MONTGOMERY COLLEGE

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

MONTGOMERY COLLEGE
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

MONTGOMERY COLLEGE
LISTING OF BOARD OF TRUSTEES
AND SECRETARY-TREASURER TO THE BOARD OF TRUSTEES
JUNE 30, 2017

MONTGOMERY
COLLEGE

Office of Business Services

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.

DeRionne P. Pollard
President

Date: 10/13/17

Janet Wormack
Senior Vice President for Administrative and Fiscal Services

Date: 10/13/17

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 and the discretely presented component unit of Montgomery College (the College), a component unit of Montgomery County, Maryland, as of and for the years ended June 30, 2017 and 2016, 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. The financial statements of Montgomery College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 and the discretely presented component unit of the Montgomery College as of June 30, 2017 and 2016, 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, the schedules of funding progress and employer contributions for other post-employement benefit plan, the schedule of College's proportionate share of the net pension liability and the schedule of College contributions, 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 October 13, 2017, 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
October 13, 2017

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, 2017 and 2016, with comparative information as of and for the year ended June 30, 2015. 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.

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. The Montgomery College Life Sciences Park Foundation, Inc. (the LSF) legally changed it's name to Pinkney Innovation Complex for Science & Technology at Montgomery College (the PIC MC) during FY17. The Montgomery College Foundation, Inc. (the Foundation) and the PIC MC meet criteria for qualifying as component units. The Foundation is discretely presented in the accompanying financial statements on separate pages and the PIC MC is blended with the College's reporting. However, the following discussion and analysis does not include the Foundation's and the PIC MC's financial condition and activities.

Overview of the Financial Statements

The College's financial statements are prescribed by GASB and 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, deferred outflows, liabilities, and deferred inflows with the difference between the two reported as "net position". Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows, 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.

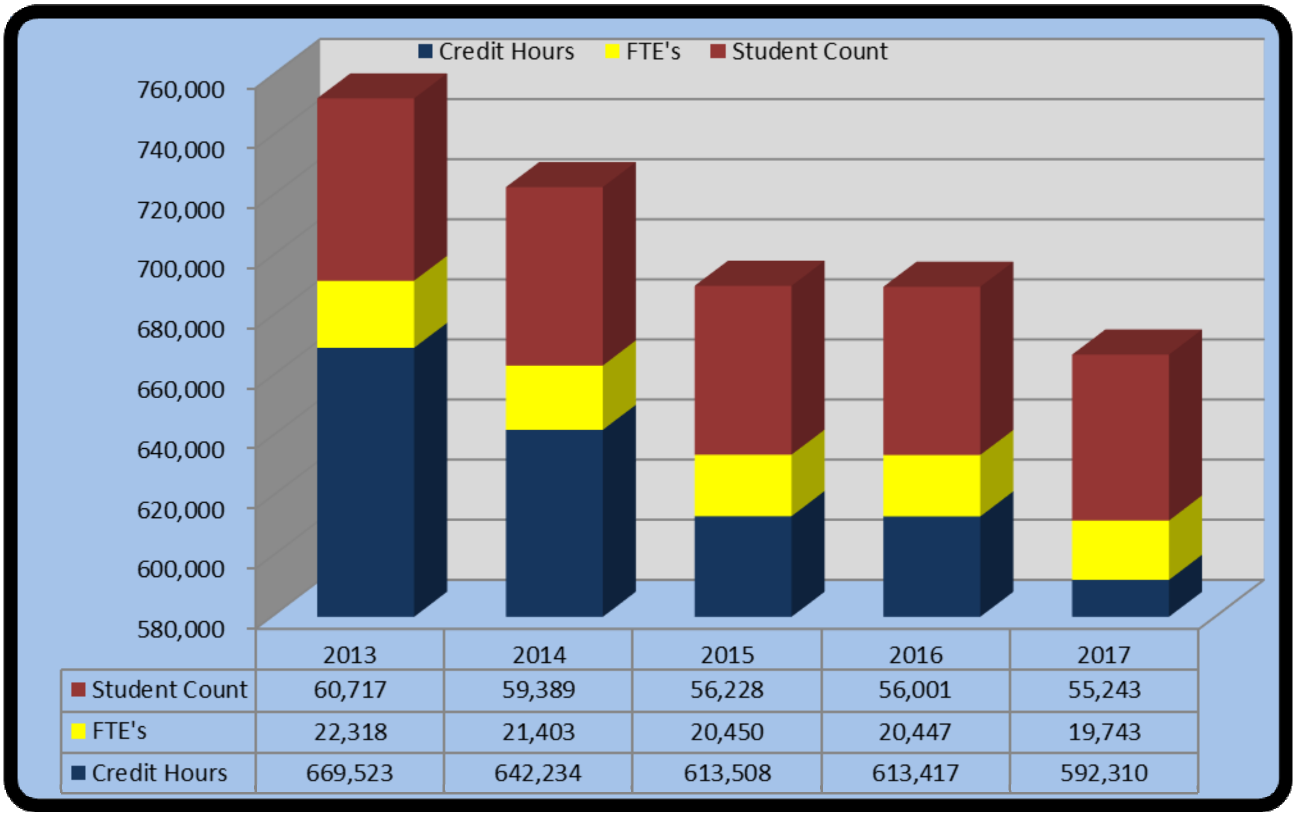
- The College's financial position continued to show growth as assets totaled $692.6 million at June 30, 2017, an increase of $45.5 million or 7.0% over June 30, 2016. This resulted primarily from a $51.7 million increase in capital assets. In 2016 assets totaled $647.1 compared to 2015 when assets totaled $625.8, a change of $18.2 million or 2.9%. This increase was due primarily from a $18.5 million increase in capital assets. Net position increased over that of 2016 by $9.3 million or 1.8% in 2017. The change in net position from June 30, 2015 to June 30, 2016 equaled $12.2 million or 2.4%.

- Operating revenues had a decrease of $5.8 million or 6.3% as a result of the change of business models for two of auxiliary operations: The revenues for Center for Early Education operation were reported out of the auxiliary enterprises to operating revenues. Additionally, privatizing campus stores transitioned the business model to a commission based revenue model. This resulted in a decrease in revenue while expenditures decreased dramatically resulting in a net increase in revenues.

- Net non-operating revenues increased $6.9 million or 3.2% as a result of increased State and Local appropriations.

- Overall operating expenses for fiscal year 2017 increased $801 thousand when compared to 2016, or 0.2%, as a result of net changes in spending which included: Increases in instruction $2.2 million or 2.2%; research $167.6 thousand 152.3%; academic support $2.2 million or 4.5%; student services $1.7 million or 5.1%; operation of plant $5.9 million or 16.6%; depreciation expense $1.6 million or 6.9%; state paid benefits $1.7 million or 11.8%; other expenditures $276 thousand or 1.8% decreases in institutional support ($5.9) million or (10.7%); auxiliary enterprises ($8.6) million or (70%); and scholarships and related expenses ($398) thousand or (7.3%). By comparison, operating expenses for 2016 increased $18.6 million when compared to 2015 or 5.8% as a result of net changes in spending which included: increases/(decreases) in instruction $6.3 million or 6.7%; research ($8.5) thousand or (7.2%); academic support $4.3 million or 9.8%; student services $879 thousand or 2.7%; operation of plant $360 thousand or 1.0%; institutional support $443 thousand or 0.8%; scholarships and related expenses ($561) thousand or (9.4%); depreciation expense $4.9 million or 27.8%; auxiliary enterprises ($1.3) million or (9.3%); other expenditures $2.2 million or 17.1% and state paid benefits $1.0 million or 7.3%.

Enrollment based on FTEs (full time equivalent students) decreased 704 FTEs to 19,743 or (3.4)% for 2017. FTEs for 2015 and 2016 were 20,450 and 20,447, a decrease of 3 FTE's or (.01)% respectively. This student FTE information is shown graphically below.



<u>Statement of Net Position</u>

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, deferred outflows, liabilities, deferred inflows, and net position at June 30, 2017, 2016, and 2015 is listed in the table on the next page.

Statements of Net Position

As of June 30,	2017	2016	2015
Assets and Deferred Outflows of Resources			
Current Assets	$ 92,444,537	$ 96,698,856	$ 99,171,079
Noncurrent Assets	593,307,701	544,786,476	524,767,144
Total Assets	685,752,238	641,485,332	623,938,223
Deferred Outflows of Resources	6,829,076	5,590,859	1,894,068
Total Assets and Deferred Outflows of Resources	$ 692,581,314	$ 647,076,191	$ 625,832,291
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current Liabilities	$ 37,395,191	$ 37,482,068	$ 32,669,220
Noncurrent Liabilities	115,139,512	78,734,683	73,223,032
Total Liabilities	152,534,703	116,216,751	105,892,252
Deferred Inflows of Resources	3,503,611	3,617,830	4,875,603
Net Position			
Net Investment in Capital Assets	496,214,882	485,781,117	463,287,946
Restricted for:			
Expendable - Student Loan Program	-	-	2,023,653
Unrestricted	40,328,118	41,460,493	49,752,837
Total Net Position	536,543,000	527,241,610	515,064,436
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 692,581,314	$ 647,076,191	$ 625,832,291

- The College experienced negative growth in its unrestricted net position in 2017, a decrease of ($1.1) million, or (2.7)%, due primarily to an increase in instructional supplies for classroom use, and non capitalized furniture & equipment purchases for the Science West, Rockville Parking Garage, and Central Services Building . The change in unrestricted net position from 2015 to 2016 was a decrease of $8.3 million or (16.7)%, due to primarily to an increase in salaries and benefits.

- Current assets decreased $4.3 million, or (4.4)%, in 2017 due to the decrease of cash & cash equivalents and short term investments. From a liquidity perspective, current assets cover current liabilities 2.5 times, an indicator of excellent liquidity and ability to withstand short-term demands for working capital. This rate of coverage is slightly lower than last year's at 2.6. Current assets cover 3.5 months of total operating expenses, including depreciation. For 2017, one month of operating expenses is approximately $28.6 million. For purposes of comparison, the change in current assets from 2015 to 2016 decreased $2.5 million or (2.5%), due to the closing of the Perkins loan program (student loans receivable) and the outsourcing of the College's bookstores (inventory).

- Non-current assets increased to $593.3 million in 2017 from $544.8 million in 2016 due to an increase in capital assets which grew by 9.7%, due to the addition of the Central Services Building and the Rockville Campus Garage and major renovation of College facilities. By comparison, non-current assets increased 3.8% from 2015 to 2016 due to an increase in capital assets, which increased $18.5 million or 3.6%.

- Current liabilities decreased slightly to $37.4 million in 2017 from $37.5 million in 2016 due mainly to a decrease in accounts payable and accrued expenses due to cost savings which is offset by an increase in the current portion of long-term liabilities due to the leases for the Central Services Building and the Rockville Campus Garage. By comparison, current liabilities in 2016 increased by $4.8 million or 14.7% due mainly to an increase in construction on the Rockville Campus.

- Non-current liabilities increased 53.6%, which resulted mainly from the additional leases for the two new buildings with an increase of $40.2 million. By comparison, the variance in non-current liabilities between 2016 and 2015 equaled an increase of 2.3%, which resulted from a $3.9 million increase in the recording of the pension cost under GASB 68.

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, 2017, 2016, and 2015.

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 $257.1 million for 2017 before the appropriation of these crucial revenue streams. Adding these non-operating resources, which equaled $178.3 million in FY2017, offsets the majority of the operating loss, and results in an adjusted loss amount of $78.8 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

	FY2017	FY2016	FY2015
Operating Revenue			
Student Tuition/Fees	$ 61,156,820	$ 62,468,564	$ 63,156,543
Grants & Contracts	17,091,934	16,000,577	13,168,773
Auxiliary Enterprises	5,953,518	11,649,397	12,418,752
Other Operating Revenue	1,949,590	1,841,657	2,226,336
Total Operating Revenue	86,151,862	91,960,195	90,970,404
Operating Expenses	343,257,266	342,455,659	323,821,848
Operating Loss	(257,105,404)	(250,495,464)	(232,851,444)
Non-Operating Revenue (Expense)			
State/Local Appropriation	178,268,835	169,426,814	157,757,968
State Paid Benefits	16,497,975	14,754,460	13,753,679
Federal Pell Grants	28,110,380	30,916,291	32,134,780
Investment and Interest Income	404,280	669,487	208,621
Interest Expense	(2,425,082)	(1,761,790)	(2,382,252)
Total Non-Operating Revenue, Net	220,856,388	214,005,262	201,472,796
Loss Before Other Revenues (Expenses)	(36,249,016)	(36,490,202)	(31,378,648)
Other Revenues (Expenses)			
Capital Appropriation	45,690,553	48,732,325	57,988,481
Capital Grants/Gifts	-	-	1,011,933
Loss on Disposal of Capital Assets	(140,147)	(64,949)	(63,060)
Total Other Revenue, Net	45,550,406	48,667,376	58,937,354
Increase in Net Position	9,301,390	12,177,174	27,558,706
Beginning Net Position	527,241,610	515,064,436	495,877,756
Change in Net Position Due to Restatement	-	-	(8,372,026)
Ending Net Position	$ 536,543,000	$ 527,241,610	$ 515,064,436

Operating revenues decreased $5.8 million or (6.3%) in 2017, and operating revenues in 2016 and 2015 were $92.0 million and $91.0 million respectively.

- Tuition and fees, net of scholarship allowances, equaled $61.2 million in 2017 a slight decrease of (2.1%) from the 2016 total, and $2.0 million less than recorded for 2015. As a percentage of total operating revenues, this revenue category equals 71.0% of the total. Over the last 3 years, as a percentage of total operating revenues, this revenue category averaged 69.4%.

- Grants and contracts of $17.1 million make up 19.8% of the College's operating revenue in 2017 and $16.0 million or 17.4% in 2016, showing an increase of $1.1 million and a increase of $2.8 million 2017 and 2016, respectively. Funding for Federal Pell grants which equaled $28.1 million in 2017, 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.

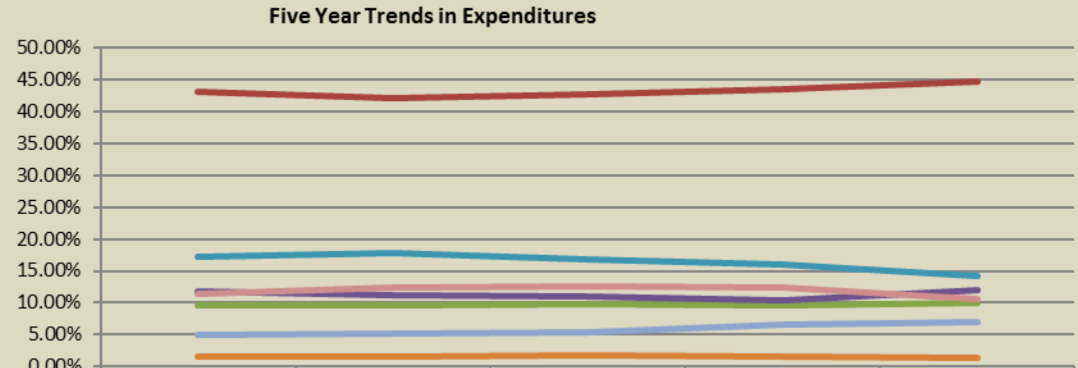
- State and Local appropriations is the key variable in the table and from a budgetary perspective, this revenue category accounted for 69.3%, 65.9%, 62.6% of the College's operating budget over the last three fiscal years respectively. Non-operating revenue increased by $6.9 million and $12.5 million in 2017 and 2016, respectively. For 2017 State and Local appropriations have increased 13.0% since 2015. The upward trend is indicative of the importance that the state and county place on the education provide by the college.

- Other revenue, primarily capital appropriations for land, construction, and equipment is funded from governmental sources. This category shows a decrease in 2017 and 2016 of $3.0 million or (6.2%) and $9.3 million or (16.0%) respectively. In 2016 the state reduced the annual cap of $85 million to $60 million for community college capital projects due to concerns about the growing impact of capital debt on the State's operating budget. 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. Funding can fluctuate from year to year based on the construction life cycle.

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.

- Overall College operating expenditures totaled $343.3 million in 2017 as compared to $342.5 million in 2016 and $323.8 million in 2015. The increased spending of $19.4 million or 6.0% between 2017 and 2015 is reflective of the improved economic climate during those years.



	2013	2014	2015	2016	2017
Instruction & Acad Support	43.11%	42.02%	42.64%	43.45%	44.61%
Student Services	9.58%	9.66%	9.87%	9.60%	10.07%
Operation of Plant	11.83%	11.28%	10.91%	10.37%	12.06%
Institutional Support	17.23%	17.88%	16.76%	15.96%	14.22%
Scholarships	1.61%	1.61%	1.85%	1.59%	1.47%
Depreciation	5.07%	5.13%	5.47%	6.62%	7.06%
Other	11.36%	12.42%	12.50%	12.41%	10.51%

- Instructional and academic support expenditures represented $153.1 million or 44.6% of total College expenses in 2017, reflecting a spending increase of $4.3 million. For 2016 and 2015, instructional and academic support expenditures represented 43.5% and 42.6%, 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 2017, salaries and benefits accounted for 71.7% of all College expenditures and these employee compensation costs totaled $246.2 million (including State paid retirement costs). This represents a $1.7 million or 0.7% increase over FY2016. In 2016 and 2015, College salary and benefit expenditures (including State paid retirement costs), equaled $244.6 and $229.2 million, respectively.

- Spending for institutional support in 2017 decreased from $54.7 million to $48.8 million, a decrease of $5.9 million or 10.7%. The factor most associated with this change is to confirm with NACUBO reporting and classification, safety and security were moved from institutional support to operation and maintenance starting in 2017. This amount was $5.9 million for 2017. From 2016 to 2015, the increase in spending was $443 thousand, an increase of 0.8%.

- Scholarships and related expenses include only that portion of student aid which was paid to the student and not used to offset tuition and fees. Scholarship expenditures in the amount of $31.3 million were offset against tuition and fee income. In 2017, spending for this function equaled. $5.0 million, a (7.3)% decrease over 2016. In 2016, spending for scholarships equaled $5.4 million and in 2015 equaled $6.0 million.

Statement of Cash Flows

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

Statements of Cash Flows

	2017	2016	2015
Net Cash Used by Operating Activities	$ (214,134,242)	$ (206,837,997)	$ (201,543,979)
Net Cash Provided by Non-Capital Financing Activities	207,315,606	198,670,597	189,935,223
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,736,551)	5,821,400	8,334,828
Net Cash Provided (Used) by Investing Activities	6,816,368	(112,756)	(5,086,146)
Decrease in Cash and Cash Equivalents	(2,738,819)	(2,458,756)	(8,360,074)
Cash and Cash Equivalents - Beginning of Year	29,476,018	31,934,774	40,294,848
Cash and Cash Equivalents - End of Year	$ 26,737,199	$ 29,476,018	$ 31,934,774

- The College's cash and cash equivalents decreased by $2.7 million for 2017. This change was due mainly to an increase in cash used for operating activities of $7.3 million over FY2016. In addition, cash flows provided in investing activities increased $6.9 million due to proceeds from the maturities of investments while cash flows from non-capital financing activities increased by $8.6 million. By contrast, the College's cash and cash equivalents decreased by $2.5 million in 2016. This change from 2015 to 2016 was due mainly to an increase in cash used for operating activities.

- A large portion of the $8.6 million increase provided by non-capital financing activities is due to a $8.8 million increase in state and local appropriations.

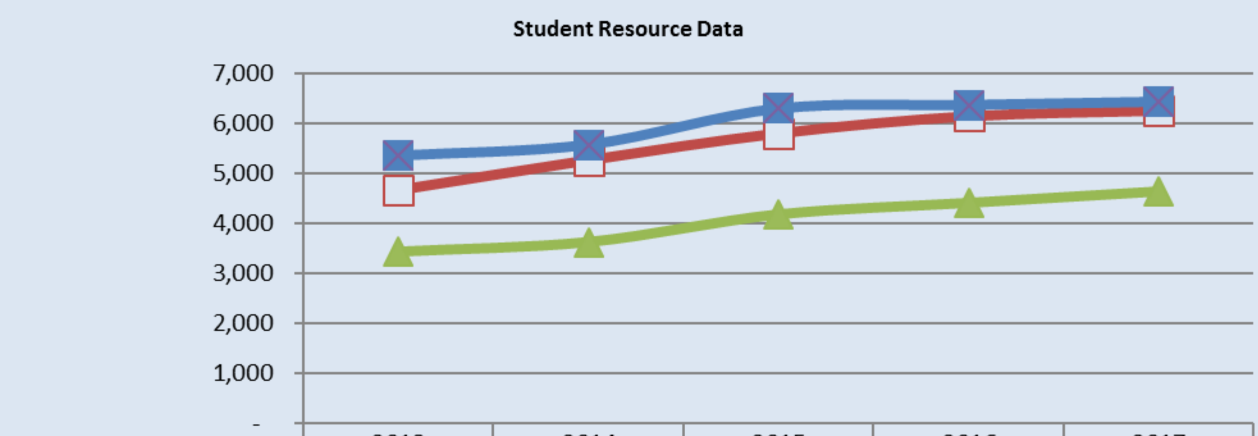
Economic or Regulatory Factors that Can Affect the Future of the College

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. The State of Maryland revenue projection is down $53 million from the estimates used to build the 2018 budget. The decline in revenue projection reflects weaker than anticipated sales tax revenue resulting from sluggish income growth, changing buying habits and tepid consumer confidence. The County is projecting a net decrease in revenues for FY18. The level of state and local support, potential compensation increases, and student tuition and fee increases together with declining enrollment will impact the College's ability to expand programs and undertake new initiatives. The unemployment rate in Maryland in July 2017, July 2016 and July 2015 was 4.0%, 4.3%, and 5.2%, respectively. This is slightly below the national rate which stood at 4.3% for July, 2017 a decline over the last year from 0.6% a year ago. The unemployment rate has been trending lower for Montgomery County (3.4% in July 2017), 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 19,386 in full-time equivalent (FTE) students next year which is a decrease of (5.4)% when compared to FY2017. This is consistent with other state community colleges who are also experiencing a downward trend in enrollment. The College is projecting a smaller decrease in FTE enrollment for FY19 and slightly upward trend after that. Montgomery County Public Schools are projecting an increase in the number of 12th grade students starting in 2019.

- As indicated in the graph below, the cost per student metric continues to rise, up 34.4% in five years. Due to both an increase in tuition and fees and an increase in State and County aid, total revenue per student increased 1.0% when compared to FY2016 and 2.1% when compared to FY2015.



	2013	2014	2015	2016	2017
Cost per student	4,659	5,262	5,803	6,148	6,260
T&F+Gov App per std	3,428	3,621	4,174	4,404	4,633
Total Rev per std	5,352	5,571	6,293	6,365	6,428

- Keeping tuition affordable as state and county appropriations increased combined with the decline in the number of high school graduates will have an impact on the future economic health of the College.

- There are two major capital projects that will positively affect the future financial position of Montgomery College. One is the Student Services Center on the Rockville campus and the other is the renovation of the of the Science and Applied Studies building on the Germantown campus.
- The changing demographics and growth of minority populations in Montgomery County will create many challenges and will require additional monies to address. For example, students within the public school system in the 2016-2017 school year spoke 150 different languages, with nearly 14% participating in English for Speaker of Other Languages (ESOL) courses.

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, 9221 Corporate Boulevard, Rockville, Maryland 20850.

MONTGOMERY COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 26,737,199	$ 29,476,018
Short-Term Investments	36,846,927	40,197,995
CIP Receivable	17,027,136	11,082,668
Student Accounts Receivable, Net	5,205,158	6,291,572
Grants and Contracts Receivable	3,327,512	3,365,444
Governmental Appropriations Receivable	1,671,223	2,646,951
Due from Montgomery College Foundation, Inc.	435,392	96,290
Other Receivables	880,832	1,807,247
Inventory	4,156	3,923
Prepaid Expenses and Other Assets	309,002	1,730,748
Total Current Assets	92,444,537	96,698,856
Noncurrent Assets:		
Deposits	47,589	47,589
Long-Term Investments	1,006,501	4,067,521
Net Pension Asset	1,005,484	-
OPEB Asset Value	3,741,924	4,910,732
Capital Assets - Net	587,506,203	535,760,634
Total Noncurrent Assets	593,307,701	544,786,476
Total Assets	685,752,238	641,485,332
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferrals	6,784,339	5,543,491
Deferred Loss on Refunding	44,737	47,368
Total Deferred Outflows of Resources	6,829,076	5,590,859
Total Assets and Deferred Outflows of Resources	$ 692,581,314	$ 647,076,191

MONTGOMERY COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(CONTINUED)

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 24,203,013	$ 26,399,868
Overdrafts	380,193	258,027
Unearned Revenue	6,595,906	6,359,849
Due to Other Organizations	1,788,446	1,827,783
Current Portion of Long-Term Liabilities	4,427,633	2,636,541
Total Current Liabilities	37,395,191	37,482,068
Noncurrent Liabilities:		
Unearned Revenue	5,875,502	5,938,964
Net Pension Payable	16,654,033	14,211,150
Long-Term Liabilities	92,609,977	58,584,569
Total Noncurrent Liabilities	115,139,512	78,734,683
Total Liabilities	152,534,703	116,216,751
DEFERRED INFLOWS OF RESOURCES		
Pension Deferrals	409,611	285,830
Deferred Gain on Refunding	3,094,000	3,332,000
Total Deferred Inflows of Resources	3,503,611	3,617,830
NET POSITION		
Net Investment in Capital Assets	496,214,882	485,781,117
Unrestricted	40,328,118	41,460,493
Total Net Position	536,543,000	527,241,610
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 692,581,314	$ 647,076,191

See accompanying Notes to Financial Statements.

MONTGOMERY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES AND EXPENSES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowance of $31,332,445 and $30,472,818, Respectively	$ 61,156,820	$ 62,468,564
Federal Grants and Contracts	9,804,374	9,135,375
State Grants and Contracts	5,035,867	5,074,654
Local Grants and Contracts	2,251,693	1,790,548
Auxiliary Enterprises, Net of Scholarship Allowance of $0 and $1,615,791, Respectively	5,953,518	11,649,397
Other Operating Revenues	1,949,590	1,841,657
Total Operating Revenues	86,151,862	91,960,195
Operating Expenses:		
Educational and General		
Instruction	103,256,728	101,076,651
Research	277,575	110,000
Academic Support	49,884,905	47,733,192
Student Services	34,558,467	32,872,581
Operation of Plant	41,394,549	35,506,884
Institutional Support	48,812,211	54,671,189
Scholarships and Related Expenses	5,031,438	5,429,040
Depreciation Expense	24,236,977	22,671,498
Auxiliary Enterprises	3,662,636	12,262,213
Other Expenditures	15,643,805	15,367,951
State Paid Benefits	16,497,975	14,754,460
Total Operating Expenses	343,257,266	342,455,659
OPERATING LOSS	(257,105,404)	(250,495,464)
NON-OPERATING REVENUES (EXPENSES)		
State and Local Appropriations	178,268,835	169,426,814
State Paid Benefits	16,497,975	14,754,460
Federal Pell Grants	28,110,380	30,916,291
Investment and Interest Income	404,280	669,487
Interest Expense on Capital Assets Related Debt	(2,425,082)	(1,761,790)
Non-Operating Revenue (Net)	220,856,388	214,005,262
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(36,249,016)	(36,490,202)
Capital Appropriations	45,690,553	48,732,325
Loss on Disposal of Capital Assets	(140,147)	(64,949)
	45,550,406	48,667,376
INCREASE IN NET POSITION	9,301,390	12,177,174
Net Position - Beginning of Year	527,241,610	515,064,436
NET POSITION - END OF YEAR	$ 536,543,000	$ 527,241,610

See accompanying Notes to Financial Statements.

MONTGOMERY COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 62,243,234	$ 63,306,205
Grants and Contracts	17,129,866	14,684,191
Payments to Suppliers	(68,325,808)	(64,684,990)
Payments to Employees	(228,813,112)	(229,457,302)
Payments for Scholarships	(5,031,438)	(5,429,040)
Collection of Loans from Students	-	1,862,669
Auxiliary Enterprises	5,953,518	11,649,397
Other Receipts	2,709,498	1,230,873
Net Cash Used by Operating Activities	(214,134,242)	(206,837,997)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State and Local Appropriations	179,244,563	167,916,820
Federal Pell Grants	28,110,380	30,916,291
Direct Loan Receipts	18,079,835	20,912,154
Direct Loan Disbursements	(18,079,835)	(20,912,154)
Student Organization Agency Transactions - Net	(39,337)	(162,514)
Net Cash Provided by Non-Capital Financing Activities	207,315,606	198,670,597
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	39,746,085	47,367,619
Purchase of Capital Assets	(76,122,693)	(37,395,837)
Payments for Capital Leases	36,065,139	(2,388,592)
Interest Paid	(2,425,082)	(1,761,790)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,736,551)	5,821,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	35,651,529	41,448,796
Interest Income on Investments	404,280	669,487
Purchase of Investments	(29,239,441)	(42,231,039)
Net Cash Provided (Used) by Investing Activities	6,816,368	(112,756)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,738,819)	(2,458,756)
Cash and Cash Equivalents - Beginning of Year	29,476,018	31,934,774
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 26,737,199	$ 29,476,018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (257,105,404)	$ (250,495,464)
Adjustment to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	24,236,977	22,671,498
State Paid Benefits	16,497,975	14,754,460
OPEB Benefit Cost	1,168,808	(212,674)
Effects of Changes in Operating Assets and Liabilities:		
Receivables - Net	1,711,659	(2,226,547)
Inventory	(233)	1,392,830
Loans to Students - Net	-	1,862,669
Other Assets	1,421,746	75,639
Accounts Payable	(2,196,855)	5,774,962
Deferred Resources - Pension	320,330	581,701
Deferred Resources - Bond Refinancing	(235,369)	(235,368)
Overdrafts	122,168	(2,130,600)
Unearned Revenue	172,595	1,137,018
Compensated Absences	(248,639)	211,879
Net Cash Used by Operating Activities	$ (214,134,242)	$ (206,837,997)

See accompanying Notes to Financial Statements.

MONTGOMERY COLLEGE
STATEMENTS OF NET ASSETS – COMPONENT UNIT
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 2,663,471	$ 2,700,561
Money Market Funds - Reserved for Construction Project	1,519,816	8,512,823
Total Cash and Cash Equivalents	4,183,287	11,213,384
Certificates of Deposit - Held to Maturity	2,208,830	2,187,950
Investments	27,878,269	24,763,832
Accounts Revaiable - Reserved for Construction Project	2,463,032	-
Pledges Receivable, Net	2,302,688	2,869,061
Prepaid Expenses	65,829	5,000
Other Assets	19,084	490,632
Land	2,750,000	2,750,000
Construction in Progress	-	7,912,563
Assets Held for Charitable Gift Annuities	113,980	322,689
Net Investment in Capital Lease	84,570,000	48,155,000
Total Assets	$ 126,554,999	$ 100,670,111
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 2,777,344	$ 2,591,394
Deferred Revenue	2,500	-
Accrued Interest Payable	529,370	421,213
Annuities Payable from Charitable Gifts	869,643	1,123,186
Notes Payable	88,438,205	64,292,345
Total Liabilities	92,617,062	68,428,138
NET ASSETS		
Unrestricted	1,723,113	1,563,364
Temporarily Restricted	10,337,318	9,520,168
Permanently Restricted	21,877,506	21,158,441
Total Net Assets	33,937,937	32,241,973
Total Liabilities and Net Assets	$ 126,554,999	$ 100,670,111

See accompanying Notes to Financial Statements.

MONTGOMERY COLLEGE
STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and Grants, Net	$ 135,428	$ 1,686,538	$ 686,115	$ 2,508,081
Change in Value of Charitable Gift Annuities	178,444	(148,878)	15,268	44,834
Matured Charitable Gift Annuity	-	209,317	-	209,317
Contributed Services	467,823	-	-	467,823
Other Noncash Contributions	96,813	9,396	-	106,209
Revenue from Special Events/Activities	-	87,044	-	87,044
Interest and Dividends on Reserved Assets	28,637	-	-	28,637
Interest and Dividends on Unreserved Assets	72,727	486,839	-	559,566
Unrealized Gain on Investments	99,116	1,492,318	-	1,591,434
Realized Gain on Investments	55,080	412,883	-	467,963
Interest from Investment in Capital Lease	2,598,593	-	-	2,598,593
Other Income	43	149,980	-	150,023
Net Assets Released from Restrictions	3,550,605	(3,550,605)	-	-
Total Revenue, Gains and Other Aupport	7,283,309	834,832	701,383	8,819,524
EXPENSES				
Program Services:				
Scholarships	2,145,406	-	-	2,145,406
Student Athletics	11,227	-	-	11,227
Student and Faculty Support - Noncash Expenses of $188,017	1,449,952	-	-	1,449,952
Note Interest Expense	2,658,308	-	-	2,658,308
	6,264,893	-	-	6,264,893
General and Administrative - Noncash Expense of $340,121	538,248	-	-	538,248
Resource Development - Noncash Expenses of $45,894	320,419	-	-	320,419
Total Expenses	7,123,560	-	-	7,123,560
CHANGE IN NET ASSETS	159,749	834,832	701,383	1,695,964
Net Assets - Beginning of Year	1,563,364	9,520,168	21,158,441	32,241,973
TRANSFERS	-	(17,682)	17,682	-
NET ASSETS - END OF YEAR	$ 1,723,113	$ 10,337,318	$ 21,877,506	$ 33,937,937

See accompanying Notes to Financial Statements.

MONTGOMERY COLLEGE
STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and Grants, Net	$ 185,861	$ 2,292,921	$ 1,396,348	$ 3,875,130
Change in Value of Charitable Gift Annuities	425	(12,854)	(532)	(12,961)
Contributed Services	438,641	-	-	438,641
Other Noncash Contributions	74,825	3,200	-	78,025
Revenue from Special Events/Activities	-	70,981	-	70,981
Interest and Dividends on Reserved Assets	2,991	-	-	2,991
Interest and Dividends on Unreserved Assets	72,085	460,199	-	532,284
Unrealized Gain on Investments	43,233	218,887	-	262,120
Realized Gain on Investments	746	(21,830)	-	(21,084)
Interest from Investment in Capital Lease	1,941,754	-	-	1,941,754
Other Income	50,123	394,393	-	444,516
Net Assets Released from Restrictions	3,468,644	(3,468,644)	-	-
Total Revenue, Gains and Other Aupport	6,279,328	(62,747)	1,395,816	7,612,397
EXPENSES				
Program Services:				
Scholarships	2,414,585	-	-	2,414,585
Student Athletics	12,565	-	-	12,565
Student and Faculty Support - Noncash Expenses of $166,451	1,220,170	-	-	1,220,170
Note Refund Savings to College	1,853,453	-	-	1,853,453
	5,500,773	-	-	5,500,773
General and Administrative - Noncash Expense of $310,253	493,957	-	-	493,957
Resource Development - Noncash Expenses of $39,964	344,930	-	-	344,930
Total Expenses	6,339,660	-	-	6,339,660
CHANGE IN NET ASSETS	(60,332)	(62,747)	1,395,816	1,272,737
Net Assets - Beginning of Year	1,623,696	9,584,933	19,760,607	30,969,236
TRANSFERS	-	(2,018)	2,018	-
NET ASSETS - END OF YEAR	$ 1,563,364	$ 9,520,168	$ 21,158,441	$ 32,241,973

See accompanying Notes to 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 Pinkney Innovation Complex for Science and Technology at Montgomery College (PIC MC) (formerly Montgomery College Life Sciences Park Foundation Inc. (LSF)). In 2011, the Board of Directors of the College formed the PIC MC 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 PIC MC 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
9221 Corporate Blvd.
Rockville, Maryland 20850

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (MC and MCF) (Continued)

During the years ended June 30, 2017 and 2016, the Foundation distributed $3,338,690 and $3,472,227, 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. From time to time adjustments maybe needed to accurately report financial information.

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 2017 and 2016, the College netted student aid expenses in the amount of $31,332,445 and $32,088,609 against tuition revenue of $31,332,445 and $30,472,818 and auxiliary enterprises revenue of $0 and $1,615,791, 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 and Federal Direct Loans Programs. During the year ended June 30, 2016, the College ended its participation in the Perkins Loan program and NSLP program. Federal programs are audited in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 June 30, 2017 and 2016, respectively, were $17,277,136 and $17,997,471, which represent the estimated amount of expense ultimately to result if unperformed obligations are completed. Encumbrances outstanding at June 30, 2017 and 2016 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, 2017 and 2016 was earmarked for:

	2017	2016
Encumbrances	$ 17,277,136	$ 17,997,471
Emergency Repairs and Maintenance	536,178	608,521
Reserve for Major Facility Projects	9,415,677	11,822,091
Reserve for OPEB & Pension Contribution	(5,478,243)	(3,989,105)
Quasi-Endowment	544,533	540,105
Other Purposes	18,032,837	14,481,410
Total	$ 40,328,118	$ 41,460,493

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

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. Expendable net position, for which there are externally imposed constraints, are obligated or expended with the condition(s) of the constraints. The College had no nonexpendable or expendable net position at June 30, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Certificates of Deposit (MCF)

Certificates of deposit are purchased directly through financial institutions and are stated at cost.

Investments (Short-Term and Long-Term) (MC)

Short-term investments with maturities of less than one year on June 30, 2017 and 2016 have been included as cash and cash equivalents. Investments consist of banker's acceptances, U.S. Government Agency and Sponsored Instruments, and the Maryland Local Government Investment Pool (MLGIP). All investments for the College are carried at fair value as determined by quoted market prices. Realized and unrealized gains and losses in fair value and interest income is reflected in the Statement of Revenues, Expenses and Changes in Net Position.

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 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, net of notes payable, that is being amortized over the life of the note as an adjustment to interest expense.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (MC)

Inventories, consisting principally of cafe 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, 2017 and 2016 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 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land (MCF)

Land has been recorded at its appraised value upon receipt of the donation to the Foundation. The land is held primarily for use by the College in support of its operations. Expenditures for any maintenance of the land are 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, 2017 or 2016.

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, net of mutual fund expense fees.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (MC)

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. At June 30, 2017 and 2016, the College recognized changes in actuarial assumptions that are being amortized, contributions made subsequent to the measurement date related to pensions, and the loss on refunding of bonds totaling $6,829,076 and $5,590,859, respectively, as deferred outflows of resources.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. At June 30, 2017 and 2016, the College recognized the difference between the projected an actual investment earnings related to pensions and the gain on refunding of bonds totaling $3,503,611 and $3,617,830, respectively, as a deferred inflow of resources.

Pensions (MC)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Maryland State Retirement and Pension System (System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pending Pronouncements (MC)

The following GASB pronouncements have been issued but not yet implemented by the College:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Pronouncements (MC) (continued)

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement is in effect for fiscal years beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is in effect for fiscal years beginning after December 15, 2018.

In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is in effect for fiscal years beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is in effect for fiscal years beginning after June 15, 2017.

The College has not yet completed the process of evaluating the impact of GASB Statements Nos. 75, 83, 84, 85, 86 on its financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (MCF)

The Foundation has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which resulted in the reclassification of Deferred Financing Costs, Unamortized Note Discounts, and Unamortized Note Premium to inclusion as a direct reduction of the Notes Payable liability balance on the Statement of Financial Position. The effect of adopting the new standard decreased the Deferred Financing Costs, Unamortized Note Discounts, and Unamortized Note Premium to zero and increased the Note Payable liability by $2,477,345 as of June 30, 2016. The adoption of the standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU has been retrospectively applied.

The Foundation has adopted the accounting guidance in FASB Accounting Standards Update (ASU) 2016-01 Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities which eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Foundation has omitted this disclosure for the years ended June 30, 2017 and 2016. The adoption of this guidance did not have an impact on the Foundation's financial position or results of operations.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to conform to the 2017 presentation. There was no impact on net position or change in net position as a result of these reclassifications.

NOTE 2 CASH AND INVESTMENTS (MC & MCF)

Cash, Cash Equivalents and Investments (MC)

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

As of June 30, 2017 and 2016, the College's carrying amount of cash, cash equivalents, short-term investments, and investments consisted of the following:

	2017	2016
Cash	$ 2,808,959	$ 2,697,834
Cash equivalent - MLGIP	23,928,240	26,778,184
Total cash and cash equivalents	26,737,199	29,476,018
Short-term investments	36,846,927	40,197,995
Total cash and short-term investments	63,584,126	69,674,013
Long-term investments	1,006,501	4,067,521
Total	$ 64,590,627	$ 73,741,534

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 PIC MC deposits was $2,778,776 and $2,522,860 as of June 30, 2017 and 2016, respectively. Petty cash and cashier's change funds of $6,500 and $99,398 as of June 30, 2017 and 2016, respectively, are excluded from these amounts. In addition, private loans of $23,683 and $75,576 as of June 30, 2017 and 2016, respectively, are excluded from these amounts. Actual bank statement balances totaled $4,662,844 and $4,154,598 at the end of fiscal years 2017 and 2016, respectively. Collateral was maintained during the year to secure all deposits and investments as specified under Section 6-202 of Title 6 of the State Finance and Procurement Article of the Annotated Code of Maryland.

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

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

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

During the year, the College invested in certificates of deposit and U. S. Government agency and instrumentalities securities with no maturities extending past April 19, 2017. 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 eighteen months. These investments are reported in the College's balance sheet at fair value, with the exception of the College’s investment in the MLGIP. 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. These assets are carried at an amortized basis in the College's Statement of Net Position.

Refer to Note 18 for descriptions of the fair value hierarchy.

As of June 30, 2017 and 2016 the College had the following investments and maturities.

Investment Type	Fair Value Hierarchy	Total	Investment Maturities (in Months) Less than 6	7-12	13 - 18
2017					
U.S. Agency:					
FHLB Coupon	2	$ 4,497,660	$ -	$ 4,497,660	$ -
Farmer Mac Coupon	2	1,992,740	-	1,992,740	-
FHLMC Step Rate	2	7,975,958	-	7,975,958	-
FICO Strip	2	2,999,521	2,999,521	-	-
FNMA Coupon	2	2,997,721	2,997,721	-	-
Negotiable Certificates of Deposit	n/a	14,396,047	3,006,501	11,389,546	-
Local Government Investment Pool	n/a	23,928,240	23,928,240	-	-
STIF and Money Market Funds	n/a	1,500,622	1,500,622	-	-
Equity Securities	1	666,878	666,878	-	-
Mutual Funds	1	826,280	826,280	-	-
Total		$ 61,781,668	$ 35,925,764	$ 25,855,904	$ -

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

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

Investment Type	Fair Value Hierarchy	Total	Investment Maturities (in Months) Less than 6	7-12	13 - 18
2016					
U.S. Agency:					
FHLB Coupon	2	$ 3,502,070	$ 1,500,090	$ 2,001,980	$ -
FHLB Discount Notes	2	8,979,995	3,499,880	5,480,115	-
Farmer Mac Coupon	2	3,999,360	3,999,360	-	-
Fed Farm Credit Bureau Coupon	2	1,000,010	-	1,000,010	-
Fed Farm Credit Bureau Discount Notes	2	5,992,200	5,992,200	-	-
FHLMC Coupon	2	2,503,175	2,503,175	-	-
Negotiable Certificates of Deposit	n/a	18,288,706	2,913,050	11,308,135	4,067,521
Local Government Investment Pool	n/a	26,778,184	26,778,184	-	-
Total		$ 71,043,700	$ 47,185,939	$ 19,790,240	$ 4,067,521

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

Investment Type	2017 S&P	2017 Moody's	2017 Fitch	2016 S&P	2016 Moody's	2016 Fitch
U.S. Agency:						
U.S. Agency:						
FHLB Coupon	AA+	Aaa	NR	AA+	Aaa	NR
FHLB Discount Notes	-	-	-	AA+	Aaa	NR
Farmer Mac Coupon	NR	NR	NR	NR	NR	NR
Fed Farm Credit Bureau Coupon	-	-	-	NR	NR	NR
Fed Farm Credit Bureau Discount Notes	-	-	-	AA+	Aaa	Aaa
FHLMC Coupon				AA+	Aaa	NR
FHLMC Step Rate	AA+	NR	NR			
FICO Strip	AA+	Aaa	Aaa	AA+	Aaa	NR
FNMA Coupon	AA+	Aaa	Aaa	AA+	Aaa	Aaa
Certificates of Deposit	AA+	Aaa	NR	AA+	Aaa	NR
Certificates of Deposit	AA+	Aaa	NR	AA+	Aaa	NR
Certificates of Deposit	NR	NR	NR	NR	NR	NR
Certificates of Deposit	NR	NR	NR	NR	NR	NR
Certificates of Deposit	NR	NR	NR	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 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, 2017 and 2016, 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, 2017 the College had federal agency securities held in the name of the College with Wilmington Trust, PNC, Sandy Spring Bank and Revere Bank to collateralize deposits of the College.

Cash, Cash Equivalents and Investments (MCF)

The Foundation maintains its cash, cash equivalents and investments in accounts which are insured by the FDIC up to specified limits and may, at times, exceed the federally insured limits. Cash in bank as of June 30, 2017 and 2016 was $4,885,357 and $4,915,247, 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:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	$ 26,076,868	$ 27,878,269	$ 24,545,154	$ 24,763,832

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 $16,712,687 and $15,995,932 at June 30, 2017 and 2016, respectively.

NOTE 3 ACCOUNTS AND PLEDGES RECEIVABLE (MC and MCF)

Pledges Receivable (MCF)

Pledges receivable at June 30 include amounts due in:

	2017	2016
Less Than One Year	$ 976,438	$ 1,026,856
One to Five Years	1,319,117	1,872,647
More Than Five Years	1,683,720	1,683,720
	3,979,275	4,583,223
Pledges Deemed Uncollectible	(92,547)	(96,756)
Present Value Discount	(1,584,040)	(1,617,406)
Total	$ 2,302,688	$ 2,869,061

The discount rate used on long-term promises to give was 3% in both 2017 and 2016. Pledges deemed uncollectible are approximately 3% of discounted unconditional promises to give at June 30, 2017 and 2016 as determined by a review of individual current year.

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 pledges receivable and contributions at the present value of the 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, 2017 and 2016, the amount included in the pledge receivable balance was $154,645 and $155,119, 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 assets.

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

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets Held for Charitable Gift Annuities	$ 44,593	$ -	$ 69,387	$ 113,980
Annuities Payable from Charitable Gifts	833,260	-	36,383	869,643
Net Assets / Liabilities	$ (788,667)	$ -	$ 33,004	$ (755,663)
2016				
Assets Held for Charitable Gift Annuities	$ 63,344	$ 213,763	$ 45,582	$ 322,689
Annuities Payable from Charitable Gifts	1,030,455	64,885	27,846	1,123,186
Net Assets / Liabilities	$ (967,111)	$ 148,878	$ 17,736	$ (800,497)

In order to offset the net liability, in fiscal year 2013, the Board directed unrestricted funds from both the general endowment earnings and a portion of the proceeds of the sale of the Maryland College of Art and Design property, to function as a reserve. As of June 30, 2017 and 2016, the combined balances in these two funds totaled $1,058,051 and $1,020,057, respectively, and are recorded within investments on the Statements of Financial Position.

During the year ended June 30, 2017, one new split-interest agreement was created and one was extinguished. During the year ended June 30, 2016, no split-interest agreements were extinguished or created. The total number of split-interest agreements was 15 as of June 30, 2017 and 2016.

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 2017 and 2016, respectively.

	Balance at July 1, 2016	Additions	Disposals / Transfers / Lease Retirements	Balance at June 30, 2017
Non-Depreciable Assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in Progress - Buildings	41,888,288	19,873,762	(33,569,895)	28,192,155
Construction in Progress - Equipment	68,942	357,648	(299,818)	126,772
Construction in Progress - PIC MC	186,545	40,374	-	226,919
Construction in Progress - Software	-	3,876,875	-	3,876,875
Art Works	279,059	-	-	279,059
Total Non-Depreciable Assets	79,167,421	24,148,659	(33,869,713)	69,446,367
Depreciable Assets				
Buildings	521,500,514	43,803,652	(170,193)	565,133,973
Equipment	78,773,680	2,732,494	(95,109)	81,411,065
Library Books	6,364,228	492,703	(615,476)	6,241,455
Capital Lease - Building	65,695,000	38,520,000	-	104,215,000
Capital Lease - Copiers	594,637	264,517	-	859,154
Capital Lease - Software	3,795,000	200,573	-	3,995,573
Capital Software	3,007,444	-	-	3,007,444
Total Depreciable Assets	679,730,503	86,013,939	(880,778)	764,863,664
Less Accumulated Depreciation				
Buildings	144,102,206	13,685,473		157,787,679
Equipment	57,805,674	6,871,868	(95,109)	64,582,433
Library Books	4,479,434	271,624	(475,330)	4,275,728
Capital Leases	14,489,635	2,105,000	-	16,594,635
Capital Software	2,260,341	1,303,012	-	3,563,353
Total Accumulated Depreciation	223,137,290	24,236,977	(570,439)	246,803,828
Depreciable Assets, Net	456,593,213	61,776,962	(310,339)	518,059,836
Capital Assets, Net	$ 535,760,634	$ 85,925,621	$ (34,180,052)	$ 587,506,203

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

Capital Assets, Net (MC) (Continued)

	Balance at July 1, 2015	Additions	Disposals / Lease Retirements	Balance at June 30, 2016
Non-Depreciable Assets				
Land	$ 36,744,587	$ -	$ -	$ 36,744,587
Construction in Progress - Buildings	17,374,007	33,505,418	(8,991,137)	41,888,288
Construction in Progress - Equipment	1,353,551	583,706	(1,868,315)	68,942
Construction in Progress - Life Sciences	-	186,545	-	186,545
Art Works	231,805	47,254	-	279,059
Total Non-Depreciable Assets	55,703,950	34,322,923	(10,859,452)	79,167,421
Depreciable Assets				
Buildings	512,475,107	34,270	8,991,137	521,500,514
Equipment	74,542,015	2,492,715	1,738,950	78,773,680
Library Books	6,101,394	545,928	(283,094)	6,364,228
Capital Lease - Building	65,695,000	-	-	65,695,000
Capital Lease - Copiers	594,637	-	-	594,637
Capital Lease - Software	-	3,795,000		3,795,000
Capital Software	3,007,444	-	-	3,007,444
Total Depreciable Assets	662,415,597	6,867,913	10,446,993	679,730,503
Less Accumulated Depreciation				
Buildings	130,674,601	13,427,605	-	144,102,206
Equipment	51,615,739	6,319,301	(129,366)	57,805,674
Library Books	4,430,925	266,653	(218,144)	4,479,434
Capital Leases	12,375,708	2,113,927	-	14,489,635
Capital Software	1,716,329	544,012	-	2,260,341
Total Accumulated Depreciation	200,813,302	22,671,498	(347,510)	223,137,290
Depreciable Assets, Net	461,602,295	(15,803,585)	10,794,503	456,593,213
Capital Assets, Net	$ 517,306,245	$ 18,519,338	$ (64,949)	$ 535,760,634

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:

	2017	2016
Salaries and Wages	$ 7,293,242	$ 7,579,855
Benefits	1,169,000	1,192,000
Services and Supplies	11,855,609	14,088,744
Payroll Withholding	3,239,678	2,970,316
Unclaimed Checks	491,377	436,790
Other	154,107	132,163
Total	$ 24,203,013	$ 26,399,868

NOTE 7 LONG-TERM LIABILITIES (MC)

Long-term liability activity for the years ended June 30, 2017 and 2016 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
June 30, 2017					
Aetna Supplemental Retirement Funds	$ 22,532		$ -	$ 22,532	$ -
Lease Obligations - 2011	13,670,000	-	(460,000)	13,210,000	470,000
Lease Obligations - 2014	20,440,000	-	(1,095,000)	19,345,000	1,135,000
Lease Obligations - 2015	14,045,000	-	(550,000)	13,495,000	560,000
Lease Obligations - 2017		13,660,000	-	13,660,000	300,000
Lease Obligations - 2017	-	24,860,000	-	24,860,000	355,000
Workday Subscription-5 year	3,795,000	-	(759,000)	3,036,000	759,000
Workday Subscription-4 year	-	200,572	-	200,572	50,144
Copier Leases	-	208,567	-	208,567	61,184
Compensated Absences	9,248,578	488,666	(737,305)	8,999,939	737,305
Total	$ 61,221,110	$ 39,417,805	$ (3,601,305)	$ 97,037,610	$ 4,427,633
June 30, 2016					
Aetna Supplemental Retirement Funds	$ 22,449	$ 83	$ -	$ 22,532	$ -
Lease Obligations - 2011	14,120,000	-	(450,000)	13,670,000	460,000
Lease Obligations - 2014	21,490,000	-	(1,050,000)	20,440,000	1,095,000
Lease Obligations - 2015	14,665,000	-	(620,000)	14,045,000	550,000
Workday Subscription-5 year		3,795,000		3,795,000	-
Copier Leases	33,224	-	(33,224)	-	-
Compensated Absences	9,036,699	743,420	(531,541)	9,248,578	531,541
Total	$ 59,367,372	$ 4,538,503	$ (2,684,765)	$ 61,221,110	$ 2,636,541

Lease Obligations – 2005 and 2014

a) The College has entered into a new lease agreement, effective November 19, 2014 with the Foundation replacing the Series 2005 bonds. The Series 2005 bonds were called and refinanced with Series 2014 bonds at a par value of $22,570,000. The reissuance of bonds resulted in a $3,570,000 deferred inflow – bond refinancing gain and will be amortized over the life of the lease. The new lease agreement will be treated as a capital lease with 16 years of payments from 2015 to 2030. The 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. The College is current on all required payments to the Foundation. For accounting purposes, the project lease is deemed a capital lease. The College paid the Foundation $1,950,206 and $1,947,206 during the years ended June 30, 2017 and 2016, 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.

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

b) Lease Obligations – 2008 and 2015

The College has entered into a new lease agreement, effective June 23, 2015 with the Foundation replacing the Series 2008 bonds. The Series 2008 bonds were called and refinanced with Series 2015 bonds with a par value of $14,665,000. The proceeds from the new bonds were used to pay off the Series 2008 bonds for the Takoma Park/Silver Spring Parking Garage and to fund the yet to be built Rockville Parking Garage. 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 $14,665,000 (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 $1,086,275 and $1,085,723 to the Foundation during the years ended June 30, 2017 and 2016, 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.

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 $1,029,923 and $1,028,923 during the years ended June 30, 2017 and 2016, respectively.

d) Lease Obligations – 2017

On July 20, 2016, the Montgomery County Revenue authority (MCRA) sold its Lease Revenue Bonds Series 2016A and 2016B on behalf of the Montgomery College Foundation Inc. The funds acquired for the bonds were used to purchase the Central Services Building. The 115,000 square-foot, four story building will provide modern and efficient space for 440 employees in Information Technology, Advancement and Community Engagement, Academic Affairs, Student Affairs and other administrative functions. The building 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 Montgomery County on the Bonds with a total face value of $24,860,000 (payments are due 30 days before May 1 and November 1 and are paid directly to Montgomery County). The College paid $357,044 and $0 during the years ended June 30, 2017 and 2016, respectively

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

e) Lease Obligations – 2017

A portion of the lease agreement with the Foundation dated June 23, 2015 was to fund the building of the Rockville Parking Garage, which was completed and effective during FY17. 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 $13,660,000 (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 $280,188 and $0 to the Foundation during the years ended June 30, 2017 and 2016, respectively.

Future payments to be paid by the College under the 2011, 2014, 2015 and 2017 lease obligations are as follows:

	2011	2014	2015	2017	Total
2018	$ 1,029,572	$ 1,946,406	$ 1,082,375	$ 1,923,189	$ 5,981,542
2019	1,030,472	1,946,006	1,085,275	1,925,464	5,987,217
2020	1,031,072	1,943,806	1,079,675	2,266,579	6,321,132
2021	1,030,873	1,949,806	1,085,275	2,275,206	6,341,160
2022	1,029,873	1,943,606	1,081,525	2,264,624	6,319,628
2023-2027	5,147,318	9,729,532	5,410,650	13,574,494	33,861,994
2028-2032	5,156,125	5,840,219	5,418,131	13,568,032	29,982,507
2033-2037	4,123,600	-	2,163,844	11,712,709	18,000,153
2038-2042	-	-	-	4,277,500	4,277,500
2043-2047	-	-	-	856,800	856,800
	19,578,905	25,299,381	18,406,750	54,644,597	117,929,633
Imputed interest	(6,368,905)	(5,954,381)	(4,911,750)	(16,124,597)	(33,359,633)
Total	$ 13,210,000	$ 19,345,000	$ 13,495,000	$ 38,520,000	$ 84,570,000

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

f) Compensated Absences

Employees of the College earned $8,342,701 and $8,541,062 in annual and sick leave subject to termination pay-off at June 30, 2017 and 2016, 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 $657,238 and $707,516 for fiscal years 2017 and 2016, respectively. This amount has been included in the total compensated absences liability of $8,999,939 and $9,248,578 for fiscal years 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, 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 – 2011

In August 2011, 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. The Authority and the Foundation entered into a loan agreement to effectively transfer all obligations of the 2011 Bonds issue to the Foundation. The proceeds of the 2011 Bonds were used 1) for the purchase of the Goldenrod Building (a 68,826 gross square foot office building located on 4.62 acres located adjacent to the Germantown Campus of the College), 2) to pay real estate closing costs associated with the building purchase, and 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.

The Series 2011A Bonds are subject to optional redemption in whole or in part on any date commencing May 1, 2021, and shall be so redeemed by the Authority in the event and to the extent the Foundation shall exercise its option to prepay the payments for the Project under Section 9.01(a) of the Loan Agreement at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

The Series 2011B Bonds maturing on or after May 1, 2022 are subject to optional redemption in whole or in part on any date commencing May 1, 2021, and shall be so redeemed by the Authority in the event and to the extent the Foundation shall exercise its option to prepay the payments for the Project under Section 9.01(a) of the Loan Agreement at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, without premium.

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

a) 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, 2017 and 2016 was $568,197 and $577,423, respectively.

b) Notes Payable – 2014

In November 2014, the Authority issued “Montgomery County Revenue Authority Lease Revenue Refunding Bonds (Montgomery College Arts Center Project) Series 2014”, with a total face value of $22,570,000. The Authority and the Foundation entered into a loan agreement to effectively transfer all rights and obligations of the bond issue to the Foundation. The proceeds of the 2014 Bonds were used to 1) advance refund all of the outstanding Montgomery County Revenue Authority Lease Revenue Bonds (Montgomery College Arts Center Project), Series 2005A; and 2) pay issuance costs of the 2014 Bonds.

The 2014 Bonds have annual maturity dates from May 1, 2015 to May 1, 2030 and were issued at a premium of $2,195,089.

The College entered into a lease agreement with the Foundation in October 2005, amended November 2014, with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the 2014 Bonds. This lease agreement was pledged as security for the 2014 Bonds.

The Series 2014 Bonds maturing on or after May 1, 2025 are subject to optional redemption in whole or in part at the option of the Foundation in accordance with the Loan Agreement, on any date commencing May 1, 2024, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

The 2014 Bonds maturing by their terms prior to May 1, 2025 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, 2017 and 2016 was $847,906 and $890,206 respectively.

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

c) Notes Payable – 2015

In June 2015, the Authority issued "Montgomery County Revenue Authority Transportation Fund Lease Revenue Bonds, Series 2015A", with a total face value of $28,325,000. The Authority and the Foundation entered into a loan agreement to effectively transfer all rights and obligations of the bond issue to the Foundation. The proceeds of the 2015 Bonds were used to 1) advance refund all of the outstanding Montgomery County Revenue Authority Transportation Fund Lease Revenue Bonds, Series 2008A; 2) finance the cost of the acquisition, construction and equipping of a parking garage on the Rockville Campus; 3) pay a portion of the interest on the 2015 Bonds estimated to accrue until November 1, 2016, and 4) pay the cost of issuing the 2015 bonds. The 2015 bonds have annual maturity dates from November 1, 2015 to November 1, 2042 and were issued at a premium of $1,341,104.

The College entered into a lease agreement with the Foundation in November 2008, amended June 2015, with semi-annual payments to the Foundation that are calculated to be at least equal to the scheduled debt service payments on the 2015 Bonds. This lease agreement was pledged as security for the 2015 Bonds.

The Series 2015 Bonds maturing on or after November 1, 2026 are subject to optional redemption in whole or in part at the option of the Foundation in accordance with the Loan Agreement, on any date commencing November 1, 2025, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

The 2015 Bonds maturing by their terms prior to November 1, 2026 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, 2017 and 2016 was $908,026 and $527,704, respectively.

d) Certificates of Participation

In July of 2016 Montgomery County Maryland issued Certificates of Participation (COPs) Series 2016A with a total face value of $23,050,000, and Series 2016B with a total face value of $1,810,000. The proceeds of the Series 2016A Certificates were loaned by the County to the Foundation to purchase and renovate a building to house College central and administrative services offices. The COPs were used 1) to finance the costs of the acquisition, design, construction and equipping of an approximate 115,000 square foot building with approximately 365 and 400 parking spaces, 2) to pay real estate closing costs associated with the building purchase, 3) to fund a Capitalized Interest Fund, and 4) to pay a portion of the issuance costs of the 2016 COPs. The 2016A COPs have annual maturity dates from November 1, 2019 to November 1, 2035 and were issued at a net premium of $1,328,788.

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

d) Certificates of Participation (Continued)

The Foundation leased its interest in the improvements and the site upon which the improvements are located to the College pursuant to a lease agreement dated as of July 1, 2016, between the Foundation and the College (the "Lease"). The Lease requires the College to make rental payments (the "Rental Payments"), which are assigned by the Foundation to the County pursuant to an Assignment of Rents and Leases Agreement dated as of July 1, 2016 between the County and the Foundation (the "Assignment of Leases"). The County is also secured by a deed of trust from the Foundation for the benefit of the County to secure the obligations of the Foundation under the Loan Agreement delivered at the time of closing of the Certificates (the "Deed of Trust").

The Series 2016A Certificates that mature on or after November 1, 2025, are subject to redemption beginning November 1, 2024, as a whole or in part at any time thereafter, in any order of their maturities, at the option of the County, at a redemption price for each certificate equal to the principal amount of the certificate to be redeemed, together with interest accrued to the date fixed for redemption, without premium. The Series 2016A Certificates that mature on or before November 1, 2024, are not subject to redemption prior to their respective maturities.

The proceeds of the Series 2016B Certificates were loaned by the County to the Foundation and will be applied to pay the costs incurred by the College in connection with its terminating certain lease agreements for space that it currently occupies that will be replaced with the facilities that comprise the improvements. A portion of the Series 2016B Certificates were also applied to pay the costs of issuing the Series 2016B Certificates. The 2016B COPs have annual maturity dates from November 1, 2017 to November 1, 2021 and were issued at a net premium of $888.

The Series 2016B Certificates are not subject to optional redemption prior to their respective maturities.

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, 2017 and 2016 was $476,059 and $0, respectively.

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

Maturity dates and stated interest rates of the Bonds outstanding as of June 30, 2017 are as follows:

	2011 Bonds			2014 Bonds		2015 Bonds		2016 Certificates		
Fiscal Year Ended	Principal Amount Series A	Principal Amount Series B	Interest Rate	Principal Amount	Interest Rate	Principal Amount	Interest Rate	Principal Amount	Interest Rate	Total Principal Amount
2018	-	470,000	3.00%	1,135,000	4.00%	860,000	3.00%	355,000	5.00%	2,820,000
2019	-	485,000	4.00%	1,180,000	4.00%	890,000	3.00%	360,000	5.00%	2,915,000
2020	-	505,000	4.00%	1,225,000	4.00%	915,000	4.00%	715,000	5.00%	3,360,000
2021	-	525,000	4.00%	1,280,000	4.00%	960,000	4.00%	745,000	5.00%	3,510,000
2022	-	545,000	4.00%	1,325,000	5.00%	1,000,000	5.00%	760,000	5.00%	3,630,000
Thereafter	6,840,000	3,840,000	Varies from 4% to 5%	13,200,000	Varies from 3% to 5%	22,530,000	Varies from 3.125% to 5%	21,925,000	Varies from 2% to 5%	68,335,000
	$ 6,840,000	$ 6,370,000		$ 19,345,000		$ 27,155,000		24,860,000		$ 84,570,000

Unamortized discount	(574,305)
Deferred Financing Costs	(754,602)
Unspent bond proceeds	627,485
Unamortized Premiums	4,569,627
Notes Payable, Net	$ 88,438,205

NOTE 9 UNEARNED REVENUE (MC)

In 2012, the PIC MC 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, 2017 and 2016 is $5,938,964 and $6,002,425, respectively.

NOTE 10 EXPENSES BY NATURAL CLASSIFICATIONS (MC)

The following table shows a classification of expenses for the years ending June 30, 2017 and 2016; 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, 2017									
Instruction	$ 82,347,913	$ 11,934,909	$ 5,763,447	$ 2,855,935	$ -	$ -	$ -	$ 354,524	$ 103,256,728
Research	177,643	1,863		88	-	-	-	97,981	277,575
Academic Support	35,165,471	6,314,731	4,777,186	3,005,143	-	-	-	622,374	49,884,905
Student Services	26,494,188	4,442,815	1,741,308	1,174,370	-	-	-	705,786	34,558,467
Operation of Plant	19,745,063	5,661,011	6,219,574	1,837,796	-	7,572,568	-	358,537	41,394,549
Institutional Support	24,246,073	8,580,661	8,980,916	1,837,770	-	-	-	5,166,791	48,812,211
Scholarships and Related Expenses	-	-	-	-	5,031,438	-	-		5,031,438
Depreciation	-	-	-	-	-	-	24,236,977		24,236,977
Auxiliary Enterprises	736,660	161,632	2,150,188	55,801	-	-	-	558,355	3,662,636
State Paid Benefits	-	16,497,975	-	-	-	-	-	-	16,497,975
Other	2,913,790	819,575	6,342,930	5,567,510	-	-	-		15,643,805
Total	$ 191,826,801	$ 54,415,172	$ 35,975,549	$ 16,334,413	$ 5,031,438	$ 7,572,568	$ 24,236,977	$ 7,864,348	$ 343,257,266
June 30, 2016									
Instruction	$ 81,523,468	$ 11,510,459	$ 5,504,033	$ 2,268,961	$ -	$ -	$ -	$ 269,730	$ 101,076,651
Research	110,000	-	-	-	-	-	-	-	110,000
Academic Support	34,297,037	5,832,676	4,282,553	2,264,629	-	-	-	1,056,297	47,733,192
Student Services	25,614,896	4,235,966	1,980,348	460,063	-	-	-	581,308	32,872,581
Operation of Plant	15,235,481	4,376,637	6,423,214	1,647,666	-	7,779,597	-	44,289	35,506,884
Institutional Support	30,487,370	9,558,276	9,889,766	460,410	-	-	-	4,275,367	54,671,189
Scholarships and Related Expenses	-	-	-	-	5,429,040	-	-	-	5,429,040
Depreciation	-	-	-	-	-	-	22,671,498	-	22,671,498
Auxiliary Enterprises	2,693,761	721,251	2,038,214	94,140	-	-	-	6,714,847	12,262,213
State Paid Benefits	-	14,754,460	-	-	-	-	-	-	14,754,460
Other	2,817,864	787,699	5,945,326	3,359,143	-	-	-	2,457,919	15,367,951
Total	$ 192,779,877	$ 51,777,424	$ 36,063,454	$ 10,555,012	$ 5,429,040	$ 7,779,597	$ 22,671,498	$ 15,399,757	$ 342,455,659

NOTE 11 RETIREMENT PLANS (MC)

The College participates in both statewide retirement plans and the College's own plan. The four statewide retirement plans are 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.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

The College's total current payroll for the fiscal years ended June 30, 2017 and 2016 for all employees (excluding $235,106 and $268,042 from Agency Funds for the years ended June 30, 2017 and 2016, respectively) was $191,826,801 and $192,779,877, respectively. The approximate current covered payroll under each of the plans, which includes employees eligible under multiple plans, is as follows:

	2017		2016	
	Covered Payroll	Percent of Total Covered Payroll	Covered Payroll	Percent of Total Covered Payroll
MSRS	$ 84,175,914	55.19%	$ 83,553,480	55.02%
Optional Retirement Plan	68,002,033	44.59%	67,658,476	44.55%
Aetna	343,996	0.22%	642,104	0.43%
Total	$ 152,521,943	100.00%	$ 151,854,060	100.00%

a) Statewide Retirement Plans

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

The Retirement System - MSRS

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

The Pension System - MSRS

Participants in the Pension System 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.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

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

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.

Plan description - The employees of the College are covered by the Maryland State Retirement and Pension System (the System), which is a cost sharing employer public employee retirement system. While there are five retirement and pension systems under the System, employees of the College are a member of either the Teachers’ Retirement and Pension Systems or the Employees’ Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System’s administration and operation is vested in a 15-member Board of Trustees. The System issues a publically available financial report that can be obtained at
http://www.sra.state.md.us.

Benefits provided - The System provides retirement allowances and other benefits to State teachers and employees of participating governmental units, among others. For individuals who become members of the Teachers’ Retirement and Pension Systems and the Employees’ Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Teachers’ Pension System and Employees’ Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retirees’ benefits allowance will be computed. Some of these options require actuarial reductions based on the retirees’ and/or designated beneficiary’s attained age and similar actuarial factors.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

Benefits Provided (continued) - A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC) multiplied by the number of years of accumulated creditable service.

A member of either the Techers' or Employees' Pension System on or before June 30, 2011 is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the members' combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the members AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998, plus 1.4% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998 plus 1.8% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. Beginning in July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

Contribution - The College and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System and Employees' Pension System are required to contribute 7% annually. Members of the Teachers' Retirement System and Employees' Retirement System are required to contribute 5-7% annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employees are established and may be amended by the Board of Trustees for the System.

The State makes a substantial portion of the College's annual required contribution to the Teachers' Retirement and Pension Systems on behalf of the College. The State's contributions on behalf of the College for the years ended June 30, 2017 and 2016, was $11,614,911 and $10,032,440, respectively. The fiscal 2017 and 2016 contributions made by the State on behalf of the College have been included as both revenues and expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

Contribution (continued) - The College's contractually required contribution rate for the Employees' Retirement and Pension Systems for the years ended June 30, 2017 and 2016, was 6.72% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The College made its share of the required contributions during the years ended June 30, 2017 and 2016 of $1,365,928 and $1,375,069, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Employees Retirement and Pension Systems

At June 30, 2017 and 2016, the College reported a liability of $16,654,033 and $13,957,131, respectively, for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The College's proportion of the net pension liability was based on actual employer contributions billed to participating government units for the years ending June 30, 2016 and 2015, respectively. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2016 and 2015, the College's proportionate share was 0.0759% and 0.0672%, respectively.

For the years ended June 30, 2017 and 2016, the College recognized pension expense of $2,488,761 and $1,813,446, respectively. At June 30, 2017 and 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
2017		
Differences Between Expected and Actual Experience	$ -	$ 409,611
Changes of Assumptions	630,128	-
Change in Proporation	1,560,952	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,007,020	-
Net Difference Between Actual and Proportionate Share of Contributions	289,411	
College Contributions Subsequent to the Measurement Date	1,365,928	
Total	$ 5,853,439	$ 409,611

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
Differences Between Expected and Actual Experience	$ -	$ 285,830
Changes of Assumptions	811,054	-
Change in Proporation	1,247,710	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	378,923	-
Net Difference Between Actual and Proportionate Share of Contributions	342,836	-
College Contributions Subsequent to the Measurement Date	1,375,069	-
Total	$ 4,155,592	$ 285,830

$1,365,928 and $1,375,069 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2018	$ 1,000,973
2019	1,000,973
2020	1,177,317
2021	822,084
2022	76,556
Thereafter	-

Teachers Retirement and Pension Systems

At June 30, 2017 and 2016, the College did not report a liability related to the Teachers' Retirement and Pension Systems due to a special funding situation. The State of Maryland pays the unfunded liability for the College and the College pays the normal cost related to the Colleges members in the Teachers Retirement and Pension Systems; therefore, the Board is not required to record its share of the unfunded pension liability but instead, that liability is recorded by the State of Maryland. The amounts recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

	2017	2016
State's Proportionate Share of the Net Pension Liability	$ 121,506,969	$ 92,046,440
College's Proportionate Share of the Net Pension Liability	-	-
Total	$ 121,506,969	$ 92,046,440

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

For the years ended June 30, 2017 and 2016, the College recognized pension expense of $11,614,911 and $10,032,440 and revenue of $11,614,911 and $10,032,440, respectively, for support provided by the State. Due to the special funding situation noted above related to the Teachers Retirement and Pension Systems, the College did not report deferred outflows of resources and deferred inflows of resources related to the Teachers Retirement and Pension Systems.

Actuarial assumptions. The total pension liability in the following actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016	June 30, 2015
Inflation- general	2.7%	2.9%
Inflation- wage	3.20%	3.20%
Salary increases	3.3% to 9.2%, including inflation	3.2% to 9.2%, including inflation
Investment rate of return	7.55%	7.55%
Mortality Rates	RP-2014 Mortality Tables with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale	RP-2014 Mortality Tables with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale

The economic and demographic actuarial assumptions used in the June 30, 2016 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2010 – 2014, after completion of the June 30, 2014 valuations. Assumptions from the experience study included investment return inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and reates of salary increase were adopted by the College for the first use in the actuarial valuation as of June 30, 2015. As a result, an investment return assumption of 7.55% and an inflation assumption of 2.70% were used for the June 30, 2016 valuation.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

The economic and demographic actuarial assumptions used in the June 30, 2015 valuation were adopted by the System's Board of Trustees based on May 21, 2015 based upon review of the System's experience study for the period 2010-2014, which was completed during FY 2014. Assumptions from the experience study included investment return inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the College for the first use in the actuarial valuation as of June 30, 2015. As a result, an investment return assumption of 7.55% and an inflation assumption of 2.70% were used for the June 30, 2015 valuation.

New funding methodology set forth in Maryland legislation was first used in the June 30, 2015 valuation. The legislation removed the corridor funding method effective with the June 30, 2015 valuation. The benefit provisions valued in the actuarial valuation as of June 30, 2015, are the same as the provisions from the last valuation as of June 30, 2014.

The long term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s).

The long term expected rate of return on pension plan investments in the June 30, 2015 is based on the goal of achieving an annualized investment return that over a long-term time frame: (1) meets or exceeds the investment policy benchmark for the system; (2) in nominal terms, equals or exceeds the actuarial rate of return adopted by the Board of Trustees, which was 7.55 percent for fiscal year 2015; and (3) in real terms, exceeds the U.S. inflation rate by at least 3 percent. These ranges are combined to produce the long-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s).

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

	2017		2016	
Asset Class	Target Allocation	Long Term Expected Real Rate of Return	Target Allocation	Long Term Expected Real Rate of Return
Public Equity	37%	6.60%	35%	6.30%
Fixed Income	0%	0.00%	10%	0.60%
Credit Opportunity	9%	4.20%	10%	3.20%
Real Return	15%	4.70%	14%	1.80%
Absolute Return	9%	3.70%	10%	4.20%
Rate Sensitive	20%	1.30%	0%	0.00%
Private Equity	10%	7.40%	10%	7.20%
Real Estate	0%	0.00%	10%	4.40%
Cash	0%	0.00%	1%	0.00%
Total	100%		100%	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 1.10% and 2.71%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate The single discount rate used to measure the total pension liability was 7.55% as of June 30, 2016 and 2015. This single discount rate was based on the expected rate of return on pension plan investments of 7.55% as of June 30, 2016 and 2015. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability - Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the College's net pension liability, calculated using a single discount rate of 7.55% as of June 30, 2016 and 2015, as well as what the College's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher for the Employees Retirement and Pension Systems:

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

a) Statewide Retirement Plans (Continued)

	1% Decrease	Current Discount Rate	1% Increase
2017			
College's Proportionate Share of the Net Pension Liability	$ 22,875,759	$ 16,654,033	$ 11,476,625
2016			
College's Proportionate Share of the Net \Pension Liability	$ 19,726,252	$ 13,957,131	$ 9,173,364

Due to the special funding situation noted above related to the Teachers Retirement and Pension Systems, the College did not record a net pension liability related to the Teachers Retirement and Pension Systems.

Pension plan fiduciary net positon - Detailed information about the pension plan's fiduciary net position is available in the separately issued System's financial report.

b) The College's Defined Benefit Pension Plan (Aetna)

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.

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 actuarial report that contains the results of the valuation of the College Retirement Plan as of July 1, 2014. 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.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

b) The College's Defined Benefit Pension Plan (Aetna) (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.

Benefits this sytem vest after five years of service and are based on years of creditable service and salary rates.

Employees Covered by Benefit Terms

At June 30, 2017 and 2016, the following employees were covered by the benefit terms:

	2017	2016
Inactive Employees or Beneficiaries Currently Receiving Benefits	251	253
Inactive Employees Entitled to But Not Yet Receiving Benefits	10	10
Active Employees	5	10
Total	266	273

Net Pension Liability

The College's net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

Actuarial assumptions. The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016	June 30, 2015
Inflation	2.50%	2.50%
Salary Increases	5.50%	5.50%
Investment Rate of Return	4.00%	4.00%

Mortality rates were based on the RP-2014 Mortality Table with Generational Improvements by Scale MP-2014 for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

b) The College's Defined Benefit Pension Plan (Aetna) (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target Allocation	
Asset Class	June 30, 2017	June 30, 2016
Corporate Industrial	49.00%	50.00%
Corporate Foreign	6.00%	8.00%
Corporate Utilities	12.00%	12.00%
Commercial Mortgage Backed	6.00%	4.00%
Government	5.00%	4.00%
Asset Backed	0.00%	0.00%
Agency Mortgage Backed	3.00%	3.00%
Corporate Financial	19.00%	19.00%
Total	100.00%	100.00%

Discount rate. The discount rate used to measure the total pension liability was 4.00% and 4.00% at June 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that College contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

b) The College's Defined Benefit Pension Plan (Aetna) (Continued)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability	Increase (Decreases) Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balance at 6/30/2016	$ (14,062,830)	$ 13,808,811	$ (254,019)
Changes for the Year			
Service Cost	(25,102)	-	(25,102)
Interest Cost	(544,918)	-	(544,918)
Difference Between Expected and Actual Experience-liability	171,033	-	171,033
Difference Between Expected and Actual Experience-asset side	-	213,447	213,447
Contributions - Employer	-	1,000,000	1,000,000
Net Investment Income	-	551,622	551,622
Benefit Payments, Including Refunds of Employee Contributions	929,936	(929,936)	-
Other Changes	-	(106,579)	(106,579)
Net Changes	530,949	728,554	1,259,503
Balance at 6/30/2017	$ (13,531,881)	$ 14,537,365	$ 1,005,484

	Total Pension Liability	Increase (Decreases) Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balance at 6/30/2015	$ (12,913,507)	$ 14,127,059	$ 1,213,552
Changes for the Year			
Service Cost	(30,949)	-	(30,949)
Interest Cost	(499,221)	-	(499,221)
Assumption Changes	(1,572,384)	(645,863)	(2,218,247)
Difference Between Expected and Actual Experience-liability	25,383	-	25,383
Contributions - Employer	-	820,000	820,000
Net Investment Income	-	544,348	544,348
Benefit Payments, Including Refunds of Employee Contributions	927,848	(927,848)	-
Other Changes	-	(108,885)	(108,885)
Net Changes	(1,149,323)	(318,248)	(1,467,571)
Balance at 6/30/2016	$ (14,062,830)	$ 13,808,811	$ (254,019)

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

b) The College's Defined Benefit Pension Plan (Aetna) (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the net pension liability of the College, calculated using the discount rate as well as what the College's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2017	3%	4%	5%
Total Pension Liability	$ 14,914,724	$ 13,531,881	$ 12,353,451
Plan Fiduciary Net Position	(14,537,365)	(14,537,365)	(14,537,365)
Net Pension (Asset) Liability	$ 377,359	$ (1,005,484)	$ (2,183,914)
June 30, 2016	3%	4%	5%
Total Pension Liability	$ 15,534,317	$ 14,062,830	$ 12,811,485
Plan Fiduciary Net Position	(13,808,811)	(13,808,811)	(13,808,811)
Net Pension (Asset) Liability	$ 1,725,506	$ 254,019	$ (997,326)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2017 and 2016, the College recognized pension expense (benefit) of ($2,503) and $1,727,950, respectively. At June 30, 2017 and 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
2017		
Differences Between Expected and Actual Experience	$ 130,900	$ -
College Contributions Subsequent to the Measurement Date	800,000	-
Total	$ 930,900	$ -

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
Differences Between Expected and Actual Experience	$ 387,899	$ -
College Contributions Subsequent to the Measurement Date	1,000,000	-
Total	$ 1,387,899	$ -

NOTE 11 RETIREMENT PLANS (MC) (CONTINUED)

b) The College's Defined Benefit Pension Plan (Aetna) (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30		
2018	$	43,552
2019		43,552
2020		86,483
2021		(42,687)
2022		-
Thereafter		-

Payable to the Pension Plan

At June 30, 2017 and 2016 the College reported a payable of $22,532 and $22,532, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2017 and 2016.

c) Optional Defined Contribution Plan

Professional employees otherwise eligible to join the State of Maryland Plan may choose instead to join the Optional Retirement Plan administered by the State of Maryland. This plan is a noncontributory defined contribution plan. The plan provides for retirement and death benefits. The plan was established by and can be amended by the State Legislature. The State of Maryland contributes 7.25% of eligible salaries on behalf of the College. For the years ended June 30, 2017 and 2016, the contributions made by the State of Maryland were $4,883,064 and $4,722,020, respectively, which has been included as both revenues and expenses in the accompanying Statement of Revenue, Expenses, and Changes in Net Position.

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.

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

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, 2017 and 2016, the College contributed $4,918,600 and $5,431,102, respectively, and the retirees contributed $2,279,689 and $2,089,167, respectively, in premiums.

Membership

As of June 30 membership consisted of:

	2017	2016
Retirees and Beneficiaries Currently Receiving Benefits	551	498
Active Employees - Vested	2,419	1,931
Total	2,970	2,429

The College had actuarial valuations performed for the plan as of June 30, 2017 and 2016 to determine the employer's annual required contribution (ARC) for the fiscal years ended June 30, 2017 and June 30, 2016, respectively. The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017 and 2016 were as follows:

	2017	2016
Annual OPEB Cost	$ 6,087,408	$ 5,218,428
Employer Contribution	(4,918,600)	(5,431,102)
Net OPEB Obligation	$ 1,168,808	$ (212,674)
% of Annual OPEB Cost Contributed	80.80%	104.08%

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

The net OPEB obligations as of June 30, 2017 and 2016 are recorded in OPEB asset value on the Statement of Net Position and were calculated as follows:

	2017	2016
Annual Required Contribution (ARC)	$ 6,201,741	$ 5,327,809
Interest on Net OPEB Obligation	(368,305)	(352,354)
Adjustment on ARC	253,972	242,973
Annual OPEB Cost	6,087,408	5,218,428
Less Contributions Made	4,918,600	5,431,102
Increase (Decrease) in Net OPEB Obligation	1,168,808	(212,674)
Net OPEB Asset - Beginning of Year	(4,910,732)	(4,698,058)
Net OPEB Asset - End of Year	$ (3,741,924)	$ (4,910,732)

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, 2017 and 2016, the projected unit credit actuarial cost method was used. The actuarial assumptions were as follows:

	2017	2016
Investment Rate of Return (Net of Administrative Expenses)	7.50%	7.50%
Annual Healthcare Cost Trend rate- Pre-65 Retirees	6.50%	6.50%
Annual Healthcare Cost Trend Rate- Post-65 Retirees	6.00%	6.00%

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

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, 2017 was 22 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
6-30-16	$ 42,612,881	$ 86,229,885	$ 43,617,004	49.42%	$ 156,386,137	27.89%
6-30-17	49,068,188	91,374,200	42,306,012	53.70%	153,024,708	27.65%

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, 2017 and 2016, the County made principal payments of $14,257,347 and, $12,774,386, respectively, and interest payments of $9,206,530 and $9,036,145, 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, 2017 and 2016, the State expended $11,614,911 and $10,032,440, 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 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:

	2017	2016
Montgomery County	$ 15,082,477	$ 8,764,926
State of Maryland	1,944,659	2,317,742
Total	$ 17,027,136	$ 11,082,668

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, 2017, the College waived $650,206 in credit and $714,975 in non-credit tuition for senior, disabled, foster care and National Guard students. During the year ended June 30, 2016, the College waived $618,445 in credit and $596,589 in non-credit tuition for senior, disabled, foster care and National Guard students.

The College offers a tuition waiver program whereby the College waives credit tuition for dependents of eligible College employees. For FY2017, the College waived $574,799 for its employees and their dependents. The total tuition amount waived for the College for FY2017 is $1,939,980. For FY2016, the College waived $547,198 for its employees and their dependents. The total tuition amount waived for the College for FY2016 was $1,762,232.

NOTE 15 INCOME TAX STATUS (MC, PIC MC & MCF)

The College is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code, except as to unrelated business income. No provision for income taxes has been accrued since the College anticipates no tax liability for the years ended June 30, 2017 and 2016.

The Foundation and PIC MC 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 PIC MC had no unrelated business income for the years ended June 30, 2017 and 2016.

The Foundation and PIC MC 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 PIC MC's tax positions, and has concluded that as of June 30, 2017, 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 2017 and 2016. Other program participants are qualifying County government agencies. An inter-agency insurance panel is responsible for overseeing the program. This program offers overall risk management and cost sharing for all participants. In the event that the program's trust or escrow funds fall into a deficit, the program panel shall determine a method to fund the deficit. The program can assess additional premiums to each deficit-year participant.

Premiums are charged to the appropriate College fund with no provision made for any additional liability in addition to premiums, unless assessed by the program. As of June 30, 2017, 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, 2017 and 2016 are as follows. Claims liabilities are included in accounts payable and accrued expenses on the Statements of Net Position.

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

Balance - June 30, 2015	$ 1,159,000
Claims and Changes in Estimates	19,054,011
Claims Payments	(19,021,011)
Balance - June 30, 2016	1,192,000
Claims and Changes in Estimates	19,860,689
Claims Payments	(19,883,689)
Balance - June 30, 2017	$ 1,169,000

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 2021. Net rent expense under these operating leases, included in contracted services expenses, was $3,223,432 and $3,346,335 for the years ended June 30, 2017 and 2016, respectively. The projected minimum lease payments under the terms of the leases at June 30, 2017 are as follows:

2018	$ 1,154,808
2019	418,206
2020	430,753
2021	443,675
Total	$ 2,447,442

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, 2017, payments for the contract agreements and purchase agreements for the next five years are as follows:

2018	$ 5,444,439
2019	2,794,233
2020	539,500
2021	53,333
Total	$ 8,831,505

As of June 30, 2017 and 2016, there were uncompleted contracts amounting to $29,015,945 and $24,496,102, 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.

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

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.

NOTE 18 FAIR VALUE (MC AND MCF)

The College and Foundation categorizes its fair value measurements within the fair value hierarcht established by generally accepted accounting principles, as follows:

- Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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.

Governmental agencies are values at fair value using a matrix pricing technique. 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:

Assets at Fair Value (MC)

2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobserverable Inputs Level 3	Total
Government Agencies	$ -	$ 20,463,601	$ -	$ 20,463,601
2016				
Government Agencies	$ -	$ 25,976,810	$ -	$ 25,976,810

NOTE 18 FAIR VALUE (MC and MCF) (CONTINUED)

Assets at Fair Value (MCF)

	2017			
	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3	Total Fair Value
Mutual Funds, by Type				
Alternatives	$ 4,139,186	$ -	$ -	$ 4,139,186
Blend	1,322,177	-	-	1,322,177
Bond	1,977,445	-	-	1,977,445
Convertible	250,822	-	-	250,822
Diversified Fixed Income	355,970	-	-	355,970
Equity	732,968	-	-	732,968
Floating Rate	411,578	-	-	411,578
Growth	5,959,945	-	-	5,959,945
International	4,735,056	-	-	4,735,056
Real Estate	2,527,013	-	-	2,527,013
Value	5,466,109	-	-	5,466,109
	27,878,269	-	-	27,878,269
Assets Held for Charitable Gift Annuities				
Mutual Funds, by Type				
Alternatives	$ 12,294	$ -	$ -	$ 12,294
Blend	8,797	-	-	8,797
Bond	13,985			13,985
Floating Rate	2,213	-	-	2,213
Equity	3,919	-	-	3,919
International	25,059	-	-	25,059
Growth	22,276	-	-	22,276
Real Estate	8,410	-	-	8,410
Value	17,027	-	-	17,027
	113,980	-	-	113,980
Total Assets, at Fair Value	$ 27,992,249	$ -	$ -	$ 27,992,249

NOTE 18 FAIR VALUE (MCF) (CONTINUED)

Assets at Fair Value (MCF) (Continued)

	2016			
	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3	Total Fair Value
Mutual Funds, by Type				
Bond	$ 2,383,686	$ -	$ -	$ 2,383,686
Blend	3,777,303	-	-	3,777,303
Convertible	144,610	-	-	144,610
Currency	241,277	-	-	241,277
Emerging	1,229,077	-	-	1,229,077
Equity	3,824,638	-	-	3,824,638
Growth	4,963,122	-	-	4,963,122
International	1,104,764	-	-	1,104,764
Natural Resources	836,759	-	-	836,759
Preferred Stock	111,096	-	-	111,096
Real Estate	2,576,681	-	-	2,576,681
Value	3,570,819	-	-	3,570,819
	24,763,832	-	-	24,763,832
Assets Held for Charitable Gift Annuities				
Mutual Funds, by Type				
Bond	$ 35,212	$ -	$ -	$ 35,212
Blend	65,433	-	-	65,433
Emerging	21,210	-	-	21,210
Equity	64,902	-	-	64,902
International	12,314	-	-	12,314
Growth	62,742	-	-	62,742
Real Estate	33,874	-	-	33,874
Value	27,002	-	-	27,002
	322,689	-	-	322,689
Total Assets, at Fair Value	$ 25,086,521	$ -	$ -	$ 25,086,521

Liabilities at Fair Value (MCF)

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.

NOTE 18 FAIR VALUE (MCF) (CONTINUED)

Liabilities at Fair Value (MCF) (Continued)

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

	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3	Total Fair Value
		2017		
Annuity Obligations, at Fair Value	$ -	$ 869,643	$ -	$ 869,643
		2016		
Annuity Obligations, at Fair Value	$ -	$ 1,123,186	$ -	$ 1,123,186

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:

	2017	2016
General Use Programs	$ 5,529,472	$ 6,554,730
Scholarships	4,746,076	2,918,238
Student Athletics	61,770	47,200
Total	$ 10,337,318	$ 9,520,168

For fiscal years ending June 30, 2017 and 2016, temporarily restricted net assets released from restriction were used for the following:

	2017	2016
General Use Programs	$ 1,476,297	$ 1,081,264
Scholarships	2,063,932	2,374,815
Student Athletics	10,376	12,565
Total	$ 3,550,605	$ 3,468,644

NOTE 19 RESTRICTED ASSETS (MCF)

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, 2017 and 2016, earnings from permanently restricted net assets were restricted for the following:

	2017	2016
Scholarships	$ 14,564,474	$ 13,908,076
General Use Programs	7,220,949	7,176,950
Student and Faculty Support	59,079	55,679
Annuity Funds	33,004	17,736
Total	$ 21,877,506	$ 21,158,441

NOTE 20 ENDOWMENT (MCF)

The Foundation's endowment consists of 268 individual 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 Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

NOTE 20 ENDOWMENT (MCF) (CONTINUED)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets consist of those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the investment return objective is to attain an average annual total return of CPI plus 5% (nominal return net of investment management fees) over the long term (up to a rolling five-year period). The goal is to combine various asset classes to achieve diversification and at the same time balance the risk and return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 20 ENDOWMENT (MCF) (CONTINUED)

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

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

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ 3,752,822	$ 20,084,395	$ 23,837,217
Contributions	-	35,135	989,259	1,024,394
Appropriations of Endowment Assets for Expenditures	-	(1,163,332)	-	(1,163,332)
Endowment Net Assets after Contributions and Expenditures	-	2,624,625	21,073,654	23,698,279
Net Investment Income	-	2,420,098	-	2,420,098
Subtotal	-	5,044,723	21,073,654	26,118,377
Other Changes				
Donor Requested Endowment of Previously Unendowed Gift	-	-	17,682	17,682
Endowment Net Assets, End of Year	$ -	$ 5,044,723	$ 21,091,336	$ 26,136,059

June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ 4,119,838	$ 18,314,724	$ 22,434,562
Contributions	-	-	1,767,653	1,767,653
Appropriations of Endowment Assets for Expenditures	-	(1,031,711)	-	(1,031,711)
Endowment Net Assets after Contributions and Expenditures	-	3,088,127	20,082,377	23,170,504
Net Investment Income	-	664,695	-	664,695
Subtotal	-	3,752,822	20,082,377	23,835,199
Other Changes				
Donor Requested Endowment of Previously Unendowed Gift	-	-	2,018	2,018
Endowment Net Assets, End of Year	$ -	$ 3,752,822	$ 20,084,395	$ 23,837,217

The permanently restricted balances above do not include pledges receivable of $753,166 and $1,056,310 for the years ended June 30, 2017 and 2016, respectively. The permanently restricted balances above also do not include net assets related to annuities of $33,005 and $17,736 as of June 30, 2017 and 2016, respectively, which do not become part of endowment assets until maturity. The endowment assets are primarily comprised of the Foundation's investments as detailed in Note 2. The remaining endowment assets are comprised of cash.

NOTE 20 ENDOWMENT (MCF) (CONTINUED)

The Foundation maintains a general endowment, where the donors have specified all earnings are unrestricted for general Foundation operations. Accumulated unrestricted earnings of $12,985 and $(9,629) were transferred to the Foundation's Unrestricted Fund on June 30, 2017 and 2016, respectively.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0 and $2,525 as of June 30, 2017 and 2016, respectively. General Endowments' $9,629 defienciency was transferred to the Unrestricted Fund.

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.

Student and Faculty Support

The Student and Faculty Support program distributes grants and awards to deserving individuals and academic programs. This program also includes noncash donations received which are subsequently given to the College. Non-cash donations for fiscal years 2017 and 2016 were valued at $96,813 and $74,826, respectively, and are included in Other Noncash Contributions on the Statements of Activities.

NOTE 22 BLENDED COMPONENT UNIT (MC)

The College's blended component unit, PIC MC's Condensed Statement of Net Position and Condensed Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2017 and 2016 and for the years then ended are as follows:

	2017	2016
Assets		
Cash and Cash Equivalents	$ 1,553,322	$ 1,531,680
Current investments	2,993,780	-
Other Receivables	1,329	-
CIP - Land Development Cost	226,919	186,545
Non Current investments	1,006,501	4,067,521
Total Assets	$ 5,781,851	$ 5,785,746
Liabilities and Net Position		
Accounts Payable and Accrued Liabilities	$ 15,341	$ 7,649
Current Unearned Revenue	63,462	-
Non Current Unearned Revenue	5,875,502	6,002,425
Unrestricted Net Position	(172,454)	(224,328)
Total Liabilities and Net Position	$ 5,781,851	$ 5,785,746

	2017	2016
Revenue		
Land Lead Income	$ 63,462	$ 63,462
Investment and Interest Income	35,667	44,967
Total Revenue	99,129	108,429
Expenses		
Contracted Services	9,887	2,076
Professional Fees	4,512	4,653
Other	32,856	25,555
Total Expenses	47,255	32,284
Decrease in Net Position	51,874	76,145
Net Position - Beginning of Year	(224,328)	(300,473)
Net Position - End of Year	$ (172,454)	$ (224,328)

NOTE 23 SUBSEQUENT EVENTS (MC & MCF)

Management evaluated subsequent events through October 13, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2017, but prior to October 13, 2017, that provided additional evidence about conditions that existed at June 30, 2017, have been recognized in the financial statements for the year ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017 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, 2017.

MONTGOMERY COLLEGE
SCHEDULES OF FUNDING PROGRESS AND CONTRIBUTIONS FOR OTHER POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2017

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 FY2017. 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
6-30-08	$ 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%
6-30-15	41,228,725	79,988,358	38,759,633	51.54%	134,999,082	28.71%
6-30-16	42,612,881	86,229,885	43,617,004	49.42%	156,386,137	27.89%
6-30-17	49,068,188	91,374,200	42,306,012	53.70%	153,024,708	27.65%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage Contributed
6-30-15	$ 4,238,678	$ 5,708,028	135%
6-30-16	5,218,428	5,431,102	104%
6-30-17	6,087,408	4,918,600	81%

MONTGOMERY COLLEGE
SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016	2015
Employees' Retirement and Pension System:			
College's proportionation of the net pension liability	0.705858000000000%	0.671060000000000%	0.583722878572480%
College's proportionate share of the net pension liability	$ 16,654,033	$ 13,957,122	$ 10,359,173
College's covered employee payroll	$ 17,016,823	$ 16,422,879	$ 15,375,630
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	96.44%	82.02%	67.66%
Plan fiduciary net position as a percentage of the total pension liability	62.97%	66.26%	73.65%
Teacher's Retirement and Pension System:			
College's proportionation of the net pension liability	0.0%	0.0%	0.0%
College's proportionate share of the net pension liability	$ -	$ -	$ -
State's proportionate share of the net pension liability of the College	121,506,969	92,046,440	69,065,207
Total	$ 121,506,969	$ 92,046,440	$ 69,065,207
College's covered employee payroll	$ 66,536,656	$ 63,045,184	$ 59,003,580
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	67.95%	70.76%	69.53%
Aetna Pension Plan			
College's proportionation of the net pension liability	100.0%	100.0%	100.0%
College's proportionate share of the net pension (asset) liability	$ (1,005,484)	$ 254,019	$ (1,213,552)
College's covered employee payroll	$ 486,083	$ 1,065,000	$ 1,065,000
College's proportionate share of the net pension (asset) liability as a percentage of its covered employee payroll	-206.85%	23.85%	-113.95%
Plan fiduciary net position as a percentage of the total pension (asset) liability	1445.81%	5436.13%	-1164.11%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

MONTGOMERY COLLEGE
SCHEDULE OF COLLEGE CONTRIBUTIONS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017**	2016**	2015**	2014**	2013**
Employees' Retirement and Pension System					
Contractually required contribution	$ 1,365,928	$ 1,375,069	$ 1,415,565	$ 1,360,285	$ 1,209,332
Contributions in relation to the contractually required contribution	-	(1,375,069)	(1,415,565)	(1,360,285)	(1,209,332)
Contribution deficiency (excess)	$ (1,365,928)	$ -	$ -	$ -	$ -
College's covered-employee payroll	$ 17,269,398	$ 17,016,823	$ 16,422,879	$ 15,375,630	$ 13,915,335
Contributions as a percentage of covered-employee payroll	7.91%	8.08%	8.62%	8.85%	8.69%

	2017*	2016*	2015*	2014*	2014*
Teachers Retirement and Pension System					
Contractually required contribution	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered-employee payroll	$ 66,906,516	$ 66,536,656	$ 63,045,184	$ 59,003,580	$ 54,938,915
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

	2017*	2016*	2015*	2014*	2014*
Aetna Plan					
Contractually required contribution	$ 800,000	$ 1,000,000	$ 820,000	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-
Contribution deficiency (excess)	$ 800,000	$ 1,000,000	$ 820,000	$ -	$ -
College's covered-employee payroll	$ 486,083	$ 1,065,000	$ 1,065,000	$ 1,717,415	$ 2,336,720
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

** The College is not contractually required to contribute to the Teachers' Retirement and Pension System.*

** Information prior to fiscal year 2013 was not available and the College will accumulate each year until ten years of data becomes available.

STATE OF MARYLAND RETIREMENT AND PENSION SYSTEM

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%
- New funding methodology set forth by Maryland legislation was first reflected in the June 30, 2015 valuation. The legislation removed the corridor funding method effective with the June 30, 2015 valuation.

NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years for State system
Asset Valuation Method	5-year smoothed market (max 120% and min 80% of market value)
Inflation	2.90% general, 3.2% wage
Salary Increases	3.20% to 9.2% including inflation
Investment Rate of Return	7.55%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to the Experience Study for the period July 1, 2010 to June 30, 2014
Mortality	RP-2014 Mortality Tables with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

Aetna Pension Plan

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

There were no changes in assumptions made to the roll-forward liabilities in the 2015 valuation.

NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial	Entry Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	Gain/Losses over 5 years, assumptions over 10 years, and plan changes over 30 years
Asset Valuation Method	Fair Value
Inflation	2.50%
Salary Increases	5.50%, including cost of living increase
Investment Rate of Return	4.0%, net of pension plan investment expense, including inflation
Retirement Age	None
Mortality	RP-2014 Mortability Table with Generational Improvements by Scale MP-2014