MONTGOMERY COLLEGE
Rockville, Maryland

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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MONTGOMERY COLLEGE
LISTING OF BOARD OF TRUSTEES
AND SECRETARY-TREASURER TO THE BOARD OF TRUSTEES
June 30, 2014 and 2013

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 results of operations of the College.

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

Date: 9/26/14

DeRionne Pollard
President

Date: 9/26/2014

Janet Wormack
Senior Vice President for Administrative and Fiscal Services

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Germantown Campus 20200 Observation Drive, Germantown, MD 20876
Rockville Campus 51 Mannakee Street, Rockville, MD 20850
Takoma Park/Silver Spring Campus 7600 Takoma Avenue, Takoma Park, MD 20912

Workforce Development & Continuing Education 51 Mannakee Street, Rockville, MD 20850
Central Services 900 Hungerford Drive, Rockville, MD 20850

Independent Auditors' Report

Board of Trustees
Montgomery College
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and the remaining fund information of Montgomery College (the College), a component unit of Montgomery County, Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Montgomery College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and the remaining fund information of the College as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions for the defined benefit retirement plan and other post-employment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014, 2014, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
September 26, 2014

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, 2014 and 2013, with comparative information as of and for the year ended June 30, 2012. 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 new standards, the Montgomery College Foundation, Inc. (the Foundation) and the Montgomery College Life Sciences Park Foundation, Inc. (the LSF) meet criteria for qualifying as component units. The Foundation is discretely presented in the accompanying financial statements on separate pages and the LSF is blended with the College's reporting. However, the following discussion and analysis does not include the Foundation's and the 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 Position, the Statement of Revenues, Expenses and Changes in Net Position*, and the *Statement of Cash Flows*.

The *Statement of Net Position* presents information on the College's assets, liabilities with the difference between the two reported as "net position". Net position 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 position can help in understanding whether the financial condition of the College is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information on the changes in net position during the year. All changes in net position 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 Position* 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.

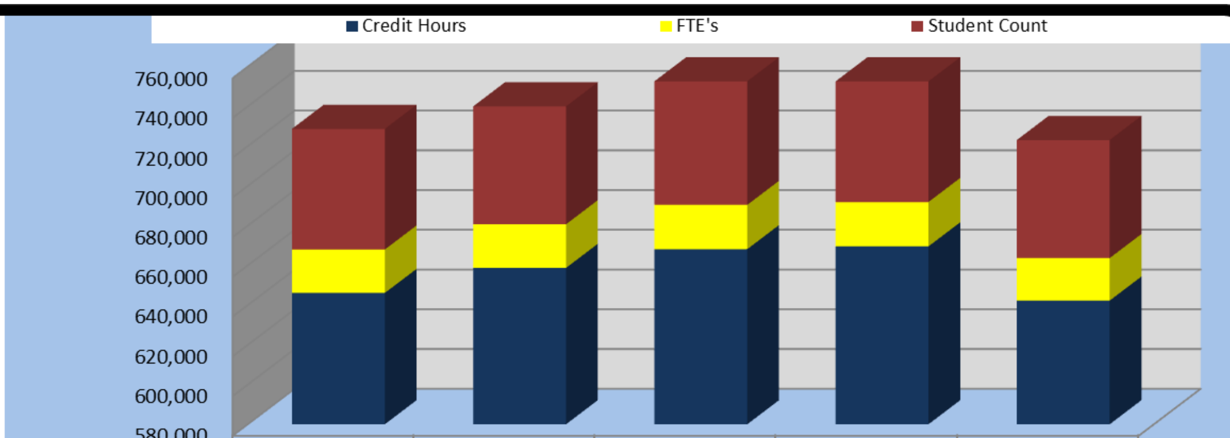
- The College's financial position continued to show growth as assets totaled $596.7 million at June 30, 2104, an increase of $22.0 million or 3.8% over June 30, 2013. This resulted primarily from a $45.1 million increase in capital assets. In 2013 assets totaled $574.7 compared to 2012 when assets totaled $526.1, a change of $48.6 million or 9.2%. This increase was due primarily from an $38.2 million increase in capital assets. Net position increased over that of FY2013 by $32.8 million or 7.1% in FY2014. The change in net position from June 30, 2012 to June 30, 2013 equaled $42.1 million or 10.0%.

- Operating revenues increased $1.2 million or 1.3% as a result of an increase grants and contracts. By comparison, operating revenues in 2013 approximated the operating revenues in 2012.

- Net non-operating revenues increased $6.4 million or 3.7% as a result of increased State and Local appropriations. By comparison, net non-operating revenues in 2013 increased $3.4 million or 2.0% over 2012 as a result of increased State and Local appropriations and Federal Pell grants.

- Overall operating expenses for fiscal year 2014 increased $26.8 million when compared to FY2013, or 9.5%, as a result of net changes in spending which included: increases in instruction $4.2 million or 5.0%; research $67.6 thousand or 504.0%; academic support $4.0 million or 10.7%; student services $2.8 million or 10.4%; operation of plant $1.5 million or 4.4%; institutional support $6.6 million or 13.7%; scholarships and related expenses $438 thousand or 9.7%; depreciation expense $1.6 million or 10.9%; auxiliary enterprises $1.6 million or 13.3%; other expenditures $3.9 million or 49.6% and state paid benefits $209 thousand or 1.6%. By comparison, operating expenses for FY2013 decreased $3.9 million when compared to FY2012 or 1.3% as a result of net changes in spending which included: increases in research $13.4 thousand or 100%; institutional support $2.3 million or 5.0%, academic support $12.8 million or 52.5%; operations of plant $801.6 thousand or 2.5%; depreciation $397.1 thousand or 2.9%; and State paid benefits $985.7 thousand or 8.2%. Spending decreased in the areas of: instruction $17.8 million or 17.4%; student services $2.1 million or 7.1%; auxiliary enterprises $959.2 thousand or 7.5% and other expenditures $274.5 thousand or 3.4%.

Enrollment based on FTEs (full time equivalent students) decreased 4,915 FTEs to 21,403 or 4.1 % for 2014. FTEs for 2012 and 2013 were 22,271 and 22,318 an increase of 314 FTE's or 1.4% respectively. This student FTE information is shown graphically below.



	2010	2011	2012	2013	2014
Student Count	60,698	59,314	62,173	60,717	59,389
FTE's	21,866	21,957	22,271	22,318	21,403
Credit Hours	646,082	658,697	668,128	669,523	642,234

Statement of Net Position

The Statement of Net Position 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 Position 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 position at June 30, 2014, 2013, and 2012 is listed in the table on the next page.

Statements of Net Position

As of June 30,	2014	2013	2012
Assets			
Current assets	$ 98,130,501	$ 123,076,933	$ 109,110,934
Non-current assets	498,570,990	451,663,607	417,021,268
Total Assets	$ 596,701,491	$ 574,740,540	$ 526,132,202
Liabilities and Net Position			
Liabilities			
Current liabilities	$ 33,625,923	$ 42,398,163	$ 32,603,490
Non-current liabilities	67,197,812	69,248,961	72,527,174
Total Liabilities	100,823,735	111,647,124	105,130,664
Net Position			
Net investment in capital assets	432,397,378	385,242,934	345,066,291
Restricted for:			
Expendable - student loan program	2,011,482	2,012,518	2,025,388
Unrestricted	61,468,896	75,837,964	73,909,859
Total Net Position	495,877,756	463,093,416	421,001,538
Total Liabilities and Net Position	$ 596,701,491	$ 574,740,540	$ 526,132,202

- The College experienced negative growth in its unrestricted net position in 2014, a decrease of $14.4 million, or 18.9%, due primarily to an increase in operating expenditures and a decrease in tuition and fees. The change in unrestricted net position from 2012 to 2013 increased $1.9 million or 2.6%, due to primarily to an increase in CIP receivable and capital assets coupled with a decrease in long-term liabilities.

- Current assets decreased $25.0 million, or 20.3%, in 2014 due to decreases in short-term investments and CIP receivables. From a liquidity perspective, current assets cover current liabilities 2.9 times, an indicator of excellent liquidity and ability to withstand short-term demands for working capital. This rate of coverage is unchanged from last year. Current assets cover 4 months of total operating expenses, including depreciation. For 2014, one month of operating expenses is approximately $25.8 million. For purposes of comparison, the change in current assets from 2012 to 2013 increased $14.0 million or 12.8 %, due primarily to increases in short term investments and CIP receivables.

- Non-current assets increased to $498.6 million in 2014 from $451.7 million in 2013 due to an increase in capital assets which grew by 10.2%, due to construction of the Bioscience Education Center on the Germantown campus and renovation of the East Science building on the Rockville campus. By comparison, non-current assets increased 8.3% from 2012 to 2013 due to an increase in capital assets, which increased $38.2 million or 9.4%.

- Current liabilities decreased by $8.8 million or 20.7% in 2014 due mainly to a 13.3% decrease in unearned revenues and an 85.4% decrease in overdrafts. By comparison, current liabilities in 2013 increased 30.1% over 2012 due mainly to a 10.2% increase in accounts payable and accrued expenses, and a 216.1% increase in overdrafts.

- Non-current liabilities decreased 3.0%, which resulted from a $2.0 million decrease in long-term liabilities. The reason for the decrease is connected to the declining long term debt associated with the lease payments. By comparison, the variance in non-current liabilities between 2013 and 2012 equaled a decrease of $3.3 million or 4.5% due to the long-term debt associated with the lease payments for the Goldenrod Building.

Statement of Revenues, Expenses and Changes in Net Position

A summary Statement of Revenues, Expenses and Changes in Net Position 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, 2014, 2013, and 2012.

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 $216.9 million before the appropriation of these crucial revenue streams. Adding these non-operating resources, which equaled $181.2 million in FY2014, offsets the vast majority of the operating loss, and results in an adjusted loss amount of $35.7 million. This provides a more accurate picture of the College's scale and results of operations.

Statements of Revenues, Expenses and Changes in Net Position

	FY2014	FY2013	FY2012
Operating Revenue			
Student Tuition/Fees	$ 63,214,344	$ 64,473,104	$ 63,972,768
Grants & Contracts	13,388,042	12,104,734	11,695,186
Auxiliary Enterprises	13,015,056	12,209,961	12,845,548
Other Operating Revenue	2,035,374	1,679,455	1,848,708
Total Operating Revenue	91,652,816	90,467,254	90,362,210
Operating Expenses	308,517,904	281,674,490	285,573,114
Operating Loss	(216,865,088)	(191,207,236)	(195,210,904)
Non-Operating Revenue (Expense)			
State/Local Appropriation	138,365,071	132,262,157	130,833,295
State Paid Benefits	13,190,914	12,981,435	11,995,713
Federal Pell Grants	32,112,955	32,043,272	30,384,256
Investment and Interest Income	143,289	177,757	173,830
Interest Expense	(2,641,845)	(2,723,220)	(2,101,137)
Total Non-Operating Revenue, Net	181,170,384	174,741,401	171,285,957
Loss Before Other Revenues (Expenses)	(35,694,704)	(16,465,835)	(23,924,947)
Other Revenues (Expenses)			
Capital Appropriation	68,091,623	58,259,028	35,603,210
Capital Grants/Gifts	504,936	319,724	773,184
Loss on Disposal of Capital Assets	(117,515)	(21,039)	(93,002)
Total Other Revenue, Net	68,479,044	58,557,713	36,283,392
Change in Net Position	32,784,340	42,091,878	12,358,445
Beginning Net Position	463,093,416	421,001,538	408,643,093
Ending Net Position	$ 495,877,756	$ 463,093,416	$ 421,001,538

Operating revenues increased $1.2 million or 1.3% in 2014, and operating revenues in 2013 approximated those in 2012.

- Tuition and fees, net of scholarship allowances, equaled $63.2 million in 2014, a decrease of 1.2% from the 2013 total, and $758 thousand less than recorded for 2012. As a percentage of total operating revenues, this revenue category equals 69.0% of the total. Over the last 3 years, as a percentage of total operating revenues, this revenue category averaged 70.2%.

- Grants and contracts of $13.4 million make up 14.6% of the College's operating revenue in FY2014 and $12.1 million or 13.6% in FY2013, showing an increase of $1.3 million and $410 thousand in FY2014 and FY2013, respectively. Funding for Federal Pell grants which equaled $32.1 million in 2014, 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 59.5%, 66.6%, and 47.9% of the College's operating budget over the last three fiscal years respectively. Non-operating revenue increase by $6.4 million and $3.6 million in FY14 and FY13, respectively. State and Local appropriations have increased 6.1% since FY2012. The upward trend is indicative of the improved economic fiscal climate both locally and at the state level.

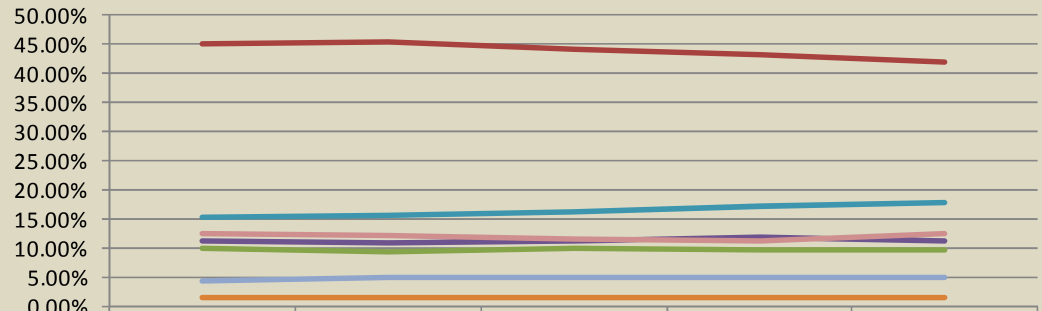
- Other revenue, primarily capital appropriations for land, construction, and equipment is funded from governmental sources. This category shows an increase in 2014 and 2013 of $9.8 million or 16.9% and $22.7 million or 63.6% respectively. Montgomery College continues to concentrate on the renewal of 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 on the next page 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 salary and benefit increases the rate of growth for expenses for all of the functional categories show an increase of $23.8 million or 8.5%. College operating expenditures totaled $308.5 million in 2014 as compared to $281.7 million in 2013 and $285.6 million in 2012. The decreased spending of $3.9 million or 1.4% between 2012 and 2013 is reflective of the economic climate and cost containment efforts.

Five Year Trends in Expenditures



	2010	2011	2012	2013	2014
Instruction & Acad Support	45.18%	45.39%	44.30%	43.11%	42.02%
Student Services	9.93%	9.44%	10.17%	9.58%	9.66%
Operation of Plant	11.24%	10.81%	11.39%	11.83%	11.28%
Institutional Support	15.26%	15.62%	16.19%	17.23%	17.88%
Scholarships	1.43%	1.53%	1.60%	1.61%	1.61%
Depreciation	4.39%	5.08%	4.86%	5.07%	5.13%
Other	12.57%	12.14%	11.49%	11.36%	12.42%

- Instructional and academic support exenditures represented $129.6 million or 41.9% of total College expenses in 2014, reflecting a spending increase of $8.2 million. For 2013 and 2012, instructional and academic support expenditures represented 43.1% and 44.3%, respectively of total operating expenses.

- Salaries and benefits continue to be the major component of all functional categories, except scholarships, depreciation and disposals which contain no salary expenses. In 2014, salaries and benefits accounted for 71% of all College expenditures and these employee compensation costs totaled $219 million (including State paid retirement costs). This represents a $14.3 million or 7.0% increase over FY2013. In FY2013 and FY2012, College salary and benefit expenditures (including State paid retirement costs), equaled $204.7 and $203.3 million, respectively.

- Spending for institutional support in 2014 increased from $48.5 million to $55.2 million, a change of $6.6 million or 13.7%. The factors associated with this change include increased costs of employee benefits and salaries and realignment of staff throughout the College. From 2013 to 2012, the increase in spending was $2.3 million, an increase of 5.0%.

- 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 $33.6 million were offset against tuition and fee income. In 2014, spending for this function equaled $5.0 million, a 9.6% increase over 2013. In 2013, spending for scholarships equaled $4.5 million, similar to 2012 spending.

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.

Statements of Cash Flows

	2014	2013	2012
Net cash used in operating activities	$ (194,823,124)	$ (153,423,498)	$ (127,658,923)
Net cash provided by non-capital financing activities	169,991,338	165,176,191	168,051,276
Net cash provided by (used in) capital and related financing activities	12,086,449	(10,379,577)	176,394
Net cash provided by (used in) investing activities	9,226,781	(2,462,703)	(19,438,016)
Decrease in cash and cash equivalents	(3,518,556)	(1,089,587)	(21,130,731)
Cash and cash equivalents, beginning of year	43,813,404	44,902,991	23,772,260
Cash and cash equivalents, end of year	$ 40,294,848	$ 43,813,404	$ 44,902,991

- The College's cash and cash equivalents decreased by $3.5 million for FY2014. This change was due mainly to an increase in cash used for operating activities of $41.3 million over FY2013 and cash investments of more than twelve months. In addition, cash flows used in investing activities increased $11.7 million due to less cash used to purchase investments while cash flows from non-capital financing activities increased by $4.8 million. By contrast, the College's cash and cash equivalents decreased by $1.1 million in 2013. This change from 2012 to 2013 was due mainly to an increase in cash used for operating activities and capital financial activities.

- A large portion of the $22.5 million increase provided by capital financing activities is due to a $30.8 million increase in capital appropriations.

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

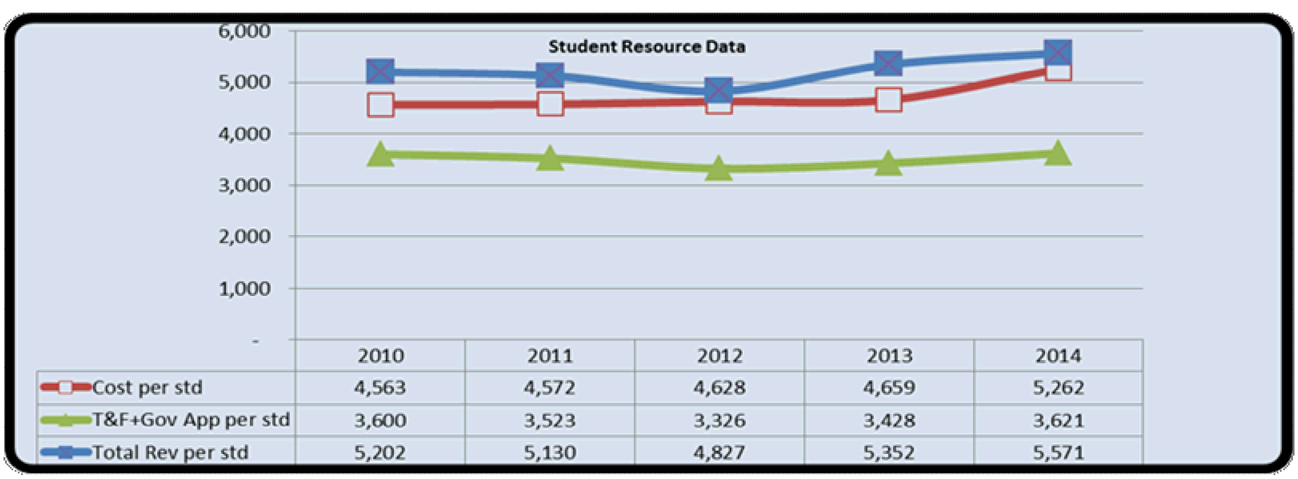
Listed below are significant challenges that can impact the future of Montgomery College:

- 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. Early fiscal projections for the County show no new resources available for funding in 2016. The state is projecting a structural budget gap for 2016 of $404 million and there is continued concern about the effects of federal sequestration. 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 2014, July 2013 and July 2012 was 6.5%, 7.1% and 7.0%, respectively. This is slightly above the national rate which stood at 6.2% for July, 2014 a decline over the last year from 7.3% a year ago. The unemployment rate has been trending lower for Montgomery County (5.1% in July 2014), and an increase in this single factor could impact the budgetary picture for months or years to come as it affects so many different governmental tax structures, revenue pools and fiscal planning initiatives.

- Montgomery College's enrollment is budgeted to be 25,665 in full-time equivalent (FTE) students next year. The College is beginning to see a decline in enrollment as the economy improves and more students are leaving the classroom to return to work coupled with a decline in the growth of graduating students from the Montgomery County Public Schools.

- As indicated in the graphic below, the cost per student metric continues to rise, up 15.3% in five years. Due to both a decrease in tuition and fees and an increase in State and County aid, total revenue per student increased in FY2014.



	2010	2011	2012	2013	2014
Cost per std	4,563	4,572	4,628	4,659	5,262
T&F+Gov App per std	3,600	3,523	3,326	3,428	3,621
Total Rev per std	5,202	5,130	4,827	5,352	5,571

- The effects of social media technology (SMT) on teaching and learning can impact the costs of delivering educational services to our students. A rapid advance in the way students communicate, interact, and learn is likely to have a dramatic impact on our existing instructional delivery as demand increases for wireless networking. Training and staff development costs could escalate and mobile technology standards are constantly evolving. Steps to ensure that faculty remains ahead of the technology curve will always increase costs.

- There are four major capital projects that will affect the future financial position of Montgomery College. One is the completion of the construction of the Bioscience Education Center on the Germantown campus. The second is the renovation of the Science West Building on the Rockville campus. The third is the construction of a new parking garage on the Rockville campus. The fourth is the renovation of the Science East Building on the Rockville Campus.

- The possible change in funding methodology from enrollment to performance based funding could impact the current structure under which the College operates. The Maryland Higher Education Commission continues to review and test performance based models in an effort to devise a methodology appropriate for Maryland. Colleges may be evaluated based on various outcomes such as affordability, student completion rates, and the earnings of graduates. Also student aid could be linked to the ratings and colleges with higher rankings will receive larger Federal Pell grants.

- The State adopted the College and Career Readiness and College Completion Act in 2013 and remains focused on improving completion rates statewide. Further legislative initiatives may have an impact on the operations of the College.

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

Contacting the College's Financial Management

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

FINANCIAL STATEMENTS

MONTGOMERY COLLEGE
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,294,848	$ 43,813,404
Short-term investments	33,390,180	47,480,621
CIP receivable	10,195,916	19,494,350
Student accounts receivable, net	5,436,560	4,404,054
Student loans receivable, net	177,320	124,567
Grants and contracts receivable	2,131,173	2,914,054
Governmental appropriations receivable	1,203,794	626,644
Due from Montgomery College Foundation, Inc.	559,956	93,414
Other receivables	829,701	932,250
Inventory	1,558,183	1,748,540
Prepaid expenses and other assets	2,352,870	1,445,035
Total current assets	98,130,501	123,076,933
Non-current assets:		
Student loans receivable - net	1,805,300	1,852,945
Deposits	49,289	49,289
Long-term investments	5,006,949	-
OPEB asset value	3,228,708	6,375,880
Capital assets - net	488,480,744	443,385,493
Total non-current assets	498,570,990	451,663,607
TOTAL ASSETS	$ 596,701,491	$ 574,740,540
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities**:**		
Accounts payable and accrued expenses	$ 21,961,197	$ 22,224,010
Overdrafts	1,180,545	8,064,936
Unearned revenue	5,381,260	7,068,163
Due to other organizations	2,014,658	1,924,197
Current portion of long-term liabilities	3,088,263	3,116,857
Total current liabilities	33,625,923	42,398,163
Non-current liabilities:		
Unearned revenue	6,065,887	6,129,349
Long-term liabilities	61,131,925	63,119,612
Total non-current liabilities	67,197,812	69,248,961
Total liabilities	100,823,735	111,647,124
NET POSITION		
Net investment in capital assets	432,397,378	385,242,934
Restricted for:		
Expendable- student loan programs	2,011,482	2,012,518
Unrestricted	61,468,896	75,837,964
Total net position	495,877,756	463,093,416
TOTAL LIABILITIES AND NET POSITION	$ 596,701,491	$ 574,740,540

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

MONTGOMERY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES AND EXPENSES		
Operating revenues:		
Student tuition and fees, net of scholarship allowance of $33,624,998 and $32,858,546, respectively	$ 63,214,344	$ 64,473,104
Federal grants and contracts	6,195,379	5,790,580
State grants and contracts	5,280,923	4,835,336
Local grants and contracts	1,911,740	1,478,818
Auxiliary enterprises, net of scholarship allowance of $1,994,682 and $1,894,799, respectively	13,015,056	12,209,961
Other operating revenues	2,035,374	1,679,455
Total operating revenues	91,652,816	90,467,254
Operating expenses:		
Educational and general		
Instruction	88,619,001	84,391,712
Research	81,073	13,424
Academic support	41,029,299	37,047,534
Student services	29,796,212	26,980,288
Operation of plant	34,788,255	33,332,190
Institutional support	55,162,159	48,535,685
Scholarships and related expenses	4,973,245	4,535,716
Depreciation expense	15,841,375	14,283,350
Auxiliary enterprises	13,276,689	11,713,153
Other expenditures	11,759,682	7,860,003
State paid benefits	13,190,914	12,981,435
Total operating expenses	308,517,904	281,674,490
OPERATING LOSS	(216,865,088)	(191,207,236)
NON-OPERATING REVENUES (EXPENSES)		
State and local appropriations	138,365,071	132,262,157
State paid benefits	13,190,914	12,981,435
Federal pell grants	32,112,955	32,043,272
Investment and interest income	143,289	177,757
Interest expense on capital assets related debt	(2,641,845)	(2,723,220)
NON-OPERATING REVENUES, NET	181,170,384	174,741,401
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(35,694,704)	(16,465,835)
Capital appropriations	68,091,623	58,259,028
Capital grants, contracts and gifts	504,936	319,724
Loss on disposal of capital assets	(117,515)	(21,039)
	68,479,044	58,557,713
INCREASE IN NET POSITION	32,784,340	42,091,878
NET POSITION, BEGINNING OF YEAR	463,093,416	421,001,538
NET POSITION, END OF YEAR	$ 495,877,756	$ 463,093,416

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

MONTGOMERY COLLEGE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 60,431,474	$ 64,055,532
Grants and contracts	14,170,923	10,263,145
Payments to suppliers	(75,640,561)	(63,637,420)
Payments to employees	(203,384,396)	(174,002,432)
Payments for scholarships	(4,973,245)	(4,535,716)
Loans issued to students	(251,781)	(183,185)
Collection of loans from students	138,028	147,142
Auxiliary enterprises	13,015,056	12,209,961
Other receipts	1,671,378	2,259,475
Net cash used in operating activities	(194,823,124)	(153,423,498)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State and local appropriations	137,787,921	132,979,157
Federal pell grants	32,112,955	32,043,272
Student organization agency transactions - net	90,462	153,762
Net cash provided by non-capital financing activities	169,991,338	165,176,191
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	77,390,057	46,568,377
Capital grants, contracts and gifts	504,936	319,724
Purchase of capital assets	(61,054,141)	(52,507,865)
Payments for capital lease	(2,112,558)	(2,036,593)
Interest paid	(2,641,845)	(2,723,220)
Net cash provided by (used in) capital and related financing activities	12,086,449	(10,379,577)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	51,000,000	59,382,749
Interest income on investments	161,206	219,873
Purchase of investments	(41,934,425)	(62,065,325)
Net cash provided by (used in) investing activities	9,226,781	(2,462,703)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,518,556)	(1,089,587)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,813,404	44,902,991
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 40,294,848	$ 43,813,404
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (216,865,088)	$ (191,207,236)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	15,841,375	14,283,350
State paid benefits	13,190,914	12,981,435
OPEB benefit cost	3,147,172	3,590,406
Effects of changes in operating assets and liabilities:		
Receivables - net	(488,950)	(53,330)
Inventory	190,357	(138,979)
Loans to students - net	23,023	57,704
Other assets	(907,835)	(706,539)
Accounts payable	(436,853)	9,384,682
Overdrafts	(6,884,391)	5,513,783
Unearned revenue	(1,750,365)	(7,673,433)
Compensated absences	117,517	544,659
NET CASH USED IN OPERATING ACTIVITIES	$ (194,823,124)	$ (153,423,498)

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

MONTGOMERY COLLEGE
STATEMENTS OF NET ASSETS – COMPONENT UNIT
June 30, 2014 and 2013

	2014	2013
ASSETS		
ASSETS		
Cash and cash equivalents	$ 3,657,211	$ 5,694,130
Certificates of deposit - held to maturity	2,142,346	519,357
Certificates of deposit - reserved for debt service	3,552,062	3,550,397
Prepaid expenses	11,279	70,923
Pledges receivable, net	2,096,776	1,754,482
Other assets	39,378	22,127
Investments	24,211,830	19,652,797
Land	2,750,000	2,750,000
Deferred financing costs	318,367	336,259
Unamortized note discount	509,241	535,854
Assets held for charitable gift annuities	415,729	170,342
Net investment in capital lease	55,795,000	57,785,000
TOTAL ASSETS	$ 95,499,219	$ 92,841,668
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 554,746	$ 335,266
Deferred revenue	1,030,509	1,077,310
Accrued interest payable	420,566	432,004
Annuities payable from charitable gifts	1,205,200	1,285,387
Note payable - Montgomery County Revenue Authority	55,795,000	57,785,000
Unamortized note premium	563,269	594,606
Total liabilities	59,569,290	61,509,573
NET ASSETS		
Unrestricted	6,687,395	6,251,105
Temporarily restricted	10,937,219	8,392,323
Permanently restricted	18,305,315	16,688,667
Total net assets	35,929,929	31,332,095
TOTAL LIABILITIES AND NET ASSETS	$ 95,499,219	$ 92,841,668

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

MONTGOMERY COLLEGE
STATEMENT OF ACTIVITIES – COMPONENT UNIT
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and grants, net	$ 166,032	$ 2,294,875	$ 1,533,917	$ 3,994,824
Change in value of charitable gift annuities	72,632	(3,749)	7,019	75,902
Contributed services	425,741	-	-	425,741
Other noncash contributions	41,560	5,215	-	46,775
Revenue from special events/activities	-	91,145	-	91,145
Interest and dividends on reserved assets	5,632	-	-	5,632
Interest and dividends on unreserved assets	79,816	482,902	-	562,718
Unrealized gain on investments	(13,794)	(268,272)	-	(282,066)
Realized gain on investments	249,667	2,597,774	-	2,847,441
Interest from investment in capital lease	2,640,073	-	-	2,640,073
Other income	23,406	33,458	-	56,864
Net assets released from restrictions	2,612,740	(2,612,740)	-	-
Total revenue, gains and other support	6,303,505	2,620,608	1,540,936	10,465,049
EXPENSES				
Program services:				
Scholarships	1,377,302	-	-	1,377,302
Student athletics	22,806	-	-	22,806
Student and faculty support - noncash expenses of $131,704	1,021,289	-	-	1,021,289
Note interest expense	2,594,464	-	-	2,594,464
	5,015,861	-	-	5,015,861
General and administrative - noncash expense of $318,300	510,960	-	-	510,960
Resource development - noncash expenses of $31,512	340,394	-	-	340,394
Total expenses	5,867,215	-	-	5,867,215
CHANGE IN NET ASSETS	436,290	2,620,608	1,540,936	4,597,834
NET ASSETS, BEGINNING OF YEAR	6,251,105	8,392,323	16,688,667	31,332,095
TRANSFERS	-	(75,712)	75,712	-
NET ASSETS, END OF YEAR	$ 6,687,395	$ 10,937,219	$ 18,305,315	$ 35,929,929

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

MONTGOMERY COLLEGE
STATEMENT OF ACTIVITIES – COMPONENT UNIT
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and grants, net	$ 87,021	$ 1,645,045	$ 895,230	$ 2,627,296
Change in value of charitable gift annuities	(24,247)	-	3,317	(20,930)
Contributed services	364,910	-	-	364,910
Other noncash contributions	48,113	26,074	-	74,187
Revenue from special events/activities	-	88,566	-	88,566
Interest and dividends on reserved assets	9,059	-	-	9,059
Interest and dividends on unreserved assets	42,355	412,686	-	455,041
Unrealized gain on investments	51,917	629,124	-	681,041
Realized gain on investments	95,773	930,042	-	1,025,815
Realized loss on sale of land	-	-	(20,280)	(20,280)
Interest from investment in capital lease	2,706,436	-	-	2,706,436
Other income	-	31,138	-	31,138
Net assets released from restrictions	2,176,710	(2,176,710)	-	-
Total revenue, gains and other support	5,558,047	1,585,965	878,267	8,022,279
EXPENSES				
Program services:				
Scholarships	1,264,484	-	-	1,264,484
Student athletics	3,675	-	-	3,675
Student and faculty support - noncash expenses of $146,689	764,678	-	-	764,678
Note interest expense	2,662,312	-	-	2,662,312
	4,695,149	-	-	4,695,149
General and administrative - noncash expense of $264,809	524,488	-	-	524,488
Resource development - noncash expenses of $27,599	259,590	-	-	259,590
Total expenses	5,479,227	-	-	5,479,227
CHANGE IN NET ASSETS	78,820	1,585,965	878,267	2,543,052
NET ASSETS, BEGINNING OF YEAR	6,172,285	6,805,358	15,811,400	28,789,043
TRANSFERS	-	1,000	(1,000)	-
NET ASSETS, END OF YEAR	$ 6,251,105	$ 8,392,323	$ 16,688,667	$ 31,332,095

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

MONTGOMERY COLLEGE
STATEMENTS OF FIDUCIARY NET POSITION
OPEB TRUST FUND
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and short-term investments	$ -	$ 18,103
Interest and dividends receivable	-	-
Investments, at fair value:		
Mutual Funds - equity	-	18,498,014
Mutual Funds - fixed income	-	9,173,262
US Government Issues	-	-
Total investments	-	27,671,276
Due from County Consolidated Retiree Health Benefits Trust	-	2,779,914
Total assets	-	30,469,293
LIABILITIES	-	-
NET POSITION	$ -	$ 30,469,293

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

MONTGOMERY COLLEGE
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
OPEB TRUST FUND
Years Ended June 30, 2014 and 2013

	2014	2013
ADDITIONS		
Employer contributions	$ 341,862	$ 241,404
County contributions	-	1,779,914
Investment income:		
Net appreciation in fair value of investments	2,378,043	2,088,455
Interest	24	33,546
Dividends	490,392	715,225
Total investment income	2,868,459	2,837,226
Total additions	3,210,321	4,858,544
DEDUCTIONS		
Administrative expense	67,569	101,609
Transfer to County plan	33,612,045	-
Total deductions	33,679,614	101,609
NET INCREASE (DECREASE)	(30,469,293)	4,756,935
NET POSITION - BEGINNING OF YEAR	30,469,293	25,712,358
NET POSITION - END OF YEAR	$ -	$ 30,469,293

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity (MC and MCF)

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 blended herein, as required by generally accepted accounting principles. All significant interorganization balances and transactions were eliminated in consolidation.

Montgomery College Foundation, Inc. (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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (MC and MCF) (Continued)

During the years ended June 30, 2014 and 2013, the Foundation distributed $1,242,349 and $2,424,718, 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.

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 Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial statements.

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 the 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 1 – 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 years 2014 and 2013, the College netted student aid expenses in the amount of $35,619,680 and $34,753,345 against tuition revenue of $33,624,998 and $32,858,546 and auxiliary enterprises revenue of $1,994,682 and $1,894,799, 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)

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities. The College's principal ongoing operations determine operating flow activities. Ongoing operations of the College include, but are not limited to, providing intellectual, cultural and social services through two-year associate degree programs, continuing education programs and continuous learning programs. Operating revenues of the College consist of tuition and fees, grants and contracts (except Federal Pell grants), 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 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-Operating Components (MC) (Continued)

Also included are certain interfund and intergovernmental receipts and payments such as State appropriations, State paid benefits 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 $19,978,984, which represents the estimated amount of expense ultimately to result if unperformed obligations are completed. Encumbrances outstanding at June 30, 2014 do not constitute expenses or liabilities and are not reflected in these financial statements.

Net Position (MC)

Net position is classified according to external restrictions or availability of assets for satisfaction of College obligations. Restricted net position is reported as either expendable or nonexpendable. The unrestricted net position for the years ended June 30, 2014 and 2013 was earmarked for:

	2014	2013
Encumbrances	$ 19,978,984	$ 22,183,781
Emergency repairs and maintenance	838,972	791,901
Reserve for major facility projects	10,629,860	9,787,592
Reserve for OPEB contribution	3,228,708	6,375,880
Quasi-endowment	600,349	599,144
Other purposes	26,192,023	36,099,666
Total	$ 61,468,896	$ 75,837,964

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (MCF)

Net assets, which results from contributions or other inflows of assets from donors, are reported as unrestricted or restricted based on stipulations of the donor. Unrestricted net assets is the portion of net assets that is 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 is 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.

Restricted Net Position - Expendable and Nonexpendable (MC)

The College's restricted net position has 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 position to be delineated on the financials as either expendable or nonexpendable. Nonexpendable net position is required to be maintained in perpetuity. The College had no nonexpendable net position at June 30, 2014 and 2013. Expendable net position, for which there are externally imposed constraints, are obligated or expended with the condition(s) of the constraints. Expendable net position represents 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)

Short-term investments with maturities of less than 90 days on June 30, 2014 and 2013 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

Current and Non-Current (MC)

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, loans receivable, marketable securities, and prepaid expenses which meet the conditions stated above. Current liabilities are defined as obligations whose liquidation is reasonably

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and Non-Current (MC) (Continued)

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 note 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, 2014 and 2013 have been recognized as unearned revenue.

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.

The basis of valuation for assets constructed or purchased is cost, while assets acquired by gift are recorded at their fair 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (MC) (Continued)

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. No impairment was recognized for the years ended June 30, 2014 or 2013.

Valuation of Investments (MCF)

Investments are stated at fair value as determined by quoted market prices. Realized and unrealized gains and losses in fair value, interest income and dividend income are reflected in the Statements of Activities.

Pledges (MCF)

Legally enforceable pledges are recorded as support in the year the pledges are made. Payments to be received in periods beyond one year are reflected at their present value. Pledges deemed uncollectible are charged directly against gift and contribution revenue and pledges receivable is reduced.

Contributions of temporarily restricted net position 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges (MCF) (Continued)

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.

Governmental Accounting Standards Board (GASB) Pronouncements

In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. The College adopted Statement No. 60 for the fiscal year ending June 30, 2014. The College determined that Statement No. 60 has no effect on its financial statements.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. With Statements No. 63 and 65, GASB has reclassified certain assets and liabilities as "deferred outflows" and "deferred inflows" of resources. Further, GASB has replaced the term "net assets" with "net position," and has changed the balance sheet presentation to "assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position." The College adopted Statement No. 63 for the fiscal year ending June 30, 2013, and is required to adopt Statement No. 65 for the fiscal year ending June 30, 2014. The College has determined that the adoption of Statement No. 63 has no effect on the substance of its financial statements but will increase the complexity of the financial statements to its readers, as the new presentation will differ from the traditional and familiar business reporting model. The College has determined that the adoption of Statement No. 65 has no effect on the substance of its financial statements as the College does not have any deferred inflows or deferred outflows as defined by the statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Pronouncements

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 will require the College to report its share of the pension liabilities that the Maryland State Retirement System (MSRS) must record beginning in fiscal year 2015. Although the College has not received an estimate of its share of the pension liabilities from the State, the liabilities are expected to be significant and have a detrimental effect on the College's financial statements.

In January 2013, GASB issued Statement No. 69, Government Combination and Disposals of Government Operations. Statement No. 69 established accounting and financial reporting standards related to government combinations and disposals of government operations. In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. Statement No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. The College has determined that Statements No. 69 and 70 will have no effect on its financial statements.

Reclassifications (MC)

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

NOTE 2 – 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

NOTE 2 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Cash, Cash Equivalents and Investments (MC)

As of June 30, 2014 and 2013, the College's carrying amount of cash, cash equivalents, short-term investments, and investments consisted of the following:

	2014	2013
Cash	$ 4,737,075	$ 7,021,769
Cash equivalent - MLGIP	35,557,773	36,791,635
Total cash and cash equivalents	40,294,848	43,813,404
Short-term investments	33,390,180	47,480,621
Total cash and short-term investments	73,685,028	91,294,025
Long-term investments	5,006,949	-
OPEB Trust cash and short term investments	-	18,103
OPEB Trust investments, at fair value	-	27,671,276
Total OPEB Trust cash and investments	-	27,689,379
Total	$ 78,691,977	$ 118,983,404

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 $4,529,517 and $6,838,940 as of June 30, 2014 and 2013, respectively. Petty cash and cashier's change funds of $157,005 and $129,736 as of June 30, 2014 and 2013, respectively, are excluded from these amounts. In addition, private loans of $50,554 and $53,093 as of June 30, 2014 and 2013, respectively, are excluded from these amounts. Actual bank statement balances totaled $7,462,187 and $1,526,615 at the end of fiscal years 2014 and 2013, respectively. Collateral was maintained during the year to secure all deposits and investments as specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

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

NOTE 2 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Cash, Cash Equivalents and Investments (MC) (Continued)

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 December 30, 2015. 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 approximately nineteen months. 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 Statement of Net Position.

As of June 30, 2014 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	$ 8,779,310	$ 750,000	$ 8,029,310	$ -	$ -
Farmer Mac discount notes	6,491,287	4,992,521	1,498,766	-	-
Fed Farm Credit Bureau coupon	5,003,621	-	2,000,000	3,003,621	-
FNMA discount notes	1,996,862	1,996,862	-	-	-
FNMA strips	998,617	-	998,617	-	-
Bankers acceptances	371,908	371,908	-	-	-
Negotiable certificates of deposit	14,755,524	4,000,000	8,752,196	2,003,328	-
Local Government Investment Pool	35,557,773	35,557,773	-	-	-
Total	$ 73,954,902	$ 47,669,064	$ 21,278,889	$ 5,006,949	$ -

NOTE 2 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Cash, Cash Equivalents and Investments (MC) (Continued)

As of June 30, 2013 the College had the following investments and maturities.

		Investment Maturities (in Months)			
Investment Type	**Total**	**Less than 6**	**7-12**	**13 - 18**	**19-24**
U.S. Agency:					
FHLB coupon	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
FHLMC Step rate bond	2,008,700	2,008,700	-	-	-
FHLMC discount note	4,990,900	-	4,990,900	-	-
Farmer Mac discount notes	9,980,401	4,988,877	4,991,524	-	-
Fed Farm Credit Bureau coupon	14,499,380	-	14,499,380	-	-
Fed Farm Credit Bureau floating rate bond	1,001,240	1,001,240	-	-	-
Negotiable certificates of deposit	10,000,000	2,000,000	8,000,000	-	-
Local Government Investment Pool	36,791,635	36,791,635	-	-	-
Total	$ 84,272,256	$ 46,790,452	$ 37,481,804	$ -	$ -

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

	2014			2013		
Investment Type	**S&P**	**Moody's**	**Fitch**	**S&P**	**Moody's**	**Fitch**
U.S. Agency:						
FHLB coupon	AA+	Aaa	NR	AA+	Aaa	NR
FHLMC step rate bond	-	-	-	AA+	Aaa	AAA
FHLMC discount note	-	-	-	NR	NR	NR
Farmer Mac discount notes	NR	NR	NR	NR	NR	NR
Fed Farm Credit Bureau coupon	AA+	Aaa	AAA	AA+	Aaa	AAA
Fed Farm Credit Bureau floating rate bond	-	-	-	AA+	Aaa	AAA
FNMA discount notes	AAA	AA	NR	-	-	-
FNMA strips	AA+	Aaa	NR	-	-	-
Bankers acceptances	A-1	P-1	NR	-	-	-
Certificates of deposit	AA+	AAA	NR	A	A1	AA-
Certificates of deposit	AA+	Aaa	AAA	AA+	Aaa	AAA
Certificates of deposit	NR	NR	NR	-	-	-

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.

NOTE 2 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Cash, Cash Equivalents and Investments (MC) (Continued)

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, 2014 and 2013, 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.

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%
Commercial paper	5%

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%
Commercial paper	5%

NOTE 2 – CASH AND INVESTMENTS (MC & MCF) (CONTINUED)

Cash, Cash Equivalents and Investments (MC) (Continued)

Foreign Currency Risk. In accordance with Section IX of the College's Investment Program, 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, 2014, the College had federal agency securities held in the name of the College with BB&T, PNC and Sandy Spring Bank to collateralize deposits of the College.

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, 2014 and 2013 was $9,366,027 and $9,806,069, respectively. The Foundation has not experienced any losses on such accounts and management does not believe that it is exposed to any significant credit risk.

Investments (MCF)

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

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 23,221,062	$ 24,211,830	$ 18,260,075	$ 19,534,473
Equity securities	-	-	118,324	118,324
Total	$ 23,221,062	$ 24,211,830	$ 18,378,399	$ 19,652,797

NOTE 3 – ACCOUNTS AND PLEDGES RECEIVABLE (MC and MCF)

Accounts Receivable (MC)

Tuition and fees receivables are recorded net of allowance for doubtful accounts of $13,264,003 and $13,105,813 at June 30, 2014 and 2013, respectively.

The College currently participates in the Federal Perkins Loan Program (Perkins) and the Nursing Student Loan Program (NSLP). At June 30, 2014 and 2013, the balance of the Perkins receivables included in the student loans receivable was $2,368,271 and $2,342,291, respectively, less an allowance for doubtful receivables of $385,651 and $368,648, respectively. As of June 30, 2014 and 2013, 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 3 – ACCOUNTS AND PLEDGES RECEIVABLE (MC and MCF)

Pledges Receivable (MCF)

Pledges receivable at June 30 include amounts due in:

	2014	2013
Less than one year	$ 991,958	$ 700,921
One to five years	1,012,731	807,804
More than five years	1,683,720	1,787,726
	3,688,409	3,296,451
Pledges deemed uncollectible	(44,599)	(42,374)
Present value discount	(1,547,034)	(1,499,595)
Total	$ 2,096,776	$ 1,754,482

The discount rate used on long-term promises to give was 3% in both 2014 and 2013. Pledges deemed uncollectible are approximately 3% of discounted unconditional promises to give at June 30, 2014 and 2013 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, 2014 and 2013, the amount included in the pledge receivable balance was $191,263 and $216,755 respectively.

NOTE 4 – 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.

NOTE 4 – CHARITABLE REMAINDER TRUSTS (MCF) (CONTINUED)

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 position.

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

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets held for charitable gift annuities	$ 113,611	$ 252,185	$ 49,933	$ 415,729
Annuities payable from charitable gifts	1,105,589	70,157	29,454	1,205,200
Net assets / liabilities	$ (991,978)	$ 182,028	$ 20,479	$ (789,471)
2013				
Assets held for charitable gift annuities	$ 123,695	$ -	$ 46,647	$ 170,342
Annuities payable from charitable gifts	1,252,201	-	33,186	1,285,387
Net assets / liabilities	$ (1,128,506)	$ -	$ 13,461	$ (1,115,045)

During the years ended June 30, 2014 and 2013, no split-interest agreements were extinguished. One new split-interest agreement was created in 2014 and none were created in 2013. The total number of split-interest agreements was 15 and 14 as of June 30, 2014 and 2013, respectively.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (MC)

Capital Assets, Net (MC)

The following tables represent the changes in the capital asset categories (including depreciation) for fiscal years 2014 and 2013, respectively.

	Balance at July 1, 2013	Additions	Disposals / Transfers / Lease Retirements	Balance at June 30, 2014
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress - buildings	90,733,217	55,545,169	(576,448)	145,701,938
Construction in progress - equipment	6,968,743	1,569,059	(7,734,442)	803,360
Construction in progress - software	1,632,036	-	(1,022,764)	609,272
Art Works	186,805	-	-	186,805
Total non-depreciable assets	136,265,388	57,114,228	(9,333,654)	184,045,962
Depreciable assets				
Buildings	344,872,697	29,707	580,515	345,482,919
Equipment	60,866,059	3,583,226	3,057,518	67,506,803
Library books	6,201,566	332,696	(499,221)	6,035,041
Capital lease - building	65,695,000	-	-	65,695,000
Capital lease - copiers	594,637	-	-	594,637
Capital software	1,375,408	-	1,022,764	2,398,172
Total depreciable assets	479,605,367	3,945,629	4,161,576	487,712,572
Less accumulated depreciation				
Buildings	113,379,236	8,638,966	-	122,018,202
Equipment	45,462,484	4,479,284	(4,667,141)	45,274,628
Library books	4,482,606	268,729	(381,706)	4,369,629
Capital leases	8,243,997	1,995,927	-	10,239,924
Capital software	916,939	458,469	-	1,375,408
Total accumulated depreciation	172,485,262	15,841,375	(5,048,847)	183,277,791
Depreciable assets, net	307,120,105	(11,895,746)	9,210,423	304,434,782
Capital assets, net	$ 443,385,493	$ 45,218,482	$ (123,231)	$ 488,480,744

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

Capital Assets, Net (MC) (Continued)

	Balance at July 1, 2012	Additions	Disposals / Lease Retirements	Balance at June 30, 2013
Non-depreciable assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in progress - buildings	47,414,412	47,844,226	(4,525,421)	90,733,217
Construction in progress - equipment	6,499,107	469,636	-	6,968,743
Construction in progress - software	981,000	651,036	-	1,632,036
Art works	186,805	-	-	186,805
Total non-depreciable assets	91,825,911	48,964,898	(4,525,421)	136,265,388
Depreciable assets				
Buildings	339,190,391	5,682,306	-	344,872,697
Equipment	69,796,278	2,051,749	(10,981,968)	60,866,059
Library books	5,887,593	334,333	(20,360)	6,201,566
Capital lease - building	65,695,000	-	-	65,695,000
Capital lease - copiers	594,637	-	-	594,637
Capital software	1,375,408	-	-	1,375,408
Total depreciable assets	482,539,307	8,068,388	(11,002,328)	479,605,367
Less accumulated depreciation				
Buildings	106,409,671	6,969,565	-	113,379,236
Equipment	51,851,490	4,576,785	(10,965,791)	45,462,484
Library books	4,215,500	282,604	(15,498)	4,482,606
Capital leases	6,248,070	1,995,927	-	8,243,997
Capital software	458,470	458,469	-	916,939
Total accumulated depreciation	169,183,201	14,283,350	(10,981,289)	172,485,262
Depreciable assets, net	313,356,106	(6,214,963)	(21,039)	307,120,105
Capital assets, net	$ 405,182,017	$ 42,749,935	$ (4,546,460)	$ 443,385,493

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (MC)

Accounts payable and accrued liabilities represent amounts due at June 30 for goods and services received prior to the end of the fiscal year as follows:

	2014	2013
Salaries and wages	$ 7,742,167	$ 4,578,178
Benefits	1,061,000	1,077,000
Services and supplies	9,614,895	13,502,914
Payroll withholding	2,825,432	2,252,723
Unclaimed checks	564,496	560,456
Other	153,207	252,739
Total	$ 21,961,197	$ 22,224,010

NOTE 7 – LONG-TERM LIABILITIES (MC)

Long-term liability activity for the years ended June 30, 2014 and 2013 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
June 30, 2014					
Aetna supplemental retirement funds	$ 21,240	$ -	$ (21,240)	$ -	$ -
Lease obligations - 2005	27,240,000	-	(1,100,000)	26,140,000	1,145,000
Lease obligations - 2008	15,545,000	-	(455,000)	15,090,000	475,000
Lease obligations - 2011	15,000,000	-	(435,000)	14,565,000	445,000
Copier Leases	284,611	-	(122,558)	162,053	128,828
Compensated absences	8,145,618	1,011,952	(894,435)	8,263,135	894,435
Total	$ 66,236,469	$ 1,011,952	$ (3,028,233)	$ 64,220,188	$ 3,088,263
June 30, 2013					
Aetna supplemental retirement funds	$ 21,240	$ -	$ -	$ 21,240	$ -
Lease obligations - 2005	28,295,000	-	(1,055,000)	27,240,000	1,100,000
Lease obligations - 2008	15,985,000	-	(440,000)	15,545,000	455,000
Lease obligations - 2011	15,425,000	-	(425,000)	15,000,000	435,000
Copier Leases	401,204	-	(116,593)	284,611	122,558
Compensated absences	8,690,278	459,637	(1,004,297)	8,145,618	1,004,299
Montgomery County	75,000	-	(75,000)	-	-
Total	$ 68,892,722	$ 459,637	$ (3,115,890)	$ 66,236,469	$ 3,116,857

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

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 semiannual 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 $6,860,000 and $5,657,143 at June 30, 2014 and June 30, 2013, respectively. The College paid the Foundation $2,351,956 and $2,349,156 during the years ended June 30, 2014 and June 30, 2013, respectively, as stipulated in the project lease.

The land on which the Morris and Gwendolyn Cafritz Foundation Arts Center was 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 are 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 $1,190,581 and $1,191,244 to the Foundation during the years ended June 30, 2014 and 2013, respectively.

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.

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

c) Lease Obligations – 2011

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 Inc. The funds acquired for the Bonds were 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 are 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 $1,046,451 and $1,045,378 during the years ended June 30, 2014 and 2013, respectively.

Future payments to be paid by the College under the 2005, 2008 and 2011 lease obligations are as follows:

	2005	2008	2011	Total
2015	$ 2,352,956	$ 1,193,119	$ 1,032,823	$ 4,578,898
2016	2,350,706	1,193,719	1,028,923	4,573,348
2017	2,352,706	1,193,519	1,029,923	4,576,148
2018	2,352,706	1,192,519	1,029,573	4,574,798
2019	2,352,706	1,195,269	1,030,472	4,578,447
2020-2024	11,750,925	5,963,412	5,149,515	22,863,852
2025-2029	11,761,020	5,962,863	5,155,832	22,879,715
2030-2034	2,348,831	5,963,650	5,152,888	13,465,369
2035-2038	-	-	2,060,624	2,060,624
	37,622,556	23,858,070	22,670,573	84,151,199
Imputed interest	(11,482,556)	(8,768,070)	(8,105,573)	(28,356,199)
Total	$ 26,140,000	$ 15,090,000	$ 14,565,000	$ 55,795,000

d) Copier Leases

The College has entered into several copier leases which expire in 2016. At June 30, 2014, payments for the contract agreements and purchase agreements are as follows:

2015	$ 128,828
2016	33,225
Total	$ 162,053

e) Compensated Absences

Employees of the College earned $7,675,927 and $7,566,762 in annual and sick leave subject to termination pay-off at June 30, 2014 and 2013, 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 $587,208 and $578,857 for fiscal years 2014 and 2013, respectively. This amount has been included in the total compensated absences liability of $8,263,135 and $8,145,619 for fiscal years 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013, the total annual leave and sick leave earned was recognized as an expense.

NOTE 8 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF)

a) Notes Payable – 2005

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.

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

Maturity May 1	Principal Amount	Interest Rate
2015	$ 1,145,000	5.00%
2016	1,200,000	4.00%
2017	1,250,000	4.00%
2018	1,300,000	5.00%
2019	1,365,000	5.00%
Thereafter	19,880,000	varies from 4.25% and 5.00%
	$ 26,140,000	

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 $1,247,251 and $1,287,123 for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

b) Notes Payable – 2008

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.

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

Maturity Nov. 1	Principal Amount	Interest Rate
2014	$ 475,000	4.00%
2015	495,000	4.00%
2016	515,000	4.00%
2017	535,000	4.00%
2018	560,000	4.13%
Thereafter	12,510,000	varies from 4.38% to 5.25%
	$ 15,090,000	

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, 2014 and 2013 was $734,259 and $748,677, respectively.

NOTE 8 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF) (CONTINUED)

c) Notes Payable – 2011

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.

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

Maturity May 1	Principal Amount Series A	Principal Amount Series B	Interest Rate
2015	$ -	$ 445,000	2.00%
2016	-	450,000	2.00%
2017	-	460,000	2.25%
2018	-	470,000	3.00%
2019	-	485,000	4.00%
Thereafter	6,840,000	5,415,000	varies from 4.00% to 5.00%
	$ 6,840,000	$ 7,725,000	

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.

N**OTE 8 – NOTES PAYABLE – MONTGOMERY COUNTY REVENUE AUTHORITY (MCF)** (CONTINUED)

c) **Notes Payable – 2011** (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, 2014 and 2013 was $595,073 and $603,606, respectively.

NOTE 9 – UNEARNED REVENUE (MC)

In 2012, the Montgomery College Life Sciences Park Foundation Inc. (LSF) received land lease rental income in the amount of $6.3 million for the Montgomery College – Germantown Campus, located at 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 Statements of Net Position and the balance as of June 30, 2014 and 2013 is $6,129,349 and $6,192,811, respectively.

NOTE 10 – EXPENSES BY NATURAL CLASSIFICATIONS (MC)

The following table shows a classification of expenses for the years ending June 30, 2014 and 2013; both by function as listed in the Statement of Revenue, Expenses and Changes in Net Position 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, 2014									
Instruction	$ 74,172,908	$ 10,180,875	$ 1,808,202	$ 2,273,387	$ -	$ -	$ -	$ 183,629	$ 88,619,001
Research	77,141	3,932	-	-	-	-	-	-	81,073
Academic support	29,350,347	5,010,698	3,303,590	3,009,094	-	-	-	355,570	41,029,299
Student services	22,862,524	3,746,651	1,586,906	845,016	-	-	-	755,115	29,796,212
Operation of plant	13,553,336	3,715,999	8,777,168	1,899,862	-	6,808,938	-	32,952	34,788,255
Institutional support	26,936,072	12,159,354	11,458,408	928,431	-	-	-	3,679,894	55,162,159
Scholarships and related expenses	-	-	-	-	4,951,174	-	-	22,071	4,973,245
Depreciation	-	-	-	-	-	-	15,841,375	-	15,841,375
Auxiliary enterprises	3,094,757	934,515	266,724	133,325	-	-	-	8,847,368	13,276,689
State paid benefits	-	13,190,914	-	-	-	-	-	-	13,190,914
Other	-	-	-	-	-	-	-	11,759,682	11,759,682
Total	$ 170,047,085	$ 48,942,938	$ 27,200,998	$ 9,089,115	$ 4,951,174	$ 6,808,938	$ 15,841,375	$ 25,636,281	$ 308,517,904
June 30, 2013									
Instruction	$ 69,428,182	$ 9,535,265	$ 2,751,797	$ 2,413,469	$ -	$ -	$ -	$ 262,999	$ 84,391,712
Research	13,025	399	-	-	-	-	-	-	13,424
Academic support	26,125,291	4,229,479	4,164,122	2,352,452	-	-	-	176,190	37,047,534
Student services	20,745,888	3,361,411	1,979,874	443,438	-	-	-	449,677	26,980,288
Operation of plant	13,090,621	3,384,806	8,027,205	2,229,001	-	6,567,252	-	33,305	33,332,190
Institutional support	26,385,750	11,524,420	7,205,907	744,257	-	-	-	2,675,351	48,535,685
Scholarships and related expenses	-	-	-	-	4,506,690	-	-	29,026	4,535,716
Depreciation	-	-	-	-	-	-	14,283,350	-	14,283,350
Auxiliary enterprises	3,157,103	740,024	304,070	202,140	-	-	-	7,309,816	11,713,153
State paid benefits	-	12,981,435	-	-	-	-	-	-	12,981,435
Other	-	-	-	-	-	-	-	7,860,003	7,860,003
Total	$ 158,945,860	$ 45,757,239	$ 24,432,975	$ 8,384,757	$ 4,506,690	$ 6,567,252	$ 14,283,350	$ 18,796,367	$ 281,674,490

NOTE 11 – RETIREMENT PLANS (MC)

The College participates in four statewide retirement plans: the Teachers' Retirement System and the Employees' Retirement System (the Retirement System), 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, and the Maryland State Optional Retirement Plan (ORP). Aetna, the College's own plan, serves as a supplement to the MSRS plans. Certain employees may elect to participate in the ORP instead of the 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 has the opportunity to change providers during one open enrollment period a year.

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

The College's total current payroll for the fiscal year ended June 30, 2014 for all employees (excluding $188,533 from Agency funds) was $170,047,086. The approximate current year covered payroll under each of the plans, which includes employees eligible under multiple plans, is as follows:

	Covered Payroll	Percent of Total Covered Payroll
MSRS	$ 75,911,702	57.84%
Optional retirement plan	55,162,713	42.03%
Aetna	172,952	0.13%
	$ 131,247,367	100.00%

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.

NOTE 11 – RETIREMENT PLANS (MC) (CONTINUED)

The Pension System - MSRS

Participants in the Pension System hired prior to 7/1/11 may retire with full benefits (a) after completing 30 years of creditable service regardless of age, or (b) at age 62 or older with specified years of eligibility service. Participants may retire early with reduced benefits after attaining age 55 and completing 15 years of eligibility service. Employees hired on or after 7/1/11 may retire with full benefits after (a) completing 10 years of eligibility service at age 65 or (b) using the "Rule of 90" defined as at least 90 years of combined age and years of eligibility service. These participants may retire early with reduced benefits after attaining age 60 and at least 15 years of service.

The MSRS Optional Retirement Plan (ORP)

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

The Aetna Plan

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

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

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 on the next page is information about the employees' benefit retirement and pension plans of the MSRS, as a whole, as of June 30, 2013, the latest date such information is available, and the Aetna Plan as of July 1, 2014.

NOTE 11 – RETIREMENT PLANS (MC) (CONTINUED)

		MSRS		Aetna
Actuarial accrued liability	$	60,060,091	$	12,913,507
Actuarial value of assets (at fair market value)		(39,350,969)		(12,583,529)
Unfunded actuarial accrued liability (assets in excess of obligations)	$	20,709,122	$	329,978

Additional information about the MSRS is presented in the State of Maryland's June 30, 2013 Comprehensive Annual Financial Report and in the 2013 Consolidated Annual Report of the Maryland State Retirement and Pension System. That report may be obtained by writing to the State Retirement Agency of Maryland, 301 W. Preston Street, Baltimore Maryland, 21201.

In accordance with GASB No. 24, entitled *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the College recognized expenditures for the various State retirement and pension plans made on behalf of its employees by the State to the extent revenue is recognized. The amount recognized includes amounts contributed by the State and amortization of past service costs over forty years for the year ended June 30, 2014 as follows:

		State		College		Total
MSRS	$	9,069,099	$	1,979,364	$	11,048,463
MSRS-ORP		4,121,815		-		4,121,815
Total	$	13,190,914	$	1,979,364	$	15,170,278

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, 2013. 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 2013 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 2013-2014. The College's Board of Trustees has the authority to establish and amend benefit provisions of the plan. No pension asset or liability is recorded as the plan is fully funded.

NOTE 11 – RETIREMENT PLANS (MC) (CONTINUED)

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

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
6-30-13	$ 12,988,365	$ 12,333,378	$ (654,987)	105.3%	$ 1,717,415	-38.1%	$ -
6-30-14	12,583,529	12,913,507	329,978	97.4%	1,065,000	31.0%	-

The actuarial valuation for the fiscal year ended June 30, 2014 includes these significant assumptions:

1) Investment return: 4.0% compounded annually
2) Salary increases: 5.5% 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: 4.0%

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.

Population covered by the Plan	Number of Persons	Compensation (if applicable)
Participants:		
Currently receiving payments	257	N/A
Active with vested benefits	10	$ 1,065,000
Terminated with deferred vested benefits	16	N/A
Active without vested benefits	-	$ -
Inactive electing bifurcated benefits	1	N/A
	284	

NOTE 11 – RETIREMENT PLANS (MC) (CONTINUED)

The net pension obligation as of June 30, 2014 and 2013 are as follows:

	2014	2013
Annual Required Contribution (ARC)	$ (526,306)	$ (623,001)
Interest on net pension obligation	(185,761)	(186,273)
Amortization of net pension obligation	817,261	819,513
Annual Pension Cost (APC)	105,194	10,239
Less contributions made	-	-
Increase in net pension obligation	105,194	10,239
Net pension obligation - beginning of year	(3,715,227)	(3,725,466)
Net pension obligation - end of year	$ (3,610,033)	$ (3,715,227)

NOTE 12 – 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 benefit 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. In October, 2013, the Board of Trustees resolved to combine the Montgomery College OPEB Trust Fund with the Montgomery County OPEB Trust Fund. Total assets in excess of $30M were transferred over to the County trust fund over a period of months, with the last transfer occurring early in 2014.

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, 2014 and 2013, the College contributed $3,808,282 and $3,012,239, respectively, and the retirees contributed $1,750,110 and $1,571,213, respectively, in premiums.

NOTE 12 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (MC) (CONTINUED)

Membership

As of June 30 membership consisted of:

	2014	2013
Retirees and beneficiaries currently receiving benefits	514	573
Active employees - vested	1,812	1,765
Total	2,326	2,338

The College had actuarial valuations performed for the plan as of June 30, 2014 and 2013 to determine the employer's annual required contribution (ARC) for the fiscal years ended June 30, 2014 and June 30, 2013, respectively. The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and 2013 were as follows:

	2014	2013
Annual OPEB cost	$ 6,955,454	$ 6,602,645
Employer contribution	(3,808,282)	(3,012,239)
Net OPEB obligation	$ 3,147,172	$ 3,590,406
% of annual OPEB cost contributed	54.75%	45.62%

The net OPEB obligations as of June 30, 2014 and 2013 are recorded in OPEB asset value on the Statement of Net Position and were calculated as follows:

	2014	2013
Annual Required Contribution (ARC)	$ 7,083,312	$ 6,802,503
Interest on net OPEB obligation	(430,372)	(672,724)
Adjustment on ARC	302,514	472,866
Annual OPEB cost	6,955,454	6,602,645
Less contributions made	3,808,282	3,012,239
Interest in net OPEB obligation	3,147,172	3,590,406
Net OPEB asset - beginning of year	(6,375,880)	(9,966,286)
Net OPEB asset - end of year	$ (3,228,708)	$ (6,375,880)

NOTE 12 – 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, 2014 and 2013, the projected unit credit actuarial cost method was used. The actuarial assumptions were as follows:

	2014	2013
Investment rate of return (net of administrative expenses)	7.50%	6.75%
Annual healthcare cost trend rate- pre-65 retirees	8.00%	8.50%
Annual healthcare cost trend rate- post-65 retirees	7.00%	7.50%

The annual healthcare cost trend rate assumes grading down to 5.0% for fiscal year ending June 30, 2021 for pre-65 retirees and June 30, 2019 for post-65 retirees. 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, 2014 was 24 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
6-30-13	$ 30,559,057	$ 90,930,002	$ 60,370,945	33.61%	$ 127,063,866	47.51%
6-30-14	39,204,705	70,142,660	30,937,955	55.89%	129,806,810	23.83%

NOTE 13 – 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, 2014 and 2013, the County made principal payments of $8,789,006 and, $8,534,636, respectively, and interest payments of $6,600,038 and $6,368,108, 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, 2014 and 2013, the State expended $9,069,099 and $9,276,875, 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, 2014 and 2013 was $4,121,815 and $3,704,560, respectively. This appropriation by the State has been recorded as a non-operating revenue item and the expenditure is listed as an operating expense.

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 is due to the following organizational participation in CIP expenditures:

	2014	2013
Montgomery County	$ 10,108,789	$ 19,098,191
State of Maryland	87,127	396,159
Total	$ 10,195,916	$ 19,494,350

NOTE 14 – 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, 2014, the College waived $573,989 in credit and $622,437 in non-credit tuition for senior, disabled, foster care and National Guard students. During the year ended June 30, 2013, the College waived $469,684 in credit and $594,138 in non-credit tuition for senior, disabled, foster care and National Guard students.

NOTE 14 – TUITION WAIVER (MC) (CONTINUED)

The College offers a tuition waiver program whereby the College waives credit tuition for dependents of eligible College employees. For FY2014, the College waived $448,233 for its employees and their dependents. The total tuition amount waived for the College for FY2014 is $1,644,659. For FY2013, the College waived $497,148 for its employees and their dependents. The total tuition amount waived for the College for FY2013 was $1,560,970.

NOTE 15 – INCOME TAX STATUS (MC, LSF & 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, 2014 and 2013.

The Foundation and LSF are 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 and LSD had no unrelated business income for the years ended June 30, 2014 and 2013. Returns for the fiscal years 2011, 2012 and 2013 remain subject to examination by federal and state tax jurisdictions.

The Foundation and LSF follow accounting guidance related to Accounting for Uncertainty in Income Taxes, which 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 and LSF's tax positions, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require disclosure in the financial statements.

NOTE 16 – 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 2014 and 2013. 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.

NOTE 16 – RISK MANAGEMENT – SELF-INSURANCE (MC) (CONTINUED)

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, 2014, there was no deficit in the trust or escrow funds and no additional assessments have been made.

The College is self-insured for health and dental benefits provided to its employees. To protect itself against significant losses, the College has stop-loss policies in place for individual participant claims in excess of $150,000 per year and aggregate annual participant claims in excess of 125% of premium. The College has a contract with an administrative service provider to process participant claims under these programs. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage 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, 2014 and 2013 are as follows. Claims liabilities are included in accounts payable and accrued expenses on the Statements of Net Position.

Balance - June 30, 2012	$ 1,031,000
Claims and changes in estimates	14,120,612
Claims payments	(14,074,612)
Balance - June 30, 2013	1,077,000
Claims and changes in estimates	15,084,268
Claims payments	(15,100,268)
Balance - June 30, 2014	$ 1,061,000

NOTE 17 – COMMITMENTS AND CONTINGENCIES (MC and MCF)

Commitments and Contingencies (MC)

The College is obligated under several non-cancelable operating leases for office space expiring in various years through 2022. Net rent expense under these operating leases, included in contracted services expenses, was $3,551,526 and $3,333,843 for the years ended June 30, 2014 and 2013, respectively. The projected minimum lease payments under the terms of the leases at June 30, 2014 are as follows:

2015	$ 3,200,131
2016	2,188,884
2017	2,254,551
2018	1,065,550
2019	418,206
2020-2022	874,428
Total	$ 10,001,750

NOTE 17 – COMMITMENTS AND CONTINGENCIES (MC and MCF) (CONTINUED)

Commitments and Contingencies (MC) (Continued)

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, 2014, payments for the contract agreements and purchase agreements for the next five years are as follows:

2015	$ 6,747,016
2016	5,353,463
2017	1,130,514
2018	593,827
2019	593,827
Total	$ 14,418,647

As of June 30, 2014 and 2013, there were uncompleted contracts amounting to $18,220,824 and $51,789,536, 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 two tort suits. 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.

Commitments and Contingencies (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. The MCAD property was sold on November 13, 2012 and, as agreed, the Foundation placed the first $100,000 received into a specific endowed scholarship fund.

NOTE 18 – FAIR VALUE (MCF)

The accounting guidance 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 or 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:

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 money market funds approximates cost. The Foundation currently has no Level 3 assets.

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

2014	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Mutual funds, by type				
Bond	$ 5,076,385	$ -	$ -	$ 5,076,385
Blend	1,780,602	-	-	1,780,602
Convertible	151,232	-	-	151,232
Currency	225,462	-	-	225,462
Emerging	1,319,241	-	-	1,319,241
Equity	2,595,181	-	-	2,595,181
Growth	3,836,392	-	-	3,836,392
International	1,879,731	-	-	1,879,731
Natural Resources	410,110	-	-	410,110
Real Estate	1,211,079	-	-	1,211,079
Value	5,726,415	-	-	5,726,415
Total	$ 24,211,830	$ -	$ -	$ 24,211,830

NOTE 18 – FAIR VALUE (MCF) (CONTINUED)

2013	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds, by type				
Bond	$ 3,346,075	$ -	$ -	$ 3,346,075
Financial	677,790	-	-	677,790
Currency	411,302	-	-	411,302
Growth	3,930,776	-	-	3,930,776
Value	4,307,145	-	-	4,307,145
Real Estate	2,085,621	-	-	2,085,621
Emerging	429,627	-	-	429,627
Equity	1,480,638	-	-	1,480,638
Blend	1,301,233	-	-	1,301,233
Stock	311,889	-	-	311,889
Convertible	854,365	-	-	854,365
Natural Resources	398,012	-	-	398,012
Equity securities, by sector				
Lodging	118,324	-	-	118,324
Total	$ 19,652,797	$ -	$ -	$ 19,652,797

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:

2014	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Money market funds	$ 2,775	$ -	$ -	$ 2,775
Mutual funds, by type				
Bond	128,596	-	-	128,596
Blend	12,380	-	-	12,380
Emerging	26,978	-	-	26,978
Equity	45,939	-	-	45,939
International	45,464	-	-	45,464
Growth	62,330	-	-	62,330
Value	91,267	-	-	91,267
Total assets, at fair value	$ 415,729	$ -	$ -	$ 415,729
Liabilities:				
Annuity obligations, at fair value	$ -	$ 1,205,200	$ -	$ 1,205,200

NOTE 18 – FAIR VALUE (MCF) (CONTINUED)

Liabilities at Fair Value

2013	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Money market funds	$ 8,127	$ -	$ -	$ 8,127
Mutual funds, by type				
Bond	27,171	-	-	27,171
Financial	5,799	-	-	5,799
Currency	3,937	-	-	3,937
Growth	33,059	-	-	33,059
Value	35,081	-	-	35,081
Real Estate	16,009	-	-	16,009
Emerging	3,731	-	-	3,731
Equity	14,085	-	-	14,085
Blend	9,654	-	-	9,654
Stock	3,572	-	-	3,572
Convertible	6,847	-	-	6,847
Natural Resources	3,270	-	-	3,270
Total assets, at fair value	$ 170,342	$ -	$ -	$ 170,342
Liabilities:				
Annuity obligations, at fair value	$ -	$ 1,285,387	$ -	$ 1,285,387

NOTE 19 – 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:

	2014	2013
General use programs	$ 6,572,042	$ 5,492,858
Scholarships	4,284,870	2,851,569
Student athletics	80,307	47,896
Total	$ 10,937,219	$ 8,392,323

NOTE 19 – RESTRICTED ASSETS (MCF) (CONTINUED)

For fiscal years ending June 30, 2014 and 2013, temporarily restricted net assets released from restriction were used for the following:

	2014	2013
General use programs	$ 1,221,236	$ 971,215
Scholarships	1,367,895	1,201,820
Student athletics	23,609	3,675
Total	$ 2,612,740	$ 2,176,710

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, 2014 and 2013, earnings from permanently restricted net assets were restricted for the following:

	2014	2013
Scholarships	$ 11,066,596	$ 9,784,392
General use programs	7,193,400	6,866,518
Student and faculty support	24,840	24,296
Annuity funds	20,479	13,460
Total	$ 18,305,315	$ 16,688,666

NOTE 20 – ENDOWMENT (MCF)

The Foundation's endowment consists of 200 individual funds (the Funds) established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

NOTE 20 – ENDOWMENT (MCF) (CONTINUED)

Interpretation of Relevant Law (Continued)

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.

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 $0 and $27 as of June 30, 2014 and 2013, 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.

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.

NOTE 20 – ENDOWMENT (MCF) (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through March 31 of the preceding 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.

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

June 30, 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (27)	$ 3,153,432	$ 16,316,260	$ 19,469,665
Contributions	-	-	907,684	907,684
Appropriations of endowment assets for expenditures	-	(887,190)	-	(887,190)
Endowment net assets after contributions and expenditures	(27)	2,266,242	17,223,944	19,490,159
Net investment income	27	2,809,706	-	2,809,733
Subtotal	-	5,075,948	17,223,944	22,299,892
Other changes				
Donor requested unendowment of previously endowed gift	-	-	75,712	75,712
Endowment net assets, end of year	$ -	$ 5,075,948	$ 17,299,656	$ 22,375,604

NOTE 20 – ENDOWMENT (MCF) (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (42,610)	$ 2,047,827	$ 15,589,194	$ 17,594,411
Contributions	-	-	748,346	748,346
Appropriations of endowment assets for expenditures	-	(818,820)	-	(818,820)
Endowment net assets after contributions and expenditures	(42,610)	1,229,007	16,337,540	17,523,937
Net investment income	42,583	1,925,074	-	1,967,657
Subtotal	(27)	3,154,081	16,337,540	19,491,594
Other changes				
Realized loss on land sale	-	-	(20,280)	(20,280)
Donor requested unendowment of previously endowed gift	-	(649)	(1,000)	(1,649)
Endowment net assets, end of year	$ (27)	$ 3,153,432	$ 16,316,260	$ 19,469,665

The permanently restricted balances above do not include pledges receivable of $1,005,658 and $372,434 for the years ended June 30, 2014 and 2013, respectively. The endowment assets are primarily comprised of the Foundation's investments. The remaining endowment assets are comprised of cash.

NOTE 21 – PROGRAM SERVICE DESCRIPTIONS (MCF)

Scholarships

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

Student Athletics

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

NOTE 21 – PROGRAM SERVICE DESCRIPTIONS (MCF) (CONTINUED)

Student and Faculty Support

The Student and Faculty Support program distributes grants and awards to deserving individuals and academic programs. This program also includes non-cash donations received which are subsequently given to the College. Non-cash donations for fiscal years 2014 and 2013 were valued at $41,725 and $60,754, respectively.

NOTE 22 – BLENDED COMPONENT UNIT (MC)

The College's blended component unit, Montgomery College Life Scriances Park Foundation, Inc.'s Condensed Statement of Net Position and Condensed Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2014 and 2013 and for the years then ended are as follows:

	2014	2013
Assets		
Cash and cash equivalents	$ 4,016,213	$ 6,219,364
Other receivables	1,093	312
Long term investments	2,003,328	-
Total Assets	$ 6,020,634	$ 6,219,676
Liabilities and Net Position		
Accounts payable and accrued liabilities	$ 118,094	$ 2,502
Unearned revenue	6,129,349	6,192,811
Unrestricted net position	(226,809)	24,363
Total Liabilities and Net Position	$ 6,020,634	$ 6,219,676

	2014	2013
Revenue		
Land lead income	$ 63,462	$ 63,462
Investment and interest income	10,029	9,984
Total Revenue	73,491	73,446
Expenses		
Contracted services	261,973	11,370
Rent	36,000	36,000
Utilities	2,147	1,459
Professional fees	4,453	10,947
Other	20,090	14,317
Total Expenses	324,663	74,093
Decrease in net position	(251,172)	(647)
Net position, beginning of year	24,363	25,010
Net position, end of year	$ (226,809)	$ 24,363

NOTE 23 – SUBSEQUENT EVENTS (MC & MCF)

Management evaluated subsequent events through September 26, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to September 26, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR DEFINED BENEFIT RETIREMENT PLAN
JUNE 30, 2014

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 11 of the Notes to the Financial Statements for a more detailed description of Montgomery College's reporting of the College's Defined Benefit Pension Plan for FY2014.

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
6-30-05	$ 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	-73.3%	129,144
6-30-12	13,321,425	12,683,486	(637,939)	105.0%	2,336,720	-27.3%	-
6-30-13	12,988,365	12,333,378	(654,987)	105.3%	1,717,415	-38.1%	-
6-30-14	12,583,529	12,913,507	329,978	97.4%	1,065,000	31.0%	-

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Actual Contribution	Percentage Contributed
6-30-12	$ (59,083)	$ -	0%
6-30-13	10,239	-	0%
6-30-14	105,194	-	0%

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND CONTRIBUTIONS FOR OTHER POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2014

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 seven plan years. Information will continue to accumulate until ten years of data becomes available. Please refer to Note 12 of the Notes to the Financial Statements for a more detailed description of Montgomery College's reporting of Other Postemployment Benefits (OPEB) for FY2014. 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%
6-30-13	30,559,057	90,930,002	60,370,945	33.61%	127,063,866	47.51%
6-30-14	39,204,705	70,142,660	30,937,955	55.89%	129,806,810	23.83%

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage Contributed
6-30-12	$ 5,798,736	$ 2,091,789	36%
6-30-13	6,602,645	3,012,239	46%
6-30-14	6,955,454	3,808,282	55%