

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2010

**July 1, 2009 - June 30, 2010
Rockville, Maryland**

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2010
July 1, 2009 - June 30, 2010

Montgomery County, Maryland
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2010
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FINANCIAL SECTION

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2010 and the budgetary comparison for the general, revenue stabilization, housing initiative and grants funds for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 18% of the assets and 7% of the revenues of the non-major component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general, revenue stabilization, housing initiative, and grants funds for the year then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section; combining and individual fund financial statements and supplementary schedules listed as supplementary data; and statistical section, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and supplementary schedules, listed as supplementary data have been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole. The introductory section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Baltimore, Maryland
December 20, 2010

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent years' financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

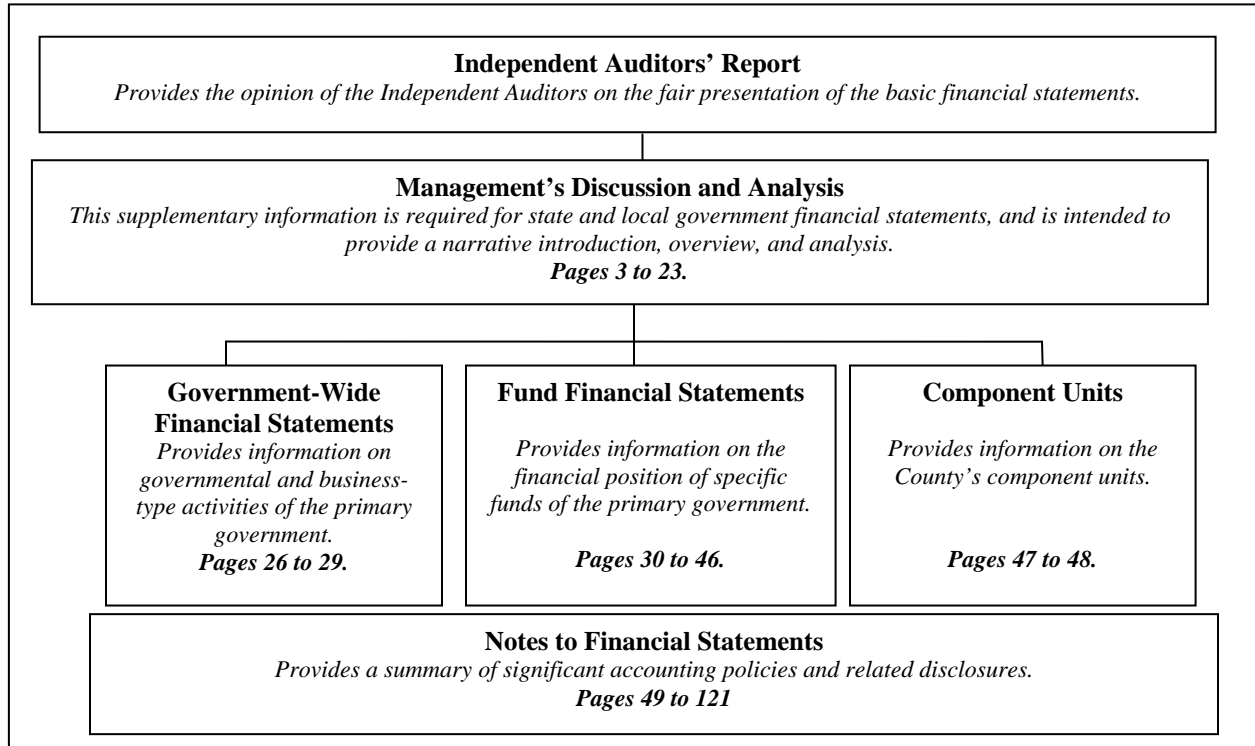
- The government-wide assets of the County exceeded its liabilities at the close of FY10 by \$1,222.3 million. That amount is net of a \$1,325.5 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$1,252.3 million at June 30, 2010. Absent the effect of this relationship, the County would have reported negative government-wide unrestricted net assets of \$73.2 million.
- The County's total government-wide net assets decreased by \$333.3 million.
- As of the close of FY10, the County's governmental funds reported combined ending fund balances of \$406.1 million, a decrease of \$17.6 million over the prior year's ending fund balances. Of the total ending fund balances, \$113.3 million is available for spending at the County's discretion.
- At the end of FY10, unreserved fund balance for the General Fund was \$39.7 million, or 1.6 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$429.3 million during FY10. The key factors in this increase are:
 - The issuance of \$472 million in general obligation (GO) bonds, used to refund \$315 million in bond anticipation notes (BANS) and \$165 million in GO bonds, and the issuance of an additional \$440 million in BANS
 - Net increase in Other Postemployment Benefits obligation of \$67.2 million
 - The retirement of \$133 million in GO bond principal.
 - Taxable Limited Obligation Certificates were issued in the amount of \$30.4 million for CIP projects; and
 - Certificates of Participation were issued in the amount of \$23 million for CIP projects

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to

Montgomery County’s basic financial statements. Montgomery County’s basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County’s governmental and business-type activities. This statement reports governmental funds’ current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County’s assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County’s property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users’ analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County’s basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

Governmental Funds – Most of the County’s basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has six major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, Grants and Capital Projects – and 12 non-major special revenue funds.

Proprietary Funds – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County’s enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County’s programs. The County’s fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

**FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND:
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2010 and 2009:

Summary of Net Assets *						
June 30, 2010 and 2009						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 1,077,567,178	\$ 1,146,293,058	\$ 135,014,403	\$ 154,304,120	\$ 1,212,581,581	\$ 1,300,597,178
Capital assets, net	3,049,076,279	2,823,763,425	254,007,887	258,246,679	3,303,084,166	3,082,010,104
Total Assets	<u>4,126,643,457</u>	<u>3,970,056,483</u>	<u>389,022,290</u>	<u>412,550,799</u>	<u>4,515,665,747</u>	<u>4,382,607,282</u>
Liabilities:						
Long-term liabilities outstanding	2,721,895,955	2,290,268,265	102,083,874	108,023,280	\$ 2,823,979,829	2,398,291,545
Other liabilities	431,986,222	392,859,692	\$ 37,344,963	35,774,474	469,331,185	428,634,166
Total Liabilities	<u>3,153,882,177</u>	<u>2,683,127,957</u>	<u>139,428,837</u>	<u>143,797,754</u>	<u>3,293,311,014</u>	<u>2,826,925,711</u>
Net assets:						
Invested in capital assets,						
net of related debt	1,965,289,080	1,937,493,317	178,781,693	177,697,087	\$ 2,112,966,502	2,080,125,833
Restricted	380,181,540	393,404,279	54,684,729	66,606,205	434,866,269	460,010,484
Unrestricted (deficit)	<u>(1,372,709,340)</u>	<u>(1,043,969,070)</u>	<u>16,127,031</u>	<u>24,449,753</u>	<u>(1,325,478,038)</u>	<u>(984,454,746)</u>
Total Net Assets	<u>\$ 972,761,280</u>	<u>\$ 1,286,928,526</u>	<u>\$ 249,593,453</u>	<u>\$ 268,753,045</u>	<u>\$ 1,222,354,733</u>	<u>\$ 1,555,681,571</u>
* Primary Government						

The County's current and other assets decreased by \$88.0 million or 6.8 percent from FY09. The County's assets exceeded its liabilities at the close of FY10 by \$1,222.3 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of \$31.1 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$1,252 million at June 30, 2010. Absent the effect of this relationship, the County would have reported government-wide negative unrestricted net assets of \$73.2 million. An additional portion of the County's net assets (\$380 million or 31.2 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$74.9 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by \$333.3 million for FY10 or 21.4 percent under FY09. This decline is due to an economic downturn that caused a net operating loss for the year of \$333.3 million.

Statement of Activities

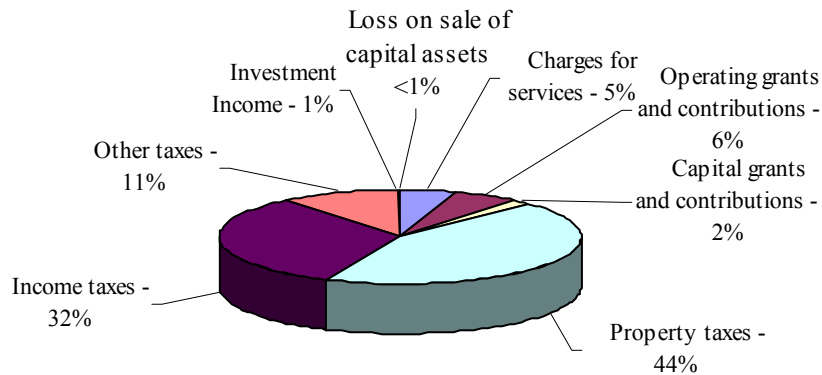
The following table summarizes the County's change in net assets for the years ended June 30, 2010 and 2009:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2010 and 2009						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Charges for services**	\$ 157,758,240	\$ 166,581,628	\$ 397,188,893	\$ 379,812,860	\$ 554,947,133	\$ 546,394,488
Operating grants and contributions	180,427,674	228,958,679	30,000	8,700	180,457,674	228,967,379
Capital grants and contributions	55,170,347	34,528,889	-	-	55,170,347	34,528,889
General revenues:						
Property taxes	1,371,964,491	1,296,974,051	9,931,045	11,854,882	1,381,895,536	1,308,828,933
Income taxes	1,010,874,757	1,169,568,981	-	-	1,010,874,757	1,169,568,981
Other taxes	328,977,765	292,977,015	-	-	328,977,765	292,977,015
Investment income	8,299,709	14,173,076	569,792	2,599,459	8,869,501	16,772,535
Gain on sale of capital assets	(1,366,889)	1,604,285	-	-	(1,366,889)	1,604,285
Total Revenues	<u>3,112,106,094</u>	<u>3,205,366,604</u>	<u>407,719,730</u>	<u>394,275,901</u>	<u>3,519,825,824</u>	<u>3,599,642,505</u>
EXPENSES						
Governmental Activities:						
General government	293,349,395	337,557,085	-	-	293,349,395	337,557,085
Public safety	611,714,420	626,855,553	-	-	611,714,420	626,855,553
Public works and transportation	297,864,026	257,041,963	-	-	297,864,026	257,041,963
Health and human services	287,883,637	288,519,635	-	-	287,883,637	288,519,635
Culture and recreation	108,490,460	116,186,268	-	-	108,490,460	116,186,268
Community development and housing	40,627,603	21,365,597	-	-	40,627,603	21,365,597
Environment	16,446,934	13,618,312	-	-	16,446,934	13,618,312
Education	1,738,633,028	1,842,962,933	-	-	1,738,633,028	1,842,962,933
Interest on long-term debt	86,352,825	92,511,000	-	-	86,352,825	92,511,000
Business-type Activities:						
Liquor control	-	-	204,677,766	197,044,956	204,677,766	197,044,956
Solid waste activities	-	-	100,709,914	96,857,869	100,709,914	96,857,869
Parking lot districts	-	-	30,698,606	29,003,485	30,698,606	29,003,485
Permitting services	-	-	27,306,059	27,878,868	27,306,059	27,878,868
Community use of public facilities	-	-	8,397,989	8,744,741	8,397,989	8,744,741
Total Expenses	<u>3,481,362,328</u>	<u>3,596,618,346</u>	<u>371,790,334</u>	<u>359,529,919</u>	<u>3,853,152,662</u>	<u>3,956,148,265</u>
Increase in Net Assets Before Transfers	(369,256,234)	(391,251,742)	35,929,396	34,745,982	(333,326,838)	(356,505,760)
Transfers	55,088,988	44,971,675	(55,088,988)	(44,971,675)	-	-
Increase in Net Assets	(314,167,246)	(346,280,067)	(19,159,592)	(10,225,693)	(333,326,838)	(356,505,760)
Net Assets, beginning of year	1,286,928,526	1,633,208,593	268,753,045	278,978,738	1,555,681,571	1,912,187,331
Net Assets, end of year	<u>\$ 972,761,280</u>	<u>\$ 1,286,928,526</u>	<u>\$ 249,593,453</u>	<u>\$ 268,753,045</u>	<u>\$ 1,222,354,733</u>	<u>\$ 1,555,681,571</u>
* Primary Government						

Governmental Activities

Revenues for the County's governmental activities were \$3,112 million for FY10. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2010**

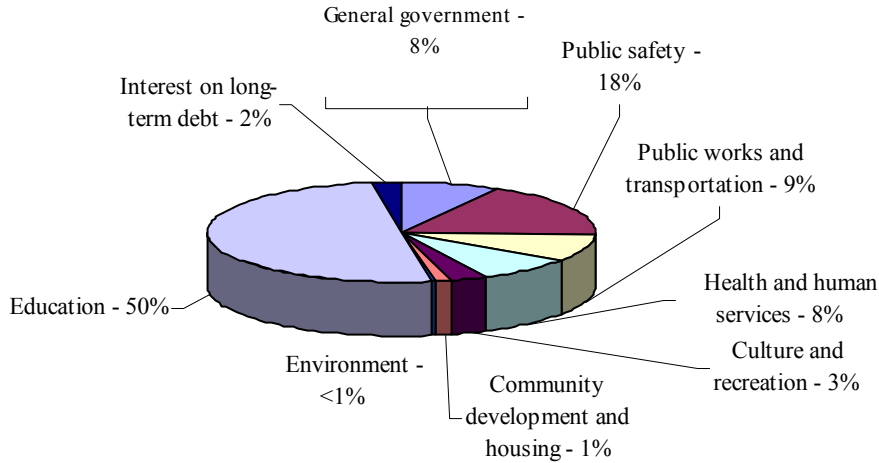


- Taxes constitute the largest source of County revenues, amounting to \$2,711.8 million for FY10. Property and local income tax combined comprise 76.6 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2010 and 2009. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$95.1 million or 52.7 percent), public works and transportation (\$30.1 million or 16.7 percent) and public safety (\$30.4 million or 16.8 percent).

A more detailed discussion of the County's revenue results for FY10 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY10 was \$3,481 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1,738.6 million. Public safety expenses totaled \$611.7 million, general government services totaled \$293.3 million, and Public Works and Transportation, the fourth largest expense for the County, totaled \$297.9 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2010**



The following table presents the cost and program revenues of the County as a whole and each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of County's Governmental Activities							
For the Fiscal Years Ended June 30, 2010 and 2009							
	Expenses		Revenues		Net Cost of Services		
	2010	2009	2010	2009	2010	2009	
Education	\$ 1,738,633,028	\$ 1,842,962,933	\$ -	\$ -	\$ 1,738,633,028	\$ 1,842,962,933	
Public safety	611,714,420	626,855,553	65,329,306	79,610,411	546,385,114	547,245,142	
General government	293,349,395	337,557,085	64,004,062	63,864,253	229,345,333	273,692,832	
Public works and transportation	297,864,026	257,041,963	95,545,887	107,411,399	202,318,139	149,630,564	
Health and human services	287,883,637	288,519,635	96,634,099	115,177,823	191,249,538	173,341,812	
Culture and recreation	108,490,460	116,186,268	38,396,575	42,604,734	70,093,885	73,581,534	
Other	143,427,362	127,494,909	33,446,332	21,400,576	109,981,030	106,094,333	
Total	\$ 3,481,362,328	\$ 3,596,618,346	\$ 393,356,261	\$ 430,069,196	\$ 3,088,006,067	\$ 3,166,549,150	

Of the total cost of governmental activities of \$3,481 million, \$393.4 million was paid by those who directly benefited from the programs (\$157.8 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$235.6 million). Of the \$3,088 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,711.8 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

Highlights of significant changes in governmental activities revenue and expenses compared to last year are:

- General Government includes:
 - \$249.6 million decrease in revenue from County income taxes due to a drop in resident employment and income from capital gains

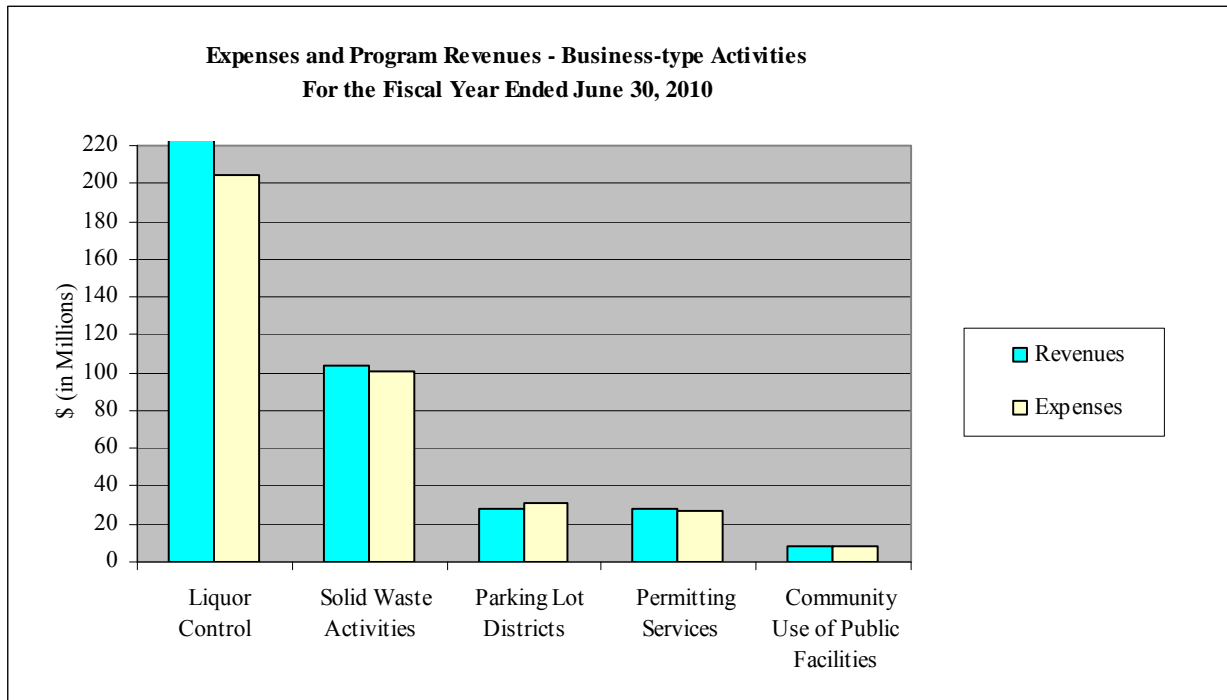
- Decrease in revenue for permitting services of 22% or about \$5 million primarily due to the downturn in the construction industry
 - \$59.7 million increase in expenses for snow removal operations and wind and rain storm clean-up; and
 - Total General Government expenses decreased by \$43 million due to major savings initiatives recommended by the County executive branch and approved by the Council.
- Public Safety includes:
 - Fire Tax District revenues decreased \$6 million mainly due to declining property tax receipts
 - \$1 million increase in grants from the U.S. Department of Homeland Security;
 - \$1.1 million increase in grants for Fire and Rescue Services ; and
 - \$4.3 million decrease in Speed Camera revenues for Police due to the State of Maryland legislature making changes to the law governing localities use of speed cameras
- Public Works and Transportation includes:
 - Mass Transit revenues increased by \$42.3 million due to the receipt of an FY09 annual State of Maryland payment for special bus services being received in FY10 along with the FY10 annual payment ; and
 - Expenses decreased by \$3.8 million mainly due to a reduction in maintenance and lease expenses
- Culture and Recreation includes:
 - \$3.3 million decrease in revenues received by the Department of Recreation due to decreased property tax receipts, a reduction in the number of sites for its Rec Extra program and other program reductions
 - The Department of Recreation decreased expenditures by approximately \$2.9 million mainly by the downsizing of its personnel.

Business-type Activities

Highlights of the County's business-type activities for FY10 are as follows:

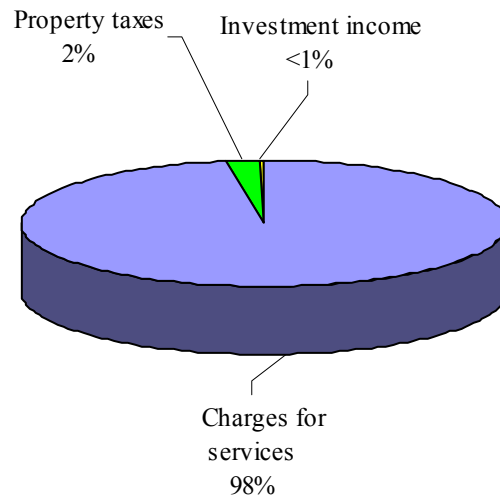
- Business-type activities experienced a decrease in net assets of \$19.2 million for FY10. However, this amount is reported after total net transfers out of \$55 million. The most significant components of this amount include:
 - \$18.5 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit, Urban Districts, and General Funds; and
 - \$30.2 million in FY10 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.
- Charges for services to users comprise 97.4 percent of revenues, with \$229.3 million (57.7 percent of charges for services revenue) attributable to liquor control operations and \$103.4 million (26 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$9.9 million is the second largest source of revenue at only 2.4 percent of total revenues.
- Investment income of \$0.6 million reflects a decrease of \$2 million or 78.1 percent under FY09, primarily because of the decrease in pooled cash and investments during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2010**



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY10, the County's governmental funds reported combined ending fund balances of \$406.1 million, a decrease of \$17.6 million from the end of FY09. Of the total ending fund balances, \$113.3 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$292.7 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY10, the General Fund had no unreserved and undesignated fund balance, while total fund balance was \$47.3 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 1.9 percent of total General Fund expenditures.

The fund balance of the County's General Fund decreased by \$60.8 million during FY10, primarily due to reduced income tax revenues.

The Revenue Stabilization Fund (RSF) is used to account for the accumulation of resources during periods of economic growth and prosperity. Funds may be drawn upon during periods of economic slowdown. At the end of FY10, RSF had a fund balance of \$74.9 million. This represents a decrease of \$44.8 million or 37.4 percent under FY09. This decrease is due to a \$45 million transfer to the General Fund.

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY10, HI had a fund balance of \$197.2 million. Of this amount, \$190.8 million, or 96.7 percent, is restricted for legal reasons. The HI fund balance represents an increase of \$8.6 million over FY09. Mortgage Receivables for this fund, which is a measure of its financing activities, increased \$12.9 million, or 9.6 percent, over FY09.

The Grant Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures- That is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received \$112.9 million in revenues for FY10. This is a \$2.6 million increase over FY09.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unreserved fund balance; the reserved fund balance of \$3.3 million represents a debt service reserve account.

The Capital Projects Fund has a total fund balance of \$47.6 million, an increase of \$93.9 million from the end of FY09. The increase was primarily due new debt issued in FY10 to fund capital projects.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY10 amounted to \$23 million, and operating income was \$26.1 million. After a subsidy transfer to the General Fund of \$30.2 million, the fund ended FY10 with a decrease in net assets of \$5.2 million.

The Solid Waste Activities Fund total net assets amounted to \$68.8 million, of which the unrestricted net assets were a negative \$0.6 million. Restricted net assets of \$34.9 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to \$10.8 million in FY10, resulting in total ending net assets of \$158.9 million. Of this amount, \$138.5 million (87.2 percent) is invested in capital net of related debt; \$8 million (6.5 percent) is restricted for debt service on revenue bonds; and \$12.4 million (7.8 percent) is unrestricted.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$56.4 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$5.7 million increase in operating costs for the Department of General Services; and
- \$53.9 million increase for the Department of Transportation largely due to snow removal operations and wind and rain storm clean up.

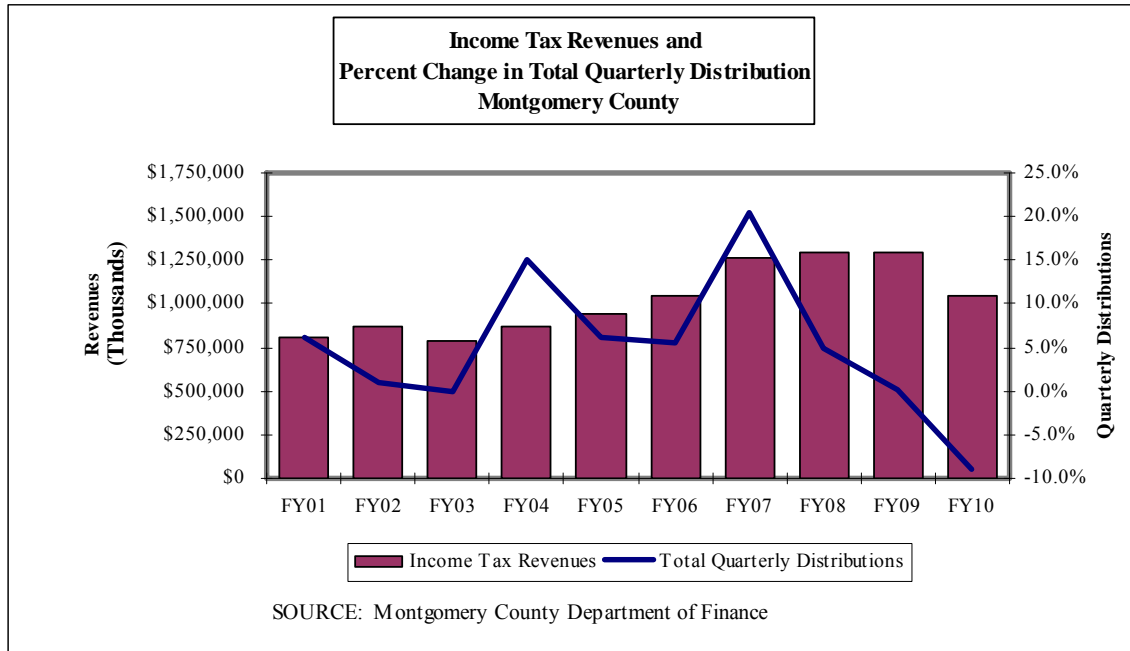
Actual revenues were less than budget amounts by \$195.6 million, while actual expenditures and net transfers out were less than final budget by \$60.3 million and \$88.8 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2010, include the following:

- Actual expenditures of \$919 million were \$60.3 million less than the final budget, which represents 6.2 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$30.4 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

A more detailed comparison of final budget to actual figures for revenues is presented below:

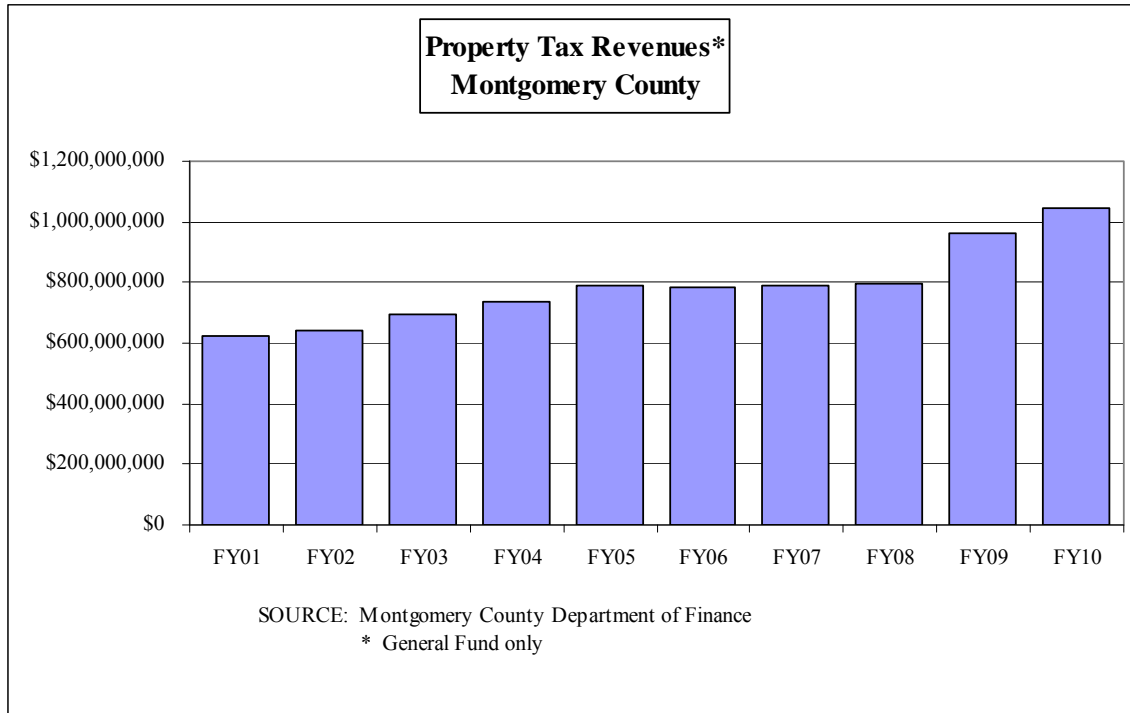
Overview - Actual revenues for the General Fund totaled \$2,521.9 million and were 7.2 percent below the budget estimate for the fiscal year and 6.6 percent below actual revenues for FY09. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (↓\$172.7 million below the budget estimate), followed by State intergovernmental revenue (↓\$16.4 million below the budget), and finally, intergovernmental revenue (↓\$20.8 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$205.6 million in FY10. That amount was \$20.3 million or 10.9 percent above the budget estimate. Investment income was approximately \$0.7 million below the budget estimate. Licenses and permits (↑4.5%) came in above budget estimates, but charges for services (↓4.9%) came in below budget estimates. Intergovernmental revenues were 29.2 percent below the budget estimate. Such a decrease was attributed to State and federal reimbursements, which came in 32.2 percent and 24.5 percent below budget estimates, respectively. Other intergovernmental revenue was 15.9 percent above the budget estimate.

Income Taxes - One of the major, and until this fiscal year, the largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,042.1 million and represented 43.1 percent of actual tax revenues and 41.3 percent of total actual revenues in FY10. Until FY10, income tax receipts was the largest source of tax revenues in the General Fund since surpassing property tax receipts in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. With a Standard & Poor's 500 index increasing 23.5 percent in calendar year (CY) 2009 following a decrease of 38.5 percent in calendar year CY2008 and increases of 3.5 percent in calendar year CY2007, 13.6 percent in CY2006, and 3.0 percent in CY2005, and an average annual growth rate of only 0.7 percent in the County's resident employment during the CY2005-CY2008 period and a decrease of 3.3 percent in CY2009, income tax revenues increased 8.2 percent in FY05, 11.0 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, and no increase in FY09. However, with little change in total resident employment in CY2007 and CY2008 and a decline in CY2009 coupled with the dramatic decline in the S&P 500 index in CY2009 affecting capital gains in FY10, income tax revenues declined 19.3 percent in FY10. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 9.0 percent in FY10, which followed increases of 0.2 percent in FY09, 4.9 percent in FY08, 20.5 percent (FY07), 5.6 percent (FY06), and 6.1 percent (FY05).



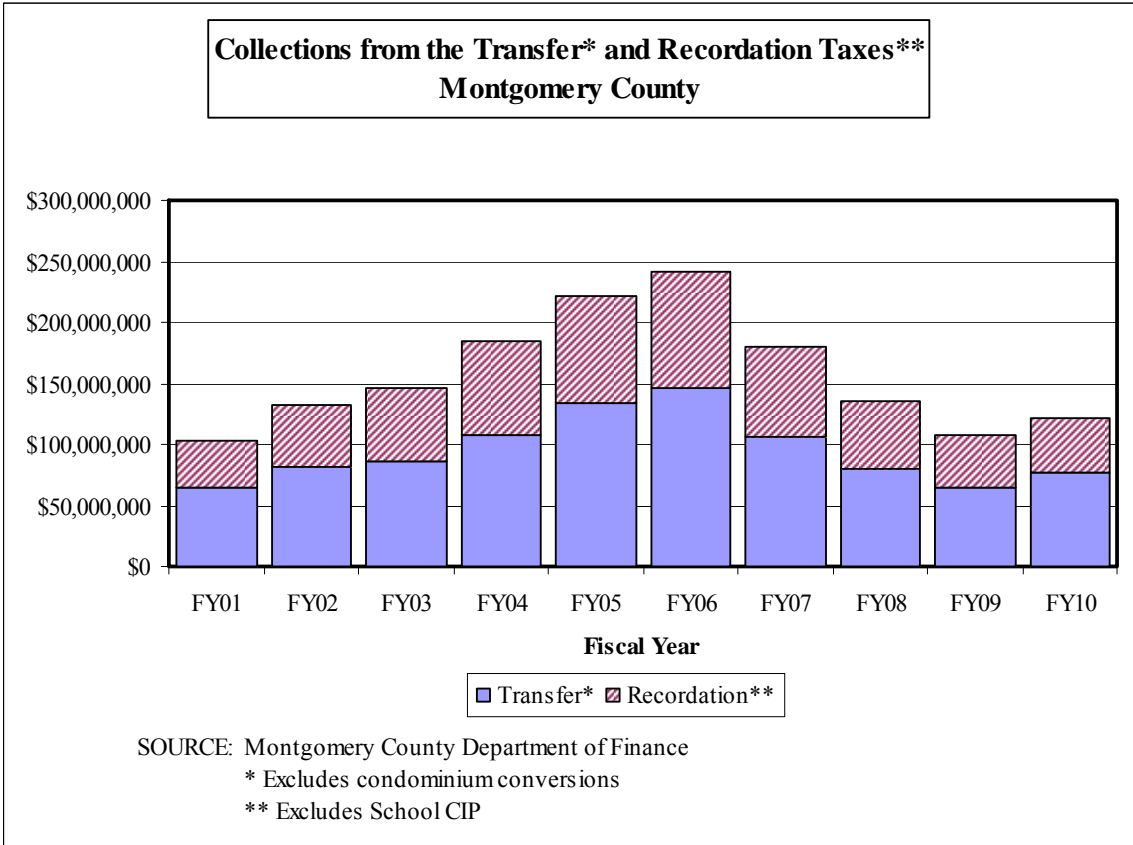
Property Taxes - Property tax collections, which represent another major contributor to the General Fund and the largest in FY10, amounted to \$1,045.6 million in FY10, which were \$5.2 million (↓0.5%) below the budget estimate but 8.7 percent above actual revenues in FY09. Actual property taxes, excluding penalties and interest and other items, were \$1,043.4 million in FY10 – an increase of 8.6 percent over last year. Collections from penalties and interest were \$2.2 million – a 57.1 percent increase when compared to FY09. The increase in actual property tax collections for the General Fund compared to FY09 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from \$0.661 to \$0.683 per \$100 of assessed value.

The taxable assessments for real property increased 5.7 percent from FY09 to FY10. This was the smallest increase in eight years. New construction, which added \$1.380 billion to the base in FY10, was 2.4 percent lower than in FY09. The real estate market, particularly the annual double-digit price increases during fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County's real property with the three-year phase in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 43.4 percent for Cycle One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 (↑2.0%) and FY08 (↑0.4%). With the average sales price for an existing home declining 15.8 percent in FY09 and 5.1 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08 and the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09. However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rate for Cycle Three in LY09, the remaining amount of the credit added over \$8.8 billion to the assessable base in FY10.

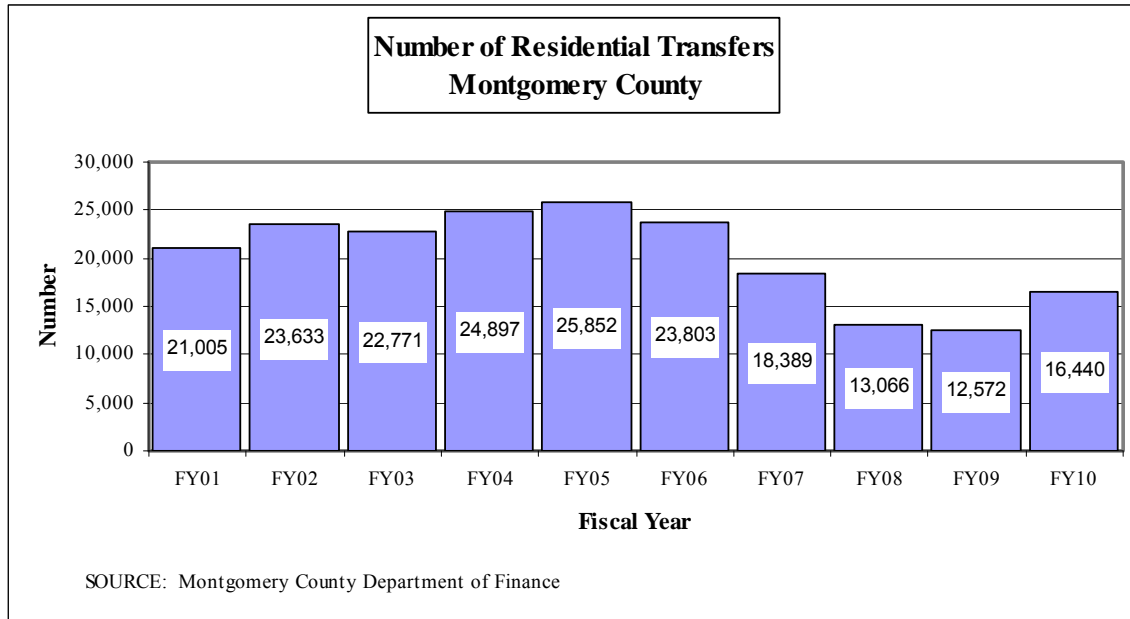


Assessments of personal property increased 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 but rebounded in FY10 - increasing 5.2 percent attributed to increases in corporate and public utility assessments. For the previous four fiscal years (FY06-FY09), taxable assessments for personal property averaged \$3.918 billion ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. In FY10, taxable assessments were \$4.124 billion – the highest level since FY2003.

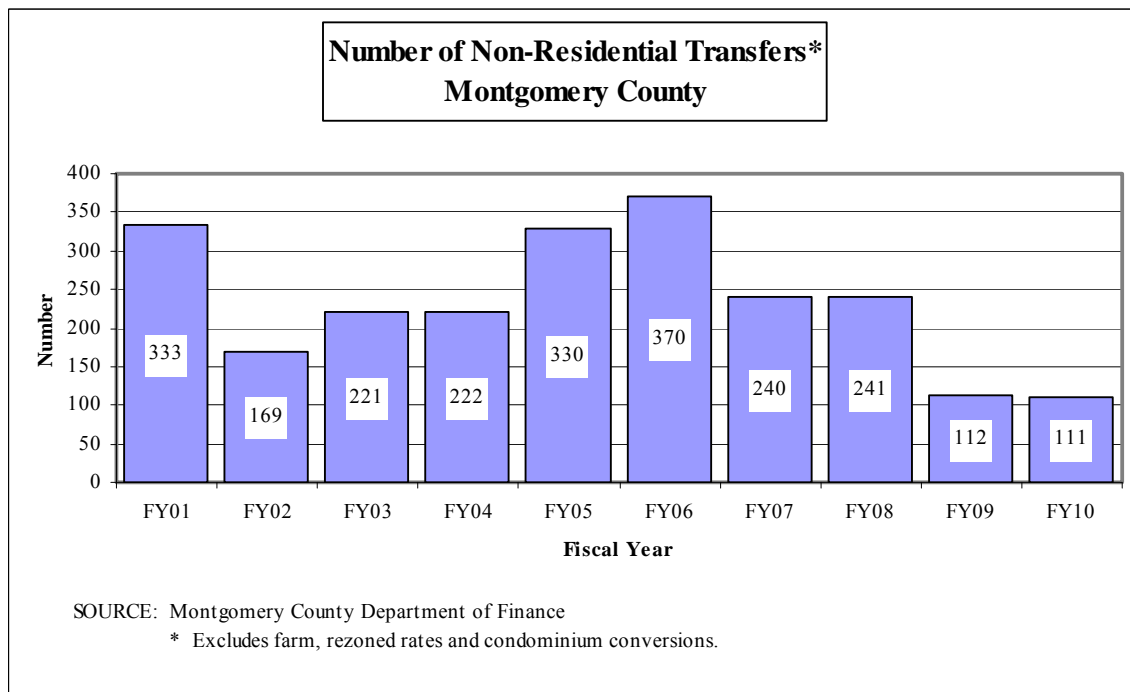
Transfer and Recordation Taxes - Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY10 were \$122.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 1.1 percent below the budget estimate but 13.8 percent above actual revenues in FY09. The FY10 increase in actual collections above FY09 from transfer and recordation taxes was the first increase since FY06. The dramatic increase in the sales of existing homes (↑27.4%) during FY10 was the major factor in the increase. As the accompanying chart illustrates, the total amount collected from these taxes increased from \$104.2 million in FY01 to a peak of \$241.7 million in FY06, before declining to \$107.2 in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to \$122.0 million



General Fund revenues from the transfer tax experienced an increase of 19.0 percent in FY10 compared to a 5.9 percent increase from the recordation tax. Because of the rebound attributed to a dramatic increase in home sales in FY10 (↑27.4%), revenues from the residential sector for both taxes were \$95.3 million, an increase of 22.1 percent over FY09 – the first such double-digit increase since FY05. The number of residential transfers increased to approximately 16,500 (↑30.8%) – the highest level since FY07 and reflecting a sharp increase in housing sales during FY10.



Based on the amount of revenues, the commercial market improved slightly in FY10 with revenues reaching \$8.455 million – an increase of 12.9 percent over FY09. However, that amount of revenues was the lowest since FY02. The number of commercial transfers (111) in FY10 remained unchanged since FY09 and was the lowest number in over twenty years.



The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled \$205.6 million and were approximately \$20.3 million, or 10.9 percent, above the budget estimate.

Revenues from the telephone tax were 9.4 percent below the budget estimate. That decrease was attributed to the declining use of wireless communications. Revenues from the hotel/motel industry of \$17.1 million in FY10 were 14.7 percent below the budget estimate, and the admissions tax was 10.4 percent below the budget estimate. Actual fuel/energy tax revenues were up 21.3 percent compared to FY09 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council during FY10, and 20.3 percent above the budget estimate.

In the General Fund, investment income decreased from \$0.6 million in FY09 to a deficit of -\$0.1 million and was 124.2 percent below the budget estimate. The dramatic decrease in FY10 was the result of the General Fund absorbing negative cash balances from other funds at the end of the fiscal year and a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent — a decline of 500-525 basis points and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 1.71 percent in FY09 to 0.22 percent in FY10. In addition, investments were sold before maturity to meet the need for cash. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$1.2 million or 905.2 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from \$695.7 million in FY09 to \$530.3 million in FY10.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2010, amounted to \$3,303 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation				
June 30, 2010				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY10	FY09
Land	\$ 755,440,694	\$ 60,204,889	815,645,583	\$ 704,877,757
Buildings	453,837,334	144,450,191	598,287,525	616,631,969
Improvements other than buildings	29,447,690	38,726,394	68,174,084	57,033,733
Furniture, fixtures, equipment and machinery	67,021,987	7,162,689	74,184,676	92,418,995
Leasehold improvements	8,269,419	-	8,269,419	9,080,164
Automobiles and trucks	139,150,131	1,354,100	140,504,231	129,071,201
Infrastructure	1,129,540,548	12,199	1,129,552,747	1,111,005,023
Other assets	13,955	-	13,955	172,207
Construction in progress	466,354,521	2,097,425	468,451,946	361,719,054
Total	<u>\$ 3,049,076,279</u>	<u>\$ 254,007,887</u>	<u>\$ 3,303,084,166</u>	<u>\$ 3,082,010,103</u>

*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY10 are summarized as follows:

Change in Capital Assets				
For the Fiscal Year Ended June 30, 2010				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY10	FY09
Beginning Balance**	\$ 2,823,763,425	\$ 258,246,679	\$ 3,082,010,104	\$ 2,937,606,888
Additions*	325,498,157	9,597,653	335,095,810	252,679,779
Retirements, net*	3,277,558	5,751	3,283,309	285,975
Depreciation expense	96,907,745	13,830,694	110,738,439	107,990,589
Ending Balance	<u>\$ 3,049,076,279</u>	<u>\$ 254,007,887</u>	<u>\$ 3,303,084,166</u>	<u>\$ 3,082,010,103</u>

* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

** Beginning Balance has been adjusted a \$1 due to rounding in current year presentation.

Major capital asset events during the current fiscal year included the following:

- Roads, including underlying land, valued at \$15.9 million were transferred to the County by various developers.
- In order to transform the way Montgomery County serves its residents and customers, the tech mod project provided for replacement, upgrade and implementation of major IT systems. In FY10 \$21.1 million was spent for the project.
- To meet training needs of user agencies that operates from the existing Public Safety Training Academy (PSTA) building and its aged systems and site constraints, \$46.4 million was spent to relocate and improve a new academic building with various classrooms and training rooms. The new facility will allow the County to meet current and future training standards and requirements.
- To replace rural and residential roadways due to deterioration combined with daily traffic, the County spent \$10.5 million in permanent patching and resurfacing of roadways, this resurfacing will restore long term structural integrity of aging rural and residential roadway infrastructure.
- The County incurred \$28.2 million in costs for the acquisition of replacement buses in the Ride On fleet in accordance with the Division of Transit Services bus replacement plan.
- To replace an insufficient capacity to house and maintain its existing buses as well as projected growth in transit, highway and fleet services, the County incurred cost of \$30.5 million to build a new Equipment Maintenance and Operations Center (EMOC) that will support a doubling of transit ridership services for now and in the future.
- \$16 million was spent in order to complete part of the Silver Spring revitalizing initiative; this project replaced an existing transit facility with a new 3-story, multi-modal transit center that consist of a pedestrian friendly complex supporting rail, bus traffic and automobile traffic.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements, Notes I-D5 and III-C.

Long-Term Debt:

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2010:

Long-Term Debt June 30, 2010				
	Governmental Activities	Business-type Activities	Total FY10	Total FY09
General obligation bonds	\$ 1,669,839,285	\$ -	\$ 1,669,839,285	\$ 1,496,561,371
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	425,000,000	-	425,000,000	300,000,000
Revenue bonds	13,923,324	73,101,676	87,025,000	94,030,000
Lease revenue bonds	33,320,000	-	33,320,000	35,025,000
Notes payable *	13,897,942	252,610	14,150,552	16,232,142
Certificates of participation	50,255,000	-	50,255,000	30,475,000
Capital leases	81,564,283	-	81,564,283	67,929,435
Taxable Ltd. Obligation Certificates	30,400,000	-	30,400,000	-
Compensated absences	72,573,420	5,117,578	77,690,998	75,299,637
Other Postemployment Benefits	177,853,409	2,859,180	180,712,589	113,534,939
Claims and judgements	600,000	-	600,000	1,550,000
Landfill closure costs	-	18,880,923	18,880,923	20,675,923
Total	\$ 2,669,226,663	\$ 100,211,967	\$ 2,769,438,630	\$ 2,351,313,447

* Notes payable include equipment notes, taxable term loans, HUD loan and WSSC note.

At June 30, 2010, the County had outstanding general obligation (GO) bonds of \$1,669.8 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$425 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO "new money" bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs, which are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY00, the County sold general obligation bond issues, exclusive of refundings, of up to \$250 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$182 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch, Inc. County GO bonds have been consistently awarded the highest credit rating from Moody's and Standard and Poor's since 1973 and 1976, respectively, and from Fitch since 1991.

As of June 30, 2010, Montgomery County is one of only twelve 'Triple AAA' rated counties in the nation with a population greater than 900,000. In July 2010, rating agencies noted that the county had a considerable economic base that was anchored by the extensive presence of the U.S. government and an expanding biotechnology sector. They further noted that the County had positive wealth and unemployment indicators.

The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information

repository and to the state information depository, if any, established for Maryland. Through the end of FY09, the County satisfied its disclosure requirements via electronic filings with the Municipal Advisory Council of Texas at <http://www.disclosureusa.org>. Beginning in FY10, the County will submit disclosure filings to the Electronic Municipal Market Access (EMMA) system. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY10 were:

- General Obligation Bonds – The County’s annual GO issue was bifurcated in FY10 between a \$78 million new money tax-exempt issue and a \$232 million taxable Build America Bond (BABs) issue. The Federal government subsidizes interest payable on the taxable BAB bonds. The proceeds of this bond issue were used to pay off an equivalent amount of the County’s BANs.
- General Obligation Refunding Bonds - In FY10, the County issued \$162 million of general obligation refunding bonds. Those bonds defeased outstanding County bonds in the amount of \$165.2 million. The refunding resulted in cash flow savings to the County of \$8.2 million.
- Taxable Limited Obligation Certificates – Facility and Residential Development Projects – In April 2010, the County issued \$30.4 million of serial maturity certificates that will fully amortize in 20 years. The proceeds are being used to fund projects primarily associated with affordable housing.
- Certificates of Participation (COPs) – Public Transportation Equipment Acquisition Program – In April 2010 the County issued \$23 million of COPs that fully mature in seven years. The proceeds of that issue were used to purchase buses.
- Bond Anticipation Notes (BANs) – Over the course of FY10, the County issued more than \$400 million in BANs. Early in the year, the County expanded the size of its total program from \$300 million to \$500 million. It also replaced the liquidity provider, Fortis Bank, on the original BAN program with two new banks – PNC and State Street.

Additional information pertaining to the County’s long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The following economic factors are reflected in the County’s FY11 budget:

- The County’s economic projections in the FY11 budget assume continued weak economic activity in FY11 with the County experiencing higher than usual unemployment and a modest increase (↑0.3% in calendar year 2010) in total payroll employment.
- On a calendar year basis, total payroll employment decreased 0.2 percent in CY09, the latest year for which complete annual data are available. That rate followed zero percent change in CY08 and an average annual increase of slightly more than 0.6 percent between CY00 and CY07. Following a decline in payroll employment during CY09, the County anticipates increases in payroll employment of 0.3 percent and 1.4 percent for CY10 and CY11, respectively.
- The payroll employment projection in the FY11 budget assumes that personal income will increase 3.8 percent in CY11 and 4.9 percent in CY12. Those rates are above the 2.4 percent increase in CY08, the latest

date for which annual data are available, but well below the seven-year average annual growth rate of 5.2 percent between CY00-CY07.

- On a calendar year basis, employment in Montgomery County, based on the labor force series as opposed to payroll employment, is also expected to increase 0.3 percent in CY10 and increase 1.7 percent in CY11. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.7 percent between CY11 and CY16. That estimate is above the projected growth in County population of 1.1 percent per year through CY16.
- The slight decrease in employment in CY09 and a below average increase of 2.4 percent in personal income reflects the estimated slowdown in the County's and region's economy and the weak national economic recovery. That weak recovery is reflected in the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to maintain the current federal funds rate within the target range of 0.00-0.25 percent for the foreseeable future.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.1 percent in FY11. Because of the interest rate policy maintained by the FOMC of the Federal Reserve, the County's economic projections include a decrease in the yield on its investments from 4.41 percent in FY09 to 0.85 percent in FY11.

OTHER SIGNIFICANT MATTERS

The Maryland General Assembly 2009 Session passed House Bill 101 "Budget Reconciliation and Financing Act of 2009". A key provision of this bill requires the State Comptroller to distribute \$366,778,631 from the local reserve account to the State's general fund by June 30, 2009. From fiscal 2013 through 2022, the State Comptroller is required to distribute \$36,677,863 annually in income tax revenues to the local reserve account; and reduce the total amount of income tax revenues distributed to local jurisdictions by a corresponding amount. The effect on the County may be a decrease in income tax revenues in the aforementioned years. The impact of this bill will not result in changes for local governments until FY13.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, <http://www.montgomerycountymd.gov> (see Departments, Finance, Financial Reports).



BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2010
Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
ASSETS				
Equity in pooled cash and investments	\$ 325,319,530	\$ 56,139,584	\$ 381,459,114	\$ 29,477,518
Cash with fiscal agents	32,497,743	1,371,052	33,868,795	36,935,602
Cash	392,120	200,306	592,426	11,468,892
Investments-cash equivalents	-	-	-	119,687,408
Investments	-	-	-	36,565,932
Receivables (net of allowances for uncollectibles):				
Income taxes	234,693,525	-	234,693,525	-
Property taxes	27,297,616	761,039	28,058,655	-
Capital leases	33,320,000	-	33,320,000	27,870,691
Accounts	77,417,175	4,007,546	81,424,721	24,557,043
Notes	1,436,033	-	1,436,033	47,110,000
Parking violations	451,674	2,076,532	2,528,206	-
Mortgages receivable	186,482,272	-	186,482,272	362,957,652
Interest	-	-	-	5,449,722
Other	211,436	-	211,436	1,843,356
Internal balances	2,448,527	(2,448,527)	-	-
Due from primary government	-	-	-	98,227,879
Due from component units	72,038,018	440,815	72,478,833	-
Due from other governments	61,160,992	399,131	61,560,123	35,089,206
Inventory of supplies	12,470,247	26,627,325	39,097,572	10,851,327
Prepays	2,426,055	1,301,120	3,727,175	6,023,566
Deferred charges	7,302,267	919,851	8,222,118	468,514
Other assets	-	273,534	273,534	64,711,314
Restricted Assets:				
Equity in pooled cash and investments	-	37,030,278	37,030,278	7,140,737
Cash	-	-	-	717,741
Cash non pooled	201,948	-	201,948	18,649,763
Investments - cash equivalents	-	-	-	84,485,598
Investments	-	5,914,817	5,914,817	218,382,399
Capital Assets:				
Nondepreciable assets	1,221,795,215	62,302,314	1,284,097,529	418,710,785
Depreciable assets, net	1,827,281,064	191,705,573	2,018,986,637	2,475,536,225
Total Assets	<u>\$ 4,126,643,457</u>	<u>\$ 389,022,290</u>	<u>\$ 4,515,665,747</u>	<u>\$ 4,142,918,870</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2010

Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
LIABILITIES				
Accounts payable	\$ 68,920,830	\$ 15,898,229	\$ 84,819,059	\$ 97,343,841
Interest payable	24,957,660	354,109	25,311,769	27,712,099
Retainage payable	9,093,158	115,866	9,209,024	6,339,783
Accrued liabilities	70,122,702	16,146,661	86,269,363	86,663,361
Claims payable	102,048,669	-	102,048,669	18,380,085
Deposits	163,750	244,124	407,874	10,619,908
Due to primary government	-	-	-	72,615,811
Due to component units	97,543,234	684,645	98,227,879	-
Due to other governments	12,026,479	1,439,593	13,466,072	13,700
Unearned revenue	47,109,740	2,031,968	49,141,708	29,186,167
Other liabilities	-	429,768	429,768	17,731,110
Noncurrent Liabilities:				
Due within one year	640,570,056	11,650,644	652,220,700	151,894,283
Due in more than one year	2,081,325,899	90,433,230	2,171,759,129	1,331,339,812
Total Liabilities	<u>3,153,882,177</u>	<u>139,428,837</u>	<u>3,293,311,014</u>	<u>1,849,839,960</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,965,289,080	178,781,693	2,112,966,502	2,320,757,277
Restricted for:				
Capital projects	64,004,395	-	64,004,395	327,924
General government	85,506,697	-	85,506,697	-
Public safety	6,889,033	-	6,889,033	-
Public works and transportation	16,111	54,684,729	54,700,840	-
Recreation	13,153,143	-	13,153,143	-
Community development and housing	201,635,182	-	201,635,182	-
Environment	5,632,808	-	5,632,808	-
Debt service	3,344,171	-	3,344,171	50,924,363
Other purposes	-	-	-	38,077,579
Unrestricted (deficit)	(1,372,709,340)	16,127,031	(1,325,478,038)	(117,008,233)
Total Net Assets	<u>\$ 972,761,280</u>	<u>\$ 249,593,453</u>	<u>\$ 1,222,354,733</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
General government	\$ 293,349,395	\$ 53,793,781	\$ 8,425,267	\$ 1,785,014
Public safety	611,714,420	33,115,674	30,382,733	1,830,899
Public works and transportation	297,864,026	22,214,073	30,127,888	43,203,926
Health and human services	287,883,637	1,497,239	95,136,860	-
Culture and recreation	108,490,460	31,559,913	5,270,729	1,565,933
Community development and housing	40,627,603	4,745,237	10,997,335	1,760,429
Environment	16,446,934	10,832,323	86,862	5,024,146
Education	1,738,633,028	-	-	-
Interest on long-term debt	86,352,825	-	-	-
Total Governmental Activities	<u>3,481,362,328</u>	<u>157,758,240</u>	<u>180,427,674</u>	<u>55,170,347</u>
Business-type Activities:				
Liquor control	204,677,766	229,317,194	-	-
Solid waste disposal and collection	100,709,914	103,373,586	30,000	-
Parking lot districts	30,698,606	28,252,122	-	-
Permitting services	27,306,059	27,840,904	-	-
Community use of public facilities	8,397,989	8,405,087	-	-
Total Business-type Activities	<u>371,790,334</u>	<u>397,188,893</u>	<u>30,000</u>	<u>-</u>
Total Primary Government	<u>\$ 3,853,152,662</u>	<u>\$ 554,947,133</u>	<u>\$ 180,457,674</u>	<u>\$ 55,170,347</u>
Component Units:				
General government (BUPI)	\$ 4,482,166	\$ 4,247,612	\$ 180,456	\$ -
Culture and recreation (MCRA)	19,135,971	17,163,179	-	172,670
Community development and housing (HOC)	214,831,030	106,625,182	103,531,616	5,429,701
Education:				
Elementary and secondary education (MCPS)	2,432,813,858	29,298,967	152,218,307	44,899,066
Higher education (MCC)	281,461,880	77,858,885	34,849,711	321,431
Total Component Units	<u>\$ 2,952,724,905</u>	<u>\$ 235,193,825</u>	<u>\$ 290,780,090</u>	<u>\$ 50,822,868</u>
General Revenues:				
Property taxes				
County income taxes				
Real property transfer taxes				
Recordation taxes				
Fuel energy taxes				
Hotel-motel taxes				
Telephone taxes				
Other taxes				
Grants and contributions not restricted to specific programs				
Investment income				
Gain/(Loss) on sale of capital assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (229,345,333)	\$ -	\$ (229,345,333)	\$ -
(546,385,114)	-	(546,385,114)	-
(202,318,139)	-	(202,318,139)	-
(191,249,538)	-	(191,249,538)	-
(70,093,885)	-	(70,093,885)	-
(23,124,602)	-	(23,124,602)	-
(503,603)	-	(503,603)	-
(1,738,633,028)	-	(1,738,633,028)	-
(86,352,825)	-	(86,352,825)	-
<u>(3,088,006,067)</u>	<u>-</u>	<u>(3,088,006,067)</u>	<u>-</u>
-	24,639,428	24,639,428	-
-	2,693,672	2,693,672	-
-	(2,446,484)	(2,446,484)	-
-	534,845	534,845	-
-	7,098	7,098	-
-	<u>25,428,559</u>	<u>25,428,559</u>	-
<u>(3,088,006,067)</u>	<u>25,428,559</u>	<u>(3,062,577,508)</u>	-
-	-	-	(54,098)
-	-	-	(1,800,122)
-	-	-	755,469
-	-	-	(2,206,397,518)
-	-	-	(168,431,853)
-	-	-	<u>(2,375,928,122)</u>
1,371,964,491	9,931,045	1,381,895,536	-
1,010,874,757	-	1,010,874,757	-
77,106,332	-	77,106,332	-
44,934,687	-	44,934,687	-
156,880,330	-	156,880,330	-
17,064,493	-	17,064,493	-
29,741,879	-	29,741,879	-
3,250,044	-	3,250,044	-
-	-	-	2,385,839,365
8,299,709	569,792	8,869,501	5,956,131
(1,366,889)	-	(1,366,889)	114,083
55,088,988	(55,088,988)	-	-
<u>2,773,838,821</u>	<u>(44,588,151)</u>	<u>2,729,250,670</u>	<u>2,391,909,579</u>
(314,167,246)	(19,159,592)	(333,326,838)	15,981,457
1,286,928,526	268,753,045	1,555,681,571	2,277,097,453
<u>\$ 972,761,280</u>	<u>\$ 249,593,453</u>	<u>\$ 1,222,354,733</u>	<u>\$ 2,293,078,910</u>

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
Exhibit A-3

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS								
Equity in pooled cash and investments	\$ 3,390,563	\$ 74,875,041	\$ 7,777,541	\$ -	\$ 260,648	\$ 86,615,208	\$ 37,752,572	\$ 210,671,573
Cash with fiscal agents	1,989,251	-	-	-	7,227,245	23,281,247	-	32,497,743
Cash	146,570	-	212,450	-	-	-	32,800	391,820
Cash restricted non pooled	201,948	-	-	-	-	-	-	201,948
Receivables (net of allowances for uncollectibles):								
Income taxes	234,693,525	-	-	-	-	-	-	234,693,525
Property taxes	24,752,779	-	-	-	-	-	2,544,837	27,297,616
Capital leases	-	-	-	-	33,320,000	-	-	33,320,000
Accounts	69,248,373	-	-	-	-	380,306	4,716,522	74,345,201
Notes	-	-	-	-	-	12,068	1,423,965	1,436,033
Parking violations	451,674	-	-	-	-	-	-	451,674
Mortgages receivable	158,610	-	147,166,649	34,662,402	-	300,000	4,194,611	186,482,272
Other	-	-	-	8,066	-	75	198,319	206,460
Due from other funds	30,527,853	-	-	-	-	-	8,510,593	39,038,446
Due from component units	686,272	-	45,891,426	9,965,086	-	14,915,379	-	71,458,163
Due from other governments	7,566,146	-	-	20,127,538	-	31,466,065	1,739,800	60,899,549
Inventory of supplies	5,675,023	-	-	-	-	2,946,024	-	8,621,047
Prepays	1,921,816	-	-	355	-	2,500	296,684	2,221,355
Total Assets	<u>\$ 381,410,403</u>	<u>\$ 74,875,041</u>	<u>\$ 201,048,066</u>	<u>\$ 64,763,447</u>	<u>\$ 40,807,893</u>	<u>\$ 159,918,872</u>	<u>\$ 61,410,703</u>	<u>\$ 984,234,425</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 20,024,540	\$ -	\$ 858,352	\$ 5,806,866	\$ 260,648	\$ 31,424,236	\$ 3,687,256	\$ 62,061,898
Retainage payable	20,517	-	-	-	-	9,072,641	-	9,093,158
Accrued liabilities	34,235,459	-	64,666	3,586,295	-	1,518,454	12,777,032	52,181,906
Deposits	-	-	-	-	-	-	163,750	163,750
Due to other funds	12,044,312	-	17,501	4,413,218	3,880,000	26,896,271	5,215,632	52,466,934
Due to component units	69,788,929	-	654,535	1,089,104	-	25,934,161	76,505	97,543,234
Due to other governments	1,814,211	-	-	5,073,476	-	4,616,227	522,565	12,026,479
Deferred revenue	196,219,979	-	2,213,398	44,794,488	33,323,074	12,844,589	3,201,133	292,596,661
Total Liabilities	<u>334,147,947</u>	<u>-</u>	<u>3,808,452</u>	<u>64,763,447</u>	<u>37,463,722</u>	<u>112,306,579</u>	<u>25,643,873</u>	<u>578,134,020</u>
Fund Balances:								
Reserved for:								
Legal debt restrictions	-	-	-	-	3,344,171	54,113,029	-	57,457,200
Long-term receivables	-	-	190,844,677	-	-	14,915,379	5,982,608	211,742,664
Inventory	5,675,023	-	-	-	-	2,946,024	-	8,621,047
Prepays	1,921,816	-	-	-	-	2,500	284,342	2,208,658
Fire-Rescue Grant	-	-	-	-	-	-	1,295,525	1,295,525
Donor-specified purposes	-	-	-	-	-	-	1,543,052	1,543,052
Other purposes	-	-	-	-	-	9,891,366	-	9,891,366
Total Reserved	<u>7,596,839</u>	<u>-</u>	<u>190,844,677</u>	<u>-</u>	<u>3,344,171</u>	<u>81,868,298</u>	<u>9,105,527</u>	<u>292,759,512</u>
Unreserved, designated for, reported in:								
Encumbrances - Major Funds	4,959,728	-	2,806,878	-	-	-	-	7,766,606
Encumbrances - Nonmajor Special Revenue Funds	-	-	-	-	-	-	2,730,455	2,730,455
General Fund	34,705,889	-	-	-	-	-	-	34,705,889
Special Revenue Funds	-	-	3,588,059	-	-	-	17,319,764	20,907,823
Unreserved, undesignated (deficit), reported in:								
Capital Projects Fund	-	-	-	-	-	(34,256,005)	-	(34,256,005)
Special Revenue Funds	-	74,875,041	-	-	-	-	6,611,084	81,486,125
Total Unreserved (Deficit)	<u>39,665,617</u>	<u>74,875,041</u>	<u>6,394,937</u>	<u>-</u>	<u>-</u>	<u>(34,256,005)</u>	<u>26,661,303</u>	<u>113,340,893</u>
Total Fund Balances	<u>47,262,456</u>	<u>74,875,041</u>	<u>197,239,614</u>	<u>-</u>	<u>3,344,171</u>	<u>47,612,293</u>	<u>35,766,830</u>	<u>406,100,405</u>
Total Liabilities and Fund Balances	<u>\$ 381,410,403</u>	<u>\$ 74,875,041</u>	<u>\$ 201,048,066</u>	<u>\$ 64,763,447</u>	<u>\$ 40,807,893</u>	<u>\$ 159,918,872</u>	<u>\$ 61,410,703</u>	<u>\$ 984,234,425</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$ 406,100,405
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	\$ 755,418,188	
Construction in progress	465,663,219	
Depreciable capital assets:		
Buildings	757,883,641	
Improvements other than buildings	48,671,074	
Furniture, fixtures, equipment and machinery	250,462,220	
Automobiles and trucks	182,076,638	
Infrastructure	1,641,680,480	
Other capital assets	<u>2,079,731</u>	
Total capital assets	4,103,935,191	
Less accumulated depreciation	<u>(1,086,325,340)</u>	3,017,609,851
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,669,839,285)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(425,000,000)	
Lease revenue bonds payable	(33,320,000)	
Accrued interest payable	(24,955,429)	
Capital leases payable	(81,564,283)	
Certificates of participation	(50,255,000)	
Notes payable	(44,068,699)	
Revenue bonds	(13,923,324)	
Other postemployment benefits	(177,853,409)	
Claims and judgements	(600,000)	
Compensated absences	<u>(70,446,568)</u>	(2,691,825,997)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(79,387,077)	
Deferred amount on refunding	26,717,785	
Deferred issuance costs	<u>6,835,381</u>	(45,833,911)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and noncurrent assets	131,012,793	
Capital assets	79,690,581	
Less accumulated depreciation	(48,224,153)	
Liabilities	(122,884,916)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>-</u>	39,594,305
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	166,927,731	
Property taxes	26,800,989	
Intergovernmental revenue	14,766,591	
Other revenue	<u>38,621,317</u>	<u>247,116,628</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 972,761,280</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-5

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$2,415,338,737	\$ -	\$ 4,903,426	\$ -	\$ -	\$ 36,791,443	\$ 285,513,428	\$2,742,547,034
Licenses and permits	9,542,255	-	-	-	-	-	2,321,859	11,864,114
Intergovernmental	50,521,703	-	-	111,811,759	1,757,719	34,821,570	48,874,508	247,787,259
Charges for services	26,094,061	-	-	-	-	261,374	61,758,620	88,114,055
Fines and forfeitures	23,107,769	-	-	-	-	-	903,107	24,010,876
Investment income	(107,473)	250,804	944,496	137,558	6,644,191	9,442	288,857	8,167,875
Miscellaneous	9,114,939	-	1,626,459	337,388	-	967,169	1,140,479	13,186,434
Total Revenues	<u>2,533,611,991</u>	<u>250,804</u>	<u>7,474,381</u>	<u>112,286,705</u>	<u>8,401,910</u>	<u>72,850,998</u>	<u>400,800,858</u>	<u>3,135,677,647</u>
EXPENDITURES								
Current:								
General government	236,116,301	-	-	6,659,103	-	-	9,023,691	251,799,095
Public safety	344,166,102	-	-	13,230,082	-	-	194,465,172	551,861,356
Public works and transportation	99,435,995	-	-	4,688,365	-	-	105,610,445	209,734,805
Health and human services	197,876,114	-	-	76,935,216	-	-	-	274,811,330
Culture and recreation	45,982,886	-	-	143,587	-	-	41,007,949	87,134,422
Community development and housing	11,032,922	-	16,460,972	11,101,401	-	-	-	38,595,295
Environment	4,015,842	-	-	112,058	-	-	8,540,003	12,667,903
Education	1,562,095,633	-	-	-	-	-	-	1,562,095,633
Debt Service:								
Principal retirement	-	-	-	-	136,317,844	-	-	136,317,844
Interest	-	-	-	-	85,337,817	-	-	85,337,817
Leases and other obligations	-	-	-	-	20,921,170	-	-	20,921,170
Issuing costs	-	-	-	-	5,544,495	-	-	5,544,495
Capital projects	-	-	-	-	-	511,372,430	-	511,372,430
Total Expenditures	<u>2,500,721,795</u>	<u>-</u>	<u>16,460,972</u>	<u>112,869,812</u>	<u>248,121,326</u>	<u>511,372,430</u>	<u>358,647,260</u>	<u>3,748,193,595</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>32,890,196</u>	<u>250,804</u>	<u>(8,986,591)</u>	<u>(583,107)</u>	<u>(239,719,416)</u>	<u>(438,521,432)</u>	<u>42,153,598</u>	<u>(612,515,948)</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	148,503,394	-	16,223,660	1,218,243	234,189,181	22,487,337	17,796,771	440,418,586
Transfers (out)	(242,654,513)	(45,023,366)	(277,206)	(635,136)	(250,804)	(7,253,037)	(74,441,836)	(370,535,898)
Sale of property	-	-	1,596,976	-	-	-	-	1,596,976
Financing under notes and leases payable	402,617	-	-	-	-	22,566,383	-	22,969,000
Payment to refunded bond escrow agent	-	-	-	-	(183,217,861)	-	-	(183,217,861)
Debt Issued:								
General obligation bonds	-	-	-	-	310,000,000	-	-	310,000,000
Premium on original issue LT debt	-	-	-	-	9,630,703	306,427	-	9,937,130
Bond anticipation notes	-	-	-	-	(315,000,000)	440,000,000	-	125,000,000
Lease revenue bonds	14,700	-	-	-	-	-	-	14,700
Certificates of participation	-	-	-	-	246,762	24,236,922	-	24,483,684
Taxable LTD obligation certificate	-	-	-	-	309,968	30,090,032	-	30,400,000
General obligation refunding bonds	-	-	-	-	161,755,000	-	-	161,755,000
Premium on general obligation refunding bonds	-	-	-	-	22,055,598	-	-	22,055,598
Capital lease financing	-	-	-	-	-	11,985	-	11,985
Total Other Financing Sources (Uses)	<u>(93,733,802)</u>	<u>(45,023,366)</u>	<u>17,543,430</u>	<u>583,107</u>	<u>239,718,547</u>	<u>532,446,049</u>	<u>(56,645,065)</u>	<u>594,888,900</u>
Net Change in Fund Balances	<u>(60,843,606)</u>	<u>(44,772,562)</u>	<u>8,556,839</u>	<u>-</u>	<u>(869)</u>	<u>93,924,617</u>	<u>(14,491,467)</u>	<u>(17,627,048)</u>
Fund Balances - Beginning of Year	108,106,062	119,647,603	188,682,775	-	3,345,040	(46,312,324)	50,258,297	423,727,453
Fund Balances - End of Year	<u>\$ 47,262,456</u>	<u>\$ 74,875,041</u>	<u>\$ 197,239,614</u>	<u>\$ -</u>	<u>\$ 3,344,171</u>	<u>\$ 47,612,293</u>	<u>\$ 35,766,830</u>	<u>\$ 406,100,405</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5) (\$17,627,048)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	\$305,784,908	
Depreciation expense	<u>(89,630,582)</u>	216,154,326

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold. (2,963,865)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 15,092,497

Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:

Income taxes	(31,223,769)	
Property taxes	1,998,050	
Intergovernmental revenues	(33,904,072)	
Other revenues	<u>(5,844,570)</u>	(68,974,361)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Debt issued or incurred:		
General obligation bonds	(503,441,301)	
Bond anticipation notes	(440,000,000)	
Taxable Limited Obligation Certificates	(30,706,427)	
Notes payable	(1,753,063)	
Capital lease financing	(22,566,382)	
Lease revenue bonds	(26,685)	
Certificates of participation	(23,000,000)	
Less issuance costs	5,544,495	
Principal repayments:		
General obligation bonds	298,477,086	
Bond anticipation notes	315,000,000	
Leases payable	1,748,000	
Capital leases	8,958,219	
Certificates of participation	3,220,000	
Notes payable	<u>4,116,062</u>	(384,429,996)

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	5,053,453	
Compensated absences	(2,362,082)	
Other postemployment benefits	(64,318,470)	
Amortization	<u>5,690,704</u>	(55,936,395)

The current year loss for certain activities of internal service funds is reported with governmental activities. (15,482,404)

Change in net assets of governmental activities (see Exhibit A-2) (\$314,167,246)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 1,049,323,065	\$ 1,049,323,065	\$ -	\$ 1,049,323,065	\$ 1,043,452,874	\$ (5,870,191)
Property - penalty and interest	-	1,479,356	1,479,356	-	1,479,356	2,151,944	672,588
Other	-	-	-	-	-	72	72
Total Property Tax	-	1,050,802,421	1,050,802,421	-	1,050,802,421	1,045,604,890	(5,197,531)
County Income Tax	-	1,214,770,000	1,214,770,000	-	1,214,770,000	1,042,098,527	(172,671,473)
Other Local Taxes:							
Real property transfer	-	64,970,000	64,970,000	-	64,970,000	77,106,332	12,136,332
Recordation	-	58,389,000	58,389,000	-	58,389,000	44,934,687	(13,454,313)
Fuel energy	-	130,360,000	130,360,000	-	130,360,000	156,880,330	26,520,330
Hotel - motel	-	20,014,000	20,014,000	-	20,014,000	17,064,493	(2,949,507)
Telephone	-	32,840,000	32,840,000	-	32,840,000	29,741,879	(3,098,121)
Other	-	2,130,000	2,130,000	-	2,130,000	1,907,599	(222,401)
Total Other Local Taxes	-	308,703,000	308,703,000	-	308,703,000	327,635,320	18,932,320
Total Taxes	-	2,574,275,421	2,574,275,421	-	2,574,275,421	2,415,338,737	(158,936,684)
Licenses and Permits:							
Business	-	4,215,380	4,215,380	15,000	4,230,380	4,463,293	232,913
Non business	-	4,902,000	4,902,000	-	4,902,000	5,078,962	176,962
Total Licenses and Permits	-	9,117,380	9,117,380	15,000	9,132,380	9,542,255	409,875
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement	-	7,122,500	7,122,500	-	7,122,500	4,112,126	(3,010,374)
Highway user revenue	-	10,252,900	10,252,900	-	10,252,900	3,132,031	(7,120,869)
Police protection	-	13,494,105	13,494,105	-	13,494,105	8,682,015	(4,812,090)
Health and human services programs	-	6,160,760	6,160,760	-	6,160,760	4,655,006	(1,505,754)
Public libraries	-	5,419,710	5,419,710	-	5,419,710	5,228,488	(191,222)
911 Emergency	-	6,849,290	6,849,290	-	6,849,290	7,185,201	335,911
Other	-	1,650,710	1,650,710	-	1,650,710	1,555,949	(94,761)
Total State Aid and Reimbursements	-	50,949,975	50,949,975	-	50,949,975	34,550,816	(16,399,159)
Federal Reimbursements:							
Federal financial participation	-	17,120,130	17,120,130	-	17,120,130	12,715,214	(4,404,916)
Other	-	1,944,680	1,944,680	-	1,944,680	1,683,784	(260,896)
Total Federal Reimbursements	-	19,064,810	19,064,810	-	19,064,810	14,398,998	(4,665,812)
Other Intergovernmental	-	1,305,890	1,305,890	50,000	1,355,890	1,571,889	215,999
Total Intergovernmental Revenue	-	71,320,675	71,320,675	50,000	71,370,675	50,521,703	(20,848,972)
Charges for Services:							
General government	-	1,390,510	1,390,510	(13,990)	1,376,520	1,062,006	(314,514)
Public safety	-	6,932,900	6,932,900	-	6,932,900	6,155,884	(777,016)
Health and human services	-	1,646,460	1,646,460	-	1,646,460	1,443,567	(202,893)
Culture and recreation	-	600	600	-	600	2,583	1,983
Environment	-	238,000	238,000	-	238,000	973,070	735,070
Public works and transportation	-	65,000	65,000	-	65,000	119,997	54,997
Total Charges for Services	-	10,273,470	10,273,470	(13,990)	10,259,480	9,757,107	(502,373)
Fines and forfeitures	-	37,523,790	37,523,790	18,990	37,542,780	23,107,769	(14,435,011)
Investment Income:							
Pooled investment income	-	600,160	600,160	-	600,160	(166,268)	(766,428)
Other interest income	-	-	-	-	-	21,292	21,292
Total Investment Income	-	600,160	600,160	-	600,160	(144,976)	(745,136)
Miscellaneous Revenue:							
Property rentals	-	5,275,170	5,275,170	-	5,275,170	5,339,612	64,442
Sundry	-	9,178,095	9,178,095	(125,712)	9,052,383	8,428,337	(624,046)
Total Miscellaneous Revenue	-	14,453,265	14,453,265	(125,712)	14,327,553	13,767,949	(559,604)
Total Revenues	-	2,717,564,161	2,717,564,161	(55,712)	2,717,508,449	2,521,890,544	(195,617,905)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	8,325,224	8,325,224	83,780	8,409,004	8,409,000	4
Operating	107,048	731,870	838,918	(74,899)	764,019	764,016	3
Totals	107,048	9,057,094	9,164,142	8,881	9,173,023	9,173,016	7
Board of Appeals:							
Personnel	-	566,401	566,401	-	566,401	553,458	12,943
Operating	1,384	51,120	52,504	(1,384)	51,120	44,090	7,030
Totals	1,384	617,521	618,905	(1,384)	617,521	597,548	19,973
Legislative Oversight:							
Personnel	-	1,270,660	1,270,660	-	1,270,660	1,184,837	85,823
Operating	-	70,410	70,410	-	70,410	15,125	55,285
Totals	-	1,341,070	1,341,070	-	1,341,070	1,199,962	141,108
Merit System Protection Board:							
Personnel	-	141,650	141,650	-	141,650	138,037	3,613
Operating	123	18,310	18,433	-	18,433	12,368	6,065
Totals	123	159,960	160,083	-	160,083	150,405	9,678
Zoning and Administrative Hearings:							
Personnel	-	456,051	456,051	-	456,051	444,790	11,261
Operating	-	68,390	68,390	-	68,390	49,937	18,453
Totals	-	524,441	524,441	-	524,441	494,727	29,714

(Continued)

MONTGOMERY COUNTY, MARYLAND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Inspector General:							
Personnel	\$ -	\$ 475,708	\$ 475,708	\$ -	\$ 475,708	\$ 470,330	\$ 5,378
Operating	70,207	159,020	229,227	(22,412)	206,815	189,690	17,125
Totals	70,207	634,728	704,935	(22,412)	682,523	660,020	22,503
People's Counsel:							
Personnel	-	233,799	233,799	6,650	240,449	240,445	4
Operating	-	12,720	12,720	(1,270)	11,450	4,716	6,734
Totals	-	246,519	246,519	5,380	251,899	245,161	6,738
Circuit Court:							
Personnel	-	8,149,974	8,149,974	(23,650)	8,126,324	7,678,224	448,100
Operating	333,277	2,261,010	2,594,287	(102,797)	2,491,490	2,491,482	8
Capital outlay	-	-	-	116,950	116,950	116,945	5
Totals	333,277	10,410,984	10,744,261	(9,497)	10,734,764	10,286,651	448,113
State's Attorney:							
Personnel	-	11,638,201	11,638,201	254,550	11,892,751	11,892,747	4
Operating	14,104	510,146	524,250	63,713	587,963	587,956	7
Totals	14,104	12,148,347	12,162,451	318,263	12,480,714	12,480,703	11
County Executive:							
Personnel	-	5,518,269	5,518,269	(29,140)	5,489,129	5,354,267	134,862
Operating	82,423	881,690	964,113	(37,770)	926,343	618,150	308,193
Totals	82,423	6,399,959	6,482,382	(66,910)	6,415,472	5,972,417	443,055
Commission for Women:							
Personnel	-	1,050,281	1,050,281	-	1,050,281	1,023,080	27,201
Operating	1,177	147,390	148,567	(359)	148,208	92,218	55,990
Totals	1,177	1,197,671	1,198,848	(359)	1,198,489	1,115,298	83,191
Regional Service Centers:							
Personnel	-	3,141,853	3,141,853	(20,000)	3,121,853	2,701,446	420,407
Operating	176,201	998,511	1,174,712	(34,034)	1,140,678	785,109	355,569
Totals	176,201	4,140,364	4,316,565	(54,034)	4,262,531	3,486,555	775,976
Ethics Commission:							
Personnel	-	242,031	242,031	41,220	283,251	283,246	5
Operating	-	30,360	30,360	(340)	30,020	9,637	20,383
Totals	-	272,391	272,391	40,880	313,271	292,883	20,388
Intergovernmental Relations:							
Personnel	-	735,229	735,229	-	735,229	694,322	40,907
Operating	1,682	142,170	143,852	(1,339)	142,513	78,613	63,900
Totals	1,682	877,399	879,081	(1,339)	877,742	772,935	104,807
Public Information:							
Personnel	-	1,053,792	1,053,792	1,430	1,055,222	1,055,219	3
Operating	27,211	161,420	188,631	(3,975)	184,656	123,838	60,818
Totals	27,211	1,215,212	1,242,423	(2,545)	1,239,878	1,179,057	60,821
Board of Elections:							
Personnel	-	2,377,469	2,377,469	-	2,377,469	2,361,586	15,883
Operating	490,618	2,091,300	2,581,918	(322,011)	2,259,907	1,183,682	1,076,225
Totals	490,618	4,468,769	4,959,387	(322,011)	4,637,376	3,545,268	1,092,108
County Attorney:							
Personnel	-	4,697,650	4,697,650	15,150	4,712,800	4,712,798	2
Operating	221,949	527,330	749,279	161,627	910,906	910,904	2
Totals	221,949	5,224,980	5,446,929	176,777	5,623,706	5,623,702	4
Management and Budget:							
Personnel	-	3,530,883	3,530,883	-	3,530,883	3,505,617	25,266
Operating	35,307	173,010	208,317	(15,465)	192,852	96,717	96,135
Totals	35,307	3,703,893	3,739,200	(15,465)	3,723,735	3,602,334	121,401
Finance:							
Personnel	-	8,455,766	8,455,766	-	8,455,766	8,244,915	210,851
Operating	440,737	1,296,160	1,736,897	(148,093)	1,588,804	933,578	655,226
Totals	440,737	9,751,926	10,192,663	(148,093)	10,044,570	9,178,493	866,077
Human Resources:							
Personnel	-	4,925,017	4,925,017	359,730	5,284,747	5,236,842	47,905
Operating	1,025,045	3,597,390	4,622,435	(563,326)	4,059,109	2,976,765	1,082,344
Totals	1,025,045	8,522,407	9,547,452	(203,596)	9,343,856	8,213,607	1,130,249
Technology Services:							
Personnel	-	17,484,785	17,484,785	-	17,484,785	17,271,499	213,286
Operating	3,600,761	14,239,100	17,839,861	(925,201)	16,914,660	13,087,792	3,826,868
Capital outlay	-	120,300	120,300	-	120,300	-	120,300
Totals	3,600,761	31,844,185	35,444,946	(925,201)	34,519,745	30,359,291	4,160,454
General Services:							
Personnel	-	14,900,270	14,900,270	743,630	15,643,900	15,643,895	5
Operating	184,630	13,070,680	13,255,310	5,026,770	18,282,080	17,257,271	1,024,809
Capital outlay	5,110	-	5,110	-	5,110	(34,999)	40,109
Totals	189,740	27,970,950	28,160,690	5,770,400	33,931,090	32,866,167	1,064,923
Consumer Protection:							
Personnel	-	2,280,321	2,280,321	6,860	2,287,181	2,287,180	1
Operating	4,476	161,690	166,166	(6,832)	159,334	91,364	67,970
Totals	4,476	2,442,011	2,446,487	28	2,446,515	2,378,544	67,971
Corrections and Rehabilitation:							
Personnel	-	58,029,810	58,029,810	250,610	58,280,420	58,280,416	4
Operating	72,552	7,384,590	7,457,142	(24,536)	7,432,606	7,432,600	6
Totals	72,552	65,414,400	65,486,952	226,074	65,713,026	65,713,016	10

(Continued)

MONTGOMERY COUNTY, MARYLAND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Human Relations Commission:							
Personnel	\$ -	\$ 2,008,187	\$ 2,008,187	\$ (8,760)	\$ 1,999,427	\$ 1,886,953	\$ 112,474
Operating	61,531	152,620	214,151	7,303	221,454	221,445	9
Totals	61,531	2,160,807	2,222,338	(1,457)	2,220,881	2,108,398	112,483
Police:							
Personnel	-	201,242,784	201,242,784	-	201,242,784	195,410,732	5,832,052
Operating	3,044,639	44,975,360	48,019,999	(429,472)	47,590,527	31,469,970	16,120,557
Capital outlay	307,704	44,000	351,704	(131,560)	220,144	219,768	376
Totals	3,352,343	246,262,144	249,614,487	(561,032)	249,053,455	227,100,470	21,952,985
Sheriff:							
Personnel	-	18,400,836	18,400,836	(262,792)	18,138,044	18,138,042	2
Operating	53,032	2,230,930	2,283,962	(130,396)	2,153,566	2,153,561	5
Totals	53,032	20,631,766	20,684,798	(393,188)	20,291,610	20,291,603	7
Homeland Security:							
Personnel	-	998,160	998,160	-	998,160	575,714	422,446
Operating	180,838	348,780	529,618	(17,812)	511,806	373,571	138,235
Totals	180,838	1,346,940	1,527,778	(17,812)	1,509,966	949,285	560,681
Transportation:							
Personnel	-	24,561,750	24,561,750	8,383,940	32,945,690	31,536,647	1,409,043
Operating	2,003,750	22,011,470	24,015,220	45,552,165	69,567,385	64,174,417	5,392,968
Totals	2,003,750	46,573,220	48,576,970	53,936,105	102,513,075	95,711,064	6,802,011
Health and Human Services:							
Personnel	-	107,313,105	107,313,105	-	107,313,105	104,653,779	2,659,326
Operating	1,360,831	86,761,251	88,122,082	(232,898)	87,889,184	78,309,672	9,579,512
Totals	1,360,831	194,074,356	195,435,187	(232,898)	195,202,289	182,963,451	12,238,838
Libraries:							
Personnel	-	30,199,525	30,199,525	-	30,199,525	30,062,099	137,426
Operating	800,177	7,369,870	8,170,047	(9,061)	8,160,986	6,111,186	2,049,800
Totals	800,177	37,569,395	38,369,572	(9,061)	38,360,511	36,173,285	2,187,226
Housing and Community Affairs:							
Personnel	-	4,398,539	4,398,539	-	4,398,539	4,028,883	369,656
Operating	11,288	668,250	679,538	(6,529)	673,009	419,824	253,185
Totals	11,288	5,066,789	5,078,077	(6,529)	5,071,548	4,448,707	622,841
Economic Development:							
Personnel	-	4,737,948	4,737,948	-	4,737,948	4,476,333	261,615
Operating	46,545	2,890,290	2,936,835	(2,759)	2,934,076	2,766,963	167,113
Totals	46,545	7,628,238	7,674,783	(2,759)	7,672,024	7,243,296	428,728
Environmental Protection:							
Personnel	-	2,191,691	2,191,691	-	2,191,691	2,171,977	19,714
Operating	248,150	822,269	1,070,419	(65,480)	1,004,939	675,302	329,637
Capital outlay	-	-	-	10,000	10,000	9,999	1
Totals	248,150	3,013,960	3,262,110	(55,480)	3,206,630	2,857,278	349,352
Total Departments	15,014,507	772,914,796	787,929,303	57,429,726	845,359,029	789,434,597	55,924,432
Nondepartmental:							
State retirement contribution - operating	-	981,480	981,480	-	981,480	981,477	3
Retirees group insurance - operating	-	26,039,330	26,039,330	-	26,039,330	26,039,330	-
State positions supplement - personnel	-	100,939	100,939	20,520	121,459	121,454	5
Judges special pension contribution - personnel	-	3,740	3,740	-	3,740	2,654	1,086
Compensation adjustment - personnel	-	669,230	669,230	(66,920)	602,310	133,852	468,458
Compensation adjustment - operating	-	643,110	643,110	143,720	786,830	786,822	8
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,482,613	5,627
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	854,920	854,920	-	854,920	799,976	54,944
Rebate - Takoma Park library - operating	-	132,830	132,830	-	132,830	120,155	12,675
Homeowners' association roadways - operating	-	87,130	87,130	160	87,290	87,281	9
Contribution to risk management - operating	-	11,510,730	11,510,730	-	11,510,730	11,229,010	281,720
Historical activities - operating	25,185	355,340	380,525	(9,060)	371,465	355,872	15,593
Conference and Visitors Bureau - operating	89,579	700,490	790,069	(89,579)	700,490	697,283	3,207
Arts Council - operating	-	5,069,380	5,069,380	625	5,070,005	5,049,480	20,525
Community grants - operating	1,324,744	4,392,320	5,717,064	(781,229)	4,935,835	4,842,659	93,176
Conference Center - personnel	-	105,119	105,119	(410)	104,709	101,355	3,354
Conference Center - operating	-	512,280	512,280	410	512,690	512,684	6
English Literacy - operating	3,126	842,420	845,546	-	845,546	845,546	-
County associations - operating	-	72,710	72,710	-	72,710	72,709	1
Metropolitan Washington C O G - operating	-	743,370	743,370	-	743,370	742,539	831
Public Technology, Inc. - operating	-	20,000	20,000	-	20,000	20,000	-
Independent audit - operating	-	394,000	394,000	18,000	412,000	393,918	18,082
Prisoner medical services - operating	-	10,000	10,000	89,620	99,620	99,611	9
State property tax services - operating	-	166,300	166,300	10,040	176,340	176,339	1
Boards, committees and commissions - operating	-	27,000	27,000	-	27,000	22,916	4,084
Charter Review Commission - operating	-	1,000	1,000	120	1,120	1,120	-
Working families income supplement - operating	-	15,008,200	15,008,200	74,790	15,082,990	15,082,985	5
Interagency tech, policy & coord comm - operating	-	5,000	5,000	-	5,000	1,172	3,828
County Leases - personnel	-	-	-	20,030	20,030	20,023	7
County Leases - operating	136,829	19,225,800	19,362,629	(444,371)	18,918,258	18,349,362	568,896
County Leases - capital outlay	376,200	-	376,200	343,680	719,880	661,193	58,687
Rockville parking district - operating	-	524,930	524,930	-	524,930	331,498	193,432
Climate Change - personnel	-	34,759	34,759	(3,470)	31,289	-	31,289
Climate Change - operating	758,452	622,000	1,380,452	(35,652)	1,344,800	1,344,795	5
Desktop computer modernization - operating	897,053	6,839,290	7,736,343	(401,117)	7,335,226	6,310,571	1,024,655
Desktop computer modernization - capital outlay	-	-	-	53,950	53,950	53,945	5
Utilities - operating	\$ 4,637	\$ 27,282,900	\$ 27,287,537	\$ -	\$ 27,287,537	\$ 25,728,690	\$ 1,558,847

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Total - Nondepartmental	3,615,805	131,494,307	135,110,112	(1,056,143)	134,053,969	129,630,901	4,423,068
Total Expenditures	18,630,312	904,409,103	923,039,415	56,373,583	979,412,998	919,065,498	60,347,500
Excess of Revenues over (under) Expenditures	(18,630,312)	1,813,155,058	1,794,524,746	(56,429,295)	1,738,095,451	1,602,825,046	(135,270,405)
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	8,672,648	8,793,398	8,793,399	1
Recreation	-	4,879,130	4,879,130	7,505,628	12,384,758	12,384,758	-
Mass Transit	-	7,952,700	7,952,700	11,035,360	18,988,060	18,128,132	(859,928)
Water Quality Protection	-	490,880	490,880	-	490,880	490,880	-
Urban Districts	-	424,110	424,110	-	424,110	424,110	-
Housing Activities	-	201,920	201,920	-	201,920	201,920	-
Grants	-	632,695	632,695	-	632,695	635,136	2,441
Cable TV	-	6,475,690	6,475,690	3,135,190	9,610,880	9,610,880	-
Revenue Stabilization Fund	-	-	-	-	-	44,772,562	44,772,562
Total Special Revenue Funds	-	21,177,875	21,177,875	30,348,826	51,526,701	95,441,777	43,915,076
Enterprise Funds:							
Liquor	-	26,375,850	26,375,850	2,667,430	29,043,280	29,043,280	-
Parking Lot Districts	-	785,030	785,030	3,577,540	4,362,570	4,362,570	-
Solid Waste Activities	-	2,419,350	2,419,350	9,970	2,429,320	2,429,320	-
Community Use of Public Facilities	-	371,750	371,750	-	371,750	371,750	-
Permitting Services	-	3,653,010	3,653,010	-	3,653,010	3,653,010	-
Total Enterprise Funds	-	33,604,990	33,604,990	6,254,940	39,859,930	39,859,930	-
Internal Service Funds:							
Self insurance employee health benefits	-	12,500,000	12,500,000	2,000,000	14,500,000	14,500,000	-
Central Duplicating	-	-	-	279,000	279,000	279,000	-
Total Internal Service Funds	-	12,500,000	12,500,000	2,279,000	14,779,000	14,779,000	-
Capital Projects Fund	-	-	-	-	-	499,847	499,847
Total Transfers In	-	67,282,865	67,282,865	38,882,766	106,165,631	150,580,554	44,414,923
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	-	(328,420)
Montgomery College	-	-	-	-	-	255,150	255,150
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	255,150	(73,270)
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,409,460)	(1,409,460)	-	(1,409,460)	(1,409,460)	-
Urban Districts	-	(1,244,090)	(1,244,090)	-	(1,244,090)	(1,244,090)	-
Mass Transit	-	(531,310)	(531,310)	-	(531,310)	(531,310)	-
Housing Activities	-	(19,919,270)	(19,919,270)	10,448,800	(9,470,470)	(9,470,470)	-
Economic Development	-	(610,590)	(610,590)	550,000	(60,590)	(60,590)	-
Grants	-	-	-	(453,843)	(453,843)	(421,927)	31,916
Total Special Revenue Funds	-	(23,714,720)	(23,714,720)	10,544,957	(13,169,763)	(13,137,847)	31,916
Internal Service Funds:							
Motor Pool	-	(30,000)	(30,000)	-	(30,000)	-	30,000
Total Internal Service Funds	-	(30,000)	(30,000)	-	(30,000)	-	30,000
Enterprise Funds:							
Community Use of Public Facilities	-	(25,000)	(25,000)	-	(25,000)	(25,000)	-
Parking Lot Districts	(80,340)	-	(80,340)	-	(80,340)	-	80,340
Solid Waste Activities	-	(1,941,510)	(1,941,510)	(51,290)	(1,992,800)	(1,992,800)	-
Permitting Services	-	(1,153,770)	(1,153,770)	-	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(80,340)	(3,120,280)	(3,200,620)	(51,290)	(3,251,910)	(3,171,570)	80,340
Debt Service Fund	-	(143,070,868)	(143,070,868)	(79,355,181)	(222,426,049)	(210,865,864)	11,560,185
Capital Projects Fund	(28,100,809)	(18,273,999)	(46,374,808)	9,012,889	(37,361,919)	(18,625,802)	18,736,117
Total Transfers (Out)	(28,181,149)	(188,209,867)	(216,391,016)	(59,848,625)	(276,239,641)	(245,801,083)	30,438,558
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,531,135,957)	(1,531,135,957)	101,235,342	(1,429,900,615)	(1,429,900,613)	2
Montgomery County Public Schools - capital	(16,748,395)	(7,065,000)	(23,813,395)	(6,750,000)	(30,563,395)	(21,118,157)	9,445,238
Total Montgomery County Public Schools	(16,748,395)	(1,538,200,957)	(1,554,949,352)	94,485,342	(1,460,464,010)	(1,451,018,770)	9,445,240
Montgomery College - operating	-	(108,399,261)	(108,399,261)	-	(108,399,261)	(108,399,261)	-
Montgomery College - capital	(4,658,866)	(3,696,000)	(8,354,866)	1,850,000	(6,504,866)	(2,677,602)	3,827,264
Total Montgomery College	(4,658,866)	(112,095,261)	(116,754,127)	1,850,000	(114,904,127)	(111,076,863)	3,827,264
Housing Opportunity Commission - operating	-	(6,136,340)	(6,136,340)	-	(6,136,340)	(5,522,147)	614,193
Housing Opportunity Commission - capital	-	(1,345,733)	(1,345,733)	121,000	(1,224,733)	(1,062,074)	162,659
Total Housing Opportunity Commission	-	(7,482,073)	(7,482,073)	121,000	(7,361,073)	(6,584,221)	776,852
M-NCPPC - operating	-	-	-	(150,000)	(150,000)	(150,000)	-
Total Transfers (Out) - Component Units and JV	(21,407,261)	(1,657,778,291)	(1,679,185,552)	96,306,342	(1,582,879,210)	(1,568,829,854)	14,049,356
Total Other Financing Sources (Uses)	(49,588,410)	(1,778,376,873)	(1,827,965,283)	75,340,483	(1,752,624,800)	(1,663,795,233)	88,829,567
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(68,218,722)	34,778,185	(33,440,537)	18,911,188	(14,529,349)	(60,970,187)	(46,440,838)
Fund Balance - Beginning of Year	68,218,722	37,317,265	105,535,987	(4,908,160)	100,627,827	100,627,827	-
Fund Balance - End of Year	\$ -	\$ 72,095,450	\$ 72,095,450	\$ 14,003,028	\$ 86,098,478	\$ 39,657,640	\$ (46,440,838)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
REVENUE STABILIZATION SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Exhibit A-8

	Budget					Actual	Variance Over (Under)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues - Investment income	\$ -	\$ 250,804	\$ 250,804	\$ -	\$ 250,804	\$ 250,804	\$ -
Expenditures	-	-	-	-	-	-	-
Excess of Revenues over (under) Expenditures	-	250,804	250,804	-	250,804	250,804	-
Other Financing Sources (Uses):							
Transfers In (Out):							
To General Fund	-	-	-	-	-	(44,772,562)	(44,772,562)
To Debt Service Fund	-	(250,804)	(250,804)	-	(250,804)	(250,804)	-
Total Other Financing Sources (Uses)	-	(250,804)	(250,804)	-	(250,804)	(45,023,366)	(44,772,562)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	-	-	-	-	(44,772,562)	(44,772,562)
Fund Balance - Beginning of Year	-	119,647,603	119,647,603	-	119,647,603	119,647,603	-
Fund Balance - End of Year	\$ -	\$ 119,647,603	\$ 119,647,603	\$ -	\$ 119,647,603	\$ 74,875,041	\$ (44,772,562)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-9

	Budget			Actual	Variance Positive (Negative)
	Prior Year Encumbrances	Current Year	Total		
Revenues:					
Taxes - transfer	\$ -	\$ 5,047,000	\$ 5,047,000	\$ 4,903,426	\$ (143,574)
Charges for services	-	50,000	50,000	-	(50,000)
Investment income:					
Pooled	-	190,000	190,000	45,155	(144,845)
Nonpooled	-	-	-	899,341	899,341
Total Investment Income	-	190,000	190,000	944,496	754,496
Miscellaneous:					
Property rentals, MPDU and other contributions	-	25,281,750	25,281,750	4,288,311	(20,993,439)
Total Miscellaneous	-	25,281,750	25,281,750	4,288,311	(20,993,439)
Total Revenues	-	30,568,750	30,568,750	10,136,233	(20,432,517)
Expenditures:					
Personnel costs	-	1,336,830	1,336,830	1,336,768	62
Operating	3,272,586	38,994,529	42,267,115	31,788,936	10,478,179
Total Expenditures	3,272,586	40,331,359	43,603,945	33,125,704	10,478,241
Excess of Revenues over (under) Expenditures	(3,272,586)	(9,762,609)	(13,035,195)	(22,989,471)	(9,954,276)
Other Financing Sources (Uses):					
Transfers In (Out):					
From General Fund	-	9,470,470	9,470,470	9,470,470	-
To General Fund	-	(201,920)	(201,920)	(201,920)	-
To Debt Service Fund	-	(2,255,290)	(2,255,290)	(75,286)	2,180,004
Mortgage repayment	-	5,672,450	5,672,450	3,247,965	(2,424,485)
Disposition of property	-	2,000,000	2,000,000	1,596,976	(403,024)
Total Other Financing Sources (Uses)	-	14,685,710	14,685,710	14,038,205	(647,505)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(3,272,586)	4,923,101	1,650,515	(8,951,266)	(10,601,781)
Fund Balance - Beginning of Year	3,272,586	7,769,358	11,041,944	11,041,944	-
Fund Balance - End of Year	\$ -	\$ 12,692,459	\$ 12,692,459	\$ 2,090,678	\$ (10,601,781)

Reconciliation of budgetary schedule to GAAP basis Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ (8,951,266)
Reconciling items:	
Cancellation of prior year encumbrances	(2,661,852)
Elimination of encumbrances outstanding	2,806,878
Reconciling item - Change in notes receivable	17,363,079
GAAP - Net Change in Fund Balance	<u>\$ 8,556,839</u>

MONTGOMERY COUNTY, MARYLAND
 GRANTS - SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-10

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover (1)	Current Year	Total Original	Revision	Final		
Revenues:							
Intergovernmental:							
Federal grants	\$ 5,829,342	\$ 94,591,241	\$ 100,420,583	\$ 1,497,209	\$ 101,917,792	\$ 53,520,804	\$ (48,396,988)
State grants	655,978	93,612,236	94,268,214	1,467,264	95,735,478	65,408,330	(30,327,148)
Other non-state and non-federal reimbursements	4,759	1,525,110	1,529,869	29,944	1,559,813	531,255	(1,028,558)
Total Intergovernmental	6,490,079	189,728,587	196,218,666	2,994,417	199,213,083	119,460,389	(79,752,694)
Investment income:							
Pooled investment income	-	-	-	-	-	-	-
Other interest income	-	-	-	-	-	137,558	137,558
Total Investment Income	-	-	-	-	-	137,558	137,558
Miscellaneous	-	292,937	292,937	85,188	378,125	337,388	(40,737)
Total Revenues	6,490,079	190,021,524	196,511,603	3,079,605	199,591,208	119,935,335	(79,655,873)
Expenditures:							
General Government:							
Circuit Court:							
Personnel costs	-	2,489,612	2,489,612	(98,858)	2,390,754	2,096,285	294,469
Operating	4,136	478,011	482,147	(74,451)	407,696	262,817	144,879
Totals	4,136	2,967,623	2,971,759	(173,309)	2,798,450	2,359,102	439,348
Office of State's Attorney:							
Personnel costs	-	346,319	346,319	74,163	420,482	368,152	52,330
Operating	-	405	405	-	405	-	405
Totals	-	346,724	346,724	74,163	420,887	368,152	52,735
Office of the County Executive:							
Personnel costs	-	438,087	438,087	10,056	448,143	239,013	209,130
Operating	30,579	263,827	294,406	12,514	306,920	177,610	129,310
Totals	30,579	701,914	732,493	22,570	755,063	416,623	338,440
Regional Service Centers:							
Personnel costs	-	151,288	151,288	-	151,288	111,650	39,638
Operating	-	70,881	70,881	-	70,881	34,559	36,322
Totals	-	222,169	222,169	-	222,169	146,209	75,960
Intergovernmental Relations:							
Operating	-	27,000	27,000	5,333	32,333	32,333	-
Totals	-	27,000	27,000	5,333	32,333	32,333	-
Department of Technology Services:							
Personnel costs	-	-	-	-	-	-	-
Operating	-	581,375	581,375	-	581,375	-	581,375
Totals	-	581,375	581,375	-	581,375	-	581,375
Total General Government	34,715	4,846,805	4,881,520	(71,243)	4,810,277	3,322,419	1,487,858
Public Safety:							
Department of Corrections and Rehabilitation:							
Personnel costs	-	75,000	75,000	-	75,000	63,392	11,608
Operating	-	3,069	3,069	128,578	131,647	80,767	50,880
Totals	-	78,069	78,069	128,578	206,647	144,159	62,488
Department of Fire and Rescue Services:							
Personnel costs	-	2,251,314	2,251,314	1,135,087	3,386,401	1,991,500	1,394,901
Operating	757,139	2,730,608	3,487,747	797,353	4,285,100	1,776,640	2,508,460
Capital outlay	-	325,270	325,270	450,141	775,411	566,129	209,282
Totals	757,139	5,307,192	6,064,331	2,382,581	8,446,912	4,334,269	4,112,643
Department of Police:							
Personnel costs	-	1,225,364	1,225,364	451,164	1,676,528	876,595	799,933
Operating	3,251,225	4,574,265	7,825,490	5,348,173	13,173,663	6,687,253	6,486,410
Capital outlay	-	157,349	157,349	69,186	226,535	100,296	126,239
Totals	3,251,225	5,956,978	9,208,203	5,868,523	15,076,726	7,664,144	7,412,582
Office of the County Sheriff:							
Personnel costs	-	1,531,526	1,531,526	566,337	2,097,863	1,206,133	891,730
Operating	-	583,823	583,823	200,219	784,042	278,105	505,937
Capital outlay	-	-	-	-	-	-	-
Totals	-	2,115,349	2,115,349	766,556	2,881,905	1,484,238	1,397,667
Office of Emergency Management & Homeland Security:							
Personnel costs	-	84,714	84,714	742,632	827,346	428,856	398,490
Operating	206,791	601,510	808,301	2,773,136	3,581,437	1,248,927	2,332,510
Totals	206,791	686,224	893,015	3,515,768	4,408,783	1,677,783	2,731,000
Total Public Safety	4,215,155	14,143,812	18,358,967	12,662,006	31,020,973	15,304,593	15,716,380
Transportation:							
Department of Transportation:							
Personnel costs	-	1,997,890	1,997,890	89,391	2,087,281	1,740,394	346,887
Operating	156,150	2,957,231	3,113,381	396,769	3,510,150	2,246,540	1,263,610
Capital outlay	361,499	3,374,490	3,735,989	348,981	4,084,970	834,315	3,250,655
Total Transportation	517,649	8,329,611	8,847,260	835,141	9,682,401	4,821,249	4,861,152
Department of Economic Development:							
Personnel costs	-	-	-	-	-	-	-
Operating	270,205	5,429,951	5,700,156	8,340	5,708,496	3,930,827	1,777,669
Total Economic Development	270,205	5,429,951	5,700,156	8,340	5,708,496	3,930,827	1,777,669

(Continued)

MONTGOMERY COUNTY, MARYLAND
 GRANTS - SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-10

	Prior Year Carryover (1)	Current Year	Budget			Actual	Variance Positive (Negative)
			Total Original	Revision	Final		
Health and Human Services:							
Department of Health and Human Services:							
Personnel costs	-	46,970,909	46,970,909	669,379	47,640,288	42,568,299	5,071,989
Operating	686,265	35,607,647	36,293,912	6,158,037	42,451,949	32,339,472	10,112,477
Capital outlay	-	476	476	-	476	-	476
Total Health and Human Services	686,265	82,579,032	83,265,297	6,827,416	90,092,713	74,907,771	15,184,942
Culture and Recreation:							
Department of Libraries:							
Personnel costs	-	147,406	147,406	(100,890)	46,516	40,471	6,045
Operating	-	37,881	37,881	(3,040)	34,841	30,663	4,178
Totals	-	185,287	185,287	(103,930)	81,357	71,134	10,223
Department of Recreation:							
Personnel costs	-	51,874	51,874	30,032	81,906	26,979	54,927
Operating	-	24,252	24,252	45,350	69,602	22,474	47,128
Totals	-	76,126	76,126	75,382	151,508	49,453	102,055
Total Culture and Recreation	-	261,413	261,413	(28,548)	232,865	120,587	112,278
Housing:							
Department of Housing and Community Affairs:							
Personnel costs	-	3,677,511	3,677,511	660,742	4,338,253	2,180,420	2,157,833
Operating	766,090	29,299,937	30,066,027	2,005,049	32,071,076	15,392,771	16,678,305
Capital outlay	-	634	634	-	634	-	634
Total Housing	766,090	32,978,082	33,744,172	2,665,791	36,409,963	17,573,191	18,836,772
Environment:							
Department of Environmental Protection:							
Personnel costs	-	32,050	32,050	70,000	102,050	87,912	14,138
Operating	-	410,000	410,000	137,540	547,540	376,353	171,187
Capital outlay	-	-	-	-	-	-	-
Total Environmental Protection	-	442,050	442,050	207,540	649,590	464,265	185,325
Department of Liquor Control:							
Personnel costs	-	8,437	8,437	13,060	21,497	19,679	1,818
Operating	-	20,823	20,823	31,720	52,543	30,861	21,682
Total Liquor Control	-	29,260	29,260	44,780	74,040	50,540	23,500
Nondepartmental:							
NDA Historical Activities - Operating	-	4,721	4,721	25,000	29,721	23,000	6,721
NDA Miscellaneous Community Grants - Operating	-	-	-	-	-	-	-
Future Grants - Personnel	-	73,660	73,660	(148,660)	(75,000)	-	(75,000)
- Operating	-	5,243,721	5,243,721	16,876,548	22,120,269	-	22,120,269
Total Nondepartmental	-	5,322,102	5,322,102	16,752,888	22,074,990	23,000	22,051,990
Total Expenditures	6,490,079	154,362,118	160,852,197	39,904,111	200,756,308	120,518,442	80,237,866
Excess of Revenues over (under)							
Expenditures	-	35,659,406	35,659,406	(36,824,506)	(1,165,100)	(583,107)	581,993
Other Financing Sources (Uses):							
Transfers In:							
General Fund	-	245,163	245,163	461,889	707,052	400,683	(306,369)
Mass Transit Special Revenue Fund	-	378,205	378,205	712,538	1,090,743	255,046	(835,697)
Fire Tax District Special Revenue Fund	-	-	-	-	-	562,514	562,514
Total Transfers In	-	623,368	623,368	1,174,427	1,797,795	1,218,243	(579,552)
Transfers Out - Internal Service Funds	-	(632,695)	(632,695)	-	(632,695)	(635,136)	(2,441)
Total Transfers Out	-	(632,695)	(632,695)	-	(632,695)	(635,136)	(2,441)
Total Other Financing Sources (Uses)	-	(9,327)	(9,327)	1,174,427	1,165,100	583,107	(581,993)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses							
Fund Balance - Beginning of Year	-	-	-	-	-	-	-
Fund Balance - End of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Grants Fund prior year carryover includes: a) reappropriation of encumbered appropriations, and b) revenues under grants that require more than one fiscal year to complete the grant program.

Reconciliation of Budgetary Schedule to GAAP Basis

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
Reconciling items:				
Elimination of encumbrances outstanding	(9,180,165)	(9,180,165)	-	-
Loan expenditures	(2,187,995)	(2,187,995)	-	-
Indirect costs	(1,189,127)	(1,189,127)	-	-
Pass-through expenditures	4,908,657	4,908,657	-	-
As reported - GAAP basis	\$ 112,286,705	\$ 112,869,812	\$ 583,107	\$ -

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010
Exhibit A-11

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	\$ 8,230,150	\$ 22,995,964	\$ 11,941,417	\$ 12,972,053	\$ 56,139,584	\$ 114,647,957
Cash with fiscal agents	1,371,052	-	-	-	1,371,052	-
Cash	34,625	3,000	162,681	-	200,306	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	761,039	-	761,039	-
Accounts	1,959,716	2,036,820	7,108	3,902	4,007,546	3,071,974
Parking violations	-	-	2,076,532	-	2,076,532	-
Due from other funds	-	5,466	-	-	5,466	8,397,364
Due from component units	-	54,392	386,423	-	440,815	579,855
Due from other governments	-	399,131	-	-	399,131	261,443
Inventory of supplies	26,627,325	-	-	-	26,627,325	3,849,200
Prepays	1,100,483	1,324	9,548	189,765	1,301,120	204,700
Other assets	273,534	-	-	-	273,534	-
Total Current Assets	<u>39,596,885</u>	<u>25,496,097</u>	<u>15,344,748</u>	<u>13,165,720</u>	<u>93,603,450</u>	<u>131,012,793</u>
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	30,636,090	6,394,188	-	37,030,278	-
Investments	-	4,299,223	1,615,594	-	5,914,817	-
Restricted Assets	-	<u>34,935,313</u>	<u>8,009,782</u>	-	<u>42,945,095</u>	-
Unamortized debt costs	299,493	167,932	452,426	-	919,851	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	35,336,478	-	60,204,889	22,506
Improvements other than buildings	-	81,554,468	64,814,023	-	146,368,491	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	32,591,722	181,671,417	-	247,860,396	-
Furniture, fixtures, equipment, and machinery	5,850,552	12,941,648	1,060,733	1,964,586	21,817,519	4,354,077
Automobiles and trucks	3,679,373	324,954	131,445	275,258	4,411,030	74,354,131
Construction in progress	1,015,616	-	1,081,809	-	2,097,425	691,302
Subtotal	51,176,454	145,261,898	284,095,905	2,239,844	482,774,101	79,690,581
Less: Accumulated depreciation	12,867,063	100,877,896	113,172,243	1,849,012	228,766,214	48,224,153
Total Capital Assets (net of accumulated depreciation)	<u>38,309,391</u>	<u>44,384,002</u>	<u>170,923,662</u>	<u>390,832</u>	<u>254,007,887</u>	<u>31,466,428</u>
Total Noncurrent Assets	<u>38,608,884</u>	<u>79,487,247</u>	<u>179,385,870</u>	<u>390,832</u>	<u>297,872,833</u>	<u>31,466,428</u>
Total Assets	<u>78,205,769</u>	<u>104,983,344</u>	<u>194,730,618</u>	<u>13,556,552</u>	<u>391,476,283</u>	<u>162,479,221</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	9,653,334	4,560,691	1,629,012	55,192	15,898,229	6,858,932
Interest payable	-	38,396	315,554	159	354,109	2,231
Retainage payable	-	-	115,866	-	115,866	-
Deposits	244,124	-	-	-	244,124	-
Claims payable	-	-	-	-	-	102,048,669
Accrued liabilities	2,694,972	1,293,344	588,862	11,352,613	15,929,791	4,659,537
Due to other funds	461,456	188,182	61,808	3,911,658	4,623,104	5,863,992
Due to component units	-	-	-	684,645	684,645	-
Due to other governments	660,892	764,902	13,799	-	1,439,593	-
Equipment notes payable	-	-	158,859	11,969	170,828	151,351
Unearned revenue	-	-	-	2,031,968	2,031,968	1,892,868
Revenue bonds payable	1,070,632	3,550,000	1,915,000	-	6,535,632	-
Landfill closure costs	-	1,106,000	-	-	1,106,000	-
Other liabilities	-	-	429,768	-	429,768	-
Total Current Liabilities	<u>14,785,410</u>	<u>11,501,515</u>	<u>5,228,528</u>	<u>18,048,204</u>	<u>49,563,657</u>	<u>121,477,580</u>
Noncurrent Liabilities:						
Equipment notes payable	-	-	81,782	-	81,782	77,892
Revenue bonds payable	31,839,935	6,361,145	30,236,872	-	68,437,952	-
Landfill closure costs	-	17,774,923	-	-	17,774,923	-
Compensated absences	470,068	213,840	116,802	478,684	1,279,394	531,714
Other postemployment benefits	1,325,505	344,115	165,705	1,023,855	2,859,180	797,730
Total Noncurrent Liabilities	<u>33,635,508</u>	<u>24,694,023</u>	<u>30,601,161</u>	<u>1,502,539</u>	<u>90,433,231</u>	<u>1,407,336</u>
Total Liabilities	<u>48,420,918</u>	<u>36,195,538</u>	<u>35,829,689</u>	<u>19,550,743</u>	<u>139,996,888</u>	<u>122,884,916</u>
NET ASSETS						
Invested in capital, net of related debt	5,398,824	34,472,857	138,531,149	378,863	178,781,693	31,237,185
Restricted for debt service	1,371,052	34,935,313	8,009,782	-	44,316,147	-
Unrestricted	23,014,975	(620,364)	12,359,998	(6,373,054)	28,381,555	8,357,120
Total Net Assets	<u>\$ 29,784,851</u>	<u>\$ 68,787,806</u>	<u>\$ 158,900,929</u>	<u>\$ (5,994,191)</u>	<u>251,479,395</u>	<u>\$ 39,594,305</u>
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,885,942)	
Net assets of business-type activities					\$ 249,593,453	

Notes to Financial Statements are an integral part of this statement .

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-12

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	\$ 227,335,338	\$ -	\$ -	\$ -	\$ 227,335,338	\$ -
Charges for services	17,355	103,192,336	18,923,025	10,831,447	132,964,163	217,503,389
Licenses and permits	1,608,970	11,034	-	25,341,443	26,961,447	-
Fines and penalties	251,285	51,463	8,870,096	93,805	9,266,649	-
Claim recoveries	-	-	-	-	-	1,623,469
Total Operating Revenues	<u>229,212,948</u>	<u>103,254,833</u>	<u>27,793,121</u>	<u>36,266,695</u>	<u>396,527,597</u>	<u>219,126,858</u>
OPERATING EXPENSES						
Cost of goods sold	162,368,304	-	-	-	162,368,304	-
Personnel costs	24,661,642	12,918,532	4,375,472	23,981,866	65,937,512	25,214,032
Other postemployment contributions	2,209,175	573,525	276,175	1,706,425	4,765,300	1,329,550
Postage	43,426	119,974	9,298	17,522	190,220	1,240,956
Self-insurance incurred and estimated claims	-	-	-	-	-	133,434,920
Insurance	574,840	701,826	47,750	112,760	1,437,176	23,049,159
Supplies and materials	330,619	930,672	411,279	300,038	1,972,608	26,380,457
Contractual services	2,196,973	77,576,953	6,058,868	3,780,499	89,613,293	8,559,579
Communications	461,828	191,240	193,946	278,709	1,125,723	535,190
Transportation	690,997	1,835,268	293,191	560,502	3,379,958	346,595
Public utility services	902,668	136,342	3,385,997	1,971,165	6,396,172	778,004
Rentals	5,881,229	29,191	1,215,813	2,306,299	9,432,532	272,044
Maintenance	719,017	1,819,105	3,187,330	304,653	6,030,105	10,987,722
Depreciation	1,619,465	2,302,666	9,743,802	164,761	13,830,694	7,277,161
Landfill closure expense	-	426,000	-	-	426,000	-
Other	402,679	457,225	7,126	39,416	906,446	137,798
Total Operating Expenses	<u>203,062,862</u>	<u>100,018,519</u>	<u>29,206,047</u>	<u>35,524,615</u>	<u>367,812,043</u>	<u>239,543,167</u>
Operating Income (Loss)	<u>26,150,086</u>	<u>3,236,314</u>	<u>(1,412,926)</u>	<u>742,080</u>	<u>28,715,554</u>	<u>(20,416,309)</u>
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,931,045	-	9,931,045	-
Intergovernmental	-	30,000	-	-	30,000	-
Gain (loss) on disposal of capital assets	(5,754)	61,285	-	-	55,531	234,424
Investment income	18,278	392,623	142,999	15,892	569,792	269,389
Interest expense	(1,285,035)	(649,864)	(1,455,782)	(1,530)	(3,392,211)	(11,770)
Other revenue	110,000	49,368	487,043	4,814	651,225	3,567,044
Insurance recoveries	-	8,100	-	-	8,100	223,408
Total Nonoperating Revenues (Expenses)	<u>(1,162,511)</u>	<u>(108,488)</u>	<u>9,105,305</u>	<u>19,176</u>	<u>7,853,482</u>	<u>4,282,495</u>
Income (Loss) Before Capital Contributions and Transfers	<u>24,987,575</u>	<u>3,127,826</u>	<u>7,692,379</u>	<u>761,256</u>	<u>36,569,036</u>	<u>(16,133,814)</u>
Transfers In (Out):						
Transfers in	-	-	14,700	25,000	39,700	-
Transfers out	(30,175,062)	(2,429,320)	(18,499,546)	(4,024,760)	(55,128,688)	(14,779,000)
Total Transfers In (Out)	<u>(30,175,062)</u>	<u>(2,429,320)</u>	<u>(18,484,846)</u>	<u>(3,999,760)</u>	<u>(55,088,988)</u>	<u>(14,779,000)</u>
Change in Net Assets	(5,187,487)	698,506	(10,792,467)	(3,238,504)	(18,519,952)	(30,912,814)
Total Net Assets - Beginning of Year	<u>34,972,338</u>	<u>68,089,300</u>	<u>169,693,396</u>	<u>(2,755,687)</u>		<u>70,507,119</u>
Total Net Assets - End of Year	<u>\$ 29,784,851</u>	<u>\$ 68,787,806</u>	<u>\$ 158,900,929</u>	<u>\$ (5,994,191)</u>		<u>\$ 39,594,305</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(639,640)	
Change in net assets of business-type activities					\$ (19,159,592)	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-13

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 234,841,514	\$ 100,268,475	\$ 28,667,966	\$ 34,933,022	\$ 398,710,977	\$ 216,110,101
Payments to suppliers	(178,511,729)	(89,275,074)	(16,075,359)	(11,442,070)	(295,304,232)	(66,484,381)
Payments to employees	(23,194,552)	(12,816,715)	(4,143,761)	(24,045,344)	(64,200,372)	(22,222,289)
Internal activity - operating payments from other funds	-	2,751,580	-	1,153,770	3,905,350	-
Other operating receipts	-	-	-	4,134,577	4,134,577	622,730
Other operating payments	-	-	-	(4,212,722)	(4,212,722)	-
Claims paid	-	-	-	-	-	(131,018,600)
Other revenue	110,000	57,468	487,043	4,814	659,325	3,567,044
Net Cash Provided (Used) by Operating Activities	<u>33,245,233</u>	<u>985,734</u>	<u>8,935,889</u>	<u>526,047</u>	<u>43,692,903</u>	<u>574,605</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,931,045	-	9,931,045	-
Operating subsidies, transfers and receipts from other funds	-	-	-	3,447,100	3,447,100	-
Operating subsidies, transfers and payments to other funds	(30,175,062)	(2,429,320)	(18,499,546)	(4,024,760)	(55,128,688)	(14,779,000)
Intergovernmental revenue	-	30,000	-	-	30,000	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(30,175,062)</u>	<u>(2,399,320)</u>	<u>(8,568,501)</u>	<u>(577,660)</u>	<u>(41,720,543)</u>	<u>(14,779,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	-	61,285	-	-	61,285	615,394
Purchases of capital assets	(1,134,024)	(3,250,926)	(5,198,001)	-	(9,582,951)	(4,952,659)
Principal paid on capital debt	(1,205,324)	(3,420,000)	(1,992,786)	(62,481)	(6,680,591)	(145,628)
Interest paid on capital debt	(1,436,299)	(589,000)	(1,443,332)	(1,684)	(3,470,315)	(13,187)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,775,647)</u>	<u>(7,198,641)</u>	<u>(8,634,119)</u>	<u>(64,165)</u>	<u>(19,672,572)</u>	<u>(4,496,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	18,278	144,371	60,259	15,892	238,800	269,064
Investment income from nonpooled investments	-	13,086	-	-	13,086	325
Net Cash Provided (Used) by Investing Activities	<u>18,278</u>	<u>157,457</u>	<u>60,259</u>	<u>15,892</u>	<u>251,886</u>	<u>269,389</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(687,198)	(8,454,770)	(8,206,472)	(99,886)	(17,448,326)	(18,431,086)
Balances - Beginning of Year	10,323,025	62,089,824	26,704,758	13,071,939	112,189,546	133,079,343
Balances - End of Year	<u>\$ 9,635,827</u>	<u>\$ 53,635,054</u>	<u>\$ 18,498,286</u>	<u>\$ 12,972,053</u>	<u>\$ 94,741,220</u>	<u>\$ 114,648,257</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 26,150,086	\$ 3,236,314	\$ (1,412,926)	\$ 742,080	\$ 28,715,554	\$ (20,416,309)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	1,619,465	2,302,666	9,743,802	164,761	13,830,694	7,277,161
Other revenue	110,000	57,468	487,043	4,814	659,325	3,567,044
Effect of changes in operating assets and liabilities:						
Receivables, net	324,303	(268,025)	880,564	(1,513)	935,329	(2,348,757)
Inventories, prepaids and other assets	1,351,410	(396)	(5,718)	(189,017)	1,156,279	4,054
Accounts payable and other liabilities	3,518,083	(4,424,050)	(981,475)	61,250	(1,826,192)	11,249,020
Accrued expenses	171,886	81,757	224,599	(256,328)	221,914	1,242,392
Net Cash Provided (Used) by Operating Activities	<u>\$ 33,245,233</u>	<u>\$ 985,734</u>	<u>\$ 8,935,889</u>	<u>\$ 526,047</u>	<u>\$ 43,692,903</u>	<u>\$ 574,605</u>
Noncash investing, capital and financing activities:						
Capital asset disposals	\$ (5,751)	\$ -	\$ -	\$ -	\$ (5,751)	\$ -
Assets acquired through transfers from governmental activities	-	-	14,700	-	14,700	-
Change in fair value of investments that are not cash equivalents	-	88,837	82,740	-	171,577	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010
Exhibit A-14

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	\$ 2,360,911	\$ 44,654,577	\$ 675,925	\$ 32,375,842
Cash	-	-	-	242,118
Investments:				
U.S. Government and agency obligations	235,631,971	-	-	-
Asset-backed securities	9,343,270	-	-	-
Municipal/Provincial bonds	7,627,603	-	-	-
Corporate bonds	519,898,639	-	-	-
Collateralized mortgage obligations	2,656,570	-	-	-
Commercial mortgage-backed securities	190,025	-	-	-
Common and preferred stock	1,063,949,809	-	-	-
Mutual and commingled funds	521,076,950	-	-	-
Short-term investments	218,146,254	-	-	-
Cash collateral received under securities lending agreements	229,936,305	-	-	-
Real estate	76,182,689	-	-	-
Private equity	167,767,042	-	-	-
Total investments	3,052,407,127	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	14,260,259	-	-	-
Property taxes	-	-	-	4,401,258
Accounts	70,484	-	30,000	75,786
Due from other funds	15,519,046	-	-	-
Due from component units	136,978	-	-	-
Due from other governments	1,001,821	-	-	-
Total Current Assets	3,085,756,626	44,654,577	705,925	37,095,004
Total Assets	3,085,756,626	44,654,577	705,925	\$ 37,095,004
LIABILITIES				
Current Liabilities:				
Accounts payable	236,219,831	-	-	19,853
Accrued liabilities	267,957	-	-	-
Deposits	-	-	-	463,011
Claims payable	4,807,430	-	-	-
Due to other funds	6,292	-	-	-
Due to other governments	-	-	-	1,982,109
Uncollected property taxes due to governments	-	-	-	4,075,289
Undistributed taxes and refunds	-	-	-	11,052,944
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,322,373
Other liabilities	-	-	-	17,179,425
Total Current Liabilities	241,378,631	-	-	37,095,004
Noncurrent Liabilities:				
Compensated absences	52,660	-	-	-
Total Liabilities	241,431,291	-	-	\$ 37,095,004
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	\$ 2,844,325,335	\$ 44,654,577	\$ 705,925	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-15

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
ADDITIONS			
Contributions:			
Employers	\$ 170,671,635	\$ -	\$ -
Members	61,314,440	-	476,600
Federal government - Medicare Part D	2,247,072	-	-
Share purchases	-	28,154,658	-
Total Contributions	<u>234,233,147</u>	<u>28,154,658</u>	<u>476,600</u>
Investment income (loss)	357,173,056	85,890	2,857
Less: Investment expenses	15,945,378	-	-
Net Investment Income (Loss)	<u>341,227,678</u>	<u>85,890</u>	<u>2,857</u>
Other income - forfeitures	<u>557,949</u>	-	-
Total Additions, net	<u>576,018,774</u>	<u>28,240,548</u>	<u>479,457</u>
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	122,861,083	-	-
Survivors	7,620,034	-	-
Disability	38,607,638	-	-
Claims	52,137,098	-	-
Total Benefits	<u>221,225,853</u>	-	-
Share redemptions	-	29,395,000	-
Member refunds	14,039,347	-	-
Program expenses	-	-	23,151
Administrative expenses	5,410,060	-	-
Total Deductions	<u>240,675,260</u>	<u>29,395,000</u>	<u>23,151</u>
Net Increase (Decrease)	335,343,514	(1,154,452)	456,306
Net Assets - Beginning of Year	<u>2,508,981,821</u>	<u>45,809,029</u>	<u>249,619</u>
Net Assets - End of Year	<u>\$ 2,844,325,335</u>	<u>\$ 44,654,577</u>	<u>\$ 705,925</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2010
Exhibit A-16

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 19,379,458	\$ -	\$ 10,098,060	\$ 29,477,518
Cash with fiscal agents	-	34,925,268	2,010,334	36,935,602
Cash	6,708,268	17,268	4,743,356	11,468,892
Investments-cash equivalents	32,939,818	41,027,224	45,720,366	119,687,408
Investments	5,435,899	-	31,130,033	36,565,932
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	27,870,691	27,870,691
Accounts	20,030,929	2,288,898	2,237,216	24,557,043
Notes	-	-	47,110,000	47,110,000
Mortgages receivable	-	362,957,652	-	362,957,652
Interest	-	5,449,722	-	5,449,722
Other	437,426	-	1,405,930	1,843,356
Due from primary government	80,740,823	3,030,113	14,456,943	98,227,879
Due from other governments	22,485,982	1,961,875	10,641,349	35,089,206
Inventory of supplies	8,563,499	267,616	2,020,212	10,851,327
Prepays	266,603	2,964,680	2,792,283	6,023,566
Deferred charges	-	-	468,514	468,514
Other assets	-	47,317,552	17,393,762	64,711,314
Restricted Assets:				
Equity in pooled cash and investments	-	-	7,140,737	7,140,737
Cash	-	-	717,741	717,741
Cash non pooled	-	18,649,763	-	18,649,763
Investments - cash equivalents	-	80,919,375	3,566,223	84,485,598
Investments	-	218,382,399	-	218,382,399
Capital Assets:				
Nondepreciable assets	160,707,761	90,762,793	167,240,231	418,710,785
Depreciable assets, net	1,836,000,115	370,861,747	268,674,363	2,475,536,225
Total Assets	<u>2,193,696,581</u>	<u>1,281,783,945</u>	<u>667,438,344</u>	<u>4,142,918,870</u>
LIABILITIES				
Accounts payable	60,154,405	8,545,112	28,644,324	97,343,841
Interest payable	-	26,838,481	873,618	27,712,099
Retainage payable	6,000,883	-	338,900	6,339,783
Accrued liabilities	78,345,934	7,501,704	815,723	86,663,361
Claims payable	18,380,085	-	-	18,380,085
Deposits	-	10,572,271	47,637	10,619,908
Due to primary government	101,371	71,709,779	804,661	72,615,811
Due to other governments	-	-	13,700	13,700
Unearned revenue	3,772,082	20,561,788	4,852,297	29,186,167
Other liabilities	-	17,731,110	-	17,731,110
Noncurrent Liabilities:				
Due within one year	24,379,010	120,904,383	6,610,890	151,894,283
Due in more than one year	333,135,633	802,827,996	195,376,183	1,331,339,812
Total Liabilities	<u>524,269,403</u>	<u>1,087,192,624</u>	<u>238,377,933</u>	<u>1,849,839,960</u>
NET ASSETS				
Invested in capital, net of related debt	1,976,371,415	26,170,735	318,215,127	2,320,757,277
Restricted for:				
Capital projects	-	-	327,924	327,924
Debt service	-	47,083,981	3,840,382	50,924,363
Other purposes	1,376,491	13,281,952	23,419,136	38,077,579
Unrestricted (deficit)	(308,320,728)	108,054,653	83,257,842	(117,008,233)
Total Net Assets	<u>\$ 1,669,427,178</u>	<u>\$ 194,591,321</u>	<u>\$ 429,060,411</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
Exhibit A-17

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component units:								
General government	\$ 4,482,166	\$ 4,247,612	\$ 180,456	\$ -	\$ -	\$ -	\$ (54,098)	\$ (54,098)
Culture and recreation	19,135,971	17,163,179	-	172,670	-	-	(1,800,122)	(1,800,122)
Community development and housing	214,831,030	106,625,182	103,531,616	5,429,701	-	755,469	-	755,469
Education:								
Secondary education	2,432,813,858	29,298,967	152,218,307	44,899,066	(2,206,397,518)	-	-	(2,206,397,518)
Higher education	281,461,880	77,858,885	34,849,711	321,431	-	-	(168,431,853)	(168,431,853)
Total component units	<u>\$ 2,952,724,905</u>	<u>\$ 235,193,825</u>	<u>\$ 290,780,090</u>	<u>\$ 50,822,868</u>	<u>(2,206,397,518)</u>	<u>755,469</u>	<u>(170,286,073)</u>	<u>(2,375,928,122)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,174,461,133	-	211,378,232	2,385,839,365
Investment income					79,077	729,987	5,147,067	5,956,131
Gain on sale of capital assets					114,083	-	-	114,083
Total general revenues					<u>2,174,654,293</u>	<u>729,987</u>	<u>216,525,299</u>	<u>2,391,909,579</u>
Change in net assets					(31,743,225)	1,485,456	46,239,226	15,981,457
Net assets - beginning					1,701,170,403	193,105,865	382,821,185	2,277,097,453
Net assets - ending					<u>\$ 1,669,427,178</u>	<u>\$ 194,591,321</u>	<u>\$ 429,060,411</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A REPORTING ENTITY
- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
- D ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY
- E ACCOUNTING CHANGES

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY

NOTE III – DETAILED NOTES ON ALL FUNDS

- A CASH AND INVESTMENTS
- B RECEIVABLES
- C CAPITAL ASSETS
- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
- E LEASES
- F LONG-TERM DEBT
- G SEGMENT INFORMATION
- H FUND EQUITY
- I SIGNIFICANT TRANSACTIONS WITH DISCRETELY PRESENTED COMPONENT UNITS

NOTE IV – OTHER INFORMATION

- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS
- G OTHER POSTEMPLOYMENT BENEFITS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Discretely Presented Component Units

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units' combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education, including one student member, are elected by the voters. However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (Montgomery College or MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments

of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4 th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures' offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
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Washington Metropolitan Area
Transit Authority
600 Fifth Street, NW
Washington, DC 20001

Metropolitan Washington Council
of Governments
777 N. Capitol Street, NE, #300
Washington, DC 20002

Northeast Maryland Waste
Disposal Authority
100 South Charles St, Tower II-Suite 402
Baltimore, MD 21201

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Assets – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

Budget-to-Actual Comparison Statement - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General, Revenue Stabilization, Housing Initiative, and Grants funds, budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

C) **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities.

Modified Accrual Basis Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Revenue Stabilization Fund - This fund is used to account for the accumulation of resources during periods of economic growth and prosperity, when revenue collections exceed estimates. Funds may then be drawn upon during periods of economic slowdown, when collections fall short of revenue estimates.

Housing Initiative Fund - This fund is used to account for the fiscal activity for financing, supplementing, and constructing affordable residential facilities for eligible participants.

Grants Fund - This fund accounts for the Federal and State grant-funded activities of the tax-supported General Fund and special revenue funds.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-four liquor stores and two Montgomery County liquor warehouses. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

Parking Lot Districts Enterprise Fund - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

Other Governmental Funds - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four internal service funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

Pension and Other Employee Benefit Trust Fund - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan), Deferred Compensation Plan, and Retiree Health Benefits Trust, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

Investment Trust Fund - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

Private-Purpose Trust Funds - These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes.

Agency Funds - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of

following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value plus accrued interest. See Note III-A for additional information.

Non-pooled Investments:

Proprietary Fund Types – The Solid Waste Activities and the Parking Lot District enterprise funds investments in U.S. Government securities are stated at fair value plus accrued interest.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2010. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, “cash equivalents” are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less, at the time of purchase, meet this definition. The balance sheet classification for “cash and cash equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” and “Restricted Equity in pooled cash and investments.”

2) **Receivables and Payables**

Due From/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as “due from/to other funds.” Such outstanding balances not expected to be repaid within a reasonable time are included in interfund “transfers in/out.” Any residual balances of “due from/to other funds” outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Trade Accounts Receivable – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) **Inventories and Prepaids**

Inventories – Inventories are valued at the lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

Prepaids – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

4) **Restricted Assets**

Certain proceeds of the County’s bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of

\$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave accrued leave is classified as current and long-term. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) Fund Equity/Net Assets

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2010, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$1,252,293,676. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net assets of governmental activities in the amount of \$120,415,664.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes \$48,556,373 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$31,104,271 at June 30, 2010, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the "available" criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. In the Capital Projects Fund, fund balance reserved for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY10. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that

will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2009 (i.e., FY10), in conjunction with a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

E) New Accounting Standards

The County has adopted GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Statements No. 51 and 58 have no impact on the County's financial statements for the current fiscal year. The adoption of Statement No. 53 resulted in additional disclosures in the derivatives footnote related to the Employees' Retirement System.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY10, the County Council increased the operating budget through supplemental and special appropriations by \$67.3 million. In addition, supplemental appropriations increased the CIP budget by \$69.5 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.

- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	\$ 2,521,890,544	\$ 919,065,498	\$ (1,663,795,233)	\$ (60,970,187)
Reconciling items:				
Cancellation of prior year encumbrances	(4,908,160)	-	-	(4,908,160)
Elimination of encumbrances outstanding	-	(4,959,728)	-	4,959,728
Unrealized gains (losses)	37,503	-	-	37,503
Financing under lease revenue bonds	-	14,700	14,700	-
Financing under notes payable	-	402,617	402,617	-
Conference Center activity	14,259,794	14,222,284	-	37,510
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,077,160	-	(2,077,160)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid waste tipping fees	-	1,992,800	1,992,800	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	255,150	-	(255,150)	-
Component Units and Joint Venture - Transfer out	-	1,568,829,854	1,568,829,854	-
As reported - GAAP basis	<u>\$ 2,533,611,991</u>	<u>\$ 2,500,721,795</u>	<u>\$ (93,733,802)</u>	<u>\$ (60,843,606)</u>

B) Deficit Fund Equity

Permitting Services – The \$7,527,436 total net assets deficit in the Permitting Services Fund was caused by the severe economic downturn in FY09, which resulted in a loss in assets of \$7,380,995 in FY09. The economy improved in FY10 and the department made severe reductions in expenditures. However, there was still a loss of \$2,923,619 in FY10. In the FY11 budget process, Permitting Services reduced its staff by 16 filled and 25 vacant positions. In addition, rent is being reduced by giving up some unused space. With increased revenue projected based on pre-construction conferences, and budgeted reductions, the deficit is projected to be eliminated in FY11.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2010, totaled \$4,155,295,468 of which \$3,591,783,878 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

	Primary Government	Component Units	Total Reporting Entity
<u>Statement of Net Asset Amounts:</u>			
Equity in pooled cash and investments	\$ 461,526,369	\$ 29,477,518	\$ 491,003,887
Cash with fiscal agents	33,868,795	36,935,602	70,804,397
Cash	834,544	11,468,892	12,303,436
Investments - cash equivalents	-	119,687,408	119,687,408
Investments	3,052,407,127	36,565,932	3,088,973,059
Restricted equity in pooled cash and investments	37,030,278	7,140,737	44,171,015
Restricted cash with fiscal agents	-	18,649,763	18,649,763
Restricted cash	201,948	717,741	919,689
Restricted investments - cash equivalents	-	84,485,598	84,485,598
Restricted investments	5,914,817	218,382,399	224,297,216
Total	<u>\$ 3,591,783,878</u>	<u>\$ 563,511,590</u>	<u>\$ 4,155,295,468</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 193,673,231	\$ 63,409,450	\$ 257,082,681
Investments	3,363,407,308	383,779,364	3,747,186,672
Cash on hand, fiscal agents, safe deposit escrow	34,703,339	116,322,776	151,026,115
Total	<u>\$ 3,591,783,878</u>	<u>\$ 563,511,590</u>	<u>\$ 4,155,295,468</u>

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	\$ 459,067,378
Fiduciary funds	<u>3,132,716,500</u>
Total	<u>\$ 3,591,783,878</u>

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

The County maintains an external investment pool that is subject to oversight by the County's Internal Investment Committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares redeemed during the year are based on actual cost; participants' shares are then

adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of “2a-7 like.” The fair value of U. S. Government securities, repurchase agreements, commercial paper and bankers’ acceptances are provided by the County’s custodian, which are based on various industry standard pricing sources. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for the current year related to all County funds (exclusive of legally separate entities’ accounts reflected in the Investment Trust Fund) is recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 461,526,369	\$ 5,870,145	\$ 467,396,514
Restricted equity in pooled cash and investments	37,030,278	-	37,030,278
Total	<u>\$ 498,556,647</u>	<u>\$ 5,870,145</u>	<u>\$ 504,426,792</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 193,471,283	\$ -	\$ 193,471,283
Investments, including accrued interest	305,085,364	5,870,145	310,955,509
Total	<u>\$ 498,556,647</u>	<u>\$ 5,870,145</u>	<u>\$ 504,426,792</u>

Deposits:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County’s name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

Investments:

The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County’s investment policies as approved by the County Council. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 §22G, of the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated “AAAm” by Standard and Poor’s (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. An MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool.

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Range</u>
U. S. Government securities	\$ 145,994,026	\$ 146,069,230	July 2010	0.01 - 0.26 %
Money market mutual funds	82,629,504	82,629,504	n/a	0.04 - 0.09
State pool	82,281,489	82,281,489	n/a	0.20
Total	<u>\$ 310,905,019</u>	<u>\$ 310,980,223</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County’s investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2010, the County’s investment maturities are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-2</u>
U. S. Government securities	\$ 145,994,026	\$ 145,994,026	-
Money market mutual funds	82,629,504	82,629,504	-
State pool	82,281,489	82,281,489	-
Total	<u>\$ 310,905,019</u>	<u>\$ 310,905,019</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the Maryland Local Government Investment Pool (MLGIP), and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

As of June 30, 2010, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Ratings</u>		
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Repurchase agreements ¹	N/R	N/R	N/R
U.S. Government securities ² :			
Agency discount notes	A-1+	F1+	P-1
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper ³	A-1	F1	P-1
Bankers' acceptances ⁴	N/R	N/R	N/R
Certificates of deposit ⁵	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R - Not Rated

- 1 - Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.
- 2 - Only includes securities implicitly guaranteed by the U.S. Government.
- 3 - Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.
- 4 - While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.
- 5 - While the certificates of deposit are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name.

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2010, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with maximum limits as follows:

<u>Diversification by Investment Type</u>	<u>Maximum percent of Portfolio*</u>
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

<u>Diversification by Institution</u>	<u>Maximum percent of Portfolio*</u>
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

* At time of purchase

** Certificates of deposit are classified as deposits for financial reporting purposes.

As of June 30, 2010, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

<u>Issuer</u>	<u>Fair Value</u>
Capital Bank	7,000,000
Dreyfus Funds	23,328,382
Federal Home Loan Bank	65,999,987
Invesco AIM Funds	25,244,537
JPMorgan Funds	28,818,306
MD Local Govt. Investment Pool	82,281,489
Morgan Stanley Funds	5,238,279

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County’s external investment pool at June 30, 2010, are as follows:

Statement of Net Assets
June 30, 2010

Assets:	
Investment in securities, at fair value	\$ 310,905,019
Cash	193,471,283
Accrued interest receivable	50,490
Total assets and net assets	<u>\$ 504,426,792</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 459,772,215
External participants' units outstanding (\$1.00 par)	44,654,577
Net assets	<u>\$ 504,426,792</u>
Participants net asset value, offering price and redemption price per share (\$504,426,792 / 504,739,524 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Investment Income *	\$ 1,203,834
Distributions to participants:	
Distributions paid and payable	(1,203,834)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 3,710,656,736
Redemption of units	<u>(3,808,406,468)</u>
Net decrease in net assets and shares resulting from share transactions	<u>(97,749,732)</u>
Total decrease in net assets	(97,749,732)
Net assets, July 1, 2009	<u>602,176,524</u>
Net assets, June 30, 2010	<u>\$ 504,426,792</u>

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

Primary government (non fiduciary) cash and investments are primarily invested in the County’s external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

Debt Service Fund - Cash with fiscal agents of \$7,227,245 includes \$3,880,000 which is held for approximately one day in bank accounts that are not in the County’s name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds. The remaining balance of \$3,347,245 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund - Cash with fiscal agents of \$23,281,247 is held in money market mutual funds and U.S. Government securities.

Liquor – Cash with fiscal agents of \$1,371,052 at the end of FY10 was held in money market funds for the purpose of disbursement of design and planning costs for a warehouse.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

4) **Fiduciary Funds**

Employees' Retirement System:

Investment Overview

Section 33-61C of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County.

Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2010, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 56,223,580	6.64 %
Foreign Government Obligations	AAA	90,699,909	10.72
	A	18,945,491	2.24
	BBB	2,488,945	0.29
	BB	24,931	0.00
Asset-Backed Securities	AAA	7,470,286	0.88
	AA	312,726	0.04
	BBB	907,341	0.11
	BB	100,000	0.01
	B	318,285	0.04
	CC	62,525	0.01
	Unrated	172,107	0.02
Commercial Mortgage-Backed Securities	BBB	190,025	0.02
Collateralized Mortgage Obligations	AAA	675,017	0.08
	BBB	156,759	0.02
	BB	205,797	0.02
	B	261,705	0.03
	CCC	1,356,727	0.16
	D	565	0.00
Municipal/Provincial Bonds	AA	2,947,088	0.35
	A	4,680,515	0.55
Corporate Bonds	AAA	4,379,056	0.52
	AA	42,519,121	5.03
	A	120,156,248	14.20
	BBB	73,983,706	8.74
	BB	58,003,236	6.85
	B	88,018,079	10.40
	CCC	32,437,298	3.83
	CC	991,377	0.12
	C	1,187,437	0.14
	D	735,452	0.09
	Unrated	6,009,993	0.71
Fixed Income Pooled Funds	Unrated	158,726,751	18.76
Short-term Investments and Other	Unrated	70,910,620	8.38
Total Fixed Income Securities		\$ 846,258,698	100.00 %

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the

greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent.

As of June 30, 2010, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	13.07	\$ 56,223,580	6.64 %
Foreign Government Obligations	7.25	112,159,276	13.25
Asset-Backed Securities	5.96	9,343,270	1.11
Commercial Mortgage-Backed Securities	5.47	190,025	0.02
Collateralized Mortgage Obligations	0.01	2,656,570	0.31
Municipal/Provincial Obligations	12.05	7,627,603	0.90
Corporate Bonds	7.26	428,421,003	50.63
Fixed Income Pooled Funds	N/A	158,726,751	18.76
Short-term Investments and Other	N/A	70,910,620	8.38
Total Fixed Income Securities		<u>\$ 846,258,698</u>	<u>100.00 %</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$103,430,844	\$ 52,791,302	\$ (39,335,990)	\$ 116,886,156
Japanese Yen	97,327,711	-	14,112,229	111,439,940
British Pound Sterling	51,518,546	26,266,264	4,585,693	82,370,503
Swedish Krona	10,629,974	8,629,624	23,847,454	43,107,052
Swiss Franc	18,019,934	-	13,329,221	31,349,155
Hong Kong Dollar	21,222,312	-	-	21,222,312
Danish Krone	7,629,731	-	-	7,629,731
South Korean Won	2,560,327	1,164,485	-	3,724,812
Indonesian Rupiah	1,517,008	1,851,373	-	3,368,381
Philippine Peso	2,772,995	-	-	2,772,995
Other Currencies	16,727,043	21,246,687	(132,555,381)	(94,581,651)
Total International Securities	<u>\$333,356,425</u>	<u>\$111,949,735</u>	<u>\$(116,016,774)</u>	<u>\$ 329,289,386</u>

Derivatives

In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY10, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or

using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate, swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2010, the System held 34 long US Treasury futures contracts with a fair value of \$4,384,875 and 30 short US Treasury futures contracts with a fair value of (\$3,676,406).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2010, the System held a foreign currency swap with a notional value of \$83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2010, the System held \$199,108,790 buy foreign exchange contracts and (\$326,040,335) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$1,958,300.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a

liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. On November 21, 2008, the Board began restricting the amount of loans the lending agent could make on its behalf. This restriction remained in place as of June 30, 2009 and was removed on July 23, 2010. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no other such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2010, the fair value of securities on loan was \$223,007,286. Cash received as collateral and the related liability of \$229,936,305 as of June 30, 2010, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$763,130 and \$119,915, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2010:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 44,698,458	\$ -	\$ 45,422,904
Corporate Bonds	75,279,127	-	77,368,741
Equities	102,976,612	-	107,144,660
Lent for Non-Cash Collateral:			
Equities	53,089	54,661	-
Total	<u>\$223,007,286</u>	<u>\$ 54,661</u>	<u>\$ 229,936,305</u>

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$130,892,734. The fair value of the investments in international mutual funds was \$23,070,180.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in

Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$228,645,743. The fair value of the investments in international mutual funds included in the County Plan was \$30,762,259.

Retiree Health Benefits Trust:

Section 33-163 of the Code authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Section 33-162 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$38,129,574. The fair value of the investments in international mutual funds was \$12,649,114.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2010, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Montgomery County Local Government Investment Pool (County external investment pool) and the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2010 was P-1.

At June 30, 2010, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Rating
<u>Cash Equivalents:</u>		
General Fund:		
Money Market Accounts	14,928,146	N/A
Opportunity Housing Fund:		
Investment in MLGIP	413,889	AAA
Money Market Accounts	8,457,089	N/A
Public Fund:		
Investment in MLGIP	3,721,433	AAA
Money Market Accounts	4,555,337	N/A
Multi-Family Fund		
Money Market Accounts	36,016,598	AAA
Single Family Fund - Money Market Accounts	48,083,018	AAA
Total cash equivalents	<u>\$ 116,175,510</u>	
<u>Short-term Investments:</u>		
Multi-Family Fund:		
Money Market Accounts	46,510,447	N/A
GNMA Pool	937,882	AAA
Freddie Mac	629,436	AAA
RBC GIC	4,570,000	AAA
Single Family Fund		
USG GSE Global Escrow Agreement	40,017,593	N/A
Total short-term investments	<u>\$ 92,665,358</u>	

Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
<u>Long-term Investments:</u>					
Multi-Family Fund:					
U. S. Treasuries	\$ 2,837,872	\$ -	\$ -	\$ 2,837,872	AAA
Fannie Mae	4,063,033	-	-	4,063,033	AAA
Freddie Mac	3,213,918	1,645,418	-	1,568,500	AAA
GNMA Pool	65,449,560	-	-	65,449,560	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Federal Farms	2,729,824	-	-	2,729,824	AAA
Single Family Fund:					
Federal Farm Credit Banks	6,340,935	-	-	6,340,935	AAA
Federal Home Loan Banks	9,769,899	149,848	-	9,620,051	AAA
Fannie Mae	971,539	-	-	971,539	AAA
U. S. Treasuries	8,955,586	321,169	2,557,144	6,077,273	AAA
New York, NY Housing Development Corp.	2,650,000	-	2,650,000	-	VWIG1
New York, NY Variable Taxable Subseries	4,295,000	-	-	4,295,000	VWIG1
Colorado Educational & Cultural Facilities	1,345,000	-	-	1,345,000	AA2
Kentucky Housing Corporation	3,830,000	-	-	3,830,000	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	-	A
Tennessee Valley Authority	6,327,550	-	2,612,475	3,715,075	AAA
Total long-term investments	<u>125,717,041</u>	<u>2,116,435</u>	<u>10,165,419</u>	<u>113,435,187</u>	
Cash balances	<u>47,407,103</u>				
Total Cash, Cash Equivalents and Investments	<u>\$ 381,965,012</u>				

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2010, reported in the enterprise funds, amounted to:

Liquor	\$ 531,726
Solid Waste Activities	12,014
Parking Lot Districts	2,493,316
	<u>\$ 3,037,056</u>

2) Due from/to Component Units

The balances at June 30, 2010, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ -	\$ 675,000	\$ -	\$ 11,272	\$ -	\$ 686,272
Grants	-	-	-	9,965,086	-	9,965,086
Capital Projects	-	-	-	14,915,379	-	14,915,379
Other Major Governmental	-	-	-	45,891,426	-	45,891,426
Solid Waste Activities Enterprise	49,749	1,964	-	443	2,236	54,392
Major Enterprise	-	-	-	386,423	-	386,423
Internal Service	51,622	3,149	75,135	432,704	17,245	579,855
Fiduciary	-	-	29,932	107,046	-	136,978
Total Due to Primary Government	<u>\$ 101,371</u>	<u>\$ 680,113</u>	<u>\$ 105,067</u>	<u>\$ 71,709,779</u>	<u>\$ 19,481</u>	<u>\$ 72,615,811</u>

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 69,400,044	\$ -	\$ -	\$ 388,885	\$ -	\$ 69,788,929
Grants	792,465	42,632	-	254,007	-	1,089,104
Capital Projects	9,863,669	14,337,806	-	1,732,686	-	25,934,161
Other Major Governmental	-	-	-	654,535	-	654,535
Nonmajor Governmental	-	-	-	-	76,505	76,505
Nonmajor Enterprise	684,645	-	-	-	-	684,645
Internal Service	-	-	-	-	-	-
Total Due from Primary Government	<u>\$ 80,740,823</u>	<u>\$ 14,380,438</u>	<u>\$ -</u>	<u>\$ 3,030,113</u>	<u>\$ 76,505</u>	<u>\$ 98,227,879</u>

In the major governmental funds, \$45,891,426 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

The total amount due from other governments at June 30, 2010, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	\$ 125,613	\$ 13,684,537	\$ 143,501	\$ 34	\$ -	\$ -	\$ 908,703	\$ 14,862,388
State of Maryland	7,439,939	6,245,715	30,678,818	1,277	1,140,705	130,133	90,558	45,727,145
Other	594	197,286	643,746	397,820	599,095	131,310	2,560	1,972,411
Total	<u>\$ 7,566,146</u>	<u>\$ 20,127,538</u>	<u>\$ 31,466,065</u>	<u>\$ 399,131</u>	<u>\$ 1,739,800</u>	<u>\$ 261,443</u>	<u>\$ 1,001,821</u>	<u>\$ 62,561,944</u>

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance		Balance	
	July 1, 2009	Increases	Decreases	June 30, 2010
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 645,547,868	\$ 110,426,413	\$ 533,587	\$ 755,440,694
Construction in progress	352,436,230	160,087,748	46,169,457	466,354,521
Total Nondepreciable Capital Assets	997,984,098	270,514,161	46,703,044	1,221,795,215
Depreciable Capital Assets:				
Buildings	750,744,300	7,139,341	-	757,883,641
Improvements other than buildings	46,433,046	2,514,862	8,269	48,939,639
Furniture, fixtures, equipment and machinery	236,508,949	6,205,407	675,961	242,038,395
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	243,688,476	33,424,317	20,682,024	256,430,769
Infrastructure	1,589,425,227	52,403,113	147,860	1,641,680,480
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,881,657,631	101,687,040	21,514,114	2,961,830,557
Less Accumulated Depreciation for:				
Buildings	284,689,400	19,356,907	-	304,046,307
Improvements other than buildings	18,351,057	1,140,892	-	19,491,949
Furniture, fixtures, equipment and machinery*	152,587,599	23,104,770	675,961	175,016,408
Leasehold improvements	3,697,738	810,745	-	4,508,483
Automobiles and trucks*	115,295,938	19,545,295	17,560,595	117,280,638
Infrastructure*	479,398,769	32,741,163	-	512,139,932
Other assets*	1,857,803	207,973	-	2,065,776
Total Accumulated Depreciation	1,055,878,304	96,907,745	18,236,556	1,134,549,493
Total Depreciable Assets, net	1,825,779,327	4,779,295	3,277,558	1,827,281,064
Governmental Activities Capital Assets, net	\$ 2,823,763,425	\$ 275,293,456	\$ 49,980,602	\$ 3,049,076,279
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 59,329,889	\$ 875,000	\$ -	\$ 60,204,889
Construction in progress	9,282,824	8,411,503	15,596,902	2,097,425
Total Nondepreciable Capital Assets	68,612,713	9,286,503	15,596,902	62,302,314
Depreciable Capital Assets:				
Buildings	245,982,702	1,877,694	-	247,860,396
Improvements other than buildings	132,816,007	13,552,484	-	146,368,491
Furniture, fixtures, equipment and machinery	22,885,924	477,874	1,546,279	21,817,519
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,497,118	-	86,088	4,411,030
Total Capital Assets being Depreciated	406,196,102	15,908,052	1,632,367	420,471,787
Less Accumulated Depreciation for:				
Buildings	95,405,633	8,004,572	-	103,410,205
Improvements other than buildings	103,864,264	3,777,833	-	107,642,097
Furniture, fixtures, equipment and machinery	14,438,000	1,757,358	1,540,528	14,654,830
Infrastructure	1,578	574	-	2,152
Automobiles and trucks	2,852,661	290,357	86,088	3,056,930
Total Accumulated Depreciation	216,562,136	13,830,694	1,626,616	228,766,214
Total Depreciable Assets, net	189,633,966	2,077,358	5,751	191,705,573
Business-Type Activities Capital Assets, net	\$ 258,246,679	\$ 11,363,861	\$ 15,602,653	\$ 254,007,887

*Beginning balance has been reclassified to conform with current year presentation

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:

General government	\$ 10,528,785
Public safety	28,979,402
Public works and transportation	46,872,585
Health and human services	1,758,152
Culture and recreation	7,581,827
Community development and housing	983,020
Environment	203,974
Total depreciation expense-governmental activities	<u>\$ 96,907,745</u>

Business-type activities:

Liquor	\$ 1,619,465
Solid waste activities	2,302,666
Parking lot districts	9,743,802
Permitting services	155,209
Community use of public facilities	9,552
Total depreciation expense-business-type activities	<u>\$ 13,830,694</u>

Construction commitments as of June 30, 2010, are as follows:

	<u>Construction Commitments</u>
General Government	36,689,726
Public Safety	10,741,540
Public Works and Transportaion	112,856,256
Health and Human Services	15,012
Culture & Recreation	24,631,190
Community Development & Housing	2,473,284
Environment	3,642,936
Total	<u>191,049,944</u>

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,996,707,876 at June 30, 2010, are significant in relation to the total component unit capital assets.

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental Activities				
Nondepreciable capital assets:				
Land	\$ 68,857,319	\$ 1,364,782	\$ -	\$ 70,222,101
Construction in progress	176,514,372	128,787,379	214,816,091	90,485,660
Total nondepreciable capital assets	<u>245,371,691</u>	<u>130,152,161</u>	<u>214,816,091</u>	<u>160,707,761</u>
Depreciable capital assets:				
Buildings and improvements	2,158,250,285	204,781,680	16,656,514	2,346,375,451
Site improvements	190,460,099	16,951,742	-	207,411,841
Vehicles and equipment	145,095,835	6,056,398	4,488,860	146,663,373
Total depreciable capital assets	<u>2,493,806,219</u>	<u>227,789,820</u>	<u>21,145,374</u>	<u>2,700,450,665</u>
Less accumulated depreciation for:				
Buildings and improvements	688,339,767	54,465,028	11,287,536	731,517,259
Site improvements	38,388,318	4,092,131	-	42,480,449
Vehicles and equipment	86,104,076	12,579,028	4,069,874	94,613,230
Total accumulated depreciation	<u>812,832,161</u>	<u>71,136,187</u>	<u>15,357,410</u>	<u>868,610,938</u>
Total depreciable capital assets, net	<u>1,680,974,058</u>	<u>156,653,633</u>	<u>5,787,964</u>	<u>1,831,839,727</u>
Government activities capital assets, net	<u>\$1,926,345,749</u>	<u>\$286,805,794</u>	<u>\$220,604,055</u>	<u>1,992,547,488</u>
Business-Type Activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Vehicles and equipment	16,594,248	829,415	469,225	16,954,438
Total depreciable capital assets	<u>16,612,079</u>	<u>829,415</u>	<u>469,225</u>	<u>16,972,269</u>
Less accumulated depreciation for:				
Buildings	16,939	892	-	17,831
Vehicles and equipment	12,211,583	1,033,725	451,258	12,794,050
Total accumulated depreciation	<u>12,228,522</u>	<u>1,034,617</u>	<u>451,258</u>	<u>12,811,881</u>
Business-type activities capital assets, net	<u>\$ 4,383,557</u>	<u>\$ (205,202)</u>	<u>\$ 17,967</u>	<u>4,160,388</u>
Total MCPS government-wide capital assets				<u>\$ 1,996,707,876</u>

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$ 59,930,656
Special education	234,941
School administration	50,023
Student personnel services	3,532
Student transportation	8,733,365
Operation of plant	147,795
Maintenance of plant	1,105,866
Administration	930,009
Total depreciation expense-governmental activities	<u>\$ 71,136,187</u>
Business-type activities:	
Food services	\$ 1,023,412
Entrepreneurial	8,830
Real estate management	2,375
Total depreciation expense-business type activities	<u>\$ 1,034,617</u>

Commitments for ongoing construction in progress at June 30, 2010, were \$175,783,057.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2010, is as follows:

	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
<u>Due To Fund</u>						
General	\$ -	\$ 1,901	\$ -	\$ 4,960,210	\$ 7,082,201	\$ 12,044,312
Montgomery Housing Initiative	-	-	-	9,121	8,380	17,501
Grants	3,657,629	-	-	378,741	376,848	4,413,218
Debt Service	3,724,641	-	155,359	-	-	3,880,000
Capital Projects	18,213,483	-	8,355,234	154,734	172,820	26,896,271
Liquor	-	1,020	-	241,577	218,859	461,456
Solid Waste Activities	-	-	-	92,277	95,905	188,182
Parking Lot Districts	-	2,545	-	28,448	30,815	61,808
Nonmajor Governmental	-	-	-	2,089,084	3,126,548	5,215,632
Nonmajor Enterprise	3,422,100	-	-	202,184	287,374	3,911,658
Internal Service	1,510,000	-	-	236,012	4,117,980	5,863,992
Fiduciary	-	-	-	4,976	1,316	6,292
Total	<u>\$ 30,527,853</u>	<u>\$ 5,466</u>	<u>\$ 8,510,593</u>	<u>\$ 8,397,364</u>	<u>\$ 15,519,046</u>	<u>\$ 62,960,322</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY11:

- \$18.2 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes; and
- \$3.9 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

- \$0.11 million to the Central Duplicating Internal Service Fund to offset cash deficits.
- Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2010, consisted of the following:

	Transfers In Fund						Subtotal Major
	General	Housing Initiative	Grants	Debt Service	Capital Projects	Parking Lot Districts	
Transfers Out Fund							
General	\$ -	\$ 9,470,470	\$ 421,927	\$ 210,865,865	\$ 18,625,801	\$ 14,700	\$ 239,398,763
Revenue Stabilization	44,772,562	-	-	250,804	-	-	45,023,366
Housing Initiative	201,920	-	-	75,286	-	-	277,206
Grants	635,136	-	-	-	-	-	635,136
Debt Service	-	-	-	-	250,804	-	250,804
Capital Projects	499,847	6,753,190	-	-	-	-	7,253,037
Liquor	29,043,280	-	-	1,131,782	-	-	30,175,062
Solid Waste Activities	2,429,320	-	-	-	-	-	2,429,320
Parking Lot Districts	4,362,570	-	-	-	435	-	4,363,005
Nonmajor Governmental	47,754,999	-	796,316	21,865,444	3,610,297	-	74,027,056
Nonmajor Enterprise	4,024,760	-	-	-	-	-	4,024,760
Internal Service Funds	14,779,000	-	-	-	-	-	14,779,000
Total	\$ 148,503,394	\$ 16,223,660	\$ 1,218,243	\$ 234,189,181	\$ 22,487,337	\$ 14,700	\$ 422,636,515

	Transfers In Fund				Subtotal Major	Total
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Internal Service		
Transfers Out Fund						
General	\$ 3,245,450	\$ 25,000	\$ -	\$ -	\$ 239,398,763	\$ 242,669,213
Revenue Stabilization	-	-	-	-	45,023,366	45,023,366
Housing Initiative	-	-	-	-	277,206	277,206
Grants	-	-	-	-	635,136	635,136
Debt Service	-	-	-	-	250,804	250,804
Capital Projects	-	-	-	-	7,253,037	7,253,037
Liquor	-	-	-	-	30,175,062	30,175,062
Solid Waste Activities	-	-	-	-	2,429,320	2,429,320
Parking Lot Districts	14,136,541	-	-	-	4,363,005	18,499,546
Nonmajor Governmental	414,780	-	-	-	74,027,056	74,441,836
Nonmajor Enterprise	-	-	-	-	4,024,760	4,024,760
Internal Service Funds	-	-	-	-	14,779,000	14,779,000
Total	\$ 17,796,771	\$ 25,000	\$ -	\$ -	\$ 422,636,515	\$ 440,458,286

Primary activities include:

- Transfers from major and non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and

Transfers at the government-wide financial statement level include \$14,700 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as

capital contributions in the SSPLD, and expenditures and another financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

E) **Leases**

1) **Operating Leases**

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$17,727,000 for FY10. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2011	\$ 27,425,000
2012	23,186,000
2013	19,010,000
2014	16,284,000
2015	10,522,000
2016 - 2020	37,418,000
2021 - 2025	11,679,000
2026 - 2028	21,000
Total	<u><u>\$ 145,545,000</u></u>

2) **Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F7), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	<u>Shady Grove</u>	<u>Grosvenor</u>	<u>Total</u>
Minimum lease payments receivable	\$ 23,303,964	\$22,914,460	\$ 46,218,424
Unearned lease income	(6,499,630)	(6,398,794)	(12,898,424)
Net investment in direct financing leases	<u><u>\$ 16,804,334</u></u>	<u><u>\$16,515,666</u></u>	<u><u>\$ 33,320,000</u></u>

At June 30, 2010, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2011	\$ 3,292,009
2012	3,296,303
2013	3,300,252
2014	3,300,640
2015	3,307,115
2016-2020	16,609,255
2021-2024	13,112,850
Total minimum lease payments	<u>\$ 46,218,424</u>

3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	\$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	<u>69,065,126</u>
Less accumulated depreciation	<u>(23,198,170)</u>
Total asset value under capital leases	<u>\$ 45,866,956</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	
2011	\$ 4,859,933
2012	4,862,605
2013	3,955,329
2014	3,465,929
2015	3,466,146
2016-2020	13,604,078
2021-2023	2,985,500
Total minimum lease payments	<u>37,199,520</u>
Less: amount representing interest	<u>(8,214,520)</u>
Present value of minimum lease payments	<u>\$ 28,985,000</u>

Included in the schedules above are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of \$19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	<u>Town Square</u>	<u>Wayne Avenue</u>	<u>Total</u>
Buildings	\$30,492,462	\$ 29,700,233	\$60,192,695
Less accumulated depreciation	<u>(5,763,875)</u>	<u>(5,872,447)</u>	<u>(11,636,322)</u>
Total asset value under capital leases	<u>\$24,728,587</u>	<u>\$ 23,827,786</u>	<u>\$48,556,373</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Town Square</u>	<u>Wayne Ave</u>	<u>Total</u>
2011	\$ 2,470,554	\$ 3,073,775	\$ 5,544,329
2012	2,469,739	3,084,425	5,554,164
2013	2,461,668	3,113,219	5,574,887
2014	2,451,012	3,110,394	5,561,406
2015	2,451,021	3,112,856	5,563,877
2016-2017	<u>4,886,845</u>	<u>6,187,506</u>	<u>11,074,351</u>
Total minimum lease payments	17,190,839	21,682,175	38,873,014
Less: amount representing interest	<u>(2,485,839)</u>	<u>(3,472,175)</u>	<u>(5,958,014)</u>
Present value of minimum lease payments	<u>\$ 14,705,000</u>	<u>\$ 18,210,000</u>	<u>\$ 32,915,000</u>

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

The County issued \$161,755,000 in general refunding bonds dated November 3, 2009. These bonds were issued with a true interest cost of 2.65%, to current refund \$165,190,000 of general obligation (GO) refunding bonds that were previously issued. A detail listing of these refunded bonds is as follows:

	<u>Dated</u> <u>Date</u>	<u>Original</u> <u>Maturity</u>	<u>True Interest</u> <u>Cost</u>	<u>Originally</u> <u>Issued</u>	<u>Years</u> <u>Refunded</u>	<u>Amount</u> <u>Refunded</u>
GO Bonds	1/1/2000	2000-20	5.4850	\$ 130,000,000	2011	\$ 6,500,000
GO Bonds	2/1/2001	2002-21	4.5447	140,000,000	2012-2013	14,000,000
GO Bonds	2/1/2002	2003-22	4.4619	160,000,000	2014-2015	16,000,000
GO Bonds	5/1/2003	2004-23	3.6304	155,000,000	2014-2015	15,500,000
GO Bonds	3/15/2004	2005-24	3.8290	154,600,000	2015-2016-2017	23,190,000
GO Bonds	5/15/2005	2006-25	3.8806	200,000,000	2017-2018-2020-2021	40,000,000
GO Bonds	5/1/2007	2008-27	4.0821	250,000,000	2018-2019-2020-2021	50,000,000
				<u>\$1,189,600,000</u>		<u>\$ 165,190,000</u>

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statements of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$12,041,832. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2010	\$ 4,796,250	\$ 3,420,994	\$ 1,375,256
2011	14,292,500	7,509,500	6,783,000
2012	14,454,500	14,424,650	29,850
2013	14,122,000	14,121,975	25
2014	22,539,500	22,535,025	4,475
2015	29,609,500	29,605,275	4,225
2016	12,803,000	12,799,400	3,600
2017	22,416,500	22,412,400	4,100
2018	26,400,000	26,398,525	1,475
2019	15,375,000	15,372,400	2,600
2020	24,750,000	24,747,400	2,600
2021	23,625,000	23,623,200	1,800
Total	\$ 225,183,750	\$216,970,744	\$ 8,213,006

General obligation bond issues outstanding as of June 30, 2010, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2010	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2010
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 1,289,285	\$ -	\$ -	\$ 1,289,285
02/01/01	2002-21	4.0 - 5.0	140,000,000	7,000,000	-	-	7,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	114,200,000	2,604,134	(3,336,000)	113,468,134
02/01/02	2003-22	3.0 - 5.0	160,000,000	24,000,000	501,861	-	24,501,861
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	44,355,000	1,121,328	(847,700)	44,628,628
05/01/03	2004-23	1.5 - 4.0	155,000,000	85,250,000	554,428	-	85,804,428
05/01/03*	2004-11	2.0 - 5.0	49,505,000	10,195,000	77,577	(34,695)	10,237,882
03/15/04	2005-24	3.0 - 5.0	154,600,000	85,030,000	4,409,795	-	89,439,795
08/15/04*	2008-17	3.0 - 5.25	97,690,000	87,210,000	2,973,171	(3,639,979)	86,543,192
05/15/05	2006-25	4.0 - 5.0	200,000,000	110,000,000	7,268,727	-	117,268,727
06/01/05*	2005-16	3.781	120,355,000	120,355,000	8,665,805	(7,113,771)	121,907,034
05/01/06	2006-17	3.871	100,000,000	60,000,000	1,984,147	-	61,984,147
05/01/07	2007-27	4.082	250,000,000	162,500,000	11,793,606	-	174,293,606
3/12/08*	2009-15	2.750 - 5.0	70,295,000	49,200,000	1,834,921	(805,641)	50,229,280
07/15/08	2009-29	3.0 - 5.0	250,000,000	237,500,000	6,561,440	-	244,061,440
11/03/09*	2011-20	2.0 - 5.0	161,755,000	161,755,000	20,039,716	(10,939,999)	170,854,717
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,762,601	-	233,762,601
11/17/09	2010-14	2.0 - 5.0	78,000,000	78,000,000	6,045,727	-	84,045,727
Total			\$ 2,732,208,054	\$ 1,669,839,285	\$ 78,198,984	\$ (26,717,785)	\$ 1,721,320,484

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of GASB-34 implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY10 are as follows:

	Balance July 1, 2009	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2010
Governmental Activities:					
General County	\$ 221,094,644	\$ 72,439,410	\$ 19,201,494	\$ 30,124,906	\$ 244,207,654
Roads and Storm Drainage	363,339,665	73,894,875	31,879,588	37,110,500	368,244,452
Parks	52,512,271	15,712,826	4,576,721	6,857,171	56,791,205
Public Schools	749,674,485	237,095,307	68,386,633	79,747,843	838,635,316
Community College	71,667,511	26,505,439	5,643,638	7,662,157	84,867,155
Consolidated Fire Tax District	27,680,223	13,008,649	2,243,779	3,077,423	35,367,670
Mass Transit	10,542,699	33,098,494	1,316,964	610,000	41,714,229
Public Housing	49,873	-	38,269	-	11,604
	<u>\$ 1,496,561,371</u>	<u>\$ 471,755,000</u>	<u>\$ 133,287,086</u>	<u>\$ 165,190,000</u>	<u>\$ 1,669,839,285</u>

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2011	\$ 139,239,285	\$ 80,102,369	\$ 219,341,654
2012	141,015,000	71,070,073	212,085,073
2013	137,785,000	64,695,416	202,480,416
2014	131,830,000	57,637,798	189,467,798
2015	127,165,000	50,906,054	178,071,054
2016-2020	510,715,000	172,900,656	683,615,656
2021-2025	329,740,000	77,346,830	407,086,830
2026-2030	<u>152,350,000</u>	<u>17,112,762</u>	<u>169,462,762</u>
Total	<u>\$ 1,669,839,285</u>	<u>\$ 591,771,958</u>	<u>\$ 2,261,611,243</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2010 is \$8,449,570,819.

General obligation bonds authorized and unissued as of June 30, 2010, are as follows:

Purpose	Authority			Amount Unissued
	Chapter	Act	Amount	
General County, Parks, and Consolidated Fire Tax District	19	2005	\$ 44,100,000	\$ 15,390,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
			<u>314,300,000</u>	<u>285,590,000</u>
Roads and Storm Drainage	43	2006	66,700,000	47,140,000
	12	2007	45,800,000	45,800,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
			<u>213,100,000</u>	<u>193,540,000</u>
Public Schools and Community College	12	2007	118,900,000	27,268,000
	36	2008	222,500,000	222,500,000
	22	2009	272,500,000	272,500,000
			<u>613,900,000</u>	<u>522,268,000</u>
Mass Transit	22	2009	57,100,000	33,005,000
			<u>57,100,000</u>	<u>33,005,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
			<u>6,630,000</u>	<u>6,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
		<u>9,150,000</u>	<u>4,865,000</u>	
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$1,218,345,000</u>	<u>\$ 1,049,103,000</u>

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) Variable Rate Demand Obligations

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), in the amount of \$100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents, and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with these obligations, the County entered into a standby note purchase agreement on June 7, 2006 with Dexia Credit Local, acting through its New York Branch. Under the agreement, Dexia is obligated to purchase, through the registrar and paying agent, obligations that are tendered by their owners and have not been remarketed by the remarketing agent. The standby note purchase agreement will expire on June 7, 2011. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2010, are as follows:

<u>Dated</u> <u>Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally</u> <u>Issued</u>	<u>Balance</u> <u>June 30, 2010</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

Changes in VRDOs during FY10 are as follows:

	Balance July 1, 2009	VRDOs Issued	VRDOs Retired	Balance June 30, 2010
Governmental Activities:				
General County	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	\$ 100,000,000	-	\$ -	\$ 100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2011	\$ -	\$ 205,000	\$ 205,000
2012	-	205,000	205,000
2013	-	205,000	205,000
2014	-	205,000	205,000
2015	-	205,000	205,000
2016-2020	40,000,000	902,000	40,902,000
2021-2025	50,000,000	410,000	50,410,000
2026-2030	10,000,000	20,500	10,020,500
Total	\$ 100,000,000	\$ 2,357,500	\$ 102,357,500

* Includes interest on VRDOs at estimated rates of .250 percent for Series A and .160 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda and Silver Spring Parking Lot Districts and Solid Waste facilities. Net revenues of Bethesda and Silver Spring Parking Lot Districts including parking fees, fines and dedicated property taxes and net revenues of the Solid Waste Disposal fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds.

In May 2009, the County issued \$46.8 million of revenue bonds, secured by Department of Liquor Control revenues. The proceeds were used to purchase a warehouse facility for the Department, as well as to fund the County's share of an interchange at the intersection of Maryland Route 355 (Rockville Pike) and Montrose Parkway West.

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	<u>Terms of Commitment</u>	<u>Approximate amount of Pledge</u>
Bethesda Parking Lot District	16	\$ 42,493,879
Solid Waste Disposal Fund	3	10,838,750
Liquor Control	19	69,495,700
Total		<u>\$ 122,828,329</u>

The pledged net revenues recognized during FY10 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	<u>Net Available Revenue for Debt Service</u>	<u>Debt Service</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Parking Lot District:				
Bethesda Parking Lot District	\$ 11,857,974	\$ 1,840,000	\$ 1,429,335	\$ 3,269,335
Silver Spring Parking Lot District	6,512,961	-	-	-
Solid Waste Disposal Fund:	5,546,827	3,420,000	589,000	4,009,000
Liquor Control Fund:	27,892,075	1,745,000	2,024,478	3,769,478

Revenue bond issues outstanding as of June 30, 2010, are as follows:

	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2010</u>	<u>Unamortized Premium/ (Discount)</u>	<u>Unamortized Deferred Difference</u>	<u>Carrying Value June 30, 2010</u>
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	\$ 26,000,000	\$ 17,415,000	\$ (10,486)	\$ -	\$ 17,404,514
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	9,925,000	146,164	(160,019)	9,911,145
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	14,665,000	82,357	-	14,747,357
Liquor Control Revenue 2009:								
Liquor Control & Transportation	05/12/09	2010-29	3.00 - 5.00	46,765,000	45,020,000	2,626,048	-	47,646,048
Total				<u>\$ 120,335,000</u>	<u>\$ 87,025,000</u>	<u>\$ 2,844,083</u>	<u>\$ (160,019)</u>	<u>\$ 89,709,064</u>

Changes in revenue bond principal during FY10 are as follows:

	<u>Balance July 1, 2009</u>	<u>Bonds Issued</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2010</u>
Bethesda Parking Lot District	\$ 33,920,000	\$ -	\$ 1,840,000	\$ 32,080,000
Solid Waste Disposal	13,345,000	-	3,420,000	9,925,000
Liquor Control	46,765,000	-	1,745,000	45,020,000
Total	<u>\$ 94,030,000</u>	<u>\$ -</u>	<u>\$ 7,005,000</u>	<u>\$ 87,025,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Liquor Control	
	Principal	Interest	Principal	Interest
2011	\$ 1,915,000	\$ 1,355,235	\$ 1,550,000	\$ 2,108,250
2012	1,995,000	1,278,135	1,605,000	2,051,750
2013	2,085,000	1,194,010	1,670,000	1,987,550
2014	2,180,000	1,105,025	1,735,000	1,920,750
2015	2,275,000	1,013,663	1,820,000	1,836,000
2016-2020	13,020,000	3,519,400	10,530,000	7,765,300
2021-2025	7,390,000	922,791	13,140,000	5,150,850
2026-2029	1,220,000	25,620	12,970,000	1,655,250
Total	\$32,080,000	\$ 10,413,879	\$ 45,020,000	\$ 24,475,700

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2011	\$ 3,550,000	\$ 460,750	\$ 7,015,000	\$ 3,924,235	\$ 10,939,235
2012	3,690,000	318,750	7,290,000	3,648,635	10,938,635
2013	2,685,000	134,250	6,440,000	3,315,810	9,755,810
2014	-	-	3,915,000	3,025,775	6,940,775
2015	-	-	4,095,000	2,849,663	6,944,663
2016-2020	-	-	23,550,000	11,284,700	34,834,700
2021-2025	-	-	20,530,000	6,073,641	26,603,641
2026-2029	-	-	14,190,000	1,680,870	15,870,870
Total	\$ 9,925,000	\$ 913,750	\$ 87,025,000	\$ 35,803,329	\$ 122,828,329

Revenue bonds authorized and unissued as of June 30, 2010, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008	50,000,000	50,000,000
Liquor & Transportation	16-676	2008	78,000,000	31,235,000
Liquor & Transportation	16-863	2009	60,000,000	60,000,000
Total			\$331,098,000	\$ 182,083,000

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,335,658	\$ 1,784,902	\$ -
Debt Service Account - Used to pay debt service on bonds	273,628	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,615,594	-	4,299,223
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,879,002
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	24,354,128
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	2,402,960
Total	\$ 4,724,880	\$ 3,284,902	\$ 34,935,313

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY10 are as follows:

	Balance July 1, 2009	BANs Issued	BANs Retired	Balance June 30, 2010
BAN Series 2002-L	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -
BAN Series 2002-M	150,000,000	-	33,000,000	117,000,000
BAN Series 2002-N	100,000,000	-	32,000,000	68,000,000
BAN Series 2002-O	-	200,000,000	200,000,000	-
BAN Series 2002		115,000,000		115,000,000
BAN Series 2009-A		125,000,000		125,000,000
Total	\$ 300,000,000	\$ 440,000,000	\$ 315,000,000	\$ 425,000,000

The interest rate changes based on market conditions; during FY10, the rate of interest varied from .150 to .400 percent. Interest earned on BAN proceeds totaled \$213,811 during FY10, which was accounted for in the Debt Service Fund.

BANs totaling \$440 million were issued during FY10; \$315 million Series 2002 and \$125 million Series 2009 respectively, at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005, November 30, 2006, September 18, 2007, October 28, 2008 and September 15, 2009 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY11, and intends to use the proceeds to replace short-term notes that were issued to fund capital

construction and improvements. In connection with the BANs, the County entered into a credit agreement on July 1, 2005 with Fortis Bank to provide liquidity for the 2002 Series Notes, and may borrow up to \$300,000,000; the 2002 Credit Agreement expired on July 1, 2010. Utilizing a competitive request for proposals process, the County replaced the Fortis Credit Agreement with new Credit Agreements provided by State Street Bank and PNC Bank. These new Agreements are each \$150,000,000 and are for three-year terms; to expire on July 31, 2013. The county entered into a Credit Agreement with JPMorgan Chase to provide liquidity with respect to the 2009 Series Notes. Under the terms of the 2009 Credit agreement, the County may borrow up to \$200,000,000 plus interest not to exceed 34 days interest at 10% per annum calculated on the basis of 365-day year on a revolving principal and interest; the credit agreement expires on August 24, 2012.

During FY10, the County passed Resolution No. 16-1104 dated September 15, 2009 to increase the County's authority to issue BANS by \$453.9 million. Cumulative BANs authorized and unissued as of June 30, 2010, including amounts authorized and unissued from prior years, is \$608,703,000.

5) Certificates of Participation

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of \$23.0 million.

In October 2007, the County issued Certificates of Participation (certificates) for its Equipment Acquisition in the fire and rescue Program dated October 24, 2007, in the amount of \$33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2011	\$ 6,320,000	\$ 1,992,329	\$ 8,312,329
2012	6,515,000	1,742,925	8,257,925
2013	6,745,000	1,475,000	8,220,000
2014	6,370,000	1,212,600	7,582,600
2015	6,620,000	923,600	7,543,600
2016 - 2018	<u>17,685,000</u>	<u>1,074,900</u>	<u>18,759,900</u>
Total	<u>\$ 50,255,000</u>	<u>\$ 8,421,354</u>	<u>\$ 58,676,354</u>

6) **Master Lease/Equipment Notes**

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2010:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2011	\$ 2,396,265	\$ 104,808	\$ 2,501,073
2012	770,384	32,414	802,798
2013	321,968	12,450	334,418
2014	130,464	5,477	135,941
2015	66,861	1,110	67,971
Total	<u>\$ 3,685,942</u>	<u>\$ 156,259</u>	<u>\$ 3,842,201</u>

7) **WSSC Promissory Note**

In April 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for \$10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note has a term of 15 years; interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County is \$400,000 and is due on July 15, 2010 and annually thereafter. The County must make additional payments equal to the net of proceeds of parcels sold in a given year; payments should be allocated first to interest and then to principal. If in a given year, net proceeds for the sale of parcels equal or exceed the debt service payment, the County will not be required to make a separate debt service payment. The minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest and the debt service paid is added to the total principal amount owed. Consequently, a negative balance is shown on the principal column of the amortization schedule.

The note will mature upon its 15th anniversary when all unpaid principal and accrued interest shall be due and payable by the County or upon the date of the "Payment Event" for the last parcel for which an additional annual payment is due to WSSC.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2010:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2011	\$ (25,280)	\$ 425,280	\$ 400,000
2012	(26,400)	426,400	400,000
2013	(27,569)	427,569	400,000
2014	(28,791)	428,791	400,000
2015	(30,066)	430,066	400,000
2016 - 2020	(171,531)	2,171,531	2,000,000
2021 - 2025	9,909,637	1,989,852	11,899,489
Total	<u>\$ 9,600,000</u>	<u>\$ 6,299,489</u>	<u>\$15,899,489</u>

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$46,218,424. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of \$3,344,171, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

The County issued \$4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional \$2,100,000 to complete construction of the Shady Grove Metro Garage and an additional \$2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending in June 1, 2024. In FY10, pledged revenue of \$3,294,214 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2010, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2010	Unamortized Premium	Carrying Value June 30, 2010
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 29,675,000	\$ 72,532	\$ 29,747,532
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	3,645,000	13,892	3,658,892
Total				<u>\$ 42,625,000</u>	<u>\$ 33,320,000</u>	<u>\$ 86,424</u>	<u>\$ 33,406,424</u>

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2011	\$ 1,770,000	\$ 1,522,009	\$ 3,292,009
2012	1,845,000	1,451,303	3,296,303
2013	1,925,000	1,375,252	3,300,252
2014	2,005,000	1,295,640	3,300,640
2015	2,095,000	1,212,115	3,307,115
2016-2020	12,015,000	4,594,255	16,609,255
2021-2024	11,665,000	1,447,850	13,112,850
Total	<u>\$ 33,320,000</u>	<u>\$12,898,424</u>	<u>\$46,218,424</u>

9) Taxable Limited Obligation Certificates

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of \$30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2010:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements		
	Principal	Interest	Total
2011	\$ 930,000	\$ 1,572,130	\$ 2,502,130
2012	1,005,000	1,496,585	2,501,585
2013	1,045,000	1,456,385	2,501,385
2014	1,085,000	1,414,585	2,499,585
2015	1,130,000	1,371,185	2,501,185
2016-2020	6,430,000	6,076,275	12,506,275
2021-2025	8,175,000	4,329,360	12,504,360
2026-2030	10,600,000	1,900,970	12,500,970
Total	<u>\$ 30,400,000</u>	<u>\$19,617,475</u>	<u>\$50,017,475</u>

10) HUD Loan

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of \$870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of \$870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2010, for this loan is \$612,000.

11) Changes in Long-Term Liabilities

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

	Balance			Balance	Due within
	July 1, 2009	Additions	Reductions	June 30, 2010	one year
Governmental Activities					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,496,561,371	\$ 471,755,000	\$ (298,477,086)	\$ 1,669,839,285	\$ 139,239,285
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	300,000,000	440,000,000	(315,000,000)	425,000,000	425,000,000
Lease revenue bonds	35,025,000	-	(1,705,000)	33,320,000	1,770,000
Equipment notes	5,109,265	1,753,063	(3,176,386)	3,685,942	2,396,265
Taxable limited obligation certificates	-	30,400,000	-	30,400,000	930,000
HUD loan	655,000	-	(43,000)	612,000	43,000
WSSC Promissory Note	10,000,000	-	(400,000)	9,600,000	425,280
Revenue Bonds	14,463,000	-	(539,676)	13,923,324	479,368
Subtotal	1,961,813,636	943,908,063	(619,341,148)	2,286,380,551	570,283,198
Add remaining original issue premium	64,307,030	31,992,728	(16,912,681)	79,387,077	-
Less deferred amount on refundings	(19,365,538)	(12,041,832)	4,689,585	(26,717,785)	-
Total Bonds and Notes Payable	2,006,755,128	963,858,959	(631,564,244)	2,339,049,843	570,283,198
Other Liabilities:					
Certificates of participation	30,475,000	23,000,000	(3,220,000)	50,255,000	6,320,000
Compensated absences	70,023,763	51,587,425	(49,037,768)	72,573,420	54,430,065
Other postemployment benefits	113,534,939	104,972,700	(40,654,230)	177,853,409	-
Capital leases	67,929,435	22,593,067	(8,958,219)	81,564,283	8,936,793
Claims and judgments	1,550,000	-	(950,000)	600,000	600,000
Total Other Liabilities	283,513,137	202,153,192	(102,820,217)	382,846,112	70,286,858
Governmental Activities Long-Term Liabilities	\$ 2,290,268,265	\$ 1,166,012,151	\$ (734,384,461)	\$ 2,721,895,955	\$ 640,570,056
Business-Type Activities					
Revenue Bonds:					
Liquor Control	32,302,000	-	(1,205,324)	31,096,676	1,070,632
Parking revenue bonds	33,920,000	-	(1,840,000)	32,080,000	1,915,000
Solid waste disposal revenue refunding bonds	13,345,000	-	(3,420,000)	9,925,000	3,550,000
Subtotal	79,567,000	-	(6,465,324)	73,101,676	6,535,632
Add remaining original issue premium	2,329,961	-	(287,549)	2,042,412	-
Less remaining original issue discount	(12,233)	-	1,747	(10,486)	-
Less deferred amount on refundings	(281,121)	-	121,102	(160,019)	-
Total General Obligation and Revenue Bonds	81,603,607	-	(6,630,024)	74,973,583	6,535,632
Other Liabilities:					
Compensated absences	5,275,874	48,480	(206,776)	5,117,578	3,838,184
Other postemployment benefits	-	4,765,300	(1,906,120)	2,859,180	-
Equipment notes	467,877	-	(215,267)	252,610	170,828
Landfill closure costs	20,675,923	426,000	(2,221,000)	18,880,923	1,106,000
Total Other Liabilities	26,419,674	5,239,780	(4,549,163)	27,110,291	5,115,012
Business-Type Activities Long-Term Liabilities	\$ 108,023,281	\$ 5,239,780	\$ (11,179,187)	\$ 102,083,874	\$ 11,650,644

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$2,126,852 (\$1,595,138 due within one year and \$531,714 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

12) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2010, there were 31 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 16 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2010, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$175,875,000. The principal amount payable at June 30, 2010, for bonds issued after July 1, 1996, totaled \$277,139,992.

13) Special Taxing Districts

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued \$2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued \$11.6 million of Senior Series 2002A bonds and \$4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

COMPONENT UNITS

At June 30, 2010, HOC’s noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 104,626,741	\$662,634,978	\$ 767,261,719
Capital leases payable	161,466	20,047,355	20,208,821
Notes payable	16,116,176	120,145,663	136,261,839
Total	<u>\$ 120,904,383</u>	<u>\$802,827,996</u>	<u>\$ 923,732,379</u>

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

<u>Purpose</u>	
Multi-Family Mortgage Purchase Program Fund	\$ 438,500,891
Single Family Mortgage Purchase Program Fund	<u>328,760,828</u>
Total	<u>\$ 767,261,719</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.88 to 11.25 percent and 0.800 to 6.75 percent, respectively, as of June 30, 2010.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2011	\$ 340,000	\$ 496,023	\$ 836,023
2012	355,000	480,555	835,555
2013	370,000	464,058	834,058
2014	385,000	446,500	831,500
2015	405,000	427,834	832,834
2016-2020	-	2,091,075	2,091,075
2021-2025	2,880,000	1,443,075	4,323,075
2026-2030	5,430,000	959,753	6,389,753
Total	<u>\$ 10,165,000</u>	<u>\$ 6,808,873</u>	<u>\$ 16,973,873</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2011	\$ 104,626,740	\$ 26,373,377	\$ 131,000,117
2012	50,063,104	25,670,266	75,733,370
2013	17,964,619	24,444,833	42,409,452
2014	18,431,304	23,850,240	42,281,544
2015	18,108,199	23,205,158	41,313,357
2016-2020	81,487,852	108,135,770	189,623,622
2021-2025	69,320,995	95,691,979	165,012,974
2026-2030	110,329,502	74,618,866	184,948,368
2031-2035	136,325,800	36,530,680	172,856,480
2036-2040	130,850,000	16,632,634	147,482,634
2041-2045	20,775,000	5,058,509	25,833,509
2046-2050	9,090,000	95,520	9,185,520
Unamortized Bond Discount	(111,396)	-	(111,396)
Total	<u>\$ 767,261,719</u>	<u>\$ 460,307,832</u>	<u>\$ 1,227,569,551</u>

Changes in the HOC revenue bonds during FY10 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2009	Issued*	Retired	June 30, 2010
Multi-Family Mortgage Purchase Program Fund	\$ 399,106,059	\$ 91,289,832	\$ 51,895,000	\$ 438,500,891
Single Family Mortgage Purchase Program Fund	270,161,033	79,999,220	21,399,425	328,760,828
Total	<u>\$ 669,267,092</u>	<u>\$ 171,289,052</u>	<u>\$ 73,294,425</u>	<u>\$ 767,261,719</u>

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2009	\$ 270,078,666
Issuances during the year	41,280,000
Redemptions during the year	(61,766,619)
Bonds outstanding, June 30, 2010	<u>\$ 249,592,047</u>

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2010, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	\$ 22,913,065	\$ 2,159,653	\$ 11,802,165
Due from component units	54,392	-	386,423
Other assets	35,103,245	3,284,902	5,177,306
Capital assets	44,372,739	85,047,190	79,843,967
Total Assets	<u>102,443,441</u>	<u>90,491,745</u>	<u>97,209,861</u>
LIABILITIES			
Current liabilities	10,749,398	1,444,452	3,552,949
Due to other funds	175,781	24,668	33,095
Long-term liabilities	24,625,866	172,628	30,408,943
Total Liabilities	<u>35,551,045</u>	<u>1,641,748</u>	<u>33,994,987</u>
NET ASSETS			
Invested in capital assets, net of related debt	34,461,594	84,806,549	47,692,095
Restricted for debt service	34,935,313	3,284,902	4,724,880
Unrestricted	(2,504,511)	758,546	10,797,899
Total Net Assets	<u>\$ 66,892,396</u>	<u>\$ 88,849,997</u>	<u>\$ 63,214,874</u>

* Includes Solid Waste Leafing

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	\$ 96,361,936	\$ 7,760,223	\$ 10,372,352
Licenses and permits	11,034	-	-
Fines and penalties	51,463	2,624,942	5,731,708
Total Operating Revenues (pledged against bonds)	<u>96,424,433</u>	<u>10,385,165</u>	<u>16,104,060</u>
Depreciation	(2,300,678)	4,725,237	4,617,350
Other operating expenses	96,013,600	9,986,029	8,188,688
Operating Income (Loss)	<u>2,711,511</u>	<u>(4,326,101)</u>	<u>3,298,022</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	5,702,142	3,729,688
Intergovernmental	30,000	-	-
Gain (loss) on disposal of capital assets	61,285	-	-
Investment income	385,885	19,467	121,647
Interest expense	(649,864)	(11,992)	(1,443,790)
Other revenue	57,468	392,216	91,267
Capital contributions	-	14,700	-
Transfers in	-	-	-
Transfers out	(2,242,820)	(8,817,129)	(9,226,162)
Change in Net Assets	<u>353,465</u>	<u>(7,026,697)</u>	<u>(3,429,328)</u>
Beginning Net Assets	66,538,931	95,876,694	66,644,202
Ending Net Assets	<u>\$ 66,892,396</u>	<u>\$ 88,849,997</u>	<u>\$ 63,214,874</u>

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 470,971	\$ 1,268,314	\$ 7,547,919
Noncapital financing activities	(2,212,820)	(3,114,987)	(5,496,474)
Capital and related financing activities	(7,198,641)	(1,944,617)	(6,601,379)
Investing activities	150,719	19,467	38,907
Net Increase (Decrease)	<u>(8,789,771)</u>	<u>(3,771,823)</u>	<u>(4,511,027)</u>
Beginning Cash and Cash Equivalents	59,905,703	7,553,515	18,440,218
Ending Cash and Cash Equivalents	<u>\$ 51,115,932</u>	<u>\$ 3,781,692</u>	<u>\$ 13,929,191</u>

* Includes Solid Waste Leafing

H) **Fund Equity**

1) **Designated Fund Balances**

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2010:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$ -	\$ 5,501,002	\$ 5,501,002
Designated for transfers to Capital Projects Fund	34,705,889	15,406,821	50,112,710
Total	<u>\$ 34,705,889</u>	<u>\$ 20,907,823</u>	<u>\$ 55,613,712</u>

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which unrestricted fund balance is not available to designate:

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total</u>
Encumbrances *	\$ 585,617	\$ 191,049,944	\$ 9,180,165	\$200,815,726
Total	<u>\$ 585,617</u>	<u>\$ 191,049,944</u>	<u>\$ 9,180,165</u>	<u>\$200,815,726</u>

* Encumbrances relating to special revenue funds include \$9,180,165 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

2) **Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for other component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	\$ 316,168,025
Business-type activities	<u>12,359,998</u>
Total	<u>\$ 328,528,023</u>

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2010:

	<u>General Fund</u>			<u>Capital Projects</u>	<u>Total</u>
	<u>Operating</u>	<u>Capital *</u>	<u>Total</u>		
MCPS	\$1,429,900,613	\$ 21,118,157	\$1,451,018,770	\$ 137,812,754	\$1,588,831,524
MCC	108,399,261	2,677,602	111,076,863	38,724,641	149,801,504
HOC	5,522,147	1,062,074	6,584,221	-	6,584,221
Total	<u>\$1,543,822,021</u>	<u>\$ 24,857,833</u>	<u>\$1,568,679,854</u>	<u>\$ 176,537,395</u>	<u>\$1,745,217,249</u>

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUPI charges for services revenue includes \$4,010,635 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully

insured plan options, including health maintenance organizations (HMO's), are offered to participants. WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. 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 which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability 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. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY10 and FY09 are as follows:

	<u>Liability and Property Coverage</u>	<u>Employee Health Benefits</u>
Balance July 1, 2008	\$80,831,000	\$ 6,186,897
Claims and changes in estimates	36,547,713	86,223,421
Claim payments ¹	<u>(29,242,713)</u>	<u>(85,610,110)</u>
Balance June 30, 2009	88,136,000	6,800,208
Claims and changes in estimates	35,825,614	98,011,667
Claim payments ¹	<u>(29,128,614)</u>	<u>(97,609,306)</u>
Balance June 30, 2010 ^{2,3}	<u>\$94,833,000</u>	<u>\$ 7,202,569</u>

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of \$51,353,000 and \$7,215,669 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

3 Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The Life Insurance IBNR of \$13,100 is not included in the schedule. Claims payable including Life IBNR is \$7,215,669.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$62,423,000, which has been fully accrued through June 30, 2010. Of the total amount accrued, \$41,321,077 in actual costs has been paid out in prior years, and \$2,221,000 was paid in FY10, resulting in a net liability of \$18,880,923 at June 30, 2010. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,106,000 and \$17,774,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Pollution Remediation

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that the County disclose in the notes of the financial statements any contingent liability related to a pollution remediation event. The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation, therefore no reasonable estimable costs can be reported for FY10 and may not be until FY11. In light of this determination, GASB 49 dictates that the potential financial liability be disclosed only in the footnote section and not the financial statements.

3) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$600,000. In accordance with general accepted accounting principles, this amount has been reflected as a liability in the accompanying financial statements, given that the claims are determined to be probable.

4) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2010, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2010, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 1,905,342	\$ -	\$ 4,988,658	\$ 6,894,000
Solid Waste Activities:				
Disposal operations	5,875,470	-	-	5,875,470
Collection operations	197,644	-	-	197,644
Parking Lot Districts:				
Silver Spring	551,458	2,421,969	-	2,973,427
Bethesda	613,631	2,171,633	-	2,785,264
Wheaton	148,260	383,378	-	531,638
Montgomery Hills	17,889	-	-	17,889
Subtotal	<u>9,309,694</u>	<u>4,976,980</u>	<u>4,988,658</u>	<u>19,275,332</u>
Nonmajor Funds:				
Permitting Services	-	-	-	-
Community Use of Public Facilities	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Enterprise Funds	<u>9,309,694</u>	<u>4,976,980</u>	<u>4,988,658</u>	<u>19,275,332</u>
<u>Internal Service Funds:</u>				
Motor Pool	1,136,150	-	2,795,744	3,931,894
Central Duplicating	177,686	-	-	177,686
Liability and Property Coverage Self-Insurance	-	-	-	-
Employee Health Benefits Self-Insurance	105,380	-	-	105,380
Total Internal Service Funds	<u>1,419,216</u>	<u>-</u>	<u>2,795,744</u>	<u>4,214,960</u>
Total Proprietary Funds	<u>\$ 10,728,910</u>	<u>\$ 4,976,980</u>	<u>\$ 7,784,402</u>	<u>\$ 23,490,292</u>

As of June 30, 2010, the County has \$410,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 8, 2010, the County issued General Obligation Bonds (Tax-Exempt, Series A) in the amount of \$195,000,000; Build America Bonds (Federally Taxable, Series B) totaling \$106,320,000; and Recovery Zone Economic Development Bonds (Federally Taxable, Series C) amounting to \$23,680,000. Subsequent to closing on July 22, 2010, the County retired commercial paper bond anticipation notes (BANS) totaling \$325,000,000; \$117,000,000 for 2002 series M, \$68,000,000 for 2002 series N, \$15,000,000 for 2002 series P, and \$125,000,000 for 2009 series A. On August 9, 2010, the County issued BANS totaling \$200,000,000. On September 23, 2010, the County issued a master lease agreement totaling \$1,287,744 to purchase fire and rescue equipment.

D) Joint Ventures

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no "Investment in Joint Ventures" is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George's Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2010, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$113,983,226, of which \$3,393,261 was self-supporting. Of the total amount payable, \$16,225,615 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 2010, is \$33,287,029, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2010, WSSC had outstanding notes payable and bonds payable in the amount of \$1,371,098,000, which was fully self-supporting. Of the total amount payable, \$319,299,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2010, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$93,130 to WSTC during FY10. The FY10 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY10, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 43,739,552
Rail operating subsidy	31,747,993
Americans with Disabilities Act service	19,497,935
MetroMatters program	33,744,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	22,089,042
Total	<u>\$155,686,022</u>

At June 30, 2010, WMATA had outstanding bonds payable of \$390,945,000, of which \$34,705,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY09 membership dues and fees for services amounting to \$743,366.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced \$205,078,908 of the 1993 bonds. At June 30, 2010, NEMWDA had outstanding bonds payable in the amount of \$160,730,000 of which \$20,795,000 represented debt due within one year. Of these amounts, \$153,025,000 is related to the Project, \$18,885,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste

disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY10 amounted to \$34,874,818.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who did not elect to continue to participate in the County Plan may participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

2) Annual, Sick Leave, and Other Compensated Absences

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY10, the County and its employees contributed \$77,035,808 and \$28,684,718, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$702,528, \$3,599,293, and \$70,207 for these component units, respectively, for FY10.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at <http://www.montgomerycountymd.gov/bit>, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when members terminate employment before their retirement date and after completion of five years of credited service, they may elect to leave their member contributions in the System and receive a pension upon reaching their normal retirement date, based on the amount of their normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

Funding Policy - Required employee contribution rates varying from 4 to 9.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year’s employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non -public safety and public safety employees, respectively.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY10 were based on an actuarial valuation as of June 30, 2008, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY10 were as follows:

Fiscal Year	APC	Percentage of APC		NPO
		Contributed		
2008	\$117,686,375	100	%	\$ -
2009	109,567,014	100		-
2010	113,957,784	100		-

Allocated Insurance Contract - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) **Defined Contribution Plan**

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY10 were \$16,400,574 and \$8,871,048, respectively. In accordance with IRS regulations and the County Code, \$400,000 in accumulated revenue was used to reduce employer contributions in FY10.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were

members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan. For employees who elected to participate in the GRIP, the \$31.5 million transfer of their member account balances from the Plan to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

3) Other

The County contributed \$981,477 during FY10 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) Length of Service Award Program (LOSAP)

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,163,140 in FY10 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 482 recipients comprising former volunteers and their beneficiaries at the end of FY10. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

G) Other Postemployment Benefits (OPEB)

Plan Description – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. The Retiree Health Benefits Trust (Retiree Trust) is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the Retiree Trust. The Board consists of thirteen trustees and functions as part of the County. Separate financial statements are not issued for the Retiree Trust.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

Plan membership at June 30, 2008, the most recent actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	7,490
Active plan members	<u>9,949</u>
Total	<u><u>17,439</u></u>

Condensed FY10 financial statements for the Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Assets		Condensed Statement of Changes in Fiduciary Net Assets	
ASSETS		ADDITIONS	
Cash and investments	\$ 38,134,986	Contributions	\$ 57,543,856
Other assets	<u>4,281,658</u>	Net investment income (loss)	<u>3,998,331</u>
Total Assets	<u>42,416,644</u>	Total Additions, net	<u>61,542,187</u>
LIABILITIES		DEDUCTIONS	
Claims payable	4,242,882	Benefits	52,137,098
Other liabilities	<u>26,200</u>	Administrative	<u>2,265,979</u>
Total Liabilities	<u>4,269,082</u>	Total Deductions	<u>54,403,077</u>
NET ASSETS:		Change in Net Assets	7,139,110
Held in trust for other		Beginning Net Assets	<u>31,008,452</u>
postemployment benefits	<u>\$ 38,147,562</u>	Ending Net Assets	<u>\$ 38,147,562</u>

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY10, plan members and beneficiaries receiving benefits contributed \$14,983,507 (approximately 28 percent of current contributions). The County and other contributing entities contributed \$42,560,350, including \$39,302,710 (approximately 72 percent of current contributions) for current premiums, claims and administrative expenses, and \$3,257,640 toward prefunding future benefits.

Funding Status and Funding Progress – As of June 30, 2008, the most recent actuarial valuation, the actuarial accrued liability (AAL) was \$1,161,222,000 and there was \$35,279,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was \$1,125,943,000. The annual covered payroll of active employees covered by the Plan was \$667,400,000 and the ratio of the UAAL to covered payroll was 168.7 percent.

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

During FY08, the County Council adopted Resolution No. 16-555, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over eight years. The prefunding contributions reflected in the accompanying financial statements represent the third year of that eight year phase in.

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY10 was based on an actuarial valuation as of June 30, 2008, the latest valuation available on the date the County Council was required to approve the FY10 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2010 were as follows:

Annual required contribution (ARC)	\$ 107,397,000
Interest on net OPEB obligation	<u>2,341,000</u>
Annual OPEB cost	109,738,000
Contributions made	<u>42,560,350</u>
Increase in net OPEB obligation	67,177,650
Net OPEB obligation - beginning of year	<u>113,534,939</u>
Net OPEB obligation - end of year	<u><u>\$ 180,712,589</u></u>

The County's annual OPEB cost (AOC) and the net OPEB obligation of the plan for the current and prior two years were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 102,320,000	42.7 %	\$ 58,598,791
2009	113,139,000	51.4	113,534,939
2010	109,738,000	38.8	180,712,589

Actuarial Methods and Assumptions – The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2008
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	8.0%
Salary scale	4.25%
Inflation rate	3%
Mortality	RP 2000 projected 10 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	10.0%, 5.0%
Medical (excluding Indemnity plan) post-65	8.5%, 5.0%
Medical (Indemnity plan)	11.0%, 5.0%
Prescription drugs	10.0%, 5.0%
Dental	6.5%, 4.5%



REQUIRED SUPPLEMENTARY INFORMATION



REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH BENEFITS TRUST

The following required supplementary information is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons among employers.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$ -	\$ 1,176,000,000	\$1,176,000,000	0 %	\$ 602,006,000	195.3 %
6/30/2008	35,279,000	1,161,222,000	1,125,943,000	3.0	667,400,000	168.7

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed		Net OPEB Obligation
		Employers	Other Contributing Entities	
2008	\$ 102,320,000	38.6 %	4.1 %	\$ 58,598,791
2009	111,677,000	51.0	1.2	113,534,939
2010	107,397,000	37.5	2.1	180,712,589



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* POEB = Pension and Other Employee Benefits

