MONTGOMERY COLLEGE
Rockville, Maryland

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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MONTGOMERY COLLEGE
LISTING OF BOARD OF TRUSTEES
AND SECRETARY-TREASURER TO THE BOARD OF TRUSTEES
June 30, 2011 and 2010

BOARD OF TRUSTEES

Montgomery College

Office of Business Services
(240) 567-4119

MONTGOMERY COLLEGE

CERTIFICATION OF ANNUAL FINANCIAL STATEMENTS

In connection with the attached Annual Financial Statements of Montgomery College, we hereby certify that:

1. The attached Annual Report is true, complete, and correct in all material respects, and the financial statements therein have been prepared in accordance with accounting principles generally accepted in the United States of America.

2. The information set forth herein, and on each of the schedules hereto, is complete and accurate in all material respects and contains full and complete disclosure of all pertinent information in connection with the operations of the College. Based on our knowledge, the Report does not contain any untrue statement of a material fact or omit a material fact.

3. We have designed such internal controls and procedures to ensure that material information relating to the College, including component units is made known to us and have established an effective system of internal control.

4. Based upon the above, we certify that the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the College.

5. There has been no material adverse change in operations since the date these statements were prepared to the date of the Certification.

DeRionne Pollard
President

Date: 9/30/11

Cathy Jones
Senior Vice President for Administrative and Fiscal Services

Date: September 30, 2011

Central Administration	Germantown Campus	Rockville Campus	Takoma Park Campus	Continuing Education
900 Hungerford Drive Rockville, MD 20850 240-567-5000	20200 Observation Drive Germantown, MD 20876 240-567-7700	51 Mannakee Street Rockville, MD 20850 240-567-5000	7600 Takoma Park Ave. Takoma Park, MD 20912 240-567-1300	51 Mannakee Street Rockville, MD 20850 240-567-5188

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, each major fund, and the discretely presented component unit of Montgomery College (the College), a component unit of Montgomery County, Maryland, as of and for the years ended June 30, 2011 and 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 opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinions.

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, and each major fund of the College as of June 30, 2011 and 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 years 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 September 30, 2011 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, Schedules of Funding Progress and Employer Contributions for Defined Benefit Retirement Plan, and Schedules of Funding Progress and Contributions for Other Post Employment Benefit Plan, as listed in the table of contents, are not a required part of the basic financial statements but are 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 Listing of 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 audits of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
September 30, 2011

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, 2011 and 2010, with comparative information as of and for the year ended June 30, 2009. 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. A net asset 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 $493.7 million at June 30, 2011, an increase of $27.0 million or 5.8% over June 30, 2010. This resulted primarily from a $30.6 million increase in short term investments, and a $24.2 million increase in capital assets. In 2010 assets totaled $466.7 million compared to 2009 where assets totaled $402.9 million, a change of $63.8 million or 15.8%. This increase was due primarily to growth in cash and short term investments, small declines in College receivables and inventories, and an 8.9% increase in capital assets. Net assets increased over that of fiscal year 2010, $30.4 million or 8.1% in fiscal year 2011. The change in net assets from June 30, 2009 to June 30, 2010 equaled $44.8 million.

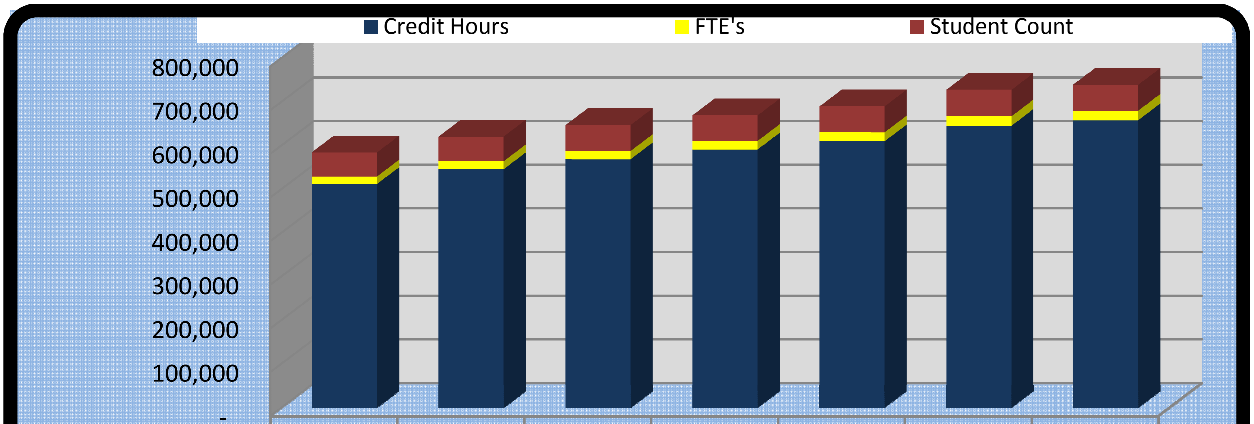
- Operating revenues increased $5.5 million or 5.0% as a result of an increase in grants and contracts. By comparison, operating revenues in 2010 increased $7.3 million or 7.2% over the prior year 2009, a result of increases in tuition rates, enrollment increases, and grants and contracts.

- Net non-operating revenues decreased $7.6 million or 5.0% as a result of decreased State and Local Appropriations and interest income. By comparison, net non-operating revenues in 2010 decreased $0.5 million or 0.3% over the prior year 2009 as a result of an increase in State & Local Appropriations, a decrease in interest income and an increase in interest expenses.

- Overall operating expenses for fiscal year 2011 decreased $1.1 million or 0.4% in 2011 as a result of net changes in spending which included: increases in instruction $0.7 million or 0.8%; institutional support $1.1 million or 2.7%, scholarships $0.3 million or 6.5%; depreciation $1.8 million or 15.0%; and state benefits $1.4 million or 12.7%. Decreased spending occurred in the areas of: academic support $0.8 million or 3.0%; student services $1.5 million or 5.5%; plant operations $1.3 million or 4.4%; auxiliary enterprises $0.6 million or 4.8% and other expenses $2.1 million or 19.5%. By comparison, 2010 operating expenses increased $14.8 million or 5.8% as a result of net changes in spending which included: increases in instruction $0.4 million or 0.5%, plant operations $1.9 million or 6.6%, institutional support $10.6 million or 34.0%, scholarships $0.6 million or 16.6%, auxiliary enterprises $0.3 million or 2.2%, other expenses $3.5 million or 49.8% and state benefits $1.4 million or 14.2%. The significant spending increase in the function of institutional support was due to OPEB allocations (Other Post Employment Benefits) for retiree health care. Decreased spending occurred in areas of:

academic support $1.7 million or 6.0%, student services $0.3 million or 1.0%, and depreciation $1.8 million or 13.1%.

- Enrollment based on FTEs (full time equivalent students) increased 91 FTEs to 21,957 or by 0.4% for 2011. FTEs for 2009 and 2010 were 20,353 and 21,866 an increase of 1,513 students or 7.4% respectively. This student FTE information is shown graphically on the following page.



	2005	2006	2007	2008	2009	2010	2011
Student Count	55,118	56,490	59,374	58,506	59,479	60,698	59,314
FTE's	17,098	18,218	18,977	19,721	20,353	21,866	21,957
Credit Hours	512,939	546,543	569,315	591,619	610,588	646,082	658,697

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. The statement of 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, 2011, 2010, and 2009 is listed in the table below:

Statement of Net Assets

As of June 30,	2011	2010	2009
Assets			
Current assets	$ 106,652,148	$ 100,013,528	$ 83,396,614
Non-current assets	387,052,325	366,693,191	319,492,168
Total Assets	$ 493,704,473	$ 466,706,719	$ 402,888,782
Liabilities and Net Assets			
Liabilities			
Current liabilities	$ 32,256,224	$ 34,590,298	$ 30,799,464
Non-current liabilities	53,210,332	54,304,184	39,116,751
Total Liabilities	85,466,556	88,894,482	69,916,215
Net Assets			
Invested in capital assets - net of related debt	325,884,635	300,853,138	266,184,371
Restricted for:			
Expendable - student loan program	2,025,648	2,022,556	2,019,987
Unrestricted	80,327,634	74,936,543	64,768,209
Total Net Assets	408,237,917	377,812,237	332,972,567
Total Liabilities and Net Assets	$ 493,704,473	$ 466,706,719	$ 402,888,782

- The College experienced positive growth in its unrestricted net assets in 2011, gaining $5.4 million, and was due primarily to account managers adopting a judicious approach to spending, a key aspect of MC's proactive fiscal management philosophy. Comparatively, the change in unrestricted net assets from 2009 to 2010 equaled $10.2 million or 15.7%, also due to account managers adopting a judicious approach to spending.

- Current assets increased 6.6% in 2011, consisting primarily of cash, short-term investments, and CIP receivables. From a liquidity perspective, current assets cover current liabilities 3.3 times, an indicator of excellent liquidity and ability to withstand short term demands for working capital. This rate of coverage increased from 2.9 times last year. Current assets cover 4.7 months of total operating expenses, including depreciation. For 2011, one month of operating expenses is approximately $22.6 million. For purposes of comparison, the change in current assets from 2009 to 2010 equaled $16.6 million or 19.9%, due primarily to substantial increases in cash and short term investments of 30.1%, while receivables decreased 4.3% and inventories decreased 3.7% respectively.

- Non-current assets increased to $387.1 million in 2011 from $366.7 million in 2010 on the strength of increased capital assets which grew by 6.9%. With the construction and furnishing of the Science Center on the Rockville Campus, capital assets increased $24.2 million. By comparison, non-current assets increased 14.8% from 2009 to 2010 on the strength of increased capital assets, which increased $50.5 million or 17.0%. New building construction on the Takoma Park/Silver Spring Campus in 2009 accounted for this prior year surge in capital assets.

- Current liabilities decreased by $2.3 million or 6.7% in 2011 due mainly to a 17.1% decrease of vendor payables and accrued liabilities amounting to $4.4 million. By comparison, current liabilities in 2010 increased 12.3% over 2009 mainly due to increase of vendor payables and accrued liabilities amounting to $2.1 million.

- Non-current liabilities decreased 2.0% which resulted from a $1.1 million dollar decrease in long-term liabilities. The reason for the decline is connected to long term debt, associated with lease payments for the Takoma Park Parking Deck and the Cafritz Cultural Arts Center, which became a current debt obligation. In addition, approximately $500,000 in copier leases were capitalized which adjusted the Statement of Net Assets for the College. By comparison, the variance in non-current liabilities between 2010 and 2009 equaled an increase of $15.2 million or 38.8% due to the recognition of capital obligations tied to the College's Takoma Park Parking.

Statement of Revenues, Expenses and Changes in Net Assets

A summary Statement of Revenues, Expenses and Changes in Net Assets is listed on page 10 and presents the operating results of the College, as well as non-operating revenues and expenses, and other revenues for the years ended June 30, 2011, 2010, and 2009.

Annual County and State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles as detailed by pronouncements issued by the Governmental Accounting Standards Board (GASB) Statement Nos. 34 & 35, even though these appropriated funds are used to support operating activities. Consequently, the College reflects an operating loss of $156.2 million before the appropriation of these crucial revenue streams. Adding these non-operating resources, which equaled $144.9 million in FY2011, offsets the vast majority of the operating loss, and results in an adjusted loss amount of $11.3 million. This provides a more accurate picture of the College's scale and results of operations.

Statement of Revenues, Expenses and Changes in Net Assets

	FY2011	FY2010	FY2009
Operating Revenue			
Student Tuition/Fees	$ 62,144,609	$ 62,947,084	$ 60,257,629
Grants & Contracts	38,574,284	32,267,883	26,467,651
Auxiliary Enterprises	13,212,947	13,546,012	13,825,550
Other Operating Revenue	1,484,668	1,197,439	2,070,969
Total Operating Revenue	115,416,508	109,958,418	102,621,799
Operating Expenses	271,581,690	272,640,558	257,817,238
Operating Loss	(156,165,182)	(162,682,140)	(155,195,439)
Non-Operating Revenue			
State/Local Appropriation	146,831,103	155,543,398	152,153,404
Interest Income	201,062	157,716	2,323,618
Interest Expense	(2,154,318)	(3,226,415)	(1,491,344)
Total Non-Operating Revenue	144,877,847	152,474,699	152,985,678
Loss Before Other Revenues (Expenses)	(11,287,335)	(10,207,441)	(2,209,761)
Other Revenue (Expenses)			
Capital Appropriation	41,189,215	55,834,834	50,553,908
Capital Grants/Gifts	628,185	321,431	780,845
Disposal of Capital Assets	(104,385)	(1,109,154)	(100,245)
Total Other Revenue (Expenses)	41,713,015	55,047,111	51,234,508
Change in Net Assets	30,425,680	44,839,670	49,024,747
Beginning Net Assets	377,812,237	332,972,567	283,947,820
Ending Net Assets	$ 408,237,917	$ 377,812,237	$ 332,972,567

Operating revenues grew $5.5 million or 5.0% in 2011, while the change between 2009 and 2010 was even greater since the College saw operating revenues jump by $7.3 million or 7.1% during that period.

- Tuition and fees, net of scholarship allowances, equaled $62.1 million in 2011, a slight decline (1.3%) from the 2010 total, though it is $1.9 million more than recorded for 2009. As a percentage of total operating revenues, this revenue category equals 53.8% of the total. Over the last 3 years, as a percentage of total operating revenues, this revenue category has trended downward (57.2% in 2010 and 58.7% in 2009) because tuition revenue is not growing as fast as the growth in total operating revenue.

- Grants and Contracts makes up a significant portion of the College operating revenue ($38.6 million or 33.4% in FY2011 and $32.2 million or 29.3% in FY2010), showing an increase of $6.3 million and $5.8 million in FY2011 and FY2010, respectively. Funding for Federal Pell Grants which equaled $27.6 million in 2011, has proven to be significant in both the number of students served as well as the positive effects it has generated in terms of student success.

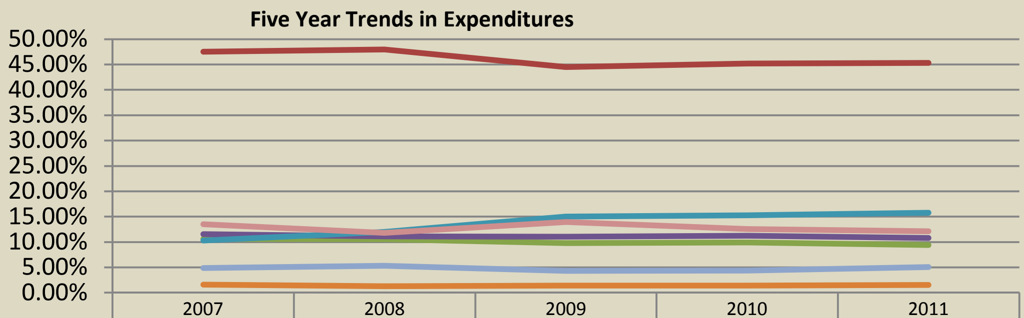
- In terms of non-operating revenues, state and local appropriations is the key variable in the table and from a budgetary perspective, this revenue category accounted for 45.6%, 49.1%,and 49.5% of the College's operating budget over the last three fiscal years respectively. The downward trend is indicative of the tough fiscal climate that has gripped the local, state, and national economies since 2008.

- Other revenues, primarily capital appropriations for land, construction, and equipment also originate from governmental sources. This category also showed a decline in 2011, a drop of $14.6 million or 26.2% for FY2011. This change reflected decisions made at the local and state level for allocations associated with the College's Master Facilities Plan. In 2010, the College recorded $55.8 million in this category and in 2009 the capital appropriation value stood at $50.5 million, which indicates strong support for the College and reflects the need to support students with appropriate classroom spaces.

Expenses by Functional Classification

The graphic below shows College spending in terms of percentages for the seven standard reporting classifications has remained relatively flat. Given the nature of incremental budgeting in use by governmental entities, including Montgomery College, this pattern should is not unusual.

- Due to the current economic climate, the rate of growth for expenses for all of the functional categories declined $1.1 million or 0.4% and College operating expenditures totaled $271.6 million in 2011 as compared to $272.6 million in 2010 and $257.8 million in 2009. The increased spending of $14.8 million or 5.7% between 2009 and 2010 is reflective of increased costs tied to state-paid benefits and the previously mentioned increase in funding allocations for the OPEB obligation.



	2007	2008	2009	2010	2011
Instruction & Acad Support	47.51%	47.98%	44.47%	45.18%	45.33%
Student Services	10.63%	10.55%	9.78%	9.93%	9.42%
Operation of Plant	11.58%	11.09%	11.07%	11.24%	10.79%
Institutional Support	10.31%	11.97%	15.03%	15.26%	15.74%
Scholarships	1.60%	1.29%	1.41%	1.43%	1.53%
Depreciation	4.85%	5.31%	4.32%	4.39%	5.07%
Other	13.52%	11.81%	13.92%	12.57%	12.12%

- Instructional and academic support expenditures represented $123 million or 45.3% of total College expenses in 2011, reflecting a marginal spending decrease of $89 thousand. For 2010 and 2009 instructional and academic support expenditures represented 45.2% and 48.3%, respectively of total operating expenses.

- Salaries and benefits continue to be the major component of all functional categories, except scholarships, depreciation and disposals which contain no salary expenses. In 2011, salaries and benefits accounted for 73% of all College expenditures and these employee compensation costs totaled $198.1 million (including State paid retirement costs). This represents a $4.0 million or 2.1% increase over FY2010. In FY 2010 and 2009, College salary and benefit expenditures (including State paid retirement costs), equaled $194.1 and $191.5 respectively.

- Spending in the classification Institutional Support in 2011 increased to $42.8 million from $41.6 million in 2010, a change of $1.1 million or 2.7 %. The factors associated with this change include increased cost of salaries and employee benefits. However, from 2009 to 2010, the increase in spending jumped $10.6 million, an increase of 34.0%. This significant change was due to an adjustment for OPEB in 2009.

- 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 $29.5 million were offset against tuition and fee income. In 2011, spending for this function equaled $4.1 million, a 6.5% increase over 2010. In 2010, spending for scholarships equaled $3.9 million, an increase of 16.6% over the 2009 spending level of $3.3 million.

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.

	2011	2010	2009
Net cash used in operating activities	$ (128,400,880)	$ (136,080,310)	$ (133,699,936)
Net cash provided by non-capital financing activities	135,264,800	145,006,773	142,567,128
Net cash provided by (used in) capital and related financing activities	8,166,130	7,665,349	(6,857,973)
Net cash provided by (used in) investing activities	(30,485,430)	9,970,945	(5,914,354)
Increase (decrease) in cash and cash equivalents	(15,455,380)	26,562,757	(3,905,135)
Cash and cash equivalents, beginning of year	39,227,640	12,664,883	16,570,018
Cash and cash equivalents, end of year	$ 23,772,260	$ 39,227,640	$ 12,664,883

- The College's cash and cash equivalents decreased by $15.4 million for fiscal year 2011. This change reflected in 2011 was due mainly to a decrease in cash used for operating activities of $7.7 million over fiscal year 2010. In addition, cash flows for the purchase of investments decreased $40.4 million while cash flows from non-capital financing activities declined by $9.7 million due to reductions that occurred during the budgetary process concerning annual appropriations to the College. By contrast, the College's cash and cash equivalents increased by $26.6 million in 2010. This change from 2009 to 2010 was due to an increase in cash flows from non-capital financing activities of $2.4 million, net cash increases from investment activities, and net cash increases provided by capital and related financing activities, primarily an increase of $14.5 million in capital appropriations.

- A large portion of the increase provided by capital financing activities is a result of the number of large construction projects funded in 2011 through capital budget appropriations. The next largest increase is from operations due to an increase in tuition.

Economic or Regulatory Factors that Can Affect the Future of the College

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

- Slow economic growth over the past several fiscal years continues to affect local and state resources and budgetary allocations to the College, which directly affects the financial condition of the College. In 2011, the County and State governments provided $134.9 million to support the College as noted in the Statement of Cash Flows on page 22. As such, the level of state and local support, employee and marketplace demand for compensation increases, and student tuition and fee increases will affect our institutional ability to expand programs, undertake new initiatives, and meet on-going operational needs of the College.

- The unemployment rate in Maryland in July, 2009, July, 2010, and July, 2011 was 7.3%, 7.4%, and 7.2% respectively. This is better than the national rate which stood at 9.1% as of August, 2011 and has been at that level or higher for about the last three years. While the unemployment rate has been trending lower for Montgomery County, the ill effects of this single factor will continue to impact the budgetary picture for months or years to come since it affects so many different governmental tax structures, revenue pools, and fiscal planning initiatives.

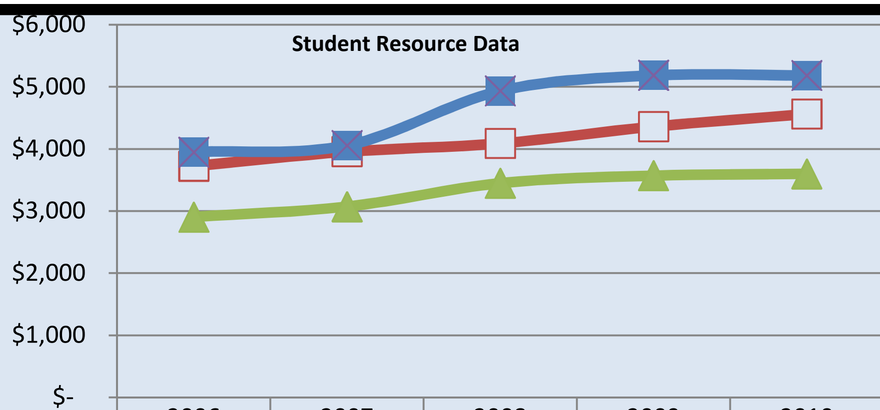
- **Other Post Employment Benefits (OPEB) financial requirements.** The County recently established an OPEB trust as a mechanism to pay for other post employment benefits, primarily health care.

- **The Montgomery County Council regarding the recently issued Office of Legislative Oversight (OLO) report "Achieving a Structurally Balanced Budget in Montgomery County."** Any number of changes could result from actions taken at the local government level which could affect the College, specifically its current revenue allocation for both operating and capital projects.

- **The Montgomery County Organizational Reform Commission.** The Commission was appointed on July 20, 2010, with the express purpose of examining how county government and its affiliated agencies are organized and spend local tax dollars. Departmental organizational structure, reporting lines of authority, and ways to streamline decision making are elements under.

- A growing and diverse public school population that increasingly looks to Montgomery College for its education will also make demands on our resources. New programs are being developed with local and grant resources to prepare this diverse public school population for College entry.

- As indicated in the graphic below, the cost per student metric continues to rise, up 22.5% in five years. Similarly, total revenues per student also show an upward trend, rising 31.3% over the last five years. The fact that the revenue to cost is a positive variance reflects well on the College's due diligence in spending.



	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 effects of social media technology (SMT) on teaching and learning.** Rapid advances in the way students communicate, interact, and learn is likely to have a dramatic impact on our existing instructional delivery. Training and staff development costs could escalate and mobile technology standards are constantly evolving. Steps to ensure faculty remain ahead of the technology curve always will increase costs.

- The pressure to address high priority needs, contingencies and requirements for deferred maintenance, new technology, repairs and maintenance, replacement equipment, and new construction projects are major challenges facing the College.

- **Pressure on the operating budget due to the growth in capital construction projects.** For every new building that comes on-line, such as the Science Center at the Rockville Campus (2011), Germantown Bioscience Education Center (2013), Rockville Science East & West Renovations (2013 & 2015) and Germantown Science & Applied Studies Renovation (2014), creates associated operating costs. These costs create budgetary pressure.

In conclusion, the College remains fiscally responsible and always vigilant about internal and external factors that have the potential to affect the College's ability to conduct financial business and fulfill its mission. The College resolves to meet these challenges.

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, Office of Business Services, 900 Hungerford Drive, Rockville, Maryland 20850.

FINANCIAL STATEMENTS

MONTGOMERY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2011

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
ASSETS			
ASSETS			
Cash assets:			
Cash and cash equivalents:	$ 23,772,260	$ 3,035,240	$ 26,807,500
Short-term investments	63,744,560	4,243,833	67,988,393
CIP receivable	6,889,919	-	6,889,919
Student accounts receivable	3,622,323	-	3,622,323
Student loans receivable	217,443	-	217,443
Grants and contracts receivable	1,998,214	-	1,998,214
Governmental appropriations receivable	1,782,474	-	1,782,474
Pledges receivable	-	684,548	684,548
Other receivables	1,571,086	-	1,571,086
Inventory	1,679,744	-	1,679,744
Prepaid expenses and other assets	1,374,125	155,431	1,529,556
Total current assets	106,652,148	8,119,052	114,771,200
Non-current assets:			
Student loans receivable - net	1,636,613	-	1,636,613
Pledges receivable	-	1,255,690	1,255,690
Deposits	47,819	-	47,819
Investments	-	21,024,694	21,024,694
Assets held in charitable remainder trusts	-	350,786	350,786
OPEB asset value	13,268,057	-	13,268,057
Deferred financing costs	-	703,367	703,367
Net investment in capital lease	-	45,720,000	45,720,000
Capital assets - net	372,099,836	2,750,000	374,849,836
Total non-current assets	387,052,325	71,804,537	458,856,862
TOTAL ASSETS	$ 493,704,473	$ 79,923,589	$ 573,628,062
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities**:**			
Accounts payable and accrued expenses	$ 21,239,378	$ 538,801	$ 21,778,179
Overdrafts	2,534,082	-	2,534,082
Compensated absences	452,884	-	452,884
Unearned revenue	4,747,128	1,179,911	5,927,039
Due to other organizations	1,656,834	-	1,656,834
Current portion of long-term liabilities	1,625,918	1,590,000	3,215,918
Total current liabilities	32,256,224	3,308,712	35,564,936
Non-current liabilities:			
Compensated absences	8,433,389	-	8,433,389
Long-term liabilities	44,776,943	44,824,896	89,601,839
Annuities payment from charitable remainder trusts	-	1,195,590	1,195,590
Total non-current liabilities	53,210,332	46,020,486	99,230,818
TOTAL LIABILITIES	85,466,556	49,329,198	134,795,754
NET ASSETS			
Invested in capital assets - net of related debt	325,884,635	-	325,884,635
Restricted for:			
Expendable- student loan programs	2,025,648	-	2,025,648
Unrestricted	80,327,634	7,178,330	87,505,964
Temporarily restricted	-	8,364,251	8,364,251
Permanently restricted	-	15,051,810	15,051,810
TOTAL NET ASSETS	408,237,917	30,594,391	438,832,308
TOTAL LIABILITIES AND NET ASSETS	$ 493,704,473	$ 79,923,589	$ 573,628,062

The accompanying notes are an integral part of the 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:	$ 39,227,640	$ 3,095,982	$ 42,323,622
Short-term investments	33,125,002	4,188,824	37,313,826
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 and other assets	2,455,348	95,761	2,551,109
Total current assets	100,013,528	8,181,380	108,194,908
Non-current assets:			
Student loans receivable - net	1,732,494	-	1,732,494
Pledges receivable	-	1,914,850	1,914,850
Deposits	63,497	-	63,497
Investments	-	17,737,410	17,737,410
Assets held in charitable remainder trusts	-	374,209	374,209
OPEB asset value	16,950,982	-	16,950,982
Deferred financing costs	-	737,697	737,697
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	69,301,223	435,994,414
TOTAL ASSETS	$ 466,706,719	$ 77,482,603	$ 544,189,322
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities**:**			
Accounts payable and accrued expenses	$ 25,633,469	$ 678,448	$ 26,311,917
Overdrafts	1,160,030	-	1,160,030
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	1,540,000	3,005,000
Total current liabilities	34,590,298	2,226,948	36,817,246
Non-current liabilities:			
Compensated absences	8,415,192	-	8,415,192
Long-term liabilities	45,888,992	46,431,350	92,320,342
Annuities payment from charitable remainder trusts	-	1,155,291	1,155,291
Total non-current liabilities	54,304,184	47,586,641	101,890,825
TOTAL LIABILITIES	88,894,482	49,813,589	138,708,071
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	$ 466,706,719	$ 77,482,603	$ 544,189,322

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, 2011

	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 $29,461,248	$ 62,144,609	$ -	$ 62,144,609
Federal grants and contracts	32,902,114	-	32,902,114
State grants and contracts	3,902,560	-	3,902,560
Local grants and contracts	1,769,610	-	1,769,610
Gifts and contributions	-	2,358,477	2,358,477
Auxiliary enterprises	13,212,947	-	13,212,947
Other operating revenues	1,484,668	269,912	1,754,580
Total operating revenues	115,416,508	2,628,389	118,044,897
Operating expenses:			
Educational and general			
Instruction	96,747,148	-	96,747,148
Academic support	26,347,329	-	26,347,329
Student services	25,587,120	58,512	25,645,632
Operation of plant	29,310,179	-	29,310,179
Institutional support	42,750,553	-	42,750,553
Scholarships and related expenses	4,148,304	1,248,298	5,396,602
Depreciation expense	13,766,562	-	13,766,562
Student and faculty support	-	817,857	817,857
Administrative and resource development	-	689,482	689,482
Auxiliary enterprises	12,083,879	-	12,083,879
Other expenditures	8,581,915	-	8,581,915
State paid benefits	12,258,701	-	12,258,701
Total operating expenses	271,581,690	2,814,149	274,395,839
OPERATING LOSS	(156,165,182)	(185,760)	(156,350,942)
NON-OPERATING REVENUES (EXPENSES)			
State and local appropriations	146,831,103	-	146,831,103
Investment and interest income	201,062	5,284,481	5,485,543
Interest expense	(2,154,318)	(2,173,344)	(4,327,662)
NON-OPERATING REVENUES	144,877,847	3,111,137	147,988,984
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(11,287,335)	2,925,377	(8,361,958)
Capital appropriations	41,189,215	-	41,189,215
Capital grants, contracts and gifts	628,185	-	628,185
Disposal of capital assets	(104,385)	-	(104,385)
	41,713,015	-	41,713,015
INCREASE IN NET ASSETS	30,425,680	2,925,377	33,351,057
NET ASSETS, BEGINNING OF YEAR	377,812,237	27,669,014	405,481,251
NET ASSETS, END OF YEAR	$ 408,237,917	$ 30,594,391	$ 438,832,308

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
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 63,030,003	$ 61,815,168
Grants and contracts	37,592,853	32,182,940
Payments to suppliers	(53,587,819)	(60,098,990)
Payments to employees	(185,942,885)	(180,290,363)
Payments for scholarships	(4,148,304)	(3,893,616)
Loans issued to students	(98,500)	(133,000)
Collection of loans from students	221,313	180,645
Auxiliary enterprises	13,212,947	13,546,012
Other receipts	1,319,512	610,894
Net cash used in operating activities	(128,400,880)	(136,080,310)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State and local appropriations	134,910,688	144,784,939
Federal Family Education Loans lending receipts	-	9,193,533
Federal Family Education Loans lending disbursements	-	(9,193,533)
Student organization agency transactions - net	354,112	221,834
Net cash provided by non-capital financing activities	135,264,800	145,006,773
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	48,679,706	58,301,947
Capital gains	628,185	321,432
Purchase of capital assets	(37,439,927)	(46,791,615)
Payments for capital lease	(1,547,516)	(940,000)
Interest	(2,154,318)	(3,226,415)
Net cash provided by capital and related financing activities	8,166,130	7,665,349
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	62,105,307	61,577,910
Interest on investments	134,128	153,509
Purchase of investments	(92,724,865)	(51,760,474)
Net cash provided by (used in) investing activities	(30,485,430)	9,970,945
INCREASE IN CASH AND CASH EQUIVALENTS	(15,455,380)	26,562,757
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,227,640	12,664,883
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 23,772,260	$ 39,227,640
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (156,165,182)	$ (162,682,140)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	13,766,561	12,904,647
Governmental non-exchange	12,258,701	10,878,709
OPEB benefit cost	3,682,924	3,263,185
Effects of changes in operating assets and liabilities:		
Receivables - net	(1,299,873)	(1,487,918)
Inventory	(38,393)	63,872
Loans to students - net	122,811	47,645
Other assets	1,167,462	791,645
Accounts payable	(2,085,022)	433,615
Unearned revenue	198,731	(315,493)
Compensated absences	(9,600)	21,923
NET CASH USED IN OPERATING ACTIVITIES	$ (128,400,880)	$ (136,080,310)
SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS		
Capital assets acquired under capital lease	$ 594,637	$ 16,825,000

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

MONTGOMERY COLLEGE
STATEMENTS OF FIDUCIARY NET ASSETS
OPEB TRUST FUND
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and short-term investments	$ 53,857	$ 2,563,139
Interest and dividends receivable	71,580	80,832
Investments, at fair value:		
Mutual Funds - equity	10,860,629	5,603,465
Mutual Funds - fixed income	5,897,092	4,135,086
US Government Issues	7,580,470	9,577,653
Total investments	24,338,191	19,316,204
Total assets	24,463,628	21,960,175
Liabilities	-	-
Net assets held in trust for other post-employment benefits	$ 24,463,628	$ 21,960,175

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

MONTGOMERY COLLEGE
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
OPEB TRUST FUND
Years Ended June 30, 2011 and 2010

	2011	2010
Additions		
Employer contributions	$ 102,778	$ 549,538
Investment income:		
Net appreciation in fair value of investments	1,866,238	615,579
Interest	310,523	44,272
Dividends	362,662	239,118
Total investment income	2,539,423	898,969
Total additions	2,642,201	1,448,507
Deductions		
Administrative expense	138,748	120,432
Net increase	2,503,453	1,328,075
Net assets held in trust for other post-employment benefits		
Beginning of year	21,960,175	20,632,100
End of year	$ 24,463,628	$ 21,960,175

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

NOTE 1 – REPORTING ENTITY (MC & MCF)

Reporting Entity

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

The College is governed by a 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.

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 alumni and friends of the College. The majority of resources that the Foundation holds and invests are restricted to the activities of the College by 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, 2011 and 2010, the Foundation distributed $1,703,699 and $1,589,239, 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)

The College follows the reporting and disclosure requirements for special purpose governments involved in business-type activities as outlined in Governmental Accounting Standards Board (GASB) Statements Nos. 34, 35 and 38. This provides an entity-wide perspective in the financial statement presentation. These standards require capitalization of assets, recording of depreciation, presentation of management's discussion and analysis, required supplementary information and presentation of a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.

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 statement.

Basis of Accounting (MC)

The College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when a liability is incurred.

Use of Estimates in Preparing Financial Statements (MC & MCF)

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 2011 and 2010, the College netted student aid expense in the amount of $30,726,615 and $25,151,434 against tuition revenue of $29,461,248 and $24,101,334 and auxiliary enterprises revenue of $1,267,367 and $1,050,100, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (MC)

Revenue is recognized on an 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, Federal Direct Loans 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 & MCF)

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The College's 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) long-term 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $40,808,590, which represents the estimated amount of expense ultimately to result if unperformed obligations are completed. Encumbrances outstanding at June 30, 2011 do not constitute expenses or liabilities and are not reflected in these financial statements.

Net Assets (MC)

GASB Statement No. 34 reports equity 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, 2011 and 2010 was earmarked for:

	2011	2010
Encumbrances	$ 27,069,366	$ 17,516,142
Emergency repairs and maintenance	665,960	552,322
Reserve for major facility projects	8,095,555	7,914,986
Reserve for OPEB contribution	13,268,057	16,942,482
Quasi-endowment	597,548	618,446
Other purposes	30,631,148	31,392,165
Total	$ 80,327,634	$ 74,936,543

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (MCF) (CONTINUED)

Temporarily restricted net assets of $8,364,251 and $6,747,843 as of June 30, 2011 and 2010, 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.

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, 2011 or 2010. Expendable net assets, for which there are externally imposed constraints, are obligated or expended with 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 the date of purchase of three months or less.

Short-term Investments (MC & MCF)

Short-term investments with maturities of less than 90 days on June 30, 2011 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 assets include 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Interest (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.

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.

Unearned Revenue (MC)

Tuition and fee revenues received and related to the period after June 30, 2011 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 item in this class prior to being classified as a capital asset. The College’s policy limit for capitalization is $5,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Capital Assets (MC) (CONTINUED)

The basis of valuation for assets constructed or purchased is cost, while assets acquired by gift are their fair market values. The College records depreciation on all capital assets in accordance GASB Statement No. 35, except for land and art works, and it 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. The entire library collection is recorded and valued at cost or estimated cost as a unit without regard to individual item cost. 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

Land (MCF)

Land is 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 coverable. 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 $0 and $1,032,600 for years ended June 30, 2011 and 2010, respectively, and is included in capital assets on the Statement of Net Assets. The impairment in 2010 was due to the decline in market value.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the five year treasury bill rate of 3%. 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 are subject to donor-imposed stipulations, or whose restrictions have been satisfied, or are recorded as unrestricted net assets.

Non-cash Contributions (MCF)

Non-cash contributions are recorded at their fair value on the date of receipt. Certain non-cash items received are donations 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, 2011 and 2010 was $7,383,673 and $6,785,430, 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.

Reclassifications (MC & MCF)

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

NOTE 3 – CASH AND INVESTMENTS (MC & MCF)

Montgomery College Cash, Cash Equivalents and Investments

As of June 30, 2011 and 2010, the College's carrying amount of cash, cash equivalents, and short-term investments consisted of the following:

	2011	2010
Cash	$ 478,004	$ 190,253
Cash equivalent - MLGIP	22,624,375	10,098,334
Cash equivalent - investments	669,881	28,939,053
Total cash and cash equivalents	23,772,260	39,227,640
Short-term investments	63,744,560	33,125,002
Total	$ 87,516,820	$ 72,352,642

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.

The carrying amount for College deposits was $304,061 and $75,057 as of June 30, 2011 and 2010, respectively. Petty cash and cashier's change funds of $173,942 and $115,198 as of June 30, 2011 and 2010, respectively, are excluded from these amounts. Actual bank statement balances totaled $1,434,579 and $357,215 at the end of fiscal years 2011 and 2010, 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.

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 (MLGIP), 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 June 5, 2012. 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.

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

Montgomery College Cash, Cash Equivalents and Investments (CONTINUED)

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 GASB 31, *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, 2011 and 2010 in MLGIP consist of the following:

	Unrestricted	Other Post Employment Benefits	Total
June 30, 2011			
Cash equivalents	$ 22,621,435	$ 848	$ 22,622,283
Accrued interest	2,092	-	2,092
	$ 22,623,527	$ 848	$ 22,624,375
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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, 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

NOTE 3 – CASH AND INVESTMENTS (MC & MCF)

As of June 30, 2011 the College had the following investments and maturities.

		Investment Maturities (in Months)			
Investment Type	**Total**	**Less than 6**	**7-12**	**13 - 18**	**19-24**
U.S. Agency:					
FHLB coupon	$ 5,999,500	$ -	$ 5,999,500	$ -	$ -
FHLB discount note	8,989,594	5,997,136	2,992,458	-	-
Farmer Mac discount note	16,969,565	4,997,628	11,971,937	-	-
Fed Farm Credit Bureau coupon	3,000,000	-	3,000,000	-	-
Fed Farm Credit Bureau discount note	7,987,271	-	7,987,271	-	-
Bankers acceptances	3,468,511	3,468,511	-	-	-
Certificates of deposit	18,000,000	-	18,000,000	-	-
Local Government Investment Pool	22,624,375	22,624,375	-	-	-
Total	$ 87,038,816	$ 37,087,650	$ 49,951,166	$ -	$ -

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

		Investment Maturities (in Months)			
Investment Type	**Total**	**Less than 6**	**7-12**	**13 - 18**	**19-24**
U.S. Agency:					
FHLB coupon	$ 5,017,000	$ -	$ 5,017,000	$ -	$ -
FHLB discount note	16,981,227	13,985,514	2,995,713	-	-
Farmer Mac coupon	3,000,000	-	3,000,000	-	-
Fed Farm Credit Bureau coupon	6,059,340	-	6,059,340	-	-
Fed Farm Credit Bureau discount note	8,982,636	2,998,388	5,984,248	-	-
Bankers acceptances	14,023,852	14,023,852	-	-	-
Certificates of deposit	8,000,000	-	8,000,000		
Local Government Investment Pool	10,098,334	10,098,334	-	-	-
Total	$ 72,162,389	$ 41,106,088	$ 31,056,301	$ -	$ -

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

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

	2011			2010		
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 DNS	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 - JP Morgan Chase	AA-	Aa1	AA	AA-	Aa1	AA
Certificates of deposit	A+	A1	AA-	A+	Aa2	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. During the years ended June 30, 2011 and 2010, 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.

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

As of June 30, 2011, the College's investments (listed at Original Principal Cost) were comprised of the following:

	Principal Cost	Percent of Total
U.S. Agency		
FHLB coupon (3 separate)	$ 5,999,500	9.31%
FHLB discount notes (4 separate)	8,989,594	13.96%
Farmer Mac discount notes (4 separate)	16,969,565	26.34%
Fed Farm Credit Bureau coupon	3,000,000	4.66%
Fed Farm Credit Bureau discount note	7,987,271	12.40%
Bankers acceptances - JP Morgan/Chase (8 separate)	3,468,511	5.39%
Certificates of deposit	18,000,000	27.94%
Total	$ 64,414,441	100.00%

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%

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%

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

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%

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 VI 'Fiscal and Administrative Affairs', Subject 'Bank Services', Section VI is limited to 'banks located within the County' for depository services.

As of June 30, 2011, the College had a Federal Reserve Bank pledge with BB&T 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:

Description	Par Value	Market Value
FHLMC REMIC 3736 QJ 2.25%, 4/15/2034	$ 3,068,551	$ 3,099,996
FHLMC REMIC 3748 ND, 2.13%, 6/15/2034	1,911,761	1,923,246
FNMA REMIC 10-99 DP, 3%, 8/25/2039	2,799,164	2,862,705
FHLMC REMIC 3711 PA, 2%, 3/15/2040	5,161,470	5,145,247
FHLMC REMIC 3745 HF, 1.19%, 10/15/2040	4,334,971	4,353,063
FNMA REMIC 10-109 BF, 1.19%, 10/25/2040	1,745,278	1,754,131
	$ 19,021,195	$ 19,138,388

As of June 30, 2011, 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:

Description	Par Value	Market Value
FNMA 15 YR 4.5%, 8/1/2022	$ 714,163	$ 757,460
FNMA 20 YR 5.5%, 12/1/2023	1,167,364	1,280,300
FNMA 15 YR 4.5%, 8/1/2022	390,231	413,890
FNMA 15 YR 4.0% 3/1/2024	178,058	185,606
	$ 2,449,816	$ 2,637,256

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

As of June 30, 2010, the College had a Federal Reserve Bank pledge with BB&T 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:

Description	Par Value	Market Value
FNMA PL 930903 4%, 4/1/2024	$ 6,992,454	$ 7,293,868
FNMA POOL 931193 4%, 5/1/2024	1,801,770	1,876,621
	$ 8,794,224	$ 9,170,489

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:

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

Montgomery College Foundation Investments

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 15,339,666	$ 16,885,734	$ 12,059,276	$ 13,280,466
U.S. Treasury note	-	-	5,031	5,031
Certificates of deposit	2,635,000	2,638,960	2,951,913	2,951,913
Land held for investments	2,532,600	1,500,000	2,532,600	1,500,000
Total	$ 20,507,266	$ 21,024,694	$ 17,548,820	$ 17,737,410

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

Net investment gains for the years ended June 30, 2011 and 2010 was as follows:

	2011	2010
Interest and dividends	$ 454,682	$ 350,630
Realized and unrealized losses on investments	2,739,202	567,412
Change in value of charitable gift annuities	(63,722)	60,509
Interest from investment in capital lease	2,154,319	1,805,009
Total	$ 5,284,481	$ 2,783,560

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 $12,426,270 and $11,930,958 at June 30, 2011 and 2010, respectively.

The College currently participates in the Federal Perkins Loan Program (Perkins) and the Nursing Student Loan Program (NSLP). At June 30, 2011 and 2010, the balance of the Perkins receivables included in the student loans receivable was $2,169,922 and $2,292,735, respectively, less an allowance for doubtful receivables of $319,735 and $386,006, respectively. As of June 30, 2011 and 2010, the balance of the NSLP receivables included in the student loans receivable was $4,783 and $4,783 less an allowance for doubtful receivables of $914 and $1,575, respectively.

NOTE 5 – PLEDGES RECEIVABLE (MCF)

Pledges receivable at June 30 include amounts due in:

	2011	2010
Less than one year	$ 684,548	$ 800,813
One to five years	879,096	1,497,091
More than five years	1,786,725	1,791,128
	3,350,369	4,089,032
Pledges deemed uncollectible	(82,171)	(72,162)
Present value discount	(1,327,960)	(1,301,207)
Total	$ 1,940,238	$ 2,715,663

NOTE 5 – PLEDGES RECEIVABLE (MCF) (CONTINUED)

The discount rate used on long-term promises to give was 3% in both 2011 and 2010 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, 2011 as determined by a review of individual current year pledges.

The Foundation was named remainder interest beneficiary of two charitable remainder unitrusts where the Foundation is not the trustee and does not exercise control over the assets contributed to the trusts. The Foundation recorded the agreements as pledge receivable and contributions at the present value of estimated future benefits to be received when the trust assets are distributed. Adjustments are made to the receivables on a yearly basis to reflect the accretion of the discounts and revaluation of the present value of the estimated future payments. As of June 30, 2011 and 2010, the amount included in the pledge receivable balance was $405,609 and $471,427 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.

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.

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 agreement. When the estimated present value of the liability to the lead interest beneficiary exceeds the value of the related assets occurs, the deficit is considered a reduction of unrestricted net assets.

NOTE 6 – CHARITABLE REMAINDER TRUSTS (MCF) (CONTINUED)

As of June 30, 2011 and 2010, the assets, obligations and net assets related to charitable remainder trusts were classified as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
Assets held for charitable gift annuities	$ 301,362	$ -	$ 49,424	$ 350,786
Annuities payable from charitable gifts	1,164,027	-	31,563	1,195,590
Net assets	$ (862,665)	$ -	$ 17,861	$ (844,804)
2010				
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)

During the year ended June 30, 2011, there were no split-interest agreements extinguished, but two new split-interest agreements were created. There was one unrestricted asset with a $10,000 market value and a $3,397 present value payable liability, and one permanently restricted asset with a $50,619 market value and a $31,563 present value payable liability.

During the year ended June 30, 2010 there were no new split-interest agreements created, but two split interest agreements were extinguished. The $22,762 market value of the agreements was endowed at that time, and the $20,499 present value payable liability for those agreements was extinguished. The total number of split-interest agreements stands at fourteen and twelve as of June 30, 2011 and 2010, respectively.

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION (MC)

The following tables represent the changes in the capital asset categories (including depreciation) for fiscal years 2011 and 2010, respectively.

	Balance at July 1, 2010	Additions	Disposals / Lease Retirements	Balance at June 30, 2011
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress - buildings	102,608,936	5,084,004	(85,089,961)	22,602,979
Construction in progress - equipment	3,476,569	7,942,774	-	11,419,343
Total non-depreciable assets	142,830,092	13,026,778	(85,089,961)	70,766,909
Depreciable assets				
Buildings	235,103,891	104,665,060	-	339,768,951
Equipment	57,203,535	3,117,243	(98,516)	60,222,262
Library books	5,942,760	350,382	(469,821)	5,823,321
Capital lease	48,955,000	594,637	-	49,549,637
Capital software	-	1,375,408	-	1,375,408
Art works	181,805	5,000	-	186,805
Total depreciable assets	347,386,991	110,107,730	(568,337)	456,926,384
Less accumulated depreciation				
Buildings	93,492,394	6,898,896	-	100,391,290
Equipment	42,662,746	5,164,019	(88,534)	47,738,231
Library books	4,230,011	280,075	(355,434)	4,154,652
Capital lease	1,885,714	1,423,571	-	3,309,285
Total accumulated depreciation	142,270,865	13,766,561	(443,968)	155,593,458
Depreciable assets, net	205,116,126	96,341,169	(124,369)	301,332,926
Capital assets, net	$ 347,946,218	$ 109,367,947	$ (85,214,330)	$ 372,099,835

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

	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				
Buildings	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
Equipment	38,333,621	4,378,998	(49,873)	42,662,746
Library books	4,408,724	286,952	(465,665)	4,230,011
Capital lease	942,857	942,857	-	1,885,714
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 8 – CAPITAL ASSETS (MCF)

The following tables represent the changes in the capital asset categories for fiscal years June 30, 2011 and 2010, respectively.

	Balance at July 1, 2010	Additions	Disposals / Lease Retirements	Balance at June 30, 2011
Non-depreciable assets				
Land	$ 2,750,000	$ -	$ -	$ 2,750,000
Construction in progress	15,502,057	-	(15,502,057)	-
Capital assets, net	$ 18,252,057	$ -	$ (15,502,057)	$ 2,750,000

NOTE 8 – CAPITAL ASSETS (MCF) (CONTINUED)

	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

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (MC)

Accounts payable and accrued liabilities represent amounts due at June 30, 2011 and 2010, respectively, for goods and services received prior to the end of the fiscal year.

	2011	2010
Salaries and wages	$ 9,272,004	$ 8,656,954
Benefits	1,039,000	1,013,000
Services and supplies	8,028,027	13,917,333
Payroll withholding	1,734,785	1,193,492
Unclaimed checks	348,132	289,623
Student refunds	68	13,783
Montgomery College Foundation	1,800	95,425
Other	815,562	453,859
Total	$ 21,239,378	$ 25,633,469

NOTE 10 – LONG-TERM LIABILITIES (MC)

Long-term liability activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Aetna supplemental retirement funds	$ 18,992	$ 1,748	$ -	$ 20,740	$ -
Lease obligations - 2005 (see Note 13)	30,285,000	-	(975,000)	29,310,000	1,015,000
Lease obligations - 2008 (see Note 13)	16,825,000	-	(415,000)	16,410,000	425,000
Copier Leases	-	594,637	(82,516)	512,121	110,918
Montgomery County	225,000	-	(75,000)	150,000	75,000
Total	$ 47,353,992	$ 596,385	$ (1,547,516)	$ 46,402,861	$ 1,625,918

NOTE 10 – LONG-TERM LIABILITIES (MC) (CONTINUED)

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

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
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 (see Note 13)	-	16,825,000	-	16,825,000	415,000
Montgomery County	300,000	-	(75,000)	225,000	75,000
Total	$ 31,542,202	$ 16,826,790	$ (1,015,000)	$ 47,353,992	$ 1,465,000

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.

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 Note. This lease agreement was pledged as security for the 2005 Note.

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

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

Maturity May 1	Principal Amount	Interest Rate	Term (in years)
2012	1,015,000	4.00%	6.5
2013	1,055,000	4.00%	7.5
2014	1,100,000	4.00%	8.5
2015	1,145,000	5.00%	9.5
2016	1,200,000	4.00%	10.5
2017	1,250,000	4.00%	11.5
2018	1,300,000	5.00%	12.5
2019	1,365,000	5.00%	13.5
2020	1,430,000	5.00%	14.5
2021	1,505,000	4.25%	15.5
2022	1,565,000	4.38%	16.5
2023	1,635,000	4.38%	17.5
2024	1,705,000	4.50%	18.5
2025	1,785,000	4.50%	19.5
2026	1,865,000	4.50%	20.5
2027	1,950,000	5.00%	21.5
2028	2,045,000	5.00%	22.5
2029	2,150,000	4.63%	23.5
2030	2,245,000	4.63%	24.5
	$ 29,310,000		

The bonds maturing prior to May 1, 2016 are not subject to redemption prior to their maturities. The bonds 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 therein 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 Art Center was capitalized as part of the construction in progress. Interest incurred and expensed was $1,379,514 and $1,405,090 for the years ended June 30, 2011 and 2010, respectively.

In November 2008, the Montgomery County Revenue Authority (the Authority) issued "Montgomery County Revenue Authority Lease Revenue Bonds 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

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

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, 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.

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

Maturity Date	Principal Amount	Interest Rate	Term (in years)
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
	$ 16,410,000		

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

The bonds maturing prior to November 1, 2018 are not subject to redemption prior to their maturities. The bonds 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 2008 Notes issue were used to pay interest through October 2009. Interest paid through the completion of the construction of the parking garage was capitalized as part of the construction in progress. As construction was completed in July 2010, interest is now being expensed as incurred. Interest incurred and expensed during the year ended June 30, 2011 was $793,830. Interest incurred, capitalized and expensed during the year ended June 30, 2010 was $787,306, $262,435, and $524,871, respectively.

NOTE 12 – Restricted Assets (MCF)

Temporarily Restricted

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:

	2011	2010
General use programs	$ 5,361,234	$ 5,021,161
Scholarships	2,904,995	1,662,534
Student athletics	98,022	64,148
Total	$ 8,364,251	$ 6,747,843

For fiscal years ending June 30, 2011 and 2010, temporarily restricted net assets released from restriction were used for the following:

	2011	2010
General use programs	$ 965,929	$ 651,255
Scholarships	1,248,298	939,989
Student athletics	58,513	76,155
Total	$ 2,272,740	$ 1,667,399

NOTE 12 – Restricted Assets (MCF) (CONTINUED)

Permanently Restricted

Permanently restricted net assets represent perpetual endowment funds that are required to be retained permanently by explicit donor stipulation. As of June 30, 2011 and 2010, earnings from permanently restricted net assets were restricted for the following:

	2011	2010
Scholarships	$ 8,780,424	$ 8,235,317
General use programs	6,231,781	6,276,022
Student and faculty support	21,744	21,743
Annuity funds	17,861	-
Total	$ 15,051,810	$ 14,533,082

NOTE 13 – COMMITMENTS AND CONTINGENCIES (MC)

The College is obligated under several non-cancelable operating leases for office space expiring in various years through 2016. Net rent expense under these operating leases, included in occupancy expenses, was $3,880,857 and $3,484,204 for the years ended June 30, 2011 and 2010, respectively. The projected minimum lease payments under the terms of the leases at June 30, 2011 are as follows:

2012	$ 2,500,192
2013	2,075,210
2014	2,137,466
2015	803,240
2016	827,358
Total	$ 8,343,466

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 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 elevator maintenance; and a

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

contract for external audit services. At June 30, 2011, payments for the contract agreements and purchase agreements for the next five years are as follows:

2012	$ 13,428,553
2013	7,509,552
2014	4,818,901
2015	3,354,929
2016	3,056,596
Total	$ 32,168,531

As of June 30, 2011 and 2010, there were uncompleted contracts amounting to $13,735,928 and $24,621,050, respectively, for construction activity at all campuses. Retainage on construction contracts is not included in this amount, but is shown in the financial statements within accounts payable.

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, 2011 was $150,000 and is included in accounts payable for the current portion of $75,000 and $75,000 as a long-term liability for the balance.

The College has entered into a 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 $3,690,000 and $2,715,000 at June 30, 2011 and June 30, 2010, respectively. The College paid the Foundation $2,348,756 and $2,351,356 during the years ended June 30, 2011 and

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

June 30, 2010, respectively, as stipulated in the Project Lease. As of June 30, 2011, future payments to be paid by the College under this capital lease for the year ended June 30 are:

2012	$ 2,349,756
2013	2,349,156
2014	2,351,956
2015	2,352,957
2016	2,350,706
2017-2021	11,760,531
2022-2026	11,752,725
2027-2030	9,405,638
	44,673,425
Imputed interest	(15,363,425)
Total	$ 29,310,000

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 thirty 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, to improve 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. 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 Title to the Parking Garage will transfer to the College upon completion of the lease. The College paid $1,195,562 and $393,653 to the Foundation during the years ended June 30, 2011 and 2010, respectively. Future payments to be paid by the College are:

2012	$ 1,191,381
2013	1,191,244
2014	1,190,581
2015	1,193,119
2016	1,193,719
2017-2021	5,966,651
2022-2026	5,963,128
2027-2031	5,965,014
2032-2034	3,576,439
	27,431,276
Imputed interest	(11,021,276)
Total	$ 16,410,000

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

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 workmen's compensation suit. It is the opinion of the College's management, after conferring with legal counsel, that the liability, if any, which might arise from these lawsuits 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, 2011 and 2010; 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, 2011									
Instruction	$ 77,030,718	$ 12,367,798	$ 4,413,921	$ 2,215,474	$ -	$ -	$ -	$ 719,237	$ 96,747,148
Academic support	19,211,932	2,608,605	3,097,667	735,108	-	-	-	694,017	26,347,329
Student services	19,535,444	2,779,830	2,469,110	358,107	-	-	-	444,629	25,587,120
Operation of plant	11,835,198	3,113,255	5,383,689	1,370,237	-	7,496,019	-	111,781	29,310,179
Institutional support	26,363,564	7,285,949	3,554,523	387,501	-	-	-	5,159,016	42,750,553
Scholarships and related expenses	-	-	-	-	3,167,200	-	-	981,104	4,148,304
Depreciation	-	-	-	-	-	-	13,766,562	-	13,766,562
Auxiliary enterprises	2,964,946	780,054	1,426,277	93,322	-	17,034	-	6,802,246	12,083,879
State paid benefits	-	12,258,701	-	-	-	-	-	-	12,258,701
Other	-	-	-	-	-	-	-	8,581,915	8,581,915
Total	$ 156,941,802	$ 41,194,192	$ 20,345,187	$ 5,159,749	$ 3,167,200	$ 7,513,053	$ 13,766,562	$ 23,493,945	$ 271,581,690
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
State paid benefits	-	10,878,709	-	-	-	-	-	-	10,878,709
Other	-	-	-	-	-	-	-	10,659,446	10,659,446
Total	$ 155,352,136	$ 38,779,917	$ 22,519,262	$ 5,615,022	$ 2,482,069	$ 6,918,146	$ 11,973,317	$ 29,000,689	$ 272,640,558

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.

The College's total current payroll for the fiscal year ended June 30, 2011 for all employees (including $160,054 from Agency funds) was $156,941,802. 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	$ 71,926,206	56.93%
Optional retirement plan	51,990,324	41.14%
Aetna	2,434,170	1.93%

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.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

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.

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, 2010, the latest date such information is available, and the Aetna Plan as of July 1, 2011.

	MSRS	Aetna
Actuarial accrued liability	$ 54,085,081,118	$ 11,841,559
Actuarial value of assets (at fair market value)	(34,688,345,696)	(13,626,929)
Unfunded actuarial accrued liability (assets in excess of obligations)	$ 19,396,735,422	$ (1,785,370)

Additional information about the MSRS is presented in the State of Maryland's June 30, 2010 Comprehensive Annual Financial Report and in the 2010 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.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

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, 2011 as follows:

	State	College	Total
MSRS	$ 8,569,802	$ 1,000,000	$ 9,569,802
MSRS-ORP	3,688,899	-	3,688,899
Aetna	-	2,053,393	2,053,393
Total	$ 12,258,701	$ 3,053,393	$ 15,312,094

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.

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, 2011. 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 2011 are based on the plan as amended most recently as of January 1, 1980. Interest on employee contributions is credited at a rate of 6% per year. There is no recommended contribution for 2011-2012. 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 market 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.

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

Schedule of Funding Progress and Employer Contributions

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Required Employer Contributions
6-30-10	$ 11,932,952	$ 11,616,520	$ (316,432)	102.7%	$ 2,603,425	-12.2%	$ 282,860
6-30-11	13,626,929	11,841,559	(1,785,370)	115.1%	2,434,170	-83.3%	129,144

The actuarial valuation for the fiscal year ended June 30, 2011 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	279	N/A
Active with vested benefits	26	$ 2,434,170
Terminated with deferred vested benefits	9	N/A
Active without vested benefits	0	$ -
Inactives electing bifurcated benefits	2	N/A

NOTE 15 – RETIREMENT PLANS (MC) (CONTINUED)

The net pension obligation as of June 30, 2011 and 2010 are as follows:

	2011	2010
Annual Required Contribution (ARC)	$ (145,598)	$ 138,484
Interest on net pension obligation	(100,530)	(52,836)
Amortization of net pension obligation	375,242	197,212
Annual Pension Cost (APC)	129,114	282,860
Less contributions made	2,120,000	1,077,776
Increase in net pension obligation	(1,990,886)	(794,916)
Net pension obligation - beginning of year	(1,675,497)	(880,581)
Net pension obligation - end of year	$ (3,666,383)	$ (1,675,497)

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, 2011 and 2010, the County made principal payments of $5,900,783 and, $5,643,638, respectively, and interest payments of $5,012,112 and $3,734,326, 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, 2011 and 2010, the State expended $8,569,802 and $7,252,866, 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, 2011 and 2010 was $3,688,899 and $3,625,843, 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, 2011 and 2010 is due to the following organizational participation in CIP expenditures:

	2011	2010
Montgomery County	$ 3,157,390	$ 7,066,263
State of Maryland	3,732,529	7,314,148
Total	$ 6,889,919	$ 14,380,411

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, 2011, the College waived $823,321 in credit and $654,420 in non-credit tuition for senior, disabled, foster care and National Guard students.

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. Starting in FY2000, the College implemented a tuition waiver program whereby the College waives credit tuition for dependents of eligible College employees. For FY2011, the College waived $445,368 for its employees and their dependents. The total tuition amount waived for the College for FY2011 is $1,923,109. 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.

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, 2011 and 2010.

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, 2011 and 2010.

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, 2011, 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 2011 and 2010. 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, 2011, there was no deficit in the trust or escrow funds and no additional assessments have been made.

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

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 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, 2011 and 2010 are as follows. Claims liabilities are included in accounts payable and accrued expenses on the Statements of Net Assets.

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
Claims and changes in estimates	14,049,866
Claims payments	(14,023,866)
Balance - June 30, 2011	$ 1,039,000

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, 2011 and 2010.

NOTE 20 – COMPENSATED ABSENCES (MC) (CONTINUED)

Employees of the College earned $8,254,783 and $8,263,701 in annual and sick leave subject to termination payoff at June 30, 2011 and 2010, 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 amount of $631,491 and $632,173 for fiscal years 2011 and 2010, respectively. This amount has been included in the total compensated absences liability of $8,886,273 and $8,895,873 for fiscal years 2011 and 2010, respectively.

For the years ended June 30, 2011 and 2010, the total annual leave and sick leave earned has been recognized as an expense.

NOTE 21 – POST EMPLOYMENT 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 1978. The College contributes 80% of the cost of retiree life insurance. 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 or another employer’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 post employment benefit provisions and obligations is established by the Board of Trustees. For the fiscal years ended June 30, 2011 and 2010, the College contributed $2,196,122 and $1,962,502, respectively, and the retirees contributed $1,603,258 and $1,430,488, respectively, in premiums. In total the College contributed $2,196,122 and $1,962,502 for fiscal year ended June 30, 2011 and 2010, respectively. The College did not advance fund the costs of benefits in fiscal years 2011 and 2010.

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

Membership

As of June 30, 2011 and 2010 membership consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits	$ 418	$ 403
Terminated employees entitled to benefits but not yet receiving them	-	-
Active employees - vested	1,756	1,771
Active employees - non vested	-	-
Total	$ 2,174	$ 2,174

The College had actuarial valuations performed for the plan as of June 30, 2011 and 2010 to determine the employer's annual required contribution (ARC) for the fiscal years ended June 30, 2011 and June 30, 2010. The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2010 were as follows:

	2011	2010
Annual OPEB cost	$ 5,473,871	$ 5,225,687
Employer contribution	2,196,122	1,962,502
Net OPEB obligation	$ 3,277,749	$ 3,263,185
% of annual OPEB cost contributed	40%	38%

The net OPEB obligations (NOPEBO) as of June 30, 2011 and 2010 are recorded in OPEB asset value on the Statement of Net Assets and were calculated as follows:

	2011	2010
Annual Required Contribution (ARC)	$ 5,696,322	$ 5,128,754
Interest on net OPEB obligation	576,704	305,934
Adjustment on ARC	(393,980)	(209,001)
Annual OPEB cost	5,879,046	5,225,687
Less contributions made	2,196,121	1,962,502
Interest in net OPEB obligation	3,682,925	3,263,185
Net OPEB asset - beginning of year	(16,950,982)	(20,214,167)
Net OPEB asset - end of year	$ (13,268,057)	$ (16,950,982)

NOTE 21 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC) (CONTINUED)**)**

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.

In June 30, 2011 and 2010, 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 10.5% for fiscal year ended 6/30/11 grading up to 5.0% for fiscal year ending 6/30/19. 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, 2011 was 26 years.

Schedule of Funding Progress

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
6-30-10	$ 21,960,175	$ 69,046,415	$ 47,086,240	31.80%	$117,804,463	39.97%
6-30-11	24,463,628	75,206,285	50,742,657	32.53%	122,516,462	41.42%

NOTE 22 – 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 restriction. 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 restriction. A transfer of $10,000, reflected on the Statement of Activities, has been recorded to change this classification.

NOTE 23 – FAIR VALUE (MCF)

ASC 820-10 establishes a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets of liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The following describes the three levels of the fair value hierarchy under ASC 820-10:

Level 1
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active that the Foundation has the ability to access at the measurement date.

Level 2
Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than observable quoted prices for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset of liability.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 23 – FAIR VALUE (MCF) (CONTINUED)

Equity securities and mutual funds are valued at fair value based on quoted market prices at year-end. The fair values of certificates of deposit held by brokers approximate par value. The only Level 3 asset is a tract of land (MCAD property; see Note 15) owned by the Foundation. At June 30, 2011, the land is valued at $1,500,000, which is based on its current tax assessed value adjusted for changes in market prices through June 30, 2011. The property is not currently under contract.

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

	Level 1	Level 2	Level 3	Total Fair Value
2011				
Certificates of deposit	$ 2,638,960	$ -	$ -	$ 2,638,960
Mutual funds	16,885,734	-	-	16,885,734
Land	-	-	1,500,000	1,500,000
Total	$ 19,524,694	$ -	$ 1,500,000	$ 21,024,694
2010				
Certificates of deposit	$ 2,951,913	$ -	$ -	$ 2,951,913
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	$ -	$ 1,500,000	$ 17,737,410

The table below represents a reconciliation for the year ended June 30, 2011 and 2010 of assets measured at fair value on a recurring basis using Level 3 inputs.

	2011	2010
Beginning balance	$ 1,500,000	$ 2,532,600
Total unrealized loss	-	(1,032,600)
Ending balance	$ 1,500,000	$ 1,500,000

NOTE 23 – FAIR VALUE (MCF) (CONTINUED)

Liabilities at Fair Value

Annuity obligations – the fair value of the Foundation's annuity obligations is based on the net present value of the anticipated benefit. As benefit payments are made, the liability is adjusted based on an amortization schedule.

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

	Level 1	Level 2	Level 3	Total Fair Value
2011				
Money market funds	$ 16,767	$ -	$ -	$ 16,767
Certificates of deposit	334,019	-	-	334,019
Total	$ 350,786	$ -	$ -	$ 350,786
Liabilities:				
Annuity obligations, at fair value		$ 1,195,590		$ 1,195,590
2010				
Money market funds	$ 36,597	$ -	$ -	$ 36,597
Certificates of deposit	337,612	-	-	337,612
Total	$ 374,209	$ -	$ -	$ 374,209
Liabilities:				
Annuity obligations, at fair value		$ 1,155,291		$ 1,155,291

NOTE 24 – ENDOWMENT (MCF)

The Foundation's endowment consists of 172 individual funds (the Funds) established for a variety of purposes. As required by generally accepted principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 24 – ENDOWMENT (MCF) (CONTINUED)

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.

The Foundation had the following changes in the endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (235,456)	$ 1,222,478	$ 14,533,082	$ 15,520,104
Contributions	-	-	518,728	518,728
Appropriations of endowment assets for expenditures	(10,512)	(600,557)	-	(611,069)
Endowment net assets after contributions and expenditures	(245,968)	621,921	15,051,810	15,427,763
Net investment income	640,162	2,385,765	-	3,025,927
Endowment net assets, end of year	$ 394,194	$ 3,007,686	$ 15,051,810	$ 18,453,690

NOTE 24 – 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	(35,183)	(178,381)	-	(213,564)
Endowment net assets after contributions and expenditures	(1,105,462)	636,256	14,596,284	14,127,078
Net investment income	859,040	586,222	12,398	1,457,660
Endowment net assets, after reclassification	(246,422)	1,222,478	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

For the general endowment, the donors have specified all earnings are unrestricted for general Foundation operations. Accumulated unrestricted earnings at June 30, 2011 and 2010 are $398,071 and $288,944, 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 $3,877 and $524,400 as of June 30, 2011, 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.

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

NOTE 24 – ENDOWMENT (MCF) (CONTINUED)

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 the calendar year-end preceding the 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 25 – 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.

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 2011 and 2010 were valued at $117,060 and $41,132, respectively.

NOTE 26 – CONTINGENT LIABILITIES (MCF)

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 in to a specific endowed scholarship fund.

NOTE 27 – SUBSEQUENT EVENTS (MCF)

In August 2011, the Authority issued "Montgomery County Revenue Authority Lease Revenue Bonds (Montgomery College Project) Series 2011 bonds (the 2011 Bonds) with a total face value of $15,870,000. The Authority and the Foundation entered into a loan agreement to effectively transfer all obligations of the 2011 Bonds issue to the Foundation. The proceeds of the 2011 Bonds were used 1) for the purchase of the Goldenrod Building (a 68,826 gross square foot office building located on 4.62 acres located adjacent to the Germantown Campus of the College), 2) to pay real estate closing costs associated with the building purchase, 3) to pay issuance costs of the 2011 Bonds. The 2011 Bonds have annual maturity dates from May 1, 2012 to May 1, 2036 and were issued at a premium of $257,814.

The College entered into a lease agreement with the Foundation, beginning on September 1, 2011, with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the 2011 Bonds. This lease agreement was pledged as security for the 2011 Bonds.

Management evaluated subsequent events through September 30, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to September 30, 2011 that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the consolidated financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011 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, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR DEFINED BENEFIT RETIREMENT PLAN
JUNE 30, 2011

The following required supplementary information is provided in accordance with GASB No. 27. The plan has an actuarial valuation performed each year and the schedule below presents information for the past ten plan years. Please refer to Note 15 of the Notes to the Financial Statements on pages 55-57 for a more detailed description of Montgomery College's reporting of the College's Defined Benefit Pension Plan for FY 2011.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Required Employer Contributions
6-30-02	$ 11,112,761	$ 9,948,471	$ (1,164,290)	111.7%	$ 6,241,381	-18.7%	$ -
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
6-30-11	13,626,929	11,841,559	(1,785,370)	115.1%	2,434,170	-83.3%	129,144

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Actual Contribution	Percentage Contributed
6-30-09	$ 182,204	$ 1,002,627	550%
6-30-10	282,860	1,016,770	359%
6-30-11	129,114	2,000,000	1549%

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFIT PLAN
JUNE 30, 2011

The following required supplementary information is provided in accordance with GASB No. 45. The plan has an actuarial valuation performed each year and the schedule below presents information for the past five plan years. Information will continue to accumulate until ten years of data becomes available. Please refer to Note 21 of the Notes to the Financial Statements on pages 60-62 for a more detailed description of Montgomery College's reporting of Other Postemployment Benefits (OPEB) for FY 2011.

Schedule of Funding Progress

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
6-30-07	$ 23,072,058	$ 62,263,511	$ 39,191,453	37.06%	$ 96,333,866	40.68%
6-30-08	25,459,619	52,188,571	26,728,952	48.78%	104,590,815	25.56%
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	69,046,415	47,086,240	31.80%	117,804,463	39.97%
6-30-11	24,463,628	75,206,285	50,742,657	32.53%	122,516,462	41.42%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Amount Contributed	Percentage Contributed
6-30-08	$ 4,877,660	$ 25,459,619	522%
6-30-09	3,567,792	3,200,000	90%
6-30-10	5,225,687	1,962,502	38%
6-30-11	5,879,046	2,196,122	37%