Fed Farm Credit Bureau coupon	6,101,244	-	6,059,340	-	-
Fed Farm Credit Bureau discount note	8,989,137	2,998,388	5,984,247	-	-
Bankers acceptances	14,030,673	14,023,852	-	-	-
Certificates of deposit	8,000,000	-	8,000,000	-	-
Total	$ 62,137,474	$ 31,007,754	$ 31,056,300	$ -	$ -

As of June 30, 2009, the College had the following investments and maturities.

		Investment Maturities (in Months)			
Investment Type	**Fair Value**	**Less than 6**	**7 – 12**	**13 – 18**	**19 – 24**
U.S. Agency:					
FHLB coupon	$ 17,171,538	$ 17,100,279	$ -	$ -	$ -
FHLB discount note	10,687,029	10,628,703	-	-	-
Farmer Mac coupon	2,990,250	999,355	1,982,561	-	-
Fed Farm Credit Bureau coupon	2,004,064	-	2,000,000	-	-
Fed Farm Credit Bureau discount note	1,990,996	-	1,986,738	-	-
Bankers acceptances	9,257,277	9,244,158	-	-	-
Local Government Investment Pool	11,986,804	11,986,804	-	-	-
Total	$ 56,087,958	$ 49,959,299	$ 5,969,299	$ -	$ -

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

As of June 30, the College's investments were rated as follows:

	2010			2009		
Investment Type	**S&P**	**Moody's**	**Fitch**	**S&P**	**Moody's**	**Fitch**
U.S. Agency:						
FHLB coupon	AAA	AAA	AAA	AAA	AAA	AAA
FHLB discount note	AAA	AAA	AAA	AAA	AAA	AAA
Farmer Mac coupon	AAA	AAA	AAA	AAA	AAA	AAA
Fed Farm Credit Bureau coupon	AAA	AAA	AAA	AAA	AAA	AAA
Fed Farm Credit Bureau discount note	AAA	AAA	AAA	AAA	AAA	AAA
Bankers acceptances – Wachovia Bank	AA	Aa2	AA	AA	Aa2	AA
Bankers acceptances – JP Morgan Chase	AA-	Aa1	AA	AA-	Aa1	AA
Certificates of deposit	A+	Aa2	A+	N/A	N/A	N/A

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from interest rates, the College's investment policy limits the maturity length to one year with special approval required to purchase a security not to exceed two years.

Credit Risk. The College's investment policy does not allow investments in commercial paper nor corporate bonds. The College's investment policy does allow investments in Money Market Treasury Funds. These funds must be operated in accordance with Rule 2a-7 and have the highest possible rating from at least one NRSRO as designated by the SEC. The MLGIP functions as a U.S. Treasury Money Market Fund and is under contract with the State of Maryland Treasurer's Office. The MLGIP was rated AAAm by Standard & Poor's.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party, because the securities are not insured and are not registered in the College's name and are held by either the counterparty or the counterparty's trust department or agent but not in the College's name. County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. During the years ended June 30, 2010 and 2009, the College did not invest in any repurchase agreements. The College's investment policy requires all collateral be held by an independent third party with whom the College has a current custodial agreement in a segregated account with a clearly marked evidence of ownership and a safekeeping receipt supplied to the College. At June 30, 2010 and 2009, the College's investments were not exposed to custodial credit risk.

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

As of June 30, 2010, the College's investments (listed at Original Principal Cost) were comprised of the following:

	Principal Cost	Percent of Total
U.S. Agency:		
FHLB coupon (7 separate)	$ 5,017,000	8.08
FHLB discount notes (5 separate)	16,981,229	27.36
Farmer Mac discount notes (2 separate)	3,000,000	4.83
Fed Farm Credit Bureau coupon	6,059,340	9.76
Fed Farm Credit Bureau discount note	8,982,634	14.47
Bankers acceptances – JP Morgan/Chase (11 separate)	14,023,852	22.60
Certificates of deposit	8,000,000	12.90
Total	$ 62,064,055	100.00

As of June 30, 2009, the College's investments (listed at Original Principal Cost) were comprised of the following:

	Principal Cost	Percent of Total
U.S. Agency:		
FHLB coupon (7 separate)	$ 17,100,279	30.58
FHLB discount notes (5 separate)	10,628,703	19.00
Farmer Mac discount notes (2 separate)	2,981,916	5.33
Fed Farm Credit Bureau coupon	2,000,000	3.58
Fed Farm Credit Bureau discount note	1,986,738	3.55
Bankers acceptances – JP Morgan/Chase (11 separate)	9,244,158	16.53
Local Government Investment Pool	11,986,804	21.43
Total	$ 55,928,598	100.00

Concentrations of Credit Risk. GASB 40 requires the identification, by amount and issuer, of investments in any one issuer that represents 5% or more of total investments. The College's investment policy allows the following diversification by instrument at time of purchase:

U.S. Treasury obligations	100%
U.S. Government agency & sponsored instrumentalities	50%
Repurchase agreements	50%
Collateralized certificates of deposits	50%
Bankers' acceptances	50%
Maryland Local Government Investment Pool	60%

Security types noted above are further diversified by issuing institution:

Approved security dealers	50%
Maryland Local Government Investment Pool	60%
Bankers' acceptances by issuing institution	15%
Commercial banks	30%

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Foreign Currency Risk. In accordance with Section IX, Diversification in Authorized and Suitable Investments, the College is restricted to banks (financial institutions) chartered in the State of Maryland and bankers acceptances of domestic banks. Repurchase agreements must be backed by obligations of the United States, its agencies or instrumentalities. The College, by Procedure 61003CP, Chapter 'Fiscal and Administrative Affairs', Subject 'Bank Services', Section VI is limited to 'banks located within the County' for depository services.

Custodial Credit Risks. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with the securities held by the pledging bank; collateralized with securities held by the pledging bank's trust department or agent but not in the College's name.

As of June 30, 2010, the College had a Federal Reserve Bank pledge with PNC Bank to collateralize deposits of the College. As of that date, the following collateral was in a segregated account on the College's behalf as follows:

CUSIP	Description	Par Value	Market Value
31409H3W2	FNMA 30 YR 7%, 8/1/2036	$ 539,475	$ 594,958
31413MNA1	FNMA 15 YR 4.5%, 8/1/2022	1,025,501	1,085,386
31371LHF9	FNMA 20 YR 5.5%, 12/1/2023	1,557,661	1,686,448
31413MNA1	FNMA 15 YR 4.5%, 8/1/2022	560,352	593,076
31416NXP2	FNMA 15 YR, 4%, 4/1/2024	3,727,080	3,885,139
31416NYT3	FNMA 15 YR, 4.0% 3/1/2024	192,548	200,714
		$ 7,602,617	$ 8,045,721

As of June 30, 2009, the College had a Federal Reserve Bank pledge with PNC Bank to collateralize deposits of the College. As of that date, the following collateral was in a segregated account on the College's behalf as follows:

CUSIP	Description	Par Value	Market Value
31371LHF9	FNMA FNMS 5.5%, 12/01/23	$ 4,000,000	$ 1,472,339
31371LH77	FNMA FNMS 4.0% 12/01/10	1,100,000	306,933
31393Q2J0	FNMA FGRM 2594QP 03/15/33	5,170,000	1,787,557
31395KYP2	FNMA FRGM 2926AC 01/15/19	12,000,000	4,588,164
31409H3W2	FNMA FNMS 7.0% 08/01/36	4,100,000	1,211,621
31412PGL9	FNMA FNMS 4.0% 4/1/24	3,400,000	3,344,732
		$29,770,000	$12,711,346

NOTE 3 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Montgomery College Foundation Investments

The investments of the Foundation are carried at fair value and summarized at June 30 as follows:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$12,059,276	$13,280,466	$ 9,914,880	$ 8,658,366
U.S. Treasury note	5,031	5,031	-	-
UBS Investment account	-	-	871,871	871,871
Chevy Chase Bank trust	-	-	734,212	734,212
Certificates of deposit	3,572,918	3,572,918	384,961	384,961
Land held for investment	2,532,600	1,500,000	2,532,600	2,532,600
Total	$18,169,825	$18,358,415	$14,438,524	$13,182,010

Net investment loss for the years ended June 30 was as follows:

	2010	2009
Interest and dividends	$ 350,630	$ 326,941
Realized and unrealized losses on investments	567,412	(4,040,009)
Change in value of charitable gift annuities	60,509	(336,007)
Interest from investment in capital lease	1,805,009	1,447,556
	$ 2,783,560	$ (2,601,519)

Net investment income is included in investment and interest income and additions to permanent endowments in the Statement of Revenue, Expenses, and Changes in Net Assets.

NOTE 4 – ACCOUNTS RECEIVABLE (MC)

Tuition and fees receivables are recorded net of allowance for doubtful accounts of $11,930,958 and $10,440,780 at June 30, 2010 and 2009, respectively.

The College currently participates in the Federal Perkins Loan Program (Perkins) and the Nursing Student Loan Program (NSLP). At June 30, 2010, the balance of the Perkins receivables included in the loan funds' notes receivable was $2,292,735 and $2,340,380, respectively, less an allowance for doubtful receivables of $386,006 and $387,007, respectively. At both June 30, 2010 and 2009, the balance of the NSLP receivables included in the loan funds' notes receivable was $4,783 less an allowance for doubtful receivables of $1,577 and $4,783, respectively.

NOTE 5 – PLEDGES RECEIVABLE (MCF)

Pledges receivable at June 30 include amounts due in:

	2010	2009
Less than one year	$ 800,813	$ 1,052,102
One to five years	1,497,091	1,059,614
More than five years	1,791,128	1,796,226
	4,089,032	3,907,942
Pledges deemed uncollectible	(72,162)	-
Present value discount	(1,301,207)	(1,028,352)
Total	$ 2,715,663	$ 2,879,590

The discount rate used on long-term promises to give was 3% in both 2010 and 2009 which approximates the risk free rate as evidenced by the 5-year Treasury bill rate. Pledges deemed uncollectible are 3% of total unconditional promises to give at June 30, 2010 as determined by a review of individual current year pledges.

During 2001, the Foundation was named remainder interest beneficiary of a charitable remainder unitrust where the Foundation is not the trustee and does not exercise control over the assets contributed to the trust. The Foundation recorded the agreement as a pledge receivable and a contribution at the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments are made to the receivable on a yearly basis to reflect the accretion of the discount and revaluation of the present value of the estimated future payments. As of June 30, 2010 and 2009, the pledge receivable balance was $412,790 and $600,306, respectively.

During 2009, the Foundation was named remainder interest beneficiary of another charitable remainder unitrust where the Foundation is not the trustee and does not exercise control over the assets contributed to the trust. The Foundation recorded the agreement as a pledge receivable and a contribution at the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments are made to the receivable on a yearly basis to reflect the accretion of the discount and revaluation of the present value of the estimated future payments. As of June 30, 2010 and 2009, the pledge receivable balance was $58,637 and $120,150, respectively.

NOTE 6 – CHARITABLE REMAINDER TRUSTS (MCF)

The Foundation has been designated as remainder interest beneficiary under certain split-interest agreements contracted with donors. The agreements call for specified distributions/annuity payments to be paid to designated lead interest beneficiaries during their lives. The Foundation holds and invests the assets of the split-interest agreements and assures that the specified distributions are made to the lead interest beneficiaries. The assets held and the liability for annuities payable are reflected on the Statement of Financial Position.

NOTE 6 – CHARITABLE REMAINDER TRUSTS (MCF)

Upon commencement of such agreements, the Foundation records the fair value of the assets received and records the estimated present value of future payments to the lead interest beneficiaries as a liability for annuities payable from split-interest agreements. The liability is established by estimating future payments based on the beneficiaries life expectancy and discounting those payments to their present value. The excess of the assets received over the liability incurred is recognized on the Statement of Activities as contributions under split-interest agreements.

At the end of each year, assets held in split-interest agreements are adjusted to their fair value and the liability for annuities payable is adjusted to its current estimated present value. Present value adjustments to the liability are reflected on the Statement of Activities as changes in the value of charitable gift annuity agreements.

At times, for certain split-interest agreements, the estimated present value of the liability to the lead interest beneficiary exceeds the value of the related assets. When this occurs, the deficit is considered a reduction of unrestricted net assets.

As of June 30, 2010 and 2009, the assets, obligations and net assets related to charitable remainder trusts were classified as follows:

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Assets held for charitable gift annuities	$ 370,112	$ 4,097	$ -	$ 374,209
Annuities payable from charitable gifts	1,151,624	3,667	-	1,155,291
Net assets	$ (781,512)	$ 430	$ -	$ (781,082)

	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Assets held for charitable gift annuities	$ 353,457	$ 4,215	$ 51,897	$ 409,569
Annuities payable from charitable gifts	1,195,334	3,928	48,740	1,248,002
Net assets	$ (841,877)	$ 287	$ 3,157	$ (838,433)

During the year ended June 30, 2010, one annuity's funds matured and the liability terminated. In 2009, no split-interest agreements were created or terminated. The total number of split-interest agreements as of June 30, 2010 and 2009 are twelve and thirteen, respectively.

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION (MC)

The following tables represent the changes in the capital asset categories (including depreciation) for fiscal years June 30, 2010 and 2009, respectively.

	Balance at July 1, 2009	Additions	Disposals/ Lease Retirements	Balance at June 30, 2010
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress-Buildings	60,940,709	43,622,172	(1,953,945)	102,608,936
Construction in progress-Equipment	7,392,517	1,024,196	(4,940,144)	3,476,569
Total non-depreciable assets	105,077,813	44,646,368	(6,894,089)	142,830,092
Depreciable assets				
Building	232,453,600	2,650,291	-	235,103,891
Equipment	51,228,818	6,024,730	(50,013)	57,203,535
Library books	6,219,091	349,595	(625,926)	5,942,760
Capital lease	32,130,000	16,825,000	-	48,955,000
Art works	181,805	-	-	181,805
Total depreciable assets	322,213,314	25,849,616	(675,939)	347,386,991
Less accumulated depreciation				
Buildings	86,196,554	7,295,840	-	93,492,394
Capital lease	942,857	942,857	-	1,885,714
Equipment	38,333,621	4,378,998	(49,873)	42,662,746
Library books	4,408,724	286,952	(465,665)	4,230,011
Total accumulated depreciation	129,881,756	12,904,647	(515,538)	142,270,865
Depreciable assets, net	192,331,558	12,944,969	(160,401)	205,116,126
Capital assets, net	$297,409,371	$57,591,337	$ (7,054,490)	$347,946,218

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION (MC) (CONTINUED)

	Balance at July 1, 2008	Additions	Disposals/ Lease Retirements	Balance at June 30, 2009
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress- Buildings	28,391,257	32,549,452	-	60,940,709
Construction in progress- Equipment	2,285,916	5,106,601	-	7,392,517
Total non-depreciable assets	67,421,760	37,656,053	-	105,077,813
Depreciable assets				
Building	223,892,763	8,560,837	-	232,453,600
Equipment	49,133,326	3,688,891	(1,593,399)	51,228,818
Library books	6,205,791	289,342	(276,042)	6,219,091
Capital lease	32,130,000	-	-	32,130,000
Art works	159,955	21,850	-	181,805
Total depreciable assets	311,521,835	12,560,920	(1,869,441)	322,213,314
Less accumulated depreciation				
Buildings	80,082,852	6,113,702	-	86,196,554
Capital lease	-	942,857	-	942,857
Equipment	33,482,590	6,417,889	(1,566,858)	38,333,621
Library books	4,304,772	306,290	(202,338)	4,408,724
Total accumulated depreciation	117,870,214	13,780,738	(1,769,196)	129,881,756
Depreciable assets, net	193,651,621	(1,219,818)	(100,245)	192,331,558
Capital assets, net	$261,073,381	$36,436,235	$ (100,245)	$297,409,371

NOTE 8 – CAPITAL ASSETS (MCF)

The following tables represent the changes in the capital asset categories for fiscal years June 30, 2010 and 2009, respectively.

	Balance at July 1, 2009	Additions	Disposals/ Lease Retirements	Balance at June 30, 2010
Non-depreciable assets				
Land	$ 2,750,000	$ -	$ -	$ 2,750,000
Construction in progress	5,754,782	9,747,275	-	15,502,057
Capital assets, net	$ 8,504,782	$ 9,747,275	$ -	$ 18,252,057

	Balance at July 1, 2008	Additions	Disposals/ Lease Retirements	Balance at June 30, 2009
Non-depreciable assets				
Land	$ 2,750,000	$ -	$ -	$ 2,750,000
Construction in progress	-	5,754,782	-	5,754,782
Capital assets, net	$ 2,750,000	$ 5,754,782	$ -	$ 8,504,782

In November 2008, the Foundation began construction on the Silver Spring/Takoma Park parking garage, a parking structure on the land adjacent to the Morris and Gwendolyn Cafritz Foundation Arts Center, for use by the College. Total development costs were approximately $15,600,000 and the final construction invoice was received in July 2010. During the construction process, development costs are being capitalized as construction in progress.

NOTE 9– ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (MC)

Accounts payable and accrued liabilities represent amounts due at June 30, 2010 and 2009, respectively, for goods and services received prior to the end of the fiscal year.

	2010	2009
Salaries and wages	$ 8,656,954	$ 6,272,878
Benefits	1,013,000	1,107,000
Services and supplies	13,917,333	14,087,507
Payroll withholding	1,193,492	1,091,146
Unclaimed checks	289,623	267,859
Student refunds	13,783	385
Montgomery College Foundation	95,425	-
Other	453,859	728,511
Total	$25,633,469	$23,555,286

NOTE 10 – LONG-TERM LIABILITIES (MC)

Long-term liability activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Post employment funds	$ -	$ -	$ -	$ -	$ -
Aetna supplemental retirement funds	17,202	1,790	-	18,992	-
Lease obligations- 2005 (see Note 13)	31,225,000	-	(940,000)	30,285,000	975,000
Lease obligations- 2008	-	16,825,000		16,825,000	415,000
(see Note 13)			-		
Montgomery County	300,000	-	(75,000)	225,000	75,000
Total long-term liabilities	$31,542,202	$16,826,790	$ (1,015,000)	$47,353,992	$ 1,465,000

Long-term liability activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Post employment funds	$ 7,720,858	$ -	$ (7,720,858)	$ -	$ -
Aetna supplemental retirement funds	11,582	5,620	-	17,202	-
Lease obligations- 2005 (see Note 13)	32,130,000	-	(905,000)	31,225,000	940,000
Montgomery County	375,000	-	(75,000)	300,000	75,000
Total long-term liabilities	$40,237,440	$ 5,620	$ (8,700,858)	$31,542,202	$ 1,015,000

NOTE 11 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF)

In October 2005, the Montgomery County Revenue Authority (the Authority) issued "Montgomery County Revenue Authority Lease Revenue Bonds (King Street Art Center Project) Series 2005 A" bonds (the Bonds), with a total face value of $33,000,000. A loan agreement, evidenced by a promissory note, was entered into between the Authority and the Foundation, to effectively transfer all obligations of the bond issue to the Foundation. Principal and interest payments required by the Note are scheduled to coincide with the scheduled payments due on the Bonds. The proceeds of the Note issue were used 1) for developing and constructing a multi-purpose educational building designed as the Morris and Gwendolyn Cafritz Foundation Arts Center, 2) to fund a Debt Service Reserve Fund, 3) to fund a Capitalized Interest Fund, and 4) to pay a portion of the issuance costs of the Bonds. The Bonds, issued in denominations of $5,000, are dated October 20, 2005, and have annual serial maturity dates from May 1, 2008 through May 1, 2030. Stated interest rates vary with the maturity dates of each group of Bonds. The Bonds were issued at a net premium totaling $493,620.

NOTE 11 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

The College has entered into a lease agreement with the Foundation, with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the 2005 Notes. This lease agreement was pledged as security for the 2005 Notes.

Maturity dates and stated interest rates of the 2005 Notes are as follows:

Maturity May 1	Principal Amount	Interest Rate	Term (in years)
2011	$ 975,000	4.000%	5.5
2012	1,015,000	4.000%	6.5
2013	1,055,000	4.000%	7.5
2014	1,100,000	4.000%	8.5
2015	1,145,000	5.000%	9.5
2016	1,200,000	4.000%	10.5
2017	1,250,000	4.000%	11.5
2018	1,300,000	5.000%	12.5
2019	1,365,000	5.000%	13.5
2020	1,430,000	5.000%	14.5
2021	1,505,000	4.250%	15.5
2022	1,565,000	4.375%	16.5
2023	1,635,000	4.375%	17.5
2024	1,705,000	4.500%	18.5
2025	1,785,000	4.500%	19.5
2026	1,865,000	4.500%	20.5
2027	1,950,000	5.000%	21.5
2028	2,045,000	5.000%	22.5
2029	2,150,000	4.625%	23.5
2030	2,245,000	4.625%	24.5
Total	$ 30,285,000		

The 2005 Notes maturing prior to May 1, 2016 are not subject to redemption prior to their maturities. The 2005 Notes maturing on or after May 1, 2016 are subject to optional redemption by the Authority in whole or in part prior to maturity on any date beginning May 1, 2015 at a redemption price of par plus accrued interest thereon to the date set for redemption.

Interest is due semi-annually, each May 1 and November 1. Proceeds from the 2005 Notes issue were used to pay interest through October 2007. Interest paid through the completion of the construction of the Morris and Gwendolyn Cafritz Foundation Arts Center was capitalized as part of the construction in progress. Since the completion of construction in 2007, interest has been expensed as incurred totaling $1,405,090 and $1,441,523 for the years ended June 30, 2010 and 2009, respectively.

NOTE 11 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

In November 2008, the Montgomery County Revenue Authority (the Authority) issued "Montgomery County Revenue Authority Lease Revenue Bonds (Silver Spring/Takoma Park parking garage project) Series 2008A" bonds (the 2008 Bonds), with a total face value of $16,825,000. A loan agreement, evidenced by a promissory note (the 2008 Notes), was entered into between the Authority and the Foundation, to effectively transfer all obligations of the 2008 Bonds issue to the Foundation. Principal and interest payments required by the 2008 Notes are scheduled to coincide with the scheduled payments due on the 2008 Bonds. The proceeds of the 2008 Notes issue are to be used 1) for developing and constructing a parking garage structure designated as the Silver Spring/Takoma Park parking garage, 2) to fund a Debt Service Reserve Fund, 3) to fund a Capitalized Interest Fund, and 4) to pay a portion of the issuance costs of the 2008 Bonds. The 2008 Bonds, issued in denominations of $5,000, are dated November 20, 2008, and have annual serial maturity dates from November 1, 2010 through November 1, 2033. Stated interest rates vary with the maturity date of each group of 2008 Bonds. The Bonds were issued at a net discount totaling $129,494.

The College has entered into a lease agreement with the Foundation, beginning on the date that the project is substantially complete, with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the 2008 Notes. This lease agreement was pledged as security for the 2008 Notes.

NOTE 11 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

Maturity dates and stated interest rates of the 2008 Notes are as follows:

Maturity Date	Principal Amount	Interest Rate	Term (in years)
2010	$ 415,000	3.25%	2
2011	425,000	3.50%	3
2012	440,000	3.50%	4
2013	455,000	3.50%	5
2014	475,000	4.00%	6
2015	495,000	4.00%	7
2016	515,000	4.00%	8
2017	535,000	4.00%	9
2018	560,000	4.13%	10
2019	580,000	4.38%	11
2020	610,000	4.60%	12
2021	635,000	4.63%	13
2022	670,000	4.75%	14
2023	700,000	4.75%	15
2024	735,000	4.75%	16
2025	770,000	5.00%	17
2026	810,000	5.00%	18
2027	855,000	5.10%	19
2028	895,000	5.10%	20
2029	945,000	5.13%	21
2030	995,000	5.13%	22
2031	1,045,000	5.20%	23
2032	1,105,000	5.25%	24
2033	1,160,000	5.25%	25
Total	$ 16,825,000		

The 2008 Notes maturing prior to November 1, 2018 are not subject to redemption prior to their maturities. The 2008 Notes maturing on or after November 1, 2018 are subject to optional redemption by the Authority in whole or in part, and shall be so redeemed by the Authority in the event and to the extent the Foundation shall exercise its option to prepay the payments for the Project under Section 9.01(a) of the Loan Agreement at a redemption price amount equal to par plus accrued interest to the date fixed for redemption, without premium.

Interest is due semi-annually, each May 1 and November 1, beginning with May 1, 2009. Proceeds from the Notes issue were used to pay interest through October 2009. Interest paid through the completion of the construction of the parking garage will be capitalized as part of the construction in progress. Once the construction is complete, interest will be expensed as incurred. Interest incurred, capitalized and expensed during the year ended June 30, 2010 was $787,306, $262,435, and $524,871, respectively. Interest incurred, capitalized and expensed during the year ended June 30, 2009 was $483,319, $483,319, and $0, respectively.

NOTE 12 – RESTRICTED ASSETS (MCF)

Temporarily Restricted

Temporarily restricted net assets as of June 30, 2010 and 2009 were $6,747,841 and $6,550,743, respectively. Temporarily restricted net assets represent funds restricted by donors for scholarships, student athletics, student and faculty support, resource and development and other college initiatives.

As of June 30 net assets were temporarily restricted for the following:

	2010	2009
General use programs	$ 5,021,161	$ 5,047,191
Scholarships	1,662,534	1,418,641
Student athletics	64,146	84,911
Total	$ 6,747,841	$ 6,550,743

For fiscal years ending June 30, 2010 and 2009, temporarily restricted net assets released from restriction were used for the following:

	2010	2009
General use programs	$ 651,255	$ 573,920
Scholarships	939,989	1,206,182
Student athletics	76,155	38,927
Total	$ 1,667,399	$ 1,819,029

Permanently Restricted

Permanently restricted net assets as of June 30, 2010 and 2009 were $14,533,082 and $13,745,140, respectively. Permanently restricted net assets represent perpetual endowment funds that are required to be retained permanently by explicit donor stipulation. As of June 30, 2010 and 2009, earnings from permanently restricted net assets were restricted for the following:

	2010	2009
Scholarships	$ 8,235,317	$ 7,714,561
General use programs	6,276,022	6,006,248
Student and faculty support	21,743	21,174
Annuity funds	-	3,157
Total	$14,533,082	$13,745,140

NOTE 13 – COMMITMENTS AND CONTINGENCIES (MC)

The College is obligated under several noncancelable operating leases for office space expiring in various years through 2015. Net rent expense under these operating leases, included in occupancy expenses, was $3,484,204 and $3,410,737 for the years ended June 30, 2010 and 2009, respectively. The projected minimum lease payments under the terms of the leases at June 30, 2010 are as follows:

2011	$ 3,111,585
2012	2,500,192
2013	2,075,210
2014	2,137,466
2015	803,240
Total	$10,627,693

The College has entered into contracts for the purchase of computer information system technical consulting, programming and support services for the maintenance of the fully integrated administrative system; contracts to provide help desk operations and support of college computer equipment, contracts for security infrastructure and project engineer services; contracts for the outsourcing of the library cataloging; contracts for high speed internet access services and disaster recovery; contracts for professional development and Human Resource services; contracts for medical coverage and a prescription drug program; contracts for radio advertisement; contracts for museum based learning; contract for a commercial drivers license training program; contract for summer science enrichment program; contract for employment and case management services for refugees; contract for the maintenance of ultrasound units; contract for the purchase, hosting and implementing of a talent management system; a contract for Novell software and services; and a contract for external audit services. Net expenses under these contracts were $20,943,199 and $16,660,338 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010, potential payments for the contract agreements and purchase agreements for the next five years are as follows:

2011	$11,153,477
2012	8,839,958
2013	3,152,843
2014	539,823
2015	20,173
Total	$23,706,274

As of June 30, 2010 and 2009, there were uncompleted contracts amounting to $24,621,050 and $18,159,291, respectively, for construction activity at all campuses. Retainage on construction contracts is not included in this amount, but is shown in the financial statements as an accounts payable.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (MC) (CONTINUED)

On July 1, 2001, the College purchased the 'Giant Bakery' site (renamed 'King Street Property') for the appraised price of $7,250,000. This purchase called for a cash settlement of $6,000,000 and a non-cash donation of the balance $(1,250,000) to the Foundation by owners of the property.

Initially, the County funded the entire $6,000,000 cash price through the College's Capital budget appropriation. At that time there was an agreement made that the College would repay $2,250,000 of the cash purchase price. While the College is responsible for the entire $2,250,000 repayment, the Foundation agreed through fund-raising to accept responsibility for $1,500,000 of the $2,250,000. A 'Memorandum of Understanding' (MOU) was finalized which details a ten-year term of repayment plus interest at 3.35%. The current balance at June 30, 2010 was $225,000 and is included in accounts payable for the current portion of $75,000 and $150,000 as a long-term liability for the balance.

The College has entered into a project lease agreement with the Foundation (approved by the Board of Trustees on June 21, 2004), with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the Bonds. Under a Deed of Trust, the Foundation pledged this lease agreement along with its ownership of the Project and its long-term leasehold in the project site to secure the Foundation’s obligation to repay the Bonds. The lease commenced on July 17, 2007, the date construction was substantially complete and a Use and Occupancy Certificate issued. The Project Lease will terminate December 31, 2031. The Project Lease is a triple net lease, with the College responsible for all operating costs, as well as insurance, taxes, and costs of repairs and general maintenance of The Morris and Gwendolyn Cafritz Foundation Arts Center.

For accounting purposes, the Project Lease is deemed a capital lease. The original cost of assets acquired under this capital lease is $33,000,000 and the accumulated amortization totals $2,715,000 and $1,885,714 at June 30, 2010 and 2009, respectively. The College paid the Foundation $2,351,356 and $2,352,556 during the years ended June 30, 2010 and 2009, respectively, as stipulated in the Project Lease. As of June 30, 2010, future payments to be paid by the College under this capital lease for the years ended June 30 are:

2011	$ 2,348,756
2012	2,349,756
2013	2,349,156
2014	2,351,956
2015	2,352,957
2016-2020	11,758,281
2021-2025	11,753,738
2026-2030	11,757,581
	47,022,181
Imputed interest	(16,737,181)
Total	$30,285,000

NOTE 13 – COMMITMENTS AND CONTINGENCIES (MC) (CONTINUED)

The land on which the Morris and Gwendolyn Cafritz Foundation Arts Center is being built is owned by the College. The Foundation has entered into a lease agreement with the College whereby the land is leased to the Foundation for eighty years for a fee of $5,000.

On December 10, 2007, the Board of Trustees adopted an omnibus resolution, Resolution Number 07-12-151, authorizing the lease transaction for a separate facility adjacent to the Morris and Gwendolyn Cafritz Foundation Arts Center, to improve access roads thereto and a separate parking lot located nearby, and to construct a chilling facility as part of the parking facility on its Takoma Park/Silver Spring campus in Silver Spring, Maryland. The Project is owned by the Foundation and leased to the College. The Project Lease Agreement was signed on November 18, 2008, wherein the College will lease the Project upon its completion and after a Use and Occupancy Certificate has been issued from the Foundation, and act as the Foundation's construction agent during the construction of the Project. The Project was completed in January, 2010 with the lease commencing on that date. Rents will be paid in semi-annual installment payments that are calculated to be at least equal to the scheduled debt service payments made by the Foundation on the Notes with a total face value of $16,825,000 (payments are due May 1 and November 1). For accounting purposes, the Project Lease is deemed a capital lease. The College paid $393,653 and $0 to the Foundation during the years ended June 30, 2010 and 2009, respectively. Future payments to be paid by the College are:

2011	$ 1,195,562
2012	1,191,381
2013	1,191,244
2014	1,190,581
2015	1,193,119
2016-2020	5,966,056
2021-2025	5,965,764
2026-2030	5,962,942
2031-2034	4,770,189
	28,626,838
Imputed interest	(11,801,838)
Total	$16,825,000

The land on which the parking garage is built is partially owned by the College. The Foundation has entered into a lease agreement with the College whereby the land that is owned by the College is leased to the Foundation for eighty years for a fee of $500.

The College is currently the defendant in a lawsuit for negligence and violation of ADA with respect to the Rockville campus. It is the opinion of the College's management, after conferring with legal counsel, that the liability, if any, which might arise from the lawsuit would not have a material adverse effect on the College's financial position.

NOTE 14 – EXPENSES BY NATURAL CLASSIFICATIONS (MC)

The following table shows a classification of expenses for the years ending June 30, 2010 and 2009; both by function as listed in the statement of revenue, expenses and changes in net assets and by natural classification, which is the basis for amounts shown in the statement of cash flows.

	Salaries and Wages	Fringe Benefits	Contracted Services	Supplies	Scholarships	Utilities	Depreciation	Other	Total
June 30, 2010									
Instruction	$ 75,413,834	$ 11,548,647	$ 5,671,630	$ 2,390,750	$ 20	$ -	$ -	$ 986,936	$ 96,011,817
Academic support	19,965,198	2,579,531	3,316,147	839,242	10,000	-	-	461,798	27,171,916
Student services	20,308,933	2,730,162	2,875,591	501,026	7,472	-	-	662,926	27,086,110
Operation of plant	12,570,346	3,375,801	5,789,088	1,379,483	-	6,900,146	-	643,103	30,657,967
Institutional support	23,941,107	6,919,369	3,899,737	374,539	500	-	-	6,481,830	41,617,082
Scholarships and related expenses	-	-	-	-	2,464,077	-	-	1,429,540	3,893,617
Depreciation	-	-	-	-	-	-	11,973,317	-	11,973,317
Auxiliary enterprises	3,152,718	747,698	967,069	129,982	-	18,000	-	7,675,110	12,690,577
Other	-	-	-	-	-	-	-	10,659,447	10,659,447
Total	$155,352,136	$ 27,901,208	$ 22,519,262	$ 5,615,022	$ 2,482,069	$ 6,918,146	$ 11,973,317	$ 29,000,690	$ 261,761,850
June 30, 2009									
Instruction	$ 72,550,121	$ 12,451,909	$ 5,763,924	$ 2,311,548	$ -	$ -	$ -	$ 2,484,493	$ 95,561,995
Academic support	20,241,867	2,749,063	3,760,074	955,841	-	-	-	1,185,552	28,892,397
Student services	19,710,978	2,902,038	3,442,137	501,649	-	-	-	813,200	27,370,002
Operation of plant	12,011,628	2,811,352	5,807,327	1,332,385	-	6,253,985	-	543,724	28,760,401
Institutional support	22,991,083	8,768,534	5,607,839	445,648	17,660	-	-	(6,776,343)	31,054,421
Scholarships and related expenses	-	-	-	-	3,339,845	-	-	35	3,339,880
Depreciation	-	-	-	-	-	-	13,780,740	-	13,780,740
Auxiliary enterprises	2,669,073	603,089	881,888	144,509	35	-	-	8,120,406	12,419,000
Other	1,257,785	240,332	1,896,072	-	-	-	-	3,721,705	7,115,894
Total	$151,432,535	$ 30,526,317	$ 27,159,261	$ 5,691,580	$ 3,357,540	$ 6,253,985	$ 13,780,740	$ 10,092,772	$ 248,294,730

NOTE 15 – RETIREMENT PLANS (MC)

The College participates in four statewide retirement plans: the Teachers' Retirement System and the Employees' Retirement System (the Retirement System), and the Teachers' Pension System and the Employees' Pension System (the Pension System), administered by the Maryland State Retirement System (MSRS), a cost-sharing multiple-employer retirement system (PERS). Aetna, the College's own plan, serves as a supplement to the MSRS plans. Certain employees may elect to participate in the Maryland State Optional Retirement Plan (ORP) instead of the Maryland State Pension System. The State has approved four providers for the ORP which include the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), AIG, VALIC, and Fidelity. An employee can participate in only one plan at a time and will have the opportunity to change providers during one open enrollment period a year.

The State systems were established in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Responsibility for the administration and operation of the systems is vested in a 15-member Board of Trustees (the Trustees). The Trustees also have the authority to establish and amend the respective benefit provisions. The systems provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to system members and beneficiaries.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

The College's total current payroll for the fiscal year ended June 30, 2010 for all employees (including $221,672 from Agency funds) was $155,352,136. The approximate current year covered payroll under each of the plans, which includes employees eligible under multiple plans, is as follows:

	Covered Payroll	Percent of Total Salary
MSRS	$72,083,647	46.40%
Optional retirement plan	54,998,214	35.40%
Aetna	2,603,425	1.68%

The following is a general description of the plan benefits available to the participants of each of the above named plans.

The Retirement System MSRS

Participants in the Retirement System may retire with full benefits after attaining the age of 60, or completion of 30 years of creditable service regardless of age. However, participants may retire with reduced benefits after completing 25 years of creditable service regardless of age.

The Pension System - MSRS

Participants in the Pension System may retire with full benefits after completing 30 years of creditable service regardless of age, or at age 62 or older with specified years of creditable service. However, participants may retire with reduced benefits after attaining age 55 and completing 15 years of creditable service.

The MSRS Optional Retirement Plan (ORP)

The ORP is a defined contribution "money purchase" plan under which the benefit is determined by the accumulated State contributions plus accrued investment earnings. Contributions are made to one of four providers approved by the State. Participants may receive their annuity income at any time after leaving the College.

The Aetna Plan

The College has a single employer, defined benefit pension plan with Aetna. The plan provides for benefits to be paid to eligible employees at retirement, in conjunction with the other College retirement and pension plans. Full-time employees who have been employed by the College prior to 1980 and contribute to an MSRS plan, are eligible to participate in this plan established under the authority of the College's Board of Trustees.

Benefits under all systems, except the ORP, vest after five years of service and are based on years of creditable service and salary rates.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

The Aetna Plan (continued)

The "unfunded actuarial accrued liability" is the result of applying the actuarial funding method to the present value of pension benefits, adjusted to the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The actuarial funding method is intended to help users assess the Systems' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The MSRS does not make separate measurements of assets and liabilities for individual employers. However, the College's supplemental plan (Aetna) actuarial valuation is determined separately.

Listed below is information about the employees' benefit retirement and pension plans of the MSRS, as a whole, as of June 30, 2009, the latest date such information is available, and the Aetna Plan as of July 1, 2010.

	MSRS	**Aetna**
Actuarial accrued liability	$52,729,171,330	$11,616,520
Actuarial value of assets (at fair market value)	(34,284,568,617)	(11,932,952)
Unfunded actuarial accrued liability (assets in excess of obligations)	$18,444,602,713	$ (316,432)

Additional information about the MSRS is presented in the State of Maryland's June 30, 2009 Comprehensive Annual Financial Report and in the 2009 Consolidated Annual Report of the Maryland State Retirement and Pension System. That report may be obtained by writing to the State Retirement Agency of Maryland, 301 W. Preston Street, Baltimore Maryland, 21201.

In accordance with GASB No. 24, entitled *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the College recognized expenditures for the various State retirement and pension plans made on behalf of its employees by the State to the extent revenue is recognized. The amount recognized includes amounts contributed by the State and amortization of past service costs over forty years for the year ended June 30, 2010 as follows:

	State	**College**	**Total**
MSRS	$ 7,252,866	$ 1,457,187	$ 8,710,053
MSRA-ORP	3,625,843	-	3,625,843
AETNA	-	1,016,770	1,016,770
	$10,878,709	$ 2,473,957	$13,352,666

The College's Defined Benefit Pension Plan (Aetna)

Effective July 1, 1996, the College implemented GASB No. 27, entitled *Accounting for Pensions by State and Local Governmental Employers*, with respect to the College's Aetna Plan.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

Plan Description - The Aetna plan is a single employer, defined benefit pension plan. Full-time employees who were employed by the College prior to 1980 and contribute to an MSRS plan are eligible to participate in this plan established under the authority of the College's Board of Trustees. The plan provides for benefits to be paid to eligible employees at retirement, in conjunction with the other College retirement plans. The Aetna Retirement Plan issues a separate report that contains the results of the valuation of the College Retirement Plan as of July 1, 2008. That report may be obtained by writing to the Montgomery College Benefits Office, 900 Hungerford Drive, Rockville Maryland, 20850.

Funding Policy - Plan members are required to contribute 5% of their earnable compensation. Contributions to this plan are offset by contributions to the Maryland Teachers' Retirement System or the Maryland State Retirement System. Contributions for year 2010 are based on the plan as amended most recently as of January 1, 1980. Interest on employee contributions is credited at a rate of 4% per year. The College will attempt to fund the recommended contribution of $138,484 from current revenues in the year ended June 30, 2011. The College's Board of Trustees has the authority to establish and amend benefit provisions of the plan.

Actuarial Cost Method and Valuation of Assets – The Entry Age Normal Actuarial Cost Method was used to determine the Normal Cost and Actuarial Accrued Liability in accordance with generally accepted actuarial principles. Plan assets are listed at fair value as determined by the Aetna Insurance Company. The Actuarial Accrued Liability is based on a prorated portion of the present value of benefits earned to date and expected to be earned in the future.

Required Supplementary Information

Schedule of Funding Progress and Employer Contributions

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Required Employer Contributions
6-30-03	$ 10,703,128	$ 10,063,999	$ (639,129)	106.4%	$6,225,191	(10.3)%	$ -
6-30-04	10,603,353	10,059,963	(543,390)	105.4%	5,661,590	(9.6)%	-
6-30-05	10,374,787	10,238,200	(136,587)	101.3%	4,827,815	(2.8)%	-
6-30-06	10,151,587	10,427,914	276,327	97.4%	4,722,309	5.9%	102,378
6-30-07	10,316,110	12,216,821	1,900,711	84.4%	3,967,274	47.9%	369,394
6-30-08	11,097,452	12,256,446	1,158,994	90.5%	3,500,912	33.1%	182,204
6-30-09	11,274,825	12,189,427	914,602	92.5%	3,461,892	26.4%	138,484
6-30-10	11,932,952	11,616,520	(316,432)	102.7%	2,603,425	(12.2)%	282,860

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

The actuarial valuation for the fiscal year ended June 30, 2010 includes these significant assumptions which have not been changed from the prior year:

1) Investment return: 6.0% compounded annually
2) Salary increases: 4.5% compounded annually
3) Retirement age: Ages varying from 57 years to 70 and over
4) Turnover: Rates varying from no turnover to 9%
5) Mortality: The RP-2000 Mortality Table for healthy males and females
6) Discount rate: 6.0%

The actuarial assumptions are chosen by the actuary after a study of both current financial conditions and the population covered by the plan as to salary increases, number of terminations annually, etc. These assumptions are reviewed periodically, and if appropriate, changes are made.

	Number of Persons	Compensation (if applicable)
Population Covered by the Plan		
Participants:		
Currently receiving payments	286	N/A
Active with vested benefits	28	$ 2,603,412
Terminated with deferred vested benefits	9	N/A
Active without vested benefits	0	$ 0
Inactives electing bifurcated benefits	2	N/A

NOTE 16 – STATE AND COUNTY EXPENDITURES (MC)

The County issues general obligation bonds, the proceeds from which are transferred to the College for the purpose of financing acquisition of land, buildings, and equipment. For the years ended June 30, 2010 and 2009, the County made principal payments of $5,643,638 and $4,625,521, respectively, and interest payments of $3,734,326 and $3,286,935, respectively, on these bonds. In addition to the County expenditures, the State of Maryland pays the employer's portion of pension contributions on the salary for certain College employees eligible to belong to the State pension and retirement systems. For the years ended June 30, 2010 and 2009, the State expended $7,252,866 and $5,996,219, respectively, for the pension and retirement contributions. This appropriation by the State has been recorded as a non-operating revenue item and the expenditure is listed as an operating expense.

The State of Maryland also reimburses the College for the employer's share of contributions to the ORP for eligible employees. The total amount reimbursed for the years ended June 30, 2010 and 2009 was $3,625,843 and $3,526,289, respectively. This appropriation by the State has been recorded as a non-operating revenue item and the expenditure is listed as an operating expense.

NOTE 16 – STATE AND COUNTY EXPENDITURES (MC) (CONTINUED)

The Capital Improvements Program (CIP) for the College is approved biannually by the County. The approval of some projects includes funding from other governmental agencies. All funds transferred to the College for CIP expenditures come directly from the County, with governmental reimbursements being made directly by those organizations back to the County for their share of project costs. The amount listed under the Current Asset designation as CIP receivable as of June 30, 2010 and 2009 is due to the following organizational participation in CIP expenditures:

	2010	2009
Montgomery County	$ 7,066,263	$12,266,234
State of Maryland	7,314,148	4,581,289
Total	$14,380,411	$16,847,523

NOTE 17 – TUITION WAIVER (MC)

The College waives tuition charges for its programs for any resident of Maryland who is 60 years old or older, when course space is still available, and only during the three days following the end of regular registration. Additionally, the College has a 50% waiver of tuition for eligible Maryland National Guard members and up to 100% for eligible foster care students. Tuition is also waived for any resident of Maryland who is retired or disabled as defined by the Social Security or Railroad Retirement Act and who enrolls in any class at the College which is eligible under Maryland Annotated Code Section 16-403 for State support; and for eligible College employees who can enroll in credit only courses which are outside of the individual's normal working hours. During the year ended June 30, 2010, the College waived $825,690 in credit and $603,850 in non-credit tuition for senior, disabled, foster care and National Guard students.

During the year ended June 30, 2009, the College waived $802,441 in credit and $596,986 in non-credit tuition for senior, disabled, foster care and National Guard students. Starting in FY2000, the College implemented a tuition waiver program whereby the College waives credit tuition for dependents of eligible College employees. For FY2010, the College waived $433,272 for its employees and their dependents. The total tuition amount waived for the College for FY2010 was $1,862,812. For FY2009, the College waived $413,387 for its employees and their dependents. The total tuition amount waived for the College for FY2009 is $1,812,814.

NOTE 18 – INCOME TAX STATUS (MC & MCF)

The College is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code, except as to unrelated business income. No provision for income taxes has been accrued since the College anticipates no tax liability for the years ended June 30, 2010 and 2009.

NOTE 18 – INCOME TAX STATUS (MC & MCF) (CONTINUED)

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and related state statutes, except as to unrelated business income. The Foundation had no unrelated business income for the years ended June 30, 2010 and 2009.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.* This interpretation provides guidance on recognition, classification and disclosure concerning uncertain tax liabilities. The evaluation of a tax position required disclosure of a tax liability if it is more likely than not that it will not be sustained upon examination by the Internal Revenue Service. Management has analyzed the Foundation's tax positions for purposes of implementing FIN 48, and has concluded that as of June 30, 2010, there are no uncertain positions taken or expected to be taken that would require disclosure in the financial statements.

NOTE 19 – RISK MANAGEMENT – SELF-INSURANCE (MC)

The College, as a component unit of the County, participates in the County's self-insurance risk pool for liability and property coverage and maintains its own self-insurance pool for health and dental benefits. The College and the County account for risk financing activities in accordance with GASB No. 10, entitled *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.*

The Montgomery County Self-Insurance Program is maintained for liability and property coverage under which participants share workers' compensation, comprehensive general, automobile and professional liability, fire and theft, and other selected areas which require coverage. There have been no significant reductions in this insurance coverage from the previous year. Commercial coverage is purchased for claims in excess of coverage by the self-insurance fund and for other risks not covered by the fund. Settled claims have not exceeded commercial coverage in fiscal years 2010 and 2009 or 2008. Other program participants are qualifying County government agencies. An inter-agency insurance panel is responsible for overseeing the program. This program offers overall risk management and cost sharing for all participants. In the event that the program's trust or escrow funds fall into a deficit, the program panel shall determine a method to fund the deficit. The program can assess additional premiums to each deficit-year participant. Premiums are charged to the appropriate College fund with no provision made for any additional liability in addition to premiums, unless assessed by the program. As of June 30, 2010, there was no deficit in the trust or escrow funds and no additional assessments have been made.

The College is self-insured for health and dental benefits provided to its employees. To protect itself against significant losses, the College has stop-loss policies in place for individual participant claims in excess of $150,000 per year and aggregate annual participant claims in excess of 125% of premium. The College has a contract with an administrative service provider to process participant claims under these programs. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage

NOTE 19 – RISK MANAGEMENT – SELF-INSURANCE (MC) (CONTINUED)

awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the balance of claims payable relative to the health and dental self-insurance fund for the years ended June 30, 2010 and 2009 are as follows. Claims liabilities are included in accounts payable and accrued expenses on the Statements of Net Assets.

Balance – July 1, 2008	$ 907,000
Claims and changes in estimates	12,105,487
Claims payments	(11,905,487)
Balance – June 30, 2009	1,107,000
Claims and changes in estimates	12,751,177
Claims payments	(12,845,177)
Balance – June 30, 2010	$ 1,013,000

NOTE 20 – COMPENSATED ABSENCES (MC)

Employees of the College earn annual leave (vacation) and sick leave as provided by College policies and procedures. In the event of termination, employees with accumulated annual leave and at least 30 days of employment are reimbursed for 100% of accumulated annual leave, up to a maximum of 26 days. In addition, in the event of termination, employees who started employment prior to December 31, 1992 and who have five or more years of service, are reimbursed for 25% of not more than 180 days of accumulated sick leave. Earned but unused annual and vested sick leave is accounted for in the statement of net assets as a current liability for that portion which is expected to be paid out during the next twelve months. The balance is listed as non-current. Both current and non-current portions are valued based on the salary scale in effect at June 30, 2010 and 2009.

Employees of the College had earned $8,263,701 and $8,243,335 in annual and sick leave subject to termination payoff at June 30, 2010 and 2009, respectively. In accordance with GASB No. 16, entitled *Accounting for Compensated Absences*, related FICA and Medicare costs have been calculated on the amount due at termination in the amounts of $632,173 and $630,615 for fiscal years 2010 and 2009, respectively. This amount has been included in the total compensated absences liability of $8,895,874 and $8,873,950 for fiscal years 2010 and 2009, respectively.

For the years ended June 30, 2010 and 2009, the total annual leave and sick leave earned has been recognized as an expense.

NOTE 21 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC)

On July 1, 2007, the College implemented GASB Statements No. 43*, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The College provides postemployment health care, dental and life insurance benefits for retired employees through a defined contribution plan. The plan is accounted for as a trust fund and an irrevocable trust was established on June 16, 2008 to account for the plan.

The contribution requirements of the College are established and may be amended by the Board of Trustees. The College currently pays 40% of health care premiums for employees who meet certain eligibility criteria and who retire with 5 but less than 10 years of service, 60% of premiums for those that retire after 10 years of service, and 20% for certain retirees prior to 1974. A smaller contribution to life insurance premiums is also provided for eligible retirees. The remaining costs of these benefits are borne by the participants.

In order to be considered "eligible", the retiree must have been enrolled in the College's group insurance program for 5 years prior to retirement and commence receipt of pension/annuity benefits from an MSRS or ORP plan immediately upon termination from the College. ORP annuitants must meet the same age and service retirement eligibility criteria as MSRS participants. The College's authority to contribute to other postemployment benefit provisions and obligations is established by the Board of Trustees. For the fiscal years ended June 30, 2010 and 2009, the College contributed $1,962,502 and $1,987,603, respectively, and the retirees contributed $1,430,488 and $1,327,927, respectively, in premiums. In total, the College contributed for fiscal year ended June 30, 2010 and 2009, $1,962,502 and $3,200,000, respectively. The College also advance funded the costs of benefits in the amount of $0 and $1,212,397 in FY2010 and FY2009, respectively.

Membership

As of June 30, membership consisted of:

	2010	2009
Retirees and beneficiaries currently receiving benefits	403	451
Terminated employees entitled to benefits but not yet receiving them	-	-
Active employees – vested	1,771	1,752
Active employees – non vested	-	-
Total	2,174	2,203

The College had an actuarial valuations performed for the plan as of June 30, 2010 and 2009 to determine the employer's annual required contribution (ARC) for the fiscal years ended June 30, 2010 and June 30, 2009. The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 were as follows:

NOTE 21 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC) (CONTINUED)

Membership (continued)

	2010	2009
Annual OPEB cost	$ 5,225,687	$ 3,567,792
Employer contribution	1,962,502	3,200,000
Net OPEB obligation	$ 3,263,185	$ 367,792
% of annual OPEB cost contributed	38%	90%

The net OPEB obligations (NOPEBO) as of June 30, 2010 and 2009 are recorded in OPEB asset value on the Statement of Net Assets and were calculated as follows:

	2010	2009
Annual Required Contribution (ARC)	$ 5,128,754	$ 3,484,480
Interest on net OPEB obligation	305,934	262,946
Adjustment to ARC	(209,001)	(179,634)
Annual OPEB cost	5,225,687	3,567,792
Less contributions made	1,962,502	3,200,000
Increase in net OPEB obligation	3,263,185	367,792
Net OPEB asset – beginning of year	(20,214,167)	(20,581,959)
Net OPEB asset – end of year	$(16,950,982)	$(20,214,167)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions as to current claims cost, projected increases in health care costs, morbidity, turnover, and interest discount. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past exceptions and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information below, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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 that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 21 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC) (CONTINUED)

Actuarial Methods and Assumptions (continued)

In June 30, 2010 and 2009, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8.00% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.5% for fiscal year ended June 30, 2009 grading up to 5.0% for fiscal year ending June 30, 2019. The actuarial value of assets was determined by using the market value of the assets. The plan's unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll assumed to grow 4% per year. The remaining amortization period as of June 30, 2010 was 27 years.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Montgomery College

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6-30-09	$20,632,100	$61,627,035	$40,994,935	33.48%	$113,812,228	36.02%
6-30-10	21,960,175	69,049,415	47,089,240	31.80%	117,804,463	39.97%

NOTE 22 – LONG-TERM DEBT (MC)

The College had no outstanding bonded long-term debt at June 30, 2010 and 2009.

NOTE 23 – TRANSFERS (MCF)

During the year ended June 30, 2009, management of the Foundation was instructed by one of its donors to endow a gift which originally was received with only temporary restrictions.

NOTE 24 – FAIR VALUE (MCF)

ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820-10 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1
Inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets may include securities that are traded in an active exchange market or actively traded over-the-counter markets.

NOTE 24 – FAIR VALUE (MCF) (CONTINUED)

Level 2
Valuation is based on directly or indirectly observable inputs other than quoted prices included with Level 1, such as: 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, or input other than quoted prices that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3
Valuation is based on unobservable inputs for the asset or liability. Level 3 assets may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value require significant management judgment or estimation.

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

As of June 30, 2010 and 2009, all of the Foundation's financial instruments have quoted prices in active markets for identical assets, that the reporting entity has the ability to access at the measurement date. Equity securities and mutual funds are valued at fair value based on quoted market prices at year-end. The fair value of certificates of deposit approximate cost. The only Level 3 asset is a tract of land (MCAD property) owned by the Foundation. At June 30, 2009 the MCAD property was valued at $2,532,600, which is its 2004 appraised value. Since the property, as of June 30, 2009, had an open, contingent sales contract in effect for substantially more than its 2004 appraised value, management believed that its carrying amount of $2,532,600 did not need to be adjusted at the time. At June 30, 2010, the MCAD property was no longer under contract and is valued at $1,500,000, based on its current tax assessed value adjusted for changes in market prices through June 30, 2010.

As of June 30, assets measured at fair value on a recurring basis are summarized by level with the fair value hierarchy as follows:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Money market funds	$ -	$ -	$ -	$ -
Certificates of deposit	2,951,913	621,005	-	3,572,918
Mutual funds	13,280,466	-	-	13,280,466
Equity securities	5,031	-	-	5,031
Land	-	-	1,500,000	1,500,000
Total	$16,237,410	$ 621,005	$ 1,500,000	$18,358,415

NOTE 24 – FAIR VALUE (MCF) (CONTINUED)

	2009			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Money market funds	$ 226,621	$ -	$ -	$ 226,621
Certificates of deposit	12,833,872	-	-	12,833,872
Mutual funds	9,866,353	-	-	9,866,353
Equity securities	581,044	-	-	581,044
Land	-	-	2,532,600	2,532,600
Total	$23,507,890	$ -	$ 2,532,600	$26,040,490

The table below represents a reconciliation for the years ended June 30, 2010 and 2009 of assets measured at fair value on a recurring basis using Level 3 inputs.

	2010	**2009**
Beginning balance	$ 2,532,600	$ 2,532,600
Total unrealized loss	(1,032,600)	-
Ending balance	$ 1,500,000	$ 2,532,600

Assets held for charitable gift annuities are classified at June 30 as follows:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Money market funds	$ 36,597	$ -	$ -	$ 36,597
Certificates of deposit	-	337,612	-	337,612
	$ 36,597	$ 337,612	$ -	$ 374,209

	2009			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Mutual funds	$ 409,569	$ -	$ -	$ 409,569

NOTE 25 – ENDOWMENT (MCF)

The Foundation's endowment consists of 166 individual funds (the Funds) established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees 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 permanently restricted net assets (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 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 permanently restricted net assets is classified as temporarily restricted net assets 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:

1) The duration and preservation of the fund
2) The purposes of the Foundation, Inc. and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Foundation
7) The investment policies of the Foundation.

NOTE 25 – ENDOWMENT (MCF) (CONTINUED)

The Foundation had the following changes in the endowment net assets for the fiscal year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,070,279)	$ 814,637	$ 13,745,140	$ 13,489,498
Contributions	-	-	851,144	851,144
Appropriations of endowment assets for expenditures	(1,884)	(257,290)	-	(259,174)
Endowment net assets after contributions and expenditures	(1,072,163)	557,347	14,596,284	14,081,468
Investment return:				
Investment income	70,060	1,684,637	-	1,754,697
Net unrealized appreciation/(depreciation)	766,647	(1,030,472)	12,398	(251,427)
Endowment net assets, after reclassification	(235,456)	1,211,512	14,608,682	15,584,738
Other changes:				
Donor requested return of previously endowed gift	-	10,966	(100,600)	(89,634)
Donor requested endowment of previously unendowed gift	-	-	25,000	25,000
Endowment net assets, end of year	$ (235,456)	$ 1,222,478	$ 14,533,082	$ 15,520,104

NOTE 25 – ENDOWMENT (MCF) (CONTINUED)

Changes in endowment net assets for the fiscal year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 421,236	$ 2,945,960	$ 13,241,083	$ 16,608,279
Contributions	-	-	536,102	536,102
Appropriations of endowment assets for expenditures	(47,164)	(342,994)	-	(390,158)
Endowment net assets after contributions and expenditures	374,072	2,602,966	13,777,185	16,754,223
Investment return:				
Investment income	1,033	22,353	-	23,386
Net depreciation realized and unrealized	(1,445,384)	(1,801,682)	(39,447)	(3,295,513)
Endowment net assets, after reclassification	(1,070,279)	814,637	13,737,738	13,482,096
Other changes:				
Donor requested endowment of previously unendowed gift	-	-	7,402	7,402
Endowment net assets, end of year	$ (1,070,279)	$ 814,637	$ 13,745,140	$ 13,489,498

For the general endowment, the donors have specified all earnings are unrestricted for general Foundation operations. Accumulated unrestricted earnings at June 30, 2010 and 2009 are $288,944 and $231,302, respectively.

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 GAAP, deficiencies of this nature that are reported in unrestricted net assets were $524,400 and $1,301,581 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

NOTE 25 – ENDOWMENT (MCF) (CONTINUED)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets consist of those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through March 31 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 26 – PROGRAM SERVICE DESCRIPTIONS (MCF)

Scholarships

Scholarships are established by donors' contributions and endowments and are awarded to students who have met the donors' imposed restrictions.

Student Athletics

The Student Athletics program is a designated program established for use by the College's athletic department. The program reimburses the athletic department for certain expenses incurred during the year.

NOTE 26 – PROGRAM SERVICE DESCRIPTIONS (MCF) (CONTINUED)

Student and Faculty Support

The Student and Faculty Support program distributes grants and awards to deserving individuals and academic programs. This program also includes non-cash donations received which are subsequently given to the College. Non-cash donations for fiscal years 2010 and 2009 were valued at $41,132 and $99,754, respectively.

NOTE 27 – CONTINGENT LIABILITIES

In September 2004, as part of a transfer agreement between the College and the Maryland College of Art and Design, the Foundation received land originally appraised at $2,532,600. As part of an agreement between the College and the Foundation, the Foundation agreed to lease the property to the College for use as an educational facility for $1 per month, and agreed to appoint the College as its agent for negotiating a sale of the property. Upon sale of the land, the Foundation is to receive the net cash proceeds, and agrees to place the first $100,000 received into a specific endowed scholarship fund.

NOTE 28 – TRANSFERS (MCF)

On March 17, 2010 the Foundation board voted to return gifts to three donors as the criteria for these gifts were no longer consistent with the core mission of the Foundation. These gifts reduced temporarily and permanently restricted net assets by $23,893 and $100,600, respectively.

On January 16, 2010 management was instructed by one of its donors to endow a gift which originally was received with only temporary restrictions. A transfer of $15,000, reflected on the statement of activities, has been recorded to change this classification.

On April 16, 2010 management was instructed by one of its donors to endow a gift which originally was received with only temporary restrictions. A transfer of $10,000, reflected on the Statement of Activities, has been recorded to change this classification.

NOTE 29 – SUBSEQUENT EVENTS (MCF)

Management evaluated subsequent events through October 15, 2010, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2010, but prior to October 15, 2010 that provided additional evidence about conditions that existed at June 30, 2010, have been recognized in the consolidated financial statements for the year ended June 30, 2010. Events or transactions that provided evidence about conditions that did not exist at June 30, 2010 but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2010.