MONTGOMERY COLLEGE
Rockville, Maryland

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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MONTGOMERY COLLEGE
LISTING OF BOARD OF TRUSTEES
AND SECRETARY-TREASURER TO THE BOARD OF TRUSTEES
June 30, 2012 and 2011

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.

Donald M Pearl
for D Pollard — Date: 9-28-12

DeRionne Pollard
President

Cathy Jones — Date: 9/28/12

Cathy Jones
Senior Vice President for Administrative and Fiscal Services

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

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Trustees
Montgomery College
Rockville, Maryland

We have audited the accompanying consolidated 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, 2012 and 2011, which collectively comprise the College's basic consolidated financial statements as listed in the table of contents. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated 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, 2012 and 2011, 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 October 1, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Funding Progress and Employer Contributions for Defined Benefit Retirement Plan, and Schedule of Funding Progress and Employer Contributions for Other Post-Employment Benefit Plan, as listed in the table of contents. be presented to supplement the basic consolidated financial statements, such information although not a part of the basic consolidated financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 consolidated financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 1, 2012

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, 2012 and 2011, with comparative information as of and for the year ended June 30, 2010. 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) and the Montgomery College Life Sciences Park Foundation, Inc. (LSF) meet criteria for qualifying as component units. The Foundation is included in the accompanying financial statements in a separate column and the LSF is consolidated with the College's reporting. However, the following discussion and analysis does not include the Foundation's and LSF'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 with the difference between the two reported as "net assets". Net assets represents the difference between assets and liabilities, and is detailed into classifications that help readers understand the constraints that the College must consider in making decisions on expending assets. Over time, changes in net assets can help in understanding whether the financial condition of the College is improving or deteriorating.

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

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

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

Financial and Enrollment Highlights

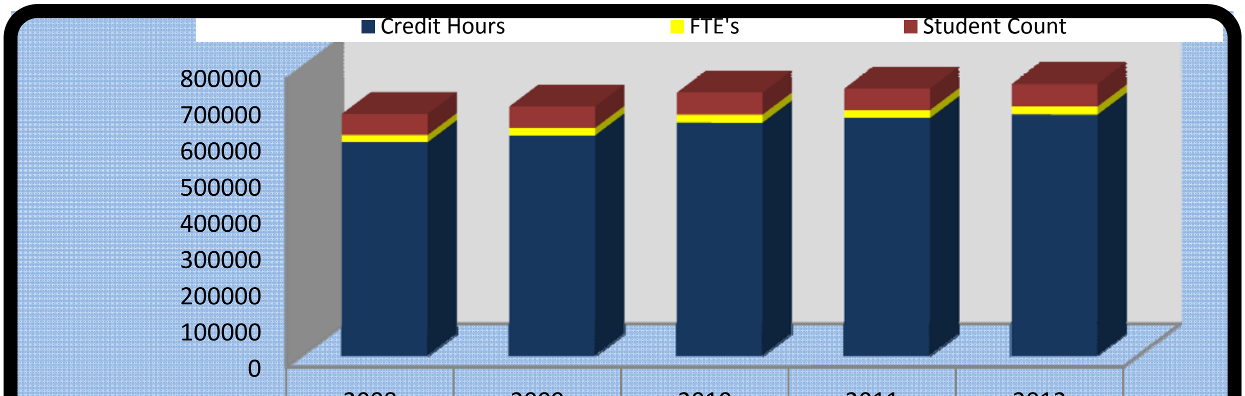
- The College's financial position continued to show growth as assets totaled $526.1 million at June 30, 2012, an increase of $32 million or 6.5% over June 30, 2011. This resulted primarily from a $33.1 million increase in capital assets. In 2011 assets totaled $494.1 million compared to 2010 when assets totaled $466.7 million, a change of $27.4 million or 5.8%. This increase was due primarily to growth in short term investments and capital assets. Net assets increased over that of fiscal year 2011 by $12.4 million or 3.0% in fiscal year 2012. The change in net assets from June 30, 2010 to June 30, 2011 equaled $30.8 million.

- Operating revenues increased $5.3 million or 4.6% as a result of an increase in federal grants and contracts. By comparison, operating revenues in 2011 increased $5.5 million or 5.0% over the prior year 2010, also as a result of an increase in grants and contracts.

- Net non-operating revenues decreased $4.0 million or 2.7% as a result of decreased State and Local Appropriations. By comparison, net non-operating revenues in 2011 decreased $7.6 million or 5.0% over the prior year 2010 as a result of decreased State and Local Appropriations and interest income.

- Overall operating expenses for fiscal year 2012 increased $14.4 million when compared to FY2011 or 5.3% as a result of net changes in spending which included: increases in instruction $5.5 million or 5.6%; institutional support $3.9 million or 9.2%, scholarships $0.4 million or 10%; student services $3.5 million or 13.6%; operations of plant $3.2 million or 11%; depreciation $0.1 million or 0.9%; and auxiliary enterprise $0.6 million or 4.9%. Spending decreased in the areas of: academic support $2.1 million or 7.8%; state retirement $0.3 million or 2.1%; and other expenses $0.4 million or 5.2%. By comparison, 2011 operating expenses decreased $1.5 million or 0.5% over FY2010 as a result of net changes in spending which included: increases in instruction $0.7 million or 0.8%; institutional support $0.7 million or 1.7%, 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%.

- Enrollment based on FTEs (full time equivalent students) increased 314 FTEs to 22,271 or by 1.4% for 2012. FTEs for 2010 and 2011 were 21,866 and 21,957, an increase of 91 FTE's or .4% respectively. This student FTE information is shown graphically below.



	2008	2009	2010	2011	2012
Student Count	58506	59479	60698	59314	62173
FTE's	19721	20353	21866	21957	22271
Credit Hours	591619	610588	646082	658697	668128

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, 2012, 2011, and 2010 is listed in the table below:

Statement of Net Assets

As of June 30,	2012	2011	2010
Assets			
Current assets	$ 109,110,934	$ 106,652,148	$ 100,013,528
Non-current assets	417,021,268	387,457,501	366,693,191
Total Assets	$ 526,132,202	$ 494,109,649	$ 466,706,719
Liabilities and Net Assets			
Liabilities			
Current liabilities	$ 32,603,490	$ 32,256,224	$ 34,590,298
Non-current liabilities	72,527,174	53,210,332	54,304,184
Total Liabilities	105,130,664	85,466,556	88,894,482
Net Assets			
Invested in capital assets - net of related debt	345,066,291	325,884,635	300,853,138
Restricted for:			
Expendable - student loan program	2,025,388	2,025,648	2,022,556
Unrestricted	73,909,859	80,732,810	74,936,543
Total Net Assets	421,001,538	408,643,093	377,812,237
Total Liabilities and Net Assets	$ 526,132,202	$ 494,109,649	$ 466,706,719

- The College experienced negative growth in its unrestricted net assets in 2012, a decrease of $6.8 million, due primarily to a decrease in local and county appropriations coupled with an increase in deferred revenue and long term liabilities as a result of the Goldenrod and Holy Cross operating leases. Comparatively, the change in unrestricted net assets from 2010 to 2011 increased $5.8 million or 7.7%, due to account managers adopting a judicious approach to spending.

- Current assets increased 2.3% in 2012, due to an increase in prepaid expenses and CIP receivables. From a liquidity perspective, current assets cover current liabilities 3.4 times, an indicator of excellent liquidity and ability to withstand short term demands for working capital. This rate of coverage increased slightly from 3.3 times last year. Current assets cover 4.6 months of total operating expenses, including depreciation. For 2012, one month of operating expenses is approximately $24 million. For purposes of comparison, the change in current assets from 2010 to 2011 equaled $6.6 million or 6.6%, due primarily to increases in cash, short term investments and CIP receivables.

- Non-current assets increased to $417 million in 2012 from $387.5 million in 2011 due to an increase in capital assets which grew by 8.9%, due to the acquisition of the Goldenrod Building on the Germantown Campus. By comparison, non-current assets increased 5.7% from 2010 to 2011 due to increase in capital assets, which increased $24.2 million or 6.9%.

- Current liabilities increased by $0.3 million or 1.0% in 2012 due mainly to a 17.1% increase in unearned revenue for the land lease agreement with Holy Cross Hospital on the Germantown Campus. By comparison, current liabilities in 2011 decreased 6.7% over 2010 due mainly to a 17.1% decrease of vendor payables and accrued liabilities amounting to $4.4 million.

- Non-current liabilities increased 36.3% which resulted from a $19.3 million increase in long-term liabilities. The reason for the increase is connected to the long term debt associated with the lease payments of the Goldenrod Building on the Germantown Campus. By comparison, the variance in non-current liabilities between 2011 and 2010 equaled a decrease of $1.1 million or 2.0% due to reduction in lease payments for the Takoma Park Parking Deck and Cafritz Cultural Arts Center.

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, 2012, 2011, and 2010.

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 $164.8 million before the appropriation of these crucial revenue streams. Adding these non-operating resources, which equaled $140.9 million in FY2012, offsets the vast majority of the operating loss, and results in an adjusted loss amount of $23.9 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

	FY2012	FY2011	FY2010
Operating Revenue			
Student Tuition/Fees	$ 63,972,768	$ 62,144,609	$ 62,947,084
Grants & Contracts	42,079,442	38,574,284	32,267,883
Auxiliary Enterprises	12,845,548	13,212,947	13,546,012
Other Operating Revenue	1,848,708	1,484,668	1,197,439
Total Operating Revenue	120,746,466	115,416,508	109,958,418
Operating Expenses	285,573,114	271,176,514	272,640,558
Operating Loss	(164,826,648)	(155,760,006)	(162,682,140)
Non-Operating Revenue (Expense)			
State/Local Appropriation	142,829,008	146,831,103	155,543,398
Interest Income	173,830	201,062	157,716
Interest Expense	(2,101,137)	(2,154,318)	(3,226,415)
Total Non-Operating Revenue	140,901,701	144,877,847	152,474,699
Loss Before Other Revenues (Expenses)	(23,924,947)	(10,882,159)	(10,207,441)
Other Revenue (Expenses)			
Capital Appropriation	35,603,210	41,189,215	55,834,834
Capital Grants/Gifts	773,184	628,185	321,431
Disposal of Capital Assets	(93,002)	(104,385)	(1,109,154)
Total Other Revenue (Expenses)	36,283,392	41,713,015	55,047,111
Change in Net Assets	12,358,445	30,830,856	44,839,670
Beginning Net Assets	408,643,093	377,812,237	332,972,567
Ending Net Assets	$ 421,001,538	$ 408,643,093	$ 377,812,237

Operating revenues grew $5.4 million or 4.6% in 2012, while the change between 2010 and 2011 was slightly greater as the College saw an increase in operating revenues of $5.5 million or 5.0%.

- Tuition and fees, net of scholarship allowances, equaled $64.0 million in 2012, an increase of 3.0% from the 2011 total, and it is $1 million more than recorded for 2010. As a percentage of total operating revenues, this revenue category equals 53% of the total. Over the last 3 years, as a percentage of total operating revenues, this revenue category was 53.8% in 2011 and 57.2% in 2010 due to an increase in enrollment and an increase in tuition rates.

- Grants and contracts makes up a significant portion of the College operating revenue $42 million or 35% in FY2012 and $38.6 million or 33.4% in FY2011, showing an increase of $3.4 million and $6.3 million in FY2012 and FY2011, respectively. Funding for Federal Pell Grants which equaled $30.4 million in 2012, 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.

- State and local appropriations is the key variable in the table and from a budgetary perspective, this revenue category accounted for 47.9%, 48.6% and 49.1% of the College's operating budget over the last three fiscal years respectively. The non-operating revenue resulted in decreases of $3.9 million, $7.5 million and $0.5 million for years 2012, 2011 and 2010 respectively. State and local appropriations have dropped 6.1% since FY2009. The downward trend is indicative of the tough fiscal climate that has gripped the local, state, and national economies since 2008.

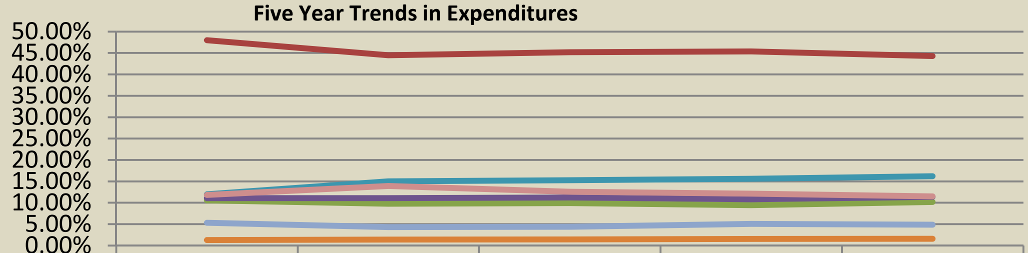
- Other revenue, primarily capital appropriations for land, construction, and equipment is funded from governmental sources. This category shows a decline in 2012, a drop of $5.6 million or 13.6% for FY2012 compared to a decrease in FY2011 of $14.6 million or 26.2%. Montgomery College continues to concentrate on the renewal and enhancement to physical infrastructure, including buildings, offices, and classrooms. Montgomery College's goal is to provide a safe, clean and secure classroom and workplace environment for students and employees.

Expenses by Functional Classification

The graph 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 is not unusual.

- Due to the current economic climate and increased enrollment, the rate of growth for expenses for all of the functional categories showed an increase of $14.4 million or 5.3%. College operating expenditures totaled $285.6 million in 2012 as compared to $271.2 million in 2011 and $272.6 million in 2010. The decreased spending of $1.4 million or 0.5% between 2010 and 2011 is reflective of austerity measures implemented by the College.

Five Year Trends in Expenditures



	2008	2009	2010	2011	2012
Instruction & Acad Support	47.98%	44.47%	45.18%	45.39%	44.30%
Student Services	10.55%	9.78%	9.93%	9.44%	10.17%
Operation of Plant	11.09%	11.07%	11.24%	10.81%	11.39%
Institutional Support	11.97%	15.03%	15.26%	15.62%	16.19%
Scholarships	1.29%	1.41%	1.43%	1.53%	1.60%
Depreciation	5.31%	4.32%	4.39%	5.08%	4.86%
Other	11.81%	13.92%	12.57%	12.14%	11.49%

- Instructional and academic support expenditures represented $126.5 million or 44.3% of total College expenses in 2012, reflecting a spending increase of $3.4 million. For 2011 and 2010 instructional and academic support expenditures represented 45.4% and 45.2%, 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 2012, salaries and benefits accounted for 71.2% of all College expenditures and these employee compensation costs totaled $203.3 million (including State paid retirement costs). This represents a $5.2 million or 2.6% increase over FY2011. In FY2011 and 2010, College salary and benefit expenditures (including State paid retirement costs), equaled $198.1 and $194.1 respectively.

- Spending for Institutional Support in 2012 increased to $46.2 million from $42.3 million in 2011, a change of $3.9 million or 9.1%. The factors associated with this change include increased cost of salaries and employee benefits. From 2010 to 2011, the increase in spending was $0.7 million, an increase of 1.8%.

- 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 $31.7 million were offset against tuition and fee income. In 2012, spending for this function equaled $4.5 million, a 10.0% increase over 2011. In 2011, spending for scholarships equaled $4.1 million, an increase of 6.5% over the 2010 spending level of $3.9 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.

	2012	2011	2010
Net cash used in operating activities	$ (97,274,667)	$ (128,400,880)	$ (136,080,310)
Net cash provided by non-capital financing activities	137,667,020	135,264,800	145,006,773
Net cash provided by capital and related financing activities	176,394	8,166,130	7,665,349
Net cash provided by (used in) investing activities	(19,438,016)	(30,485,430)	9,970,945
Increase (decrease) in cash and cash equivalents	21,130,731	(15,455,380)	26,562,757
Cash and cash equivalents, beginning of year	23,772,260	39,227,640	12,664,883
Cash and cash equivalents, end of year	$ 44,902,991	$ 23,772,260	$ 39,227,640

- The College's cash and cash equivalents increased by $21.1 million for fiscal year 2012. This change reflected in 2012 was due mainly to a decrease in cash used for operating activities of $31.1 million over fiscal year 2011. In addition, cash flows used in investing activities increased $11 million while cash flows from non-capital financing activities increased by $2.4 million due to monies received from Holy Cross Hospital for the land lease agreement in Germantown. By contrast, the College's cash and cash equivalents decreased by $15.4 million in 2011. This change from 2010 to 2011 was due mainly to a decrease state and local appropriations of $9.6 million.

- A large portion of the decrease provided by capital financing activities is a result of the reduction in the number of large construction projects funded in 2012 through capital budget appropriations.

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

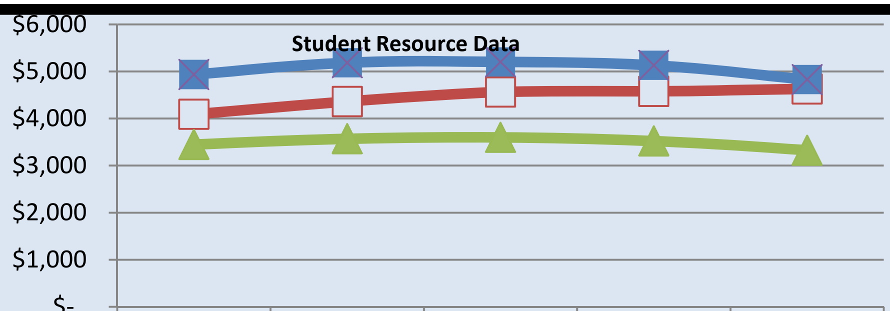
Listed below are significant challenges that can impact the future of Montgomery College:

- Montgomery County and the State of Maryland provide significant resources to the College and as such, the economic condition of the state and local region has a major bearing on the future economic health of the College. Even though the State ended fiscal 2012 with general fund revenues higher than projected, there is continued uncertainty about the economic recovery. Early projections from the County are showing a $71 million budget gap going into fiscal 2014 due to the economy and other expenses. Therefore, the level of State and Local support, compensation increases, and student tuition and fee increases will impact the College's ability to expand programs, undertake new initiatives, and meet core mission and on-going operational needs.

- The unemployment rate in Maryland in July 2012, July 2011 and July 2010 was 7.0%, 7.3%, and 7.4% respectively. This is better than the national rate which stood at 8.3% for July, 2012 and has been steadily improving over the last year from 9.1% a year ago. 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.

- Montgomery College's enrollment is budgeted to be 22,705 in full-time equivalent (FTE) students next year. The College continues to see a growth in enrollment as credit students opt for a more economical means to achieve an education compared to the first two years of a four year institution and other students are being faced with a need for retraining and other workforce development options.

- As indicated in the graphic below, the cost per student metric continues to rise, up 15.3% in five years. Due to reductions in State and County aid, total revenue per student declined in FY2012.



	2008	2009	2010	2011	2012
Cost per std	$4,090	4,361	4,563	4,579	4,628
T&F+Gov App per std	$3,448	3,571	3,600	3,523	3,326
Total Rev per std	$4,935	5,186	5,202	5,130	4,828

- The effects of social media technology (SMT) on teaching and learning can impact the costs of delivering educational services to our students. 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.

- There are three major capital projects that will affect the future financial position of Montgomery College. One is the design and construction of the Bioscience Education Center on the Germantown campus. The second is the renovation of the Science East and Science West Buildings on the Rockville campus. The third is the construction of a new student services center on the Rockville campus.

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.

CONSOLIDATED FINANCIAL STATEMENTS

MONTGOMERY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2012

	Montgomery College	Component Unit Montgomery College Foundation	Combined Totals Memorandum Only
ASSETS			
ASSETS			
Cash assets:			
Cash and cash equivalents:	$ 44,902,991	$ 4,173,973	$ 49,076,964
Short-term investments	44,124,438	4,066,248	48,190,686
CIP receivable	7,803,699	-	7,803,699
Student accounts receivable	3,858,631	-	3,858,631
Student loans receivable	134,158	-	134,158
Grants and contracts receivable	1,072,465	-	1,072,465
Governmental appropriations receivable	1,343,644	-	1,343,644
Pledges receivable	-	463,195	463,195
Other receivables	1,605,680	-	1,605,680
Inventory	1,609,561	-	1,609,561
Prepaid expenses and other assets	2,655,667	208,646	2,864,313
Total current assets	109,110,934	8,912,062	118,022,996
Non-current assets:			
Student loans receivable - net	1,825,376	-	1,825,376
Pledges receivable	-	1,090,633	1,090,633
Deposits	47,589	-	47,589
Investments	-	18,857,338	18,857,338
Assets held in charitable remainder trusts	-	241,566	241,566
OPEB asset value	9,966,286	-	9,966,286
Deferred financing costs	-	916,618	916,618
Net investment in capital lease	-	59,705,000	59,705,000
Capital assets - net	405,182,017	2,750,000	407,932,017
Total non-current assets	417,021,268	83,561,155	500,582,423
TOTAL ASSETS	$ 526,132,202	$ 92,473,217	$ 618,605,419
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	$ 20,162,447	$ 738,940	$ 20,901,387
Overdrafts	2,551,153	-	2,551,153
Unearned revenue	5,561,098	1,128,610	6,689,708
Due to other organizations	1,770,435	-	1,770,435
Current portion of long-term liabilities	2,558,357	2,070,000	4,628,357
Total current liabilities	32,603,490	3,937,550	36,541,040
Non-current liabilities:			
Unearned revenue	6,192,810	-	6,192,810
Long-term liabilities	66,334,364	58,410,943	124,745,307
Annuities payment from charitable remainder trusts	-	1,335,681	1,335,681
Total non-current liabilities	72,527,174	59,746,624	132,273,798
TOTAL LIABILITIES	105,130,664	63,684,174	168,814,838
NET ASSETS			
Invested in capital assets - net of related debt	345,066,291	-	345,066,291
Restricted for:			
Expendable- student loan programs	2,025,388	-	2,025,388
Unrestricted	73,909,859	6,172,285	80,082,144
Temporarily restricted	-	6,805,358	6,805,358
Permanently restricted	-	15,811,400	15,811,400
TOTAL NET ASSETS	421,001,538	28,789,043	449,790,581
TOTAL LIABILITIES AND NET ASSETS	$ 526,132,202	$ 92,473,217	$ 618,605,419

The accompanying notes are an integral part of the 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		13,673,233	-	13,673,233
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		387,457,501	71,804,537	459,262,038
TOTAL ASSETS		$ 494,109,649	$ 79,923,589	$ 574,033,238
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
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		2,078,802	1,590,000	3,668,802
Total current liabilities		32,256,224	3,308,712	35,564,936
Non-current liabilities:				
Long-term liabilities		53,210,332	44,824,896	98,035,228
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		80,732,810	7,152,437	87,885,247
Temporarily restricted		-	8,390,144	8,390,144
Permanently restricted		-	15,051,810	15,051,810
TOTAL NET ASSETS		408,643,093	30,594,391	439,237,484
TOTAL LIABILITIES AND NET ASSETS		$ 494,109,649	$ 79,923,589	$ 574,033,238

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, 2012

	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 $31,676,150	$ 63,972,768	$ -	$ 63,972,768
Federal grants and contracts	35,501,265	-	35,501,265
State grants and contracts	4,617,317	-	4,617,317
Local grants and contracts	1,960,860	-	1,960,860
Gifts and contributions	-	2,359,035	2,359,035
Auxiliary enterprises	12,845,548	-	12,845,548
Other operating revenues	1,848,708	177,661	2,026,369
Total operating revenues	120,746,466	2,536,696	123,283,162
Operating expenses:			
Educational and general			
Instruction	102,207,179	-	102,207,179
Academic support	24,295,193	-	24,295,193
Student services	29,055,977	95,645	29,151,622
Operation of plant	32,530,588	-	32,530,588
Institutional support	46,233,274	-	46,233,274
Scholarships and related expenses	4,562,049	1,429,722	5,991,771
Depreciation expense	13,886,304	-	13,886,304
Student and faculty support	-	1,067,736	1,067,736
Administrative and resource development	-	790,508	790,508
Auxiliary enterprises	12,672,361	-	12,672,361
Other expenditures	8,134,476	-	8,134,476
State paid benefits	11,995,713	-	11,995,713
Total operating expenses	285,573,114	3,383,611	288,956,725
OPERATING LOSS	(164,826,648)	(846,915)	(165,673,563)
NON-OPERATING REVENUES (EXPENSES)			
State and local appropriations	142,829,008	-	142,829,008
Investment and interest income	173,830	1,643,578	1,817,408
Interest expense	(2,101,137)	(2,602,011)	(4,703,148)
NON-OPERATING REVENUES (EXPENSES)	140,901,701	(958,433)	139,943,268
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(23,924,947)	(1,805,348)	(25,730,295)
Capital appropriations	35,603,210	-	35,603,210
Capital grants, contracts and gifts	773,184	-	773,184
Disposal of capital assets	(93,002)	-	(93,002)
	36,283,392	-	36,283,392
INCREASE (DECREASE) IN NET ASSETS	12,358,445	(1,805,348)	10,553,097
NET ASSETS, BEGINNING OF YEAR	408,643,093	30,594,391	439,237,484
NET ASSETS, END OF YEAR	$ 421,001,538	$ 28,789,043	$ 449,790,581

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	42,345,377	-	42,345,377
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	271,176,514	2,814,149	273,990,663
OPERATING LOSS	(155,760,006)	(185,760)	(155,945,766)
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	(10,882,159)	2,925,377	(7,956,782)
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	30,830,856	2,925,377	33,756,233
NET ASSETS, BEGINNING OF YEAR	377,812,237	27,669,014	405,481,251
NET ASSETS, END OF YEAR	$ 408,643,093	$ 30,594,391	$ 439,237,484

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

MONTGOMERY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 64,513,411	$ 63,030,003
Grants and contracts	43,005,191	37,592,853
Payments to suppliers	(35,375,608)	(53,587,819)
Payments to employees	(179,438,540)	(185,942,885)
Payments for scholarships	(4,562,049)	(4,148,304)
Loans issued to students	(251,781)	(98,500)
Collection of loans from students	138,028	221,313
Auxiliary enterprises	12,845,548	13,212,947
Other receipts	1,851,133	1,319,512
Net cash used in operating activities	(97,274,667)	(128,400,880)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State and local appropriations	131,272,125	134,910,688
Holy Cross Land lease	6,281,294	-
Student organization agency transactions - net	113,601	354,112
Net cash provided by non-capital financing activities	137,667,020	135,264,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	34,691,753	48,679,706
Capital gains	773,183	628,185
Purchase of capital assets	(31,191,487)	(37,439,927)
Payments for capital lease	(1,995,918)	(1,547,516)
Interest paid	(2,101,137)	(2,154,318)
Net cash provided by capital and related financing activities	176,394	8,166,130
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	104,066,331	62,105,307
Interest income on investments	182,106	134,128
Purchase of investments	(123,686,453)	(92,724,865)
Net cash used in investing activities	(19,438,016)	(30,485,430)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,130,731	(15,455,380)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,772,260	39,227,640
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 44,902,991	$ 23,772,260
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (164,826,648)	$ (155,760,006)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	13,886,304	13,766,562
Governmental non-exchange	11,995,713	12,258,701
OPEB benefit cost	5,007,882	3,277,749
Effects of changes in operating assets and liabilities:		
Receivables - net	2,932,465	(1,299,873)
Inventory	70,183	(38,393)
Loans to students - net	113,753	122,811
Other assets	1,636,537	1,167,462
Accounts payable	25,009,874	(2,085,024)
Unearned revenue	7,095,265	198,731
Compensated absences	(195,995)	(9,600)
NET CASH USED IN OPERATING ACTIVITIES	$ (97,274,667)	$ (128,400,880)
SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS		
Capital assets acquired under capital lease	$ 15,870,000	$ 594,637

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

MONTGOMERY COLLEGE
STATEMENTS OF FIDUCIARY NET ASSETS
OPEB TRUST FUND
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and short-term investments	$ 43,802	$ 53,857
Interest and dividends receivable	38,715	71,580
Investments, at fair value:		
Mutual Funds - equity	13,877,614	10,860,629
Mutual Funds - fixed income	7,720,033	5,897,092
US Government Issues	3,032,194	7,580,470
Total investments	24,629,841	24,338,191
County receivable	1,000,000	
Total assets	25,712,358	24,463,628
Liabilities	-	-
Net assets held in trust for other post-employment benefits	$ 25,712,358	$ 24,463,628

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, 2012 and 2011

	2012	2011
Additions		
Employer contributions	$ -	$ 102,778
County contributions	1,000,000	-
Investment income:		
Net appreciation in fair value of investments	(424,998)	1,866,238
Interest	222,023	310,523
Dividends	597,508	362,662
Total investment income	1,394,533	2,539,423
Total additions	1,394,533	2,642,201
Deductions		
Administrative expense	145,803	138,748
Net increase	1,248,730	2,503,453
Net assets held in trust for other post-employment benefits		
Beginning of year	24,463,628	21,960,175
End of year	$ 25,712,358	$ 24,463,628

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

NOTE 1 – REPORTING ENTITY (MC & MCF)

Reporting Entity

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

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

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

The College's financial statements include the accounts of the Montgomery College Life Sciences Park Foundation Inc. (LSF). In 2011, the Board of Directors of the College formed the Montgomery College Life Sciences Park Foundation Inc. (LSF) for the purpose of supporting the mission of the College or its successor institution and to promote the advancement of education by fostering and expanding educational and research opportunities for faculty and students of the College or its successor institution. Accordingly, the accounts of LSF have been consolidated herein, as required by generally accepted accounting principles. All significant interorganization balances and transactions were eliminated in consolidation.

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
40 West Gude Drive, Suite 220
Rockville, Maryland 20850

NOTE 1 – REPORTING ENTITY (MC & MCF) (CONTINUED)

During the years ended June 30, 2012 and 2011, the Foundation distributed $2,140,385 and $1,703,699, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2012 and 2011, the College netted student aid expense in the amount of $33,314,338 and $30,726,615 against tuition revenue of $31,676,150 and $29,461,248 and auxiliary enterprises revenue of $1,638,188 and $1,267,367 respectively.

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 consist 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-Operating Components (MC & MCF) (CONTINUED)

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 include acquiring and disposing of debt or equity instruments.

Encumbrances (MC)

The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials and services not received during the year. Encumbrances at year-end were approximately $25,238,665, which represents the estimated amount of expense ultimately to result if unperformed obligations are completed. Encumbrances outstanding at June 30, 2012 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, 2012 and 2011 was earmarked for:

	2012	2011
Encumbrances	$ 25,238,665	$ 27,069,366
Emergency repairs and maintenance	865,201	665,960
Reserve for major facility projects	8,905,769	8,095,555
Reserve for OPEB contribution	9,966,286	13,268,057
Quasi-endowment	599,144	597,548
Other purposes	28,334,794	30,631,148
Total	$ 73,909,859	$ 80,327,634

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Expenditures which meet the specific purposes of temporarily restricted net assets are released from temporarily restricted net assets prior to being expensed from unrestricted net assets.

Temporarily restricted net assets of $6,805,358 and $8,390,144 as of June 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 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 (MLGIP). 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 premium or discount on the bonds. The premium or discount has been recorded as unamortized bond premium or discount that is being amortized over the life of the note to revenue or expense, respectively.

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, 2012 and 2011 have been recognized as unearned revenue.

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 per individual asset.

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

Management reviews the carrying value of the land asset for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If such review indicates that the asset is impaired, given that the carrying amount of the asset exceeds its fair value as of the measurement date, the asset's carrying amount is written down to fair value. Long-lived assets to be disposed of are written down to the lower of cost or fair value. Impairment was recognized in the amounts of $360,000 and $0 for years ended June 30, 2012 and 2011, respectively, and is included in capital assets on the Statement of Net Assets.

Valuation of Investments (MCF)

Investments are stated at fair value as determined by quoted market price. Both realized and unrealized gains and losses in fair value are reflected in the Statements 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 a risk-free discount rate. Pledges deemed uncollectible are charged directly against gift and contribution revenue and pledges receivable is reduced. The current allowance for uncollectible pledges is 3%.

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

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

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, 2012 and 2011 was $8,269,171 and $7,383,673, 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)

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)

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

Montgomery College Cash, Cash Equivalents and Investments

As of June 30, 2012 and 2011, the College's carrying amount of cash, cash equivalents, and short-term investments consisted of the following:

	2012	2011
Cash	$ 7,163,301	$ 478,004
Cash equivalent - MLGIP	37,066,048	22,624,375
Cash equivalent - investments	673,642	669,881
Total cash and cash equivalents	44,902,991	23,772,260
Short-term investments	44,124,438	63,744,560
Total cash and short-term investments	89,027,429	87,516,820
OPEB Trust cash and short term investments	43,802	53,857
OPEB Trust investments, at fair value	24,629,841	24,338,191
Total OPEB Trust cash and investments	24,673,643	24,392,048
Total	$113,701,072	$111,908,868

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 the College and Montgomery College Life Sciences Park Foundation, Inc. deposits was $6,743,991 and $304,061 as of June 30, 2012 and 2011, respectively. Petty cash and cashier's change funds of $151,095 and $173,942 as of June 30, 2012 and 2011, respectively, are excluded from these amounts. Actual bank statement balances totaled $1,619,834 and $1,434,579 at the end of fiscal years 2012 and 2011, respectively. Collateral was maintained during the year to secure all deposits and investments as specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

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

Montgomery College Cash, Cash Equivalents and Investments (Continued)

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

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, 2012 and 2011 in MLGIP consist of the following:

	Unrestricted	Other Post Employment Benefits	Total
June 30, 2012			
Cash equivalents	$ 37,058,705	$ 850	$ 37,059,555
Accrued interest	6,493	-	6,493
	$ 37,065,198	$ 850	$ 37,066,048
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

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

As of June 30, 2012 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	$ 10,002,523	$ -	$ 10,002,523	$ -	$ -
FHLB discount note	9,990,356	4,996,656	4,993,700	-	-
Farmer Mac discount note	7,988,754	998,276	6,990,478	-	-
Fed Farm Credit Bureau discount note	1,997,667	-	1,997,667	-	-
Bankers acceptances	1,818,780	1,818,780	-	-	-
Certificates of deposit	13,000,000	2,000,000	11,000,000	-	-
Local Government Investment Pool	37,066,048	37,066,048	-	-	-
Total	$ 81,864,128	$ 46,879,760	$ 34,984,368	$ -	$ -

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

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	$ -	$ -

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

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

	2012			2011		
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+	A1	AA-

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 or 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, 2012 and 2011, 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)

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	25%
Bankers' acceptances	50%
Maryland Local Government Investment Pool	50%
Money Market Funds	25%

Security types noted above are further diversified by issuing institution:

Approved security dealers	25%
Maryland Local Government Investment Pool	50%
Bankers' acceptances by issuing institution	10%
Commercial banks	10%
Money Market Funds by Fund	25%
U.S. Government Agencies by Agency	20%

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, the College had federal agency securities held in the name of the College with BB&T & PNC Banks to collateralize deposits of the College.

Montgomery College Foundation Investments

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 16,919,399	$ 17,373,274	$ 15,339,666	$ 16,885,734
Certificates of deposit	343,000	344,064	2,635,000	2,638,960
Land held for investments	2,532,600	1,140,000	2,532,600	1,500,000
Total	$ 19,794,999	$ 18,857,338	$ 20,507,266	$ 21,024,694

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

Montgomery College Foundation Investments (CONTINUED)

Net investment gains for the years ended June 30, 2012 and 2011 was as follows:

	2012	2011
Interest and dividends	$ 436,831	$ 454,682
Realized and unrealized losses on investments	(1,054,361)	2,739,202
Change in value of charitable gift annuities	(249,311)	(63,722)
Interest from investment in capital lease	2,510,419	2,154,319
Total	$ 1,643,578	$ 5,284,481

Net investment income is included in investment and interest 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 $12,639,422 and $12,426,270 at June 30, 2012 and 2011, respectively.

The College currently participates in the Federal Perkins Loan Program (Perkins) and the Nursing Student Loan Program (NSLP). At June 30, 2012 and 2011, the balance of the Perkins receivables included in the student loans receivable was $2,283,676 and $2,169,922, respectively, less an allowance for doubtful receivables of $328,011 and $319,735, respectively. As of June 30, 2012 and 2011, the balance of the NSLP receivables included in the student loans receivable was $4,783 less an allowance for doubtful receivables of $914 for both years.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (MC)

The following tables represent the changes in the capital asset categories (including depreciation) for fiscal years 2012 and 2011, respectively.

	Balance at July 1, 2011	Additions	Disposals / Lease Retirements	Balance at June 30, 2012
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress - buildings	22,602,979	24,811,433	-	47,414,412
Construction in progress - equipment	11,419,343	2,484,391	(7,404,627)	6,499,107
Construction in progress - software	-	981,000	-	981,000
Art works	186,805	-	-	186,805
Total non-depreciable assets	70,953,714	28,276,824	(7,404,627)	91,825,911
Depreciable assets				
Buildings	339,768,953	291,438	(870,000)	339,190,391
Equipment	60,222,262	9,678,361	(104,345)	69,796,278
Library books	5,823,321	349,491	(285,219)	5,887,593
Capital lease - building	48,955,000	16,740,000	-	65,695,000
Capital lease - copiers	594,637	-	-	594,637
Capital software	1,375,408	-	-	1,375,408
Total depreciable assets	456,739,581	27,059,290	(1,259,564)	482,539,307
Less accumulated depreciation				
Buildings	100,391,291	6,018,380	-	106,409,671
Equipment	47,738,231	4,193,304	(80,045)	51,851,490
Library books	4,154,652	277,365	(216,517)	4,215,500
Capital lease	3,309,285	2,938,785	-	6,248,070
Software	-	458,470	-	458,470
Total accumulated depreciation	155,593,459	13,886,304	(296,562)	169,183,201
Depreciable assets, net	301,146,122	13,172,986	(963,002)	313,356,106
Capital assets, net	$ 372,099,836	$ 41,449,810	$ (8,367,629)	$ 405,182,017

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (MC) (CONTINUED)

	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
Art works	181,805	5,000	-	186,805
Total non-depreciable assets	143,011,897	13,031,778	(85,089,961)	70,953,714
Depreciable assets				
Buildings	235,103,891	104,665,062	-	339,768,953
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
Total depreciable assets	347,205,186	110,102,732	(568,337)	456,739,581
Less accumulated depreciation				
Buildings	93,492,394	6,898,897	-	100,391,291
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	13,766,562	(443,968)	155,593,459
Depreciable assets, net	204,934,321	96,336,170	(124,369)	301,146,122
Capital assets, net	$ 347,946,218	$ 109,367,948	$ (85,214,330)	$ 372,099,836

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (MC)

Accounts payable and accrued liabilities represent amounts due at June 30, 2012 and 2011, respectively, for goods and services received prior to the end of the fiscal year.

	2012	2011
Salaries and wages	$ 5,995,375	$ 9,272,004
Benefits	1,031,387	1,039,000
Services and supplies	9,398,516	8,028,027
Payroll withholding	2,620,931	1,734,785
Unclaimed checks	471,492	348,132
Student refunds	4,320	68
Montgomery College Foundation	20,933	1,800
Other	619,493	815,562
Total	$ 20,162,447	$ 21,239,378

NOTE 7 – LONG-TERM LIABILITIES (MC)

Long-term liability activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Aetna supplemental retirement funds	$ 20,740	$ 500	$ -	$ 21,240	$ -
Lease obligations - 2005	29,310,000	-	(1,015,000)	28,295,000	1,055,000
Lease obligations - 2008	16,410,000	-	(425,000)	15,985,000	440,000
Lease obligations - 2012	-	15,870,000	(445,000)	15,425,000	425,000
Copier Leases	512,121	-	(110,917)	401,204	116,593
Compensated absences	8,886,273	251,068	(447,064)	8,690,277	446,764
Montgomery County	150,000	-	(75,000)	75,000	75,000
Total	$ 55,289,134	$ 16,121,568	$ (2,517,981)	$ 68,892,721	$ 2,558,357

NOTE 7 – LONG-TERM LIABILITIES (MC) (CONTINUED)

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	30,285,000	-	(975,000)	29,310,000	1,015,000
Lease obligations - 2008	16,825,000	-	(415,000)	16,410,000	425,000
Copier Leases	-	594,637	(82,516)	512,121	110,918
Compensated absences	8,895,874	443,584	(453,185)	8,886,273	452,884
Montgomery County	225,000	-	(75,000)	150,000	75,000
Total	$ 56,249,866	$ 1,039,969	$ (2,000,701)	$ 55,289,134	$ 2,078,802

a) Lease Obligations – 2005

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 depreciation totals $4,705,000 and $3,690,000 at June 30, 2012 and June 30, 2011, respectively. The College paid the Foundation $2,349,756 and $2,348,756 during the years ended June 30, 2012 and June 30, 2011, respectively, as stipulated in the Project Lease. As of June 30, 2012, future payments to be paid by the College under this capital lease for the year ended June 30 are:

NOTE 7 – LONG-TERM LIABILITIES (MC) (CONTINUED)

a) Lease Obligations – 2005 (Continued)

2013	$ 2,349,156
2014	2,351,956
2015	2,352,956
2016	2,350,706
2017	2,352,706
2018-2022	11,756,819
2023-2027	11,756,750
2028-2031	7,052,619
	42,323,668
Imputed interest	(14,028,668)
Total	$ 28,295,000

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.

b) Lease Obligations – 2008

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 (Takoma Park Parking Garage) adjacent to the Morris and Gwendolyn Cafritz Foundation Arts Center. 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 $1,191,381 and $1,195,562 to the Foundation during the years ended June 30, 2012 and 2011, respectively.

Future payments to be paid by the College are:

2013	$ 1,191,244
2014	1,190,581
2015	1,193,119
2016	1,193,719
2017	1,193,519
2018-2022	5,963,732
2023-2027	5,964,706
2028-2032	5,963,919
2033-2035	2,385,356
	26,239,895
Imputed interest	(10,254,895)
Total	$ 15,985,000

NOTE 7 – LONG-TERM LIABILITIES (MC) (CONTINUED)

b) Lease Obligations – 2008 (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.

On September 19, 2001, the Board of Trustees adopted Resolution Number 11-09-122, authorizing the president of the College to create a 501(c)(3) organization to support the establishment of a Science and Technology Park (STP) at the Germantown Campus. The STP will enhance educational and economic opportunities for our students and contribute towards the economic development goals of the County. The STP is expected to enter into leases and agreements, including land and other leases, with various science and technology related organizations.

c) Lease Obligations - 2012

On August 17, 2011, the Montgomery County Revenue authority (MCRA) sold its Lease Revenue bonds Series 2011A and 2011B on behalf of the Montgomery College Foundation. The funds acquired for the Bonds will be used to acquire the Goldenrod Building to be used in the Science and Technology Park. 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 Bonds with a total face value of $15,870,000 (payments are due May 1 and November 1). The College paid $854,282 in June 30, 2012.

Future payments to be paid by the College are:

2013	$ 1,030,023
2014	1,031,523
2015	1,032,823
2016	1,028,923
2017	1,029,923
2018-2022	5,151,863
2023-2027	5,147,318
2028-2032	5,156,125
2033-2036	4,123,600
	24,732,121
Imputed interest	(9,307,121)
Total	$ 15,425,000

NOTE 7 – LONG-TERM LIABILITIES (MC) (CONTINUED)

d) Copier Leases

The College has entered into several copier leases which expire in 2016. At June 30, 2012, payments for the contract agreements and purchase agreements are as follows:

2013	$ 116,593
2014	122,558
2015	128,828
2016	33,225
Total	$ 401,204

e) Compensated Absences

Employees of the College earned $8,072,694 and $8,254,783 in annual and sick leave subject to termination pay-off at June 30, 2012 and 2011, 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 $617,584 and $631,491 for fiscal years 2012 and 2011, respectively. This amount has been included in the total compensated absences liability of $8,690,277 and $8,886,273 for fiscal years 2012 and 2011, respectively.

For the years ended June 30, 2012 and 2011, the total annual leave and sick leave earned has been recognized as an expense.

NOTE 8 – DEFERRED REVENUE (MC)

In 2012, the Life Science Fund (LSF) received land lease rental income in the amount of $6.3 million for the Montgomery College – Germantown Campus, 20200 Observation Drive, Germantown, Maryland 20816. The revenue will be amortized over the life of the land lease. The initial payment was included in unearned revenue in the Statement of Net Assets and the balance as of June 30, 2012 is $6,192,810.

NOTE 9 – EXPENSES BY NATURAL CLASSIFICATIONS (MC)

The following table shows a classification of expenses for the years ending June 30, 2012 and 2011; 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, 2012									
Instruction	$ 82,083,564	$ 12,250,097	$ 4,202,985	$ 2,514,111	$ -	$ -	$ -	$ 1,156,422	$ 102,207,179
Academic support	16,371,905	2,316,106	3,639,991	940,809	-	-	-	1,026,382	24,295,193
Student services	22,106,060	2,902,628	2,600,446	355,516	-	-	-	1,091,327	29,055,977
Operation of plant	12,755,593	3,152,862	7,615,045	1,454,024	-	7,372,027	-	181,037	32,530,588
Institutional support	25,674,964	7,680,375	4,658,906	433,769	-	-	-	7,785,260	46,233,274
Scholarships and related expenses	4,969	-	-	7,122	3,201,495	-	-	1,348,462	4,562,049
Depreciation	-	-	-	-	-	-	13,886,304		13,886,304
Auxiliary enterprises	3,213,071	827,779	1,529,492	112,804	-	-	-	6,989,215	12,672,361
State paid benefits	-	11,995,713	-	-	-	-	-		11,995,713
Other	-	-	-	-	-	-	-	8,134,476	8,134,476
Total	$ 162,210,126	$ 41,125,560	$ 24,246,865	$ 5,818,155	$ 3,201,495	$ 7,372,027	$ 13,886,304	$ 27,712,581	$ 285,573,114
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	-	-	-	4,753,840	42,345,377
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	$ 23,088,769	$ 271,176,514

NOTE 10 – RETIREMENT PLANS (MC)

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

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

NOTE 10 – RETIREMENT PLANS (MC) (CONTINUED)

The College's total current payroll for the fiscal year ended June 30, 2012 for all employees (including $ 249,838 from Agency funds) was $162,210,126. 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 Covered Payroll
MSRS	$ 70,097,597	55.23%
Optional retirement plan	54,481,618	42.93%
Aetna	2,336,720	1.84%

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

The Retirement System MSRS

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

The Pension System - MSRS

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

The MSRS Optional Retirement Plan (ORP)

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

NOTE 10 – RETIREMENT PLANS (MC) (CONTINUED)

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, 2011, the latest date such information is available, and the Aetna Plan as of July 1, 2012.

	MSRS	Aetna
Actuarial accrued liability	$ 55,917,542,812	$ 12,683,486
Actuarial value of assets (at fair market value)	(36,177,655,993)	(13,321,425)
Unfunded actuarial accrued liability (assets in excess of obligations)	$ 19,739,886,819	$ (637,939)

Additional information about the MSRS is presented in the State of Maryland's June 30, 2011 Comprehensive Annual Financial Report and in the 2011 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 10 – 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, 2012 as follows:

	State	College	Total
MSRS	$ 8,316,203	$ 2,314,037	$ 10,630,240
MSRS-ORP	3,679,510	-	3,679,510
Total	$ 11,995,713	$ 2,314,037	$ 14,309,750

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 7% 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 2012 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 was 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 10 – 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
6-30-11	$ 13,626,929	$ 11,841,559	$ (1,785,370)	115.1%	$ 2,434,170	-83.3%	$ 129,144
6-30-12	13,321,425	12,683,486	(637,939)	105.0%	2,336,720	-27.3%	-

The actuarial valuation for the fiscal year ended June 30, 2012 includes these significant assumptions which have not been changed from the prior year:

1) Investment return: 5.0% 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	265	N/A
Active with vested benefits	25	$ 2,336,720
Terminated with deferred vested benefits	9	N/A
Active without vested benefits	-	$ -
Inactives electing bifurcated benefits	2	N/A
	301	

NOTE 10 – RETIREMENT PLANS (MC) (CONTINUED)

The net pension obligation as of June 30, 2012 and 2011 are as follows:

	2012	2011
Annual Required Contribution (ARC)	$ (660,219)	$ (145,598)
Interest on net pension obligation	(219,983)	(100,530)
Amortization of net pension obligation	821,119	375,242
Annual Pension Cost (APC)	(59,083)	129,114
Less contributions made	-	2,120,000
Increase in net pension obligation	(59,083)	(1,990,886)
Net pension obligation - beginning of year	(3,666,383)	(1,675,497)
Net pension obligation - end of year	$ (3,725,466)	$ (3,666,383)

NOTE 11 – 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, 2012 and 2011, the County made principal payments of $7,964,542 and, $5,900,783, respectively, and interest payments of $5,580,046 and $5,012,112, 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, 2012 and 2011, the State expended $8,316,203 and $8,569,802, 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, 2012 and 2011 was $3,679,510 and $3,688,899, 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 11 – 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 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, 2012 and 2011 is due to the following organizational participation in CIP expenditures:

	2012	2011
Montgomery County	$ 6,354,717	$ 3,157,390
State of Maryland	30,767	3,732,529
Total	$ 6,385,484	$ 6,889,919

NOTE 12 – 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, 2012, the College waived $729,150 in credit and $619,333 in non-credit tuition for senior, disabled, foster care and National Guard students.

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. Starting in FY2000, the College implemented a tuition waiver program whereby the College waives credit tuition for dependents of eligible College employees. For FY2012, the College waived $457,239 for its employees and their dependents. The total tuition amount waived for the College for FY2012 is $1,805,722. For FY2011, the College waived $445,368 for its employees and their dependents. The total tuition amount waived for the College for FY2011 was $1,923,109.

NOTE 13 – 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, 2012 and 2011.

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, 2012 and 2011. Returns for the fiscal years 2009, 2010 and 2011 remain subject to examination by federal and state tax jurisdictions.

The Foundation follows Financial Accounting Standards Board (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 requires 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, 2012, there are no uncertain positions taken or expected to be taken that would require disclosure in the financial statements.

NOTE 14 – 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 2012 and 2011. 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, 2012, there was no deficit in the trust or escrow funds and no additional assessments have been made.

NOTE 14 – 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, 2012 and 2011 are as follows. Claims liabilities are included in accounts payable and accrued expenses on the Statements of Net Assets.

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
Claims and changes in estimates	14,446,486
Claims payments	(14,454,486)
Balance - June 30, 2012	$ 1,031,000

NOTE 15– POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC)

The College has implemented the guidance found in 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, 2012 and 2011, the College contributed $2,091,789 and $2,196,122, respectively, and the retirees contributed $1,707,890 and $1,603,258, respectively, in premiums.

Membership

As of June 30, 2012 and 2011 membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits	402	418
Active employees - vested	1,779	1,756
Total	2,181	2,174

NOTE 15 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC) (CONTINUED)

The College had actuarial valuations performed for the plan as of June 30, 2012 and 2011 to determine the employer's annual required contribution (ARC) for the fiscal years ended June 30, 2012 and June 30, 2011. The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and 2011 were as follows:

	2012	2011
Annual OPEB cost	$ 5,798,736	$ 5,473,871
Employer contribution	(2,091,789)	(2,196,122)
Net OPEB obligation	$ 3,706,947	$ 3,277,749
% of annual OPEB cost contributed	40%	40%

The net OPEB obligations (NOPEBO) as of June 30, 2012 and 2011 are recorded in OPEB asset value on the Statement of Net Assets and were calculated as follows:

	2012	2011
Annual Required Contribution (ARC)	$ 6,145,316	$ 5,696,322
Interest on net OPEB obligation	(1,093,859)	576,704
Adjustment on ARC	747,279	(799,155)
Annual OPEB cost	5,798,736	5,473,871
Less contributions made	2,091,789	2,196,122
Interest in net OPEB obligation	3,706,947	3,277,749
Net OPEB asset - beginning of year	(13,673,233)	(16,950,982)
Net OPEB asset - end of year	$ (9,966,286)	$ (13,673,233)

NOTE 15 – 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, 2012 and 2011, 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 June 30, 2011 grading up to 5.0% for fiscal year ending June 30, 2019. The actuarial value of assets was determined by using the market value of the assets. The plan's unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll assumed to grow 4% per year. The remaining amortization period as of June 30, 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
6-30-11	$ 24,463,628	$ 75,206,285	$ 50,742,657	32.53%	$ 122,516,462	41.42%
6-30-12	24,712,358	84,564,758	59,852,400	29.22%	122,176,794	48.99%

NOTE 16 – COMMITMENTS AND CONTINGENCIES (MC)

The College is obligated under several non-cancelable operating leases for office space expiring in various years through 2021. Net rent expense under these operating leases, included in occupancy expenses, was $3,319,271 and $3,880,857 for the years ended June 30, 2012 and 2011, respectively. The projected minimum lease payments under the terms of the leases at June 30, 2012 are as follows:

2013	$ 2,348,067
2014	2,137,466
2015	803,240
2016	827,338
2017	852,158
2018-2021	2,656,204
Total	$ 9,624,473

The College has entered into several multi-purpose contracts that improve and support the operational and infrastructure functionality of the College expiring in 2020. At June 30, 2012, payments for the contract agreements and purchase agreements for the next five years are as follows:

2013	$ 8,803,011
2014	6,112,360
2015	5,494,296
2016	4,229,789
2017	6,840
Total	$ 24,646,296

As of June 30, 2012 and 2011, there were uncompleted contracts amounting to $13,428,553 and $13,735,928, 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.

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 17 – PLEDGES RECEIVABLE (MCF)

Pledges receivable at June 30 include amounts due in:

	2012	2011
Less than one year	$ 463,195	$ 684,548
One to five years	703,036	879,096
More than five years	1,787,776	1,786,725
	2,954,007	3,350,369
Pledges deemed uncollectible	(49,021)	(82,171)
Present value discount	(1,351,158)	(1,327,960)
Total	$ 1,553,828	$ 1,940,238

The discount rate used on long-term promises to give was 3% in both 2012 and 2011. Pledges deemed uncollectible are approximately 3% of discounted unconditional promises to give at June 30, 2012 and 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, 2012 and 2011, the amount included in the pledge receivable balance was $369,253 and $405,609 respectively.

NOTE 18 – 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.

NOTE 18 – FAIR VALUE (MCF) (CONTINUED)

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.

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 25) owned by the Foundation. At June 30, 2012, the land was valued at $1,140,000, which was based on current sales contract price for the property. The contract is subject to approval by The Maryland-National Capital Park and Planning Commission.

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
2012				
Certificates of deposit	$ 344,064	$ -	$ -	$ 344,064
Mutual funds	17,373,274	-	-	17,373,274
Land	-	-	1,140,000	1,140,000
Total	$ 17,717,338	$ -	$ 1,140,000	$ 18,857,338
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

NOTE 18 – FAIR VALUE (MCF) (CONTINUED)

The table below represents a reconciliation for the year ended June 30, 2012 and 2011 of assets measured at fair value on a recurring basis using Level 3 inputs.

	2012	2011
Beginning balance	$ 1,500,000	$ 1,500,000
Total unrealized loss	(360,000)	-
Ending balance	$ 1,140,000	$ 1,500,000

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
2012				
Money market funds	$ 6,849	$ -	$ -	$ 6,849
Certificates of deposit	234,717	-	-	234,717
Total	$ 241,566	$ -	$ -	$ 241,566
Liabilities:				
Annuity obligations, at fair value	$ -	$ 1,335,681	$ -	$ 1,335,681
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

NOTE 19 – CHARITABLE REMAINDER TRUSTS (MCF)

The Foundation has been designated as remainder interest beneficiary under certain charitable gift-annuity 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 charitable gift annuity agreements and ensures that the specified distributions are made to the lead interest beneficiaries. The assets held and annuities payable are reflected on the Statements 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 charitable gift annuity agreements. The liability is established by estimating future payments based on the beneficiary's life expectancy and discounting those payments to their present value. The excess of the assets received over the liability incurred is recognized on the Statements of Activities as contributions under charitable gift annuity 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 on a recurring basis. Adjustments to the liability are reflected on the Statements of Activities as changes in the value of gift annuity agreements. When the estimated present value of the liability exceeds the value of the related assets, the deficit is a reduction of unrestricted net assets.

As of June 30, the assets, obligations and net assets related to charitable gift annuities were classified as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012				
Assets held for charitable gift annuities	$ 196,810	$ -	$ 44,756	$ 241,566
Annuities payable from charitable gifts	1,301,069	-	34,612	1,335,681
Net assets	$ (1,104,259)	$ -	$ 10,144	$ (1,094,115)
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)

During the year ended June 30, 2012, no split-interest agreements were extinguished or created. During the year ended June 30, 2011, no split-interest agreements were extinguished and two new agreements were created. There were 14 split-interest agreements in effect at both June 30, 2012 and 2011.

NOTE 20 – CAPITAL ASSETS (MCF)

The following tables represent the changes in the capital asset categories for fiscal years June 30, 2012 and 2011, respectively.

	Balance at July 1, 2011	Additions	Disposals / Lease Retirements	Balance at June 30, 2012
Non-depreciable assets				
Land	$ 2,750,000	$ -	$ -	$ 2,750,000
Capital assets, net	$ 2,750,000	$ -	$ -	$ 2,750,000

	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 21 – 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 2005 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 2005 Note are scheduled to coincide with the scheduled payments due on the 2005 Bonds. The proceeds of the 2005 Bonds 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 2005 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 2005 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 21 – 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)
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
	$ 28,295,000		

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 in whole or in part, on any date on or after May 1, 2015, 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 equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

Interest is due semi-annually, each May 1 and November 1. Proceeds from the 2005 Bonds 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 $1,327,990 and $1,379,514 for the years ended June 30, 2012 and 2011, respectively.

NOTE 21 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

In November 2008, the Montgomery County Revenue Authority (the Authority) issued "Montgomery County Revenue Authority Lease Revenue Bonds 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 Note), was entered into between the Authority and the Foundation, to effectively transfer all obligations of the 2008 Bond issue to the Foundation. Principal and interest payments required by the 2008 Note are scheduled to coincide with the scheduled payments due on the 2008 Bonds. The proceeds of the 2008 Notes issue are to be used 1) for developing and constructing a parking garage structure designated as the Takoma Park/Silver Spring Parking Garage project, 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, and dated November 20, 2008, 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 Note. This lease agreement was pledged as security for the 2008 Note.

NOTE 21 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

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

Maturity Nov. 1	Principal Amount	Interest Rate	Term (in years)
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
	$ 15,985,000		

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, 2019 are subject to optional redemption in whole or in part, on any date on or after November 1, 2018, 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 equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

Interest is due semi-annually, each May 1 and November 1. Proceeds from the 2008 Bonds 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. Interest incurred and expensed during the years ended June 30, 2012 and 2011 was $763,902 and $793,830, respectively.

NOTE 21 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

In August 2011, the Montgomery County Revenue Authority (the Authority) issued "Montgomery County Revenue Authority Lease Revenue Bonds (Montgomery College Project) Series 2011A and Series 2011B bonds (the 2011 Bonds) with a total face value of $15,870,000. A loan agreement, evidenced by a promissory note (the 2011 Note), was entered into between the Authority and the Foundation, to effectively transfer all obligations of the 2011 Bond 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.

NOTE 21 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

Maturity dates and stated interest rates of the 2011 Bonds are as follows:

Maturity May 1	Principal Amount		Interest Rate	Term (in years)
	Series A	Series B		
2013	$ -	$ 425,000	2.00%	0.5
2014	-	435,000	2.00%	1.5
2015	-	445,000	2.00%	2.5
2016	-	450,000	2.00%	3.5
2017	-	460,000	2.25%	4.5
2018	-	470,000	3.00%	5.5
2019	-	485,000	4.00%	6.5
2020	-	505,000	4.00%	7.5
2021	-	525,000	4.00%	8.5
2022	-	545,000	4.00%	9.5
2023	-	565,000	4.15%	10.5
2024	-	590,000	4.30%	11.5
2025	-	615,000	4.40%	12.5
2026	-	645,000	4.50%	13.5
2027	-	670,000	4.60%	14.5
2028	-	705,000	4.75%	15.5
2029	-	50,000	4.75%	16.5
2029	690,000	-	4.00%	
2030	765,000	.	5.00%	17.5
2031	805,000	-	5.00%	18.5
2032	845,000	-	4.00%	19.5
2033	880,000	-	4.00%	20.5
2034	915,000	-	4.00%	21.5
2035	950,000	-	4.10%	22.5
2036	990,000	-	4.13%	23.5
	$ 6,840,000	$ 8,585,000		

The Series 2011A Bonds are subject to optional redemption in whole or in part on any date commencing May 1, 2021, 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 equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

The Series 2011B Bonds maturing on or after May 1, 2022 are subject to optional redemption in whole or in part on any date commencing May 1, 2021, 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 equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

NOTE 21 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

The Series 2011B Bonds maturing by their terms prior to May 1, 2022 are not subject to optional redemption.

Interest is due semi-annually, each May 1 and November 1. Interest is being expensed as incurred. Interest incurred and expensed during the years ended June 30, 2012 and 2011 was $510,119 and $0, respectively.

NOTE 22 – Restricted Assets (MCF)

Temporarily Restricted

Temporarily restricted net assets represent funds restricted by donors for scholarships, student athletics, student and faculty support, resource development and other college initiatives. Net assets released from restriction include management fees charged to the temporarily restricted earnings portion of endowment funds.

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

	2012	2011
General use programs	$ 4,745,040	$ 5,371,088
Scholarships	2,003,739	2,921,034
Student athletics	56,579	98,022
Total	$ 6,805,358	$ 8,390,144

For fiscal years ending June 30, 2012 and 2011, temporarily restricted net assets released from restriction were used for the following:

	2012	2011
General use programs	$ 937,113	$ 956,075
Scholarships	1,352,641	1,232,259
Student athletics	95,645	58,513
Total	$ 2,385,399	$ 2,246,847

NOTE 22 – 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, 2012 and 2011, earnings from permanently restricted net assets were restricted for the following:

	2012	2011
Scholarships	$ 9,027,571	$ 8,780,424
General use programs	6,751,304	6,231,781
Student and faculty support	22,381	21,744
Annuity funds	10,144	17,861
Total	$ 15,811,400	$ 15,051,810

NOTE 23 – ENDOWMENT (MCF)

The Foundation's endowment consists of 182 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.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

NOTE 23– ENDOWMENT (MCF) (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $42,610 and $3,877 as of June 30, 2012 and 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 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 Directors, the investment return objective is to attain an average annual total return of CPI plus 5% (nominal return net of investment management fees) over the long term (up to a rolling five-year period). The goal is to combine various asset classes to achieve diversification and at the same time balance the risk and return. 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 a moderate annual rate. 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 23 – ENDOWMENT (MCF) (CONTINUED)

The Foundation had the following changes in the endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,877)	$ 3,002,744	$ 15,051,810	$ 18,050,677
Contributions	-	-	752,307	752,307
Appropriations of endowment assets for expenditures	(11,616)	(728,455)	-	(740,071)
Endowment net assets after contributions and expenditures	(15,493)	2,274,289	15,804,117	18,062,913
Net investment income	(27,117)	(226,462)	-	(253,579)
Subtotal	(42,610)	2,047,827	15,804,117	17,809,334
Other changes				
Change in gift annuity value	-	-	(7,717)	(7,717)
Donor requested endowment of previously unendowed gift	-	-	15,000	15,000
Endowment net assets, end of year	$ (42,610)	$ 2,047,827	$ 15,811,400	$ 17,816,617

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	$ (524,400)	$ 1,222,478	$ 14,533,082	$ 15,231,160
Contributions	-	-	518,728	518,728
Appropriations of endowment assets for expenditures	(10,512)	(600,557)	-	(611,069)
Endowment net assets after contributions and expenditures	(534,912)	621,921	15,051,810	15,138,819
Net investment income	531,035	2,380,823	-	2,911,858
Endowment net assets, end of year	$ (3,877)	$ 3,002,744	$ 15,051,810	$ 18,050,677

NOTE 24 – 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 2012 and 2011 were valued at $136,494 and $117,060, respectively.

NOTE 25 – CONTINGENT LIABILITIES (MCF)

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

NOTE 26– SUBSEQUENT EVENTS (MCF)

Management evaluated subsequent events through October 1, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to October 1, 2012 that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the consolidated financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012 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, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR DEFINED BENEFIT RETIREMENT PLAN
JUNE 30, 2012

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 10 of the Notes to the Financial Statements on pages 47-50 for a more detailed description of Montgomery College's reporting of the College's Defined Benefit Pension Plan for FY2012.

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
6-30-03	$ 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
6-30-12	13,321,425	12,683,486	(637,939)	105.0%	2,336,720	-27.3%	-

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Actual Contribution	Percentage Contributed
6-30-10	$ 282,860	$ 1,016,770	359%
6-30-11	129,114	2,000,000	1549%
6-30-12	-	-	0%

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND CONTRIBUTIONS FOR OTHER POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2012

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 six plan years. Information will continue to accumulate until ten years of data becomes available. Please refer to Note 15 of the Notes to the Financial Statements on pages 54-56 for a more detailed description of Montgomery College's reporting of Other Postemployment Benefits (OPEB) for FY2012. The plan has a net OPEB asset. The College is utilizing that asset as part of the funding plan.

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%
6-30-12	24,712,358	84,564,758	59,852,400	29.22%	122,176,794	48.99%

This schedule represents years one through six and will accumulate each year until ten years of data becomes available.

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Amount Contributed	Percentage Contributed
6-30-10	$ 5,225,687	$ 1,962,502	38%
6-30-11	5,879,046	2,196,122	37%
6-30-12	5,798,736	2,091,789	36%