

MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year 1998

July 1, 1997 - June 30, 1998
Rockville, Maryland



Montgomery County **Vision Statement**

*"Helping to make Montgomery County
the best place to be through efficient, effective and
responsive government that delivers quality services."*

Guiding Principles

We Will Provide Excellence in Government By:

- Insisting upon customer satisfaction
- Ensuring high value for tax dollars
- Adhering to the highest ethical standards
- Appreciating diversity
- Being open, accessible and responsive
- Empowering and supporting employees
- Striving for continuous improvement
- Working together as a team
- Being accountable

MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Prepared by the
Department of Finance

Timothy L. Firestine, Director
101 Monroe Street
Rockville, Maryland 20850
240-777-8860

Fiscal Year 1998
July 1, 1997 - June 30, 1998

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PART I
INTRODUCTORY SECTION

**MONTGOMERY COUNTY, MARYLAND
LISTING OF OFFICIALS**

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Isiah Leggett	President
William E. Hanna, Jr.	Vice President
Derick P. Berlage	Nancy Dacek
Gail H. Ewing	Betty Ann Krahnke
Neal Potter	Marilyn Praisner
Michael L. Subin	

MONTGOMERY COUNTY (Primary Government) OFFICIALS

Bruce Romer	Chief Administrative Officer	Elizabeth B. Davison	Department of Housing and Community Affairs
Charles W. Thompson, Jr.	County Attorney	Odessa Shannon	Human Relations Commission
Timothy L. Firestine	Department of Finance	Marta B. Perez	Office of Human Resources
Robert K. Kendal	Office of Management and Budget	Don Evans	Department of Information Systems and Telecommunications
Stephen B. Farber	Council Staff Director	Ben Bialek	Office of Intergovernmental Relations
Mary Edgar	Secretary of the County Council	Julie Dellinger	Board of Investment Trustees
Judge Paul H. Weinstein	Administrative Judge, Circuit Court	Karen Orlansky	Office of Legislative Oversight
Molly Q. Ruhl	Clerk of the Circuit Court	Howard L. Cook	Department of Liquor Control
Patricia Dauenhauer	Register of Wills	Leonard Kligman	Office of the Board of Liquor License Commissioners
Robert L. Dean	States Attorney	Angelo M. Caputo	Merit System Protection Board
Judith Heimann	Board of Appeals	Natalie Cantor	Mid-County Regional Services Center
Gail Nachman	Bethesda-Chevy Chase Regional Services Center	Carol A. Mehrling	Department of Police
Judith Vaughan-Prather	Commission for Women	Beatrice P. Tignor	Office of Procurement
Gail Ayers	Community Use of Educational Facilities and Services	David Weaver	Office of Public Information
Devon Brown	Department of Correction and Rehabilitation	Harriet Henderson	Department of Public Libraries
Anise Key Brown	Eastern Montgomery Regional Services Center	Graham J. Norton	Department of Public Works and Transportation
David Edgerley	Department of Economic Development	Gregory A. Bayor	Department of Recreation
James A. Caldwell	Department of Environmental Protection	Raymond M. Kight	Sheriff
Barbara McNally	Ethics Commission	Douglas M. Wrenn	Silver Spring Regional Services Center
Neil Shorb	Fire and Rescue Commission	Marshall Rea	Montgomery Soil Conservation District
Jon C. Grover	Department of Fire and Rescue Services	Carol Evans	Board of Supervisors of Elections
Charles L. Short	Department of Health and Human Services	C. Stephen Poteat	Upcounty Government Center
		Philip J. Tierney	Office of Zoning and Administrative Hearings

(Continued)

Listing of Officials, concluded

COMPONENT UNIT OFFICIALS

Montgomery County Public Schools

Board of Education:

Nancy J. King	President
Beatrice B. Gordon	Vice-President
Alan Cheung	Blair G. Ewing
Reginald M. Felton	Ana Sol Gutierrez
Mona M. Signer	Leonard F. Butler, Jr. Student Member
Paul L. Vance, Ph.D.	Superintendent of Schools

Montgomery County Revenue Authority

Board of Directors:

Stephen Edwards	Chairman
Carol McGarry	Secretary-Treasurer
Lawrence A. Arch	Clyde D. Garrett, II
John F. Wolf, Jr.	
Marc D. Atz	Executive Director

Bethesda Urban Partnership, Inc.

Board of Directors:

Carol A. Trawick	Chairman
Robert G. Brewer, Jr.	Vice-Chair
Susan A. Cheney	Secretary
Stanley R. Jones	Treasurer
Beverly B. Denbo	Benjamin W. King
Arnold J. Kohn	Gail Nachman
Eugene M. Smith	Mier Wolf, Esq.
Matthew G. Hussmann	Executive Director

Montgomery Community College

Board of Trustees:

Michael W. Gildea	Chairman
Joseph Reyes	First Vice-Chair
Mary E. Cothran	Second Vice-Chair
Edward R. Lehman	Norman Locksley
Owen D. Nichols	Robert E. Shoenberg

Secretary Treasurer to the Board of Trustees:

Robert E. Parilla, Ph.D.	President, Montgomery Community College
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Housing Opportunities Commission of Montgomery County

Commissioners:

Barbara Goldberg-Goldman	Chairwoman
Ralph D. Bennett, Jr.	Vice-Chair
Pauline E. Council	Chair Pro-Tem
Robbie Callaway	Virginia T. Mahoney
Richard Y. Nelson, Jr.	Kenneth B. Reichard
Richard J. Ferrara	Executive Director

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

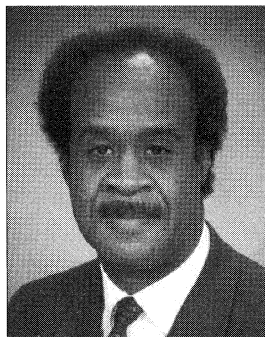
Arthur Andersen LLP
1666 K Street, NW
Washington, DC 20006-2873

Elected Officials

Montgomery County, Maryland



Douglas M. Duncan
County Executive



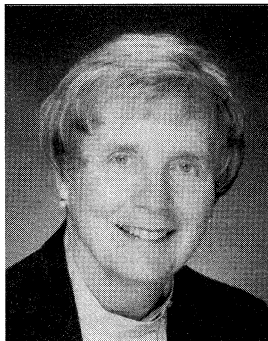
Isiah Leggett
Council President



William E. Hanna, Jr.
Council Vice-President



Derick P. Berlage
Council Member



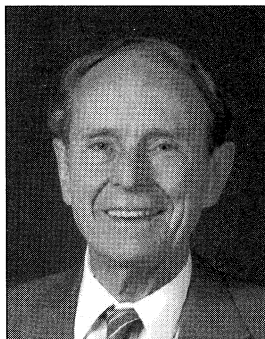
Nancy Dacek
Council Member



Gail Ewing
Council Member



Betty Ann Krahnke
Council Member



Neal Potter
Council Member



Marilyn Praisner
Council Member



Michael L. Subin
Council Member



DEPARTMENT OF FINANCE

Douglas M. Duncan
County Executive

Timothy L. Firestine
Director

November 30, 1998

Honorable County Executive,
Members of the Montgomery County Council, and
Chief Administrative Officer

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report of Montgomery County, Maryland (the County), for the fiscal year ended June 30, 1998. This report was prepared by the County's Department of Finance in cooperation with the finance departments of the County's component unit and joint venture organizations.

This report has been prepared pursuant to the provisions of Article 2, Section 214 of the Charter of Montgomery County, Maryland and includes the independent auditors' opinion, issued by the County Council appointed certified public accounting firm, as provided by Article 3, Section 315 of the County Charter. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with Montgomery County, Maryland. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds and account groups; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The accompanying report consists of four sections: introductory, financial, statistical, and index. The introductory section includes a list of principal officials, this transmittal letter, a copy of our Certificate of Achievement for Excellence in Financial Reporting awarded for the FY97 report, a list of special acknowledgments, and the Montgomery County, Maryland's organization chart. The financial section includes the general purpose financial statements and the combining, individual fund, and individual account group financial statements and schedules, as well as the report of independent public accountants. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The index is presented solely to facilitate the identification of the individual funds, account groups, and component units of the County.

Office of the Director

101 Monroe Street • Rockville, Maryland 20850 • 240/777-8860

THE REPORTING ENTITY AND ITS SERVICES

For financial reporting purposes, the County's reporting entity consists of (1) the primary government, and (2) component unit organizations for which the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and account groups of all agencies, boards, commissions, and authorities that have been identified as the primary government or a component unit have been included.

Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) describes the criteria for determining which organizations should be considered part of the County for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, as well as the County's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

Based on an evaluation of this criteria, the following organizations are included as component units in the accompanying financial statements: the Montgomery County Public Schools (MCPS), the Montgomery Community College (MCC), the Montgomery County Revenue Authority (MCRA), the Housing Opportunities Commission of Montgomery County (HOC), and the Bethesda Urban Partnership, Inc. (BUPI).

The County's participation in the following joint ventures is also disclosed in the Notes to the Financial Statements (see Note 14): the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, the Washington Suburban Transit Commission, the Washington Metropolitan Area Transit Authority, the Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority.

Copies of the respective independently audited annual financial reports required by State or County law are available from the above mentioned component units and joint ventures.

The County provides a wide range of governmental services as contemplated by statute and/or charter. These include: education, public safety, public works and transportation, culture and recreation, health and human services, community development and housing, environment, and general government services.

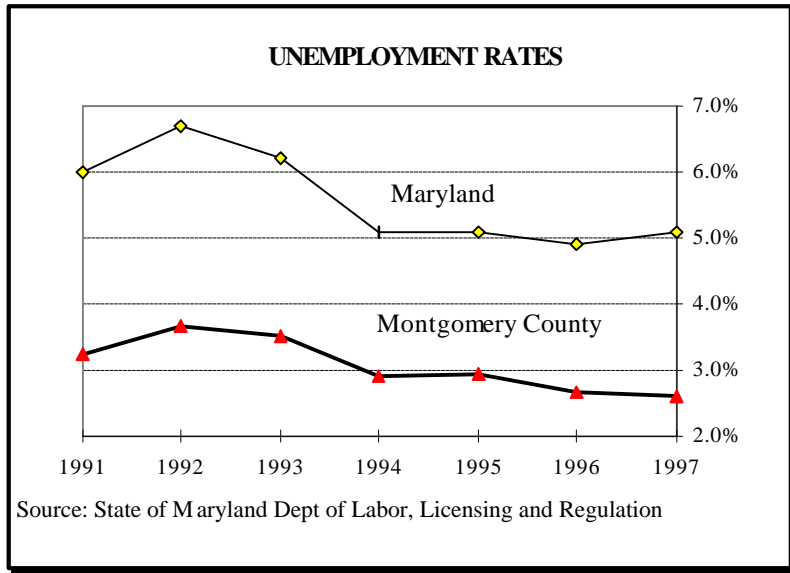
ECONOMIC CONDITION AND OUTLOOK

Summary of the Local Economy

Montgomery County just completed its best year of the post-1990 recession period. While growth in prior years was generally good but modest, calendar year 1997 reflects robust growth in some key sectors of the economy, notably employment, real estate, and construction. At the same time, growth in personal income further improved, while both unemployment and inflation declined. The combination of these economic indicators reflects the extent to which the County has grown beyond the pre-1990 recession mark.

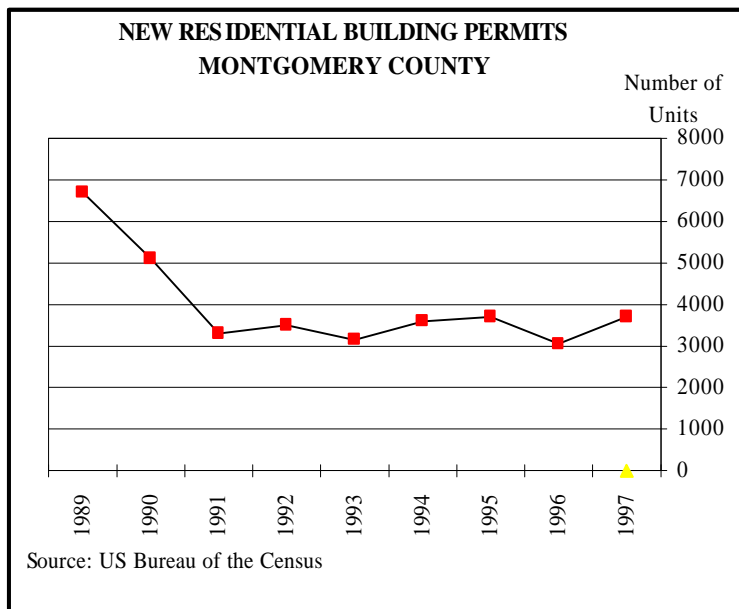
The employment picture drastically improved in 1997, with an overall growth rate of 2.9 percent and adding more than 11,000 new jobs in the County. The total number of jobs Countywide last year also far exceeded that in the last year prior to the 1990 recession. These growth numbers, however, understate the actual count of new jobs in the County since the public sector continues to shrink. For example, while the number of jobs increased by almost 13,000 in the private sector in 1997, the public sector "lost" almost 1,900 jobs. This 4.2% growth highlights the strength of the private sector in creating employment in the County. Of the new private sector jobs, almost 60

percent were created in the services sector, which remains the largest industry. The second largest industrial sector – retail trade – experienced its strongest growth in more than seven years by adding almost 2,200 new jobs in 1997. Another excellent trend is the improvement in manufacturing. While employment in this sector remained virtually unchanged over the past several years, it jumped almost 10 percent in 1997, the highest growth rate of all industrial sectors in the County last year. Reflecting the improved construction activity last year, employment in that sector also jumped 3.5 percent.

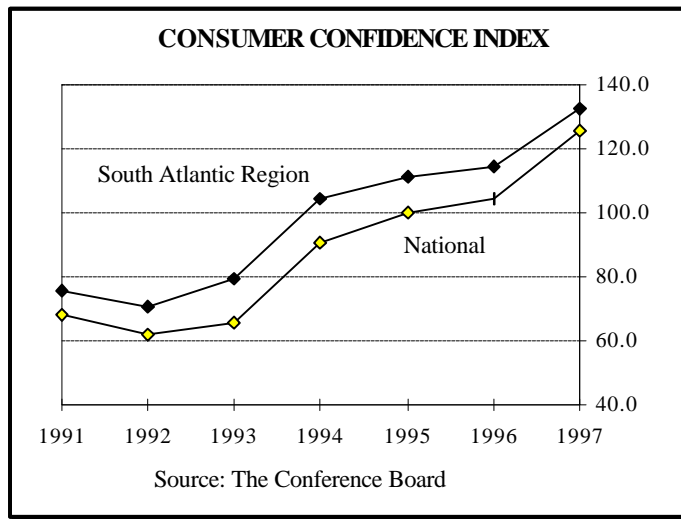


As mentioned, the size of the public sector continues to decline. This is primarily due to the Federal government, which has eliminated more than 14 percent of its jobs in the County since 1992. In fact, the decline of more than 2,200 Federal jobs in 1997 was the largest number of such jobs lost in the past five years. The improved employment picture is reflected in a further reduction in the unemployment rate, which dropped to 2.6 percent in 1997 and is the lowest Statewide. More specifically, last year's unemployment rate dropped to a seven-year low.

The real estate market, which remained lackluster for much of the post-1990 recession period, accelerated in July 1997, and has remained on a steady upward trend since that time. A tight labor market, high consumer confidence, and low mortgage interest rates have contributed to this improvement. Although the entire spectrum of the residential real estate market improved, the most notable sector is the high-end of the market – i.e. those properties valued above \$0.4 million. The same occurred in the commercial sector, where several high-end properties were sold. In addition to the generally optimistic economic outlook, the wealth effect, resulting from the booming stock market, provided much of the support for this strong real estate market.



With incomes growing and interest rates low, builders have been busy. The value of residential construction in 1997 was up 12 percent from 1996, and an astonishing 76 percent measured for the first seven months of 1998 compared to the same period last year. The non-residential construction sector, on the other hand, following a 27 percent decline in 1997, has experienced no growth for the first seven months of 1998. Most of the 1997 decline in the non-residential area, however, occurred in schools and laboratories, in contrast to the commercial sector, which experienced a healthy 67 percent jump in construction. The number of residential building permits increased 20 percent in 1997 in the County, well above the Statewide growth for the year (2.1 percent), and for the entire nation (0.6 percent).



The expanding labor markets and growing household income, contributed to a 30-year high of consumer confidence, which, in turn, fueled consumer spending.

Retail trade, measured by sales tax collections, in 1997 jumped 5.3 percent Statewide, and is up close to 4 percent for the first seven months of 1998 in both Maryland and Montgomery County.

Industries Affecting the Local Economy

Montgomery County is the second largest suburban employment center in the greater Washington region, with a resident employment level of 456,268 in 1997, growing to an estimated 462,400 in 1998. Approximately 81 percent of the County's employment is in the private sector, with the remaining 19 percent distributed among Federal (less than 10 percent), State and local governments.

Federal government employment continues to shrink. In 1997 the number of federal employees in the County dropped by 5.4 percent. Montgomery County is home to many Federal agency units, among them a number of prestigious research agencies such as the National Institutes of Health in Bethesda, the National Oceanic and Atmospheric Administration in Silver Spring, and the National Institute of Standards & Technology in Germantown. Other Federal agencies include the Department of Health and Human Services (33,000 employees), and the Department of Defense (12,000).

The two largest private sector industries are services (49 percent) and retail trade (21 percent). Following several years of little growth, several industries expanded in 1997. The largest growth occurred in manufacturing (up 9.7 percent), services (up 5.1 percent), and retail trade (up 3.2 percent), while the services sector added the largest number of jobs last year (7,688). There are more than 30,000 private sector employers in the County, including the Marriott Corporation (5,000 employees), Lockheed Martin (3,500), and Giant Food (4,500). The County continues to support the presence of high-technology industries, which employ 14 percent of all private sector jobs in the County and more than one-third of all such jobs and high-tech companies in Maryland – by far the largest concentration of such jobs and firms statewide. The high-technology industries are concentrated in computer & data processing, engineering services, commercial physical & biological research, and non-commercial research organizations, with a significant number of such firms located along the I-270 Technology Corridor in the County.

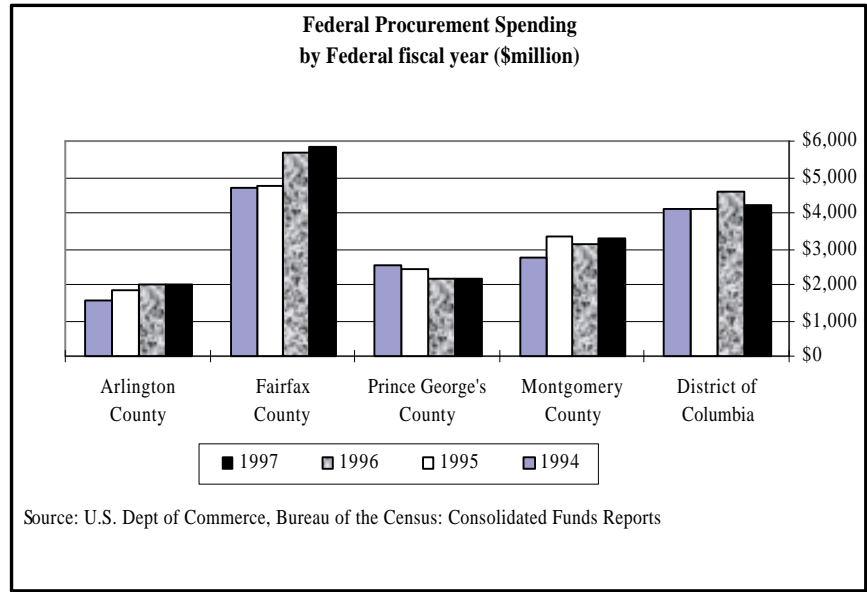
Future Economic Outlook

Following a year with robust growth, which extended into 1998, the outlook is for a return to a more modest growth trend. Clearly, the County's economy has fully recovered from the 1990-recession with strong underlying fundamentals.

While employment growth is projected at annual rates of 1.5 percent, real wage growth is not expected to exceed 3.5 percent. Personal income is estimated to grow roughly 5.0 percent annually. With a continued low inflation environment, estimated to remain in the 2.0 to 3.0 percent range, interest rates - and hence also mortgage interest rates – are expected to remain low.

Consumer confidence will remain high, which will further assist the housing market and retail trade industry in the County. The equity market, which has contributed significantly to an unprecedented jump in income tax receipts nationwide, statewide, and Countywide, is expected to return to more historical levels. A return to a historical trend is also expected for residential construction, with growth similar to the low 1 percent rate for the new household formation.

Federal procurement spending in the County increased less than 2 percent in 1997 - well below the 4 percent growth in the Washington region. The trend, by which procurement spending shifts from suburban Maryland to suburban Virginia, is expected to continue. Even though employment levels in Federal agencies are expected to continue to decline, the private sector growth will more than compensate for this, bringing overall growth to around 1.5 percent.



MAJOR INITIATIVES

Major initiatives of the County during FY98, presented by functional area, include the following:

Community Development and Housing:

Economic Development: In FY98, the Economic Development Fund made offers of \$2.1 million, and awarded over \$0.9 million to aid 15 companies as a way to promote growth and location of jobs in the County. Activities resulted in attracting, creating, or retaining more than 5,800 jobs. The County also developed a one-stop Business Resource Center by coordinating resources from various County agencies, the Federal government, Montgomery College, and nonprofit organizations. The Center assists business owners by providing information, counseling, loan packaging, and business planning and training.

High Tech Incubator: The \$8 million Maryland Technology Development Center is scheduled to open at the end of 1998. Targeted towards high technology and biotechnology businesses, the facility will offer low-cost rental space and a network of technical and business support services.

Housing Code Enforcement: The County began an extensive code enforcement effort in neighborhoods that are deteriorating due to the age of the housing stock, with particular attention to rental properties where insufficient attention had been paid to maintenance. The objective of this effort was to prevent further deterioration of the housing stock in older communities while enhancing the inspected properties' values. Connecticut Avenue Estates located in Silver Spring was a major focus of enforcement activities.

Silver Spring: In its continuing effort to redevelop and revitalize downtown Silver Spring, the County entered into a development agreement with a local private-sector team. County and State funding for the development project was approved to help fund this \$321 million joint venture that will feature a new town center, street-level retail,

restaurants, theaters, other entertainment venues, a hotel, and a residential complex. The County signed an agreement with the American Film Institute to develop programs to be held in the Silver Theater and at an adjacent facility, and committed to spending \$7.8 million to restore the historic Silver Theater. Discovery Communications Incorporated (DCI) announced that it would build its New World headquarters and consolidate its Washington area operations in downtown Silver Spring in a 500,000 square-foot planned headquarters complex. DCI expects to grow its local employment base to more than 1,100 within four years.

Culture and Recreation:

Community Recreation Centers: The East County Community Recreation Center, built during FY98 and opened in July 1998, is the first community center in the County funded by a Community Development Block Grant. The Germantown Community Recreation Center opened in January 1998, and is the first recreation complex in Montgomery County to be co-located with a middle school. The Long Branch Community Center, which opened in FY98, was developed to serve a densely populated area between Takoma Park and Silver Spring.

Starling Automated Program Registration System: The Recreation Department developed a new automated program registration system that allows citizens to register and pay for selected recreation programs by phone. The Starling system is available 24 hours a day, 7 days a week. The benefits include allowing customers to register at a time and location that is convenient for them, and giving customers the satisfaction of knowing immediately that they are registered in a class of their choice, or if at capacity, placed on a waiting list.

Education:

Montgomery County Public Schools (MCPS) Service Efforts: During FY98, MCPS operated a countywide system of education serving more than 125,000 in pre-kindergarten through grade 12 in 183 schools. In addition, the system operated programs and centers for adult education, evening high school, and summer school programs serving several thousand students and adults. The operating budget of \$927 million (excluding enterprise funds) and a capital budget of \$108 million were the result of significant collaboration between MCPS and the County and State governments.

In total, the operating budget increased by \$32.2 million, or 3.8 percent over the previous year (excluding grants and enterprise funds). Increases provided necessary funding to implement innovative learning models, address the rate of growth in special education, add resources to address the influx of new students in Takoma Park (a portion of which was annexed into Montgomery County in FY98) that formerly attended schools in Prince George's County, and increased salaries per negotiated agreements with employees. The capital budget provided funding to open two new middle schools and complete construction of four modernized facilities, including one high school, one middle school, and two elementary schools. Efforts to streamline the operating budget were designed to produce savings and efficiencies in excess of \$5.9 million.

Montgomery County Public Schools Accomplishments: The school system provided instruction to nearly 3,000 new students in FY98, with more than 70 percent of the operating budget devoted to instructional costs. The cost of education was kept to approximately \$37.56 per day per student, or \$5.78 an hour on average. MCPS achieved a success rate of more than 70 percent of students completing algebra by the end of grade 9, while graduating seniors averaged a score of 1,092 on the Scholastic Assessment Test. The drop out rate was maintained at approximately two percent.

Environment:

Wastewater Nutrient Removal Technology: Facilities at Seneca Creek, Damascus, and the Blue Plains facility in Washington, D.C. were included in planning and implementation of an innovative technology project to remove nitrogen and phosphorous at municipal wastewater treatment plants utilized by the County. The initiative was conducted in cooperation with the Washington Suburban Sanitary Commission (WSSC) for the County facilities, and with the Washington, D.C. Water and Sewer Authority (WASA) for the Blue Plains plant. The State

contributes 50 percent of the capital funds necessary to construct the nutrient removal facilities, while the local jurisdiction is responsible for the remaining 50 percent of capital funds to operate and maintain the facilities.

Stormwater Facility Maintenance Program: A public education program funded by a \$30,000 EPA grant and administered by the Maryland Department of Natural Resources was developed to assist the 240,000 residents represented by homeowner associations in properly maintaining their community stormwater management ponds. The Stormwater Facility Maintenance Program uses a maintenance guidebook, website, instructional video, and cable television to explain the environmental, economic and aesthetic benefits of maintaining stormwater management ponds.

General Government:

Information Technology Strategic Plan: The "Horizon 21" Information Technology (IT) Strategic Planning Program produced the first comprehensive IT strategic plan. The plan covers computers, telephones, radios, and technology infrastructure, and applies to both central IT and departmental information technology, and sets forth major strategic objectives to guide annual IT spending. This approach is expected to reduce costs, improve citizen access to County services, speed the completion of strategic projects, and minimize duplicate effort.

Montgomery Measures Up!: The County Council continued to express interest in County agency performance measurement and outcome activities, including discussion of such efforts during the Council review of the County Executive's Recommended FY99 Operating Budget. In the Executive Branch, a multi-agency initiative focused on community outcomes related to "Young People Making Smart Choices," and a report on the selected outcome indicators was issued in March 1998. Departments not involved in the multi-departmental initiative were focused on defining measures for their own programs. Activities are expected to expand in FY99.

Health and Human Services:

Child Safety Locks for Handguns: The County was joined by Prince George's County in being among the first jurisdictions nationwide to require local gun dealers to provide child safety locks for every handgun sold or traded.

Child Welfare: County officials worked with the State to implement a number of enhancements to improve protection of children. Improvements included hiring additional caseworkers and screening staff, increased training, and formal protocols for sharing information with other agencies. In addition, State legislation was passed that required Maryland Courts to give primary consideration to a child's health and safety when considering termination of parental rights.

Mental Health Clinic Privatization: The County successfully implemented the first phase of the privatization of mental health clinics by privatizing three clinics in FY98. This resulted in General Fund savings of \$700,000. About 300 serious and persistent mentally ill adults were successfully transitioned to private sector providers.

Welfare Reform: Welfare reform activities, begun as a result of state and federal legal mandates, continued during FY98. The intent of such activities is to change the focus of County programs from a determination of financial eligibility to a program assisting families to become independent through work, personal and family responsibility, and community involvement. The County has reduced the caseload of Temporary Cash Assistance clients by 68 percent since January 1995.

Public Safety:

Central Processing Unit (CPU)/Automated Booking System: Management of the CPU was transferred from the Police to Corrections and Rehabilitation. Final arrangements were coordinated with the State of Maryland for the installation of the State's Automated Booking System (ABS). Formal acceptance and implementation will occur in FY99.

Integrated Ballistic Identification System: The County Police established a coordinated interdepartmental system for the collection, processing, and ballistic analysis of firearms, expended bullet, and shell casing evidence. The Bureau of Alcohol, Tobacco, and Firearms and the Prince George's County Police are partners in this effort, which is designed to reduce firearms-related activity by identifying perpetrators of violent crimes committed with firearms.

Police Technology Initiatives: The Department of Police developed a Technology Strategic Plan and saw the implementation of the first phase of the plan for a department technology infrastructure. Using available resources and grant funding, the Police Department replaced over 180 older computers, upgraded its network structure and servers, developed a new external Internet site, and an Intranet site to support the Police management information system. Work was begun to develop a global positioning system support (GPS) for the Police K-9 unit. A field test of GPS units was conducted, and 15 handheld GPS units were acquired for use by K-9 officers.

Preventing Teen Access to Tobacco Products and Alcohol: The County Council passed a law that imposes civil fines on retailers that sell tobacco products to minors. The legislation enables investigators with the Board of License Commissioners to test compliance and enforce the law in the nearly 900 retail stores licensed to sell tobacco. The Department of Police expanded its efforts so that more than 100 officers are trained to curb underage drinking.

Public Works and Transportation:

Code Red Ride Free Program: The Code Red Ride Free Program was expanded to include Metrobus. This expanded the network of free public transportation available when air quality reaches unhealthy levels.

Ride On Bus Service: The County initiated Ride On bus service between Germantown/Gaithersburg, and the Medical Center/Bethesda areas using the Interstate Route 270 High Occupancy Vehicle (HOV) lanes. Total ridership on two routes averaged 550 passengers per day by the end of FY98.

Year 2000:

The County's Year 2000 mission is to manage its Year 2000 Program in such a way as to ensure that no mission critical services failure will occur as a result of the Year 2000 date problem. To that end, the County has established a formal program structure, approach, tools, and monitoring requirements. The County's program, including its business continuity assurance and contingency planning components, and the stages of completion of remediation efforts, are disclosed in Note 18 to the accompanying financial statements.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

These financial statements and accompanying schedules and tables have been prepared on a fund basis using accounting policies that are in accordance with generally accepted accounting principles applicable to governmental units and higher education institutions as prescribed by GASB, the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA).

The accounting records for the general governmental operations and expendable trust funds are maintained on a modified accrual basis, with the revenues recorded when available and measurable, and expenditures recorded when the services or goods are received and the liabilities incurred. Accounting records for the proprietary fund types and similar trust funds are maintained on the accrual basis. Under this method, all revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, without regard to receipt or payment of cash. The Higher Education Fund type is also maintained on the accrual basis.

Encumbrance accounting is employed in the governmental and proprietary funds. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation. In the governmental funds, encumbrances are reported as a reservation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for financial statement presentation.

Budget control (maximum spending authority) is exercised by the Montgomery County Council over the primary government (Montgomery County) and certain component units (MCPS, MCC, MCRA, and HOC) by approving spending authority in a variety of categories. In addition, Montgomery County is the primary source of funding for the Bethesda Urban Partnership, Inc., which provides services in the Bethesda Urban District on behalf of Montgomery County. Montgomery County provides appropriation authority within each fund in three categories: Personnel Costs, Operating, and Capital Outlay; the Montgomery County Public Schools and Montgomery Community College are provided appropriations in categories compatible with promulgations by the State Boards of Education and Community Colleges. Capital projects of the Montgomery County Revenue Authority are approved by the County Council at the project level. The HOC operating budget is prepared on a project basis, and the County Council has authority to approve project budgets that include County funding. The County Council funds approximately three percent of HOC's operating budget.

Internal Accounting Controls

In developing and managing the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance for the proper recording of financial transactions and for reliance upon the financial records in the preparation of financial statements.

Montgomery County has three significant programs that enhance the internal controls of the government. First, the County maintains an internal auditing staff that reports to the Director of Finance. This staff performs periodic and regular financial and operational audits throughout the County's agencies and departments. The internal auditing effort has been bolstered by the use of contracts with public accounting firms. During the fiscal year ended June 30, 1998, audits performed by contract with auditing firms covered fiscal operations and contract compliance. Second, the County Council maintains an office responsible for "Legislative Oversight" activities. And third, during FY98, the Council enacted legislation to establish the Office of Inspector General and the position of Inspector General. The mission of the office is to 1) review the effectiveness and efficiency of programs and operations of County government and independent County agencies, 2) prevent and detect fraud, waste, and abuse in government activities, and 3) propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies. The legislation has a sunset date of June 30, 2000.

Internal audit efforts are also employed by Montgomery County Public Schools, whose internal audit staff reports to the Deputy Superintendent.

General Governmental Functions

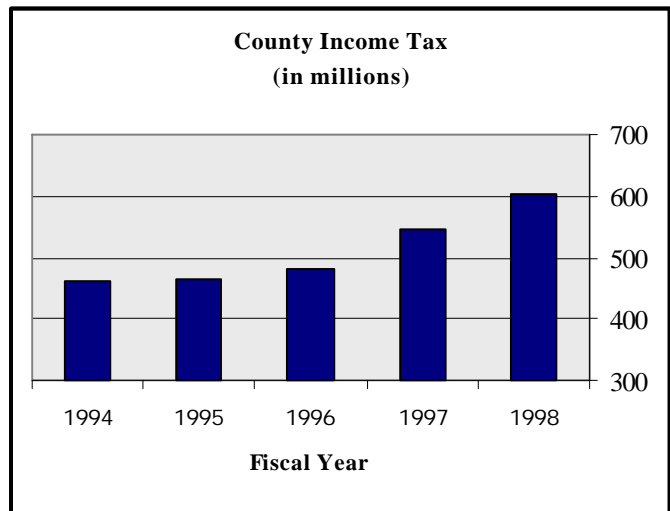
Revenues

Montgomery County concluded the fiscal year ended June 30, 1998 with an undesignated General Fund balance of \$73.2 million, an increase of \$12.9 million from the balance of the previous fiscal year. In part due to strong revenue growth, the total fund balance grew from \$112.5 million at the beginning of fiscal year 1998 (as restated for the effect of accounting changes which are described in Note 11E), to \$165.9 million by year-end. Due to higher than expected tax revenues, the Revenue Stabilization Fund (RSF), including investment income associated with this Fund, grew to \$56.8 million – the maximum fund size for the fiscal year. Following the mandatory contribution requirement, generally half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the RSF. Even though all three revenue categories came in higher than expected, the income tax was the primary source for the overall growth in the RSF. There were no discretionary contributions made to the RSF in FY98, while, pursuant to the County Code, the interest earned in the Fund during the year was transferred to the Debt Service Fund.

General Fund revenues totaled \$1,462.2 million and are 8.1 percent above the budget estimate for the year. Revenues reflect a substantial 8.0 percent growth over the prior fiscal year. Compared to the budget estimate, the largest contributor to the revenue growth occurred in the tax category. In fact, collections from all taxes exceeded the budget estimate by \$105.0 million (8.5 percent), representing more than 95% of the excess revenues for the year. The County income tax, fueled by a strong economy and financial market performance, contributed the majority of the excess tax collections, as receipts came in \$73.5 million (13.9 percent) higher than the budget estimate. The booming real estate market resulted in an unprecedented jump in transfer and recordation tax receipts, with a combined \$23.3 million (39.0 percent) excess revenue stream for the year. The property tax collections came in 0.9% higher than the budget estimate, primarily due to a one-time jump in prior year receipts. Reflecting the higher revenues for all taxes, General Fund investment income also came in \$0.4 million (2.4 percent) above the budget estimate. Other categories that contributed to the higher General Fund revenues, were Intergovernmental (4.1 percent) and Miscellaneous revenues (21.7 percent). Driven by higher State Highway Fund revenues, as a result of a new State distribution formula, and Federal aid for Health and Human Services, Intergovernmental came in \$3.5 million above the budget estimate. The shortfalls to General Fund revenues (actual less than budget estimates) were modest and occurred in Charges for Services (\$0.2 million) and Fines and Forfeitures (\$0.3 million).

The County income tax received a substantial boost from higher capital gains income due to the booming stock market, as well as stock options, corporate bonuses, and commissions from an expanding economy over the past two fiscal years. Revenues jumped almost 11 percent in FY98, following a 13 percent increase in the prior fiscal year. Because of Montgomery County's high concentration of wealthy taxpayers, the County receives a large share of non-wage income, amounting to roughly 30 percent of taxable income. An additional factor that contributed to the strong FY98 income tax collections, is employment growth that exceeded growth in the past number of years. In fact, the number of jobs in the County jumped almost 3 percent in 1997, with a more than 4 percent growth in private sector jobs. This

follows several years of less than 1 percent employment growth. Combined with average wage growth of around 4.5 percent, reflecting the tight labor market in the County, the expanding employment base provided a further boost to FY98 income tax receipts. As a result of income tax liability growth in non-wage and wage categories, both estimated payments and withholdings jumped more than 11 percent from FY97.



Similar to the FY97 experience, receipts also increased due to significant growth in late-filer collections from taxpayers who had underestimated their 1996 tax liability, which the County otherwise would have received in fiscal year 1997. As a result of these trends, collections were \$602.8 million, or \$73.5 million above the original budget estimate. Even though mid-year revisions captured most of the increase, the continued strength in collections has surprised revenue estimators throughout the country. The outlook is for a return to lower growth rates in this tax source in the coming years. National and regional economies are projected to slow-down in the current and subsequent year, while financial markets are expected to grow in the middle to upper-single digits. Growth in income tax receipts is projected to return to a more historical growth pattern.

Property tax collections exceeded the budget estimate by less than one percent and contributed \$5.4 million to the excess collections in the General Fund. Total collections were \$607.2 million, or 0.9 percent above the budget estimate. Even though part of this growth was due to slightly stronger growth in the assessable base, the largest part was due to higher than expected prior year receipts and penalties and interest. In fact, these last two "one-time" receipt categories account for two-thirds of the excess property tax revenues. While the property tax base grew 1.8 percent in fiscal year 1998, it was a full percentage point below the prior fiscal year, despite the inclusion of the former Prince George's section of Takoma Park into the County's property base. Growth in the assessable base occurred in the real property category, which increased 2.5 percent in FY98 (2.0 percent excluding Takoma Park), but experienced a 3.6 percent decline in the personal property base (roughly 12 percent of the total base). Most of the decline in the personal property base was in the corporate category, which declined 8.5 percent from the prior year – following an 8 percent jump in that prior fiscal year. Despite an expanding economy, the negative impact from changes in the tax law pertaining to the depreciation of computer equipment and an expanded number of exemptions created an actual decline in that portion of the property tax base. Even though construction activity improved modestly, while the real estate market boomed in FY98, additions to the base and reassessments are generally very low, a trend that is not expected to change. The outlook, therefore, is for the assessable base to grow slightly below 2 percent annually.

The third major tax category in the County is the combined transfer and recordation taxes, which experienced a 39.0 percent jump in receipts in FY98 due to a booming real estate market. Total receipts for these two taxes came in \$23.3 million above the budget estimate. Until June 1997, the real estate market remained weak in the County, despite a strong economy, low mortgage interest rates, high consumer confidence, and a tight labor market. At the onset of fiscal year 1998, however, the market experienced a dramatic improvement and has remained on this upward trend since. Real estate market growth was broad-based, and strong in both the residential and commercial sectors. The number of residential sales in FY98 jumped more than 15 percent to 17,131 transfers (from 14,840 transfers), while the number of commercial sales increased 23 percent to 683 transfers (from 557 transfers). More importantly, however, is the jump in average taxes for both categories, which increased to their highest level in more than a decade. In both cases, the "wealth effect" from the booming equity markets and corporate bonuses and stock options are expected to have contributed to sales at the high-end of both commercial and residential real estate markets, driving up the average tax. Even though the markets remain strong, both sectors, and especially the commercial sector, are projected to return to more historical levels. A mid-year revision of the revenue estimate for this category reflected most of the increase observed at the end of the fiscal year. The outlook is for a return to lower levels of real estate activity, and specifically for the residential sector to be in line with the moderate population growth trend for the County.

The remaining tax sources - consisting of the hotel/motel, fuel-energy, telephone, and admissions taxes - came in \$2.8 million (7.0 percent) above the combined budget estimate of \$40.0 million in FY98. The continued growth in the economy and improved corporate and personal incomes, contributed to a significant growth in revenues from the hotel/motel (6 percent), telephone (8 percent), and admissions (20 percent) taxes compared to FY97. More specifically, growth in the telephone tax occurred primarily in the cellular portion, which increased 22 percent in FY98, compared to 3.5 percent for the traditional land lines category. The continued decline in the cost of cellular phones and service plans, has dramatically expanded the availability of such telecommunication devices to the residents of the County, hence fueling growth in tax receipts. With a strong economy and high consumer confidence, hotel occupancy rates improved in the region in FY98, while room rates increased modestly, both of which contributed to a 6 percent growth in tax revenues for the hotel/motel tax.

Investment income came in slightly higher than the budget estimate. In the General Fund, it was 0.4 million (2.4 percent) above the budget estimate of \$15.4 million, reflecting stronger than expected tax revenue growth. Total pooled investment income (all funds and outside participants), however, came in “on target”, and was just 0.03 percent above the budget estimate. The improvement in revenues is reflected in the “daily cash average” which jumped from \$621 million in FY97 to \$710 million in FY98, and is higher than the budget estimate of \$698 million. The yield on cash equity jumped from 5.52 percent to 5.64 percent in FY98. With a moderate overall revenue outlook and generally lower expected rates of returns on “money market instruments,” investment income is expected to grow only modestly in the coming years.

Revenues for General Governmental functions (General, Special Revenue, and Debt Service Funds) and the changes in those functional revenue categories from FY97 to FY98 are presented below:

Expenditures

Revenues by Source	Amount		Increase (Decrease)
	FY98	FY97	
Taxes	\$ 1,462,781,332	\$ 1,360,272,636	7.54%
Licenses and Permits	7,340,512	7,025,017	4.49%
Intergovernmental	194,162,546	184,949,965	4.98%
Charges for Services	32,517,196	29,387,445	10.65%
Fines and Forfeitures	3,603,074	4,017,781	(10.32%)
Investment Income	25,084,610	21,280,898	17.87%
Miscellaneous	7,175,823	6,266,446	14.51%
Total Revenues by Source	\$ 1,732,665,093	\$ 1,613,200,188	7.41%

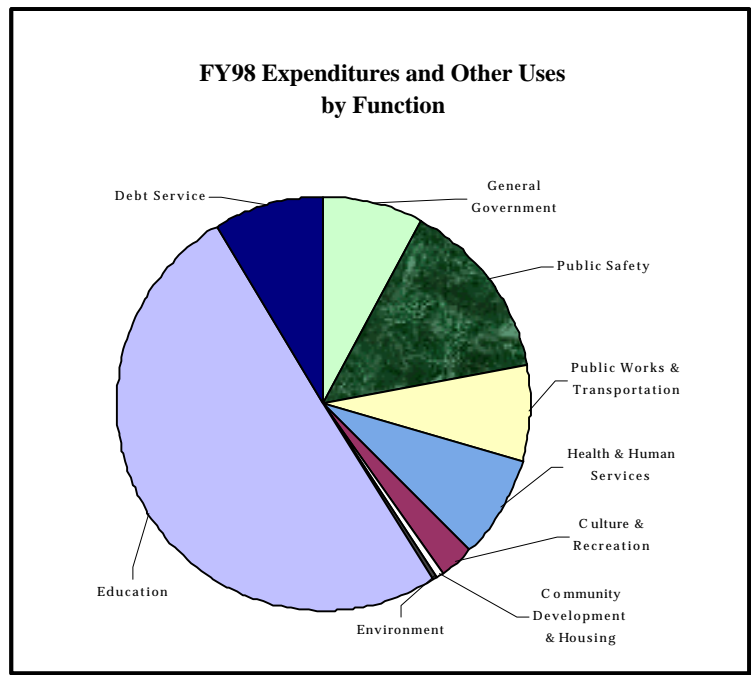
Expenditures for General Governmental functions (General, Special Revenue, and Debt Service Funds) and General Fund transfers to certain component units for educational purposes totaled \$1,639,960,864 in FY98, an increase of 4.86 percent over FY97. General Governmental expenditures and certain other uses (educational transfers) by function and the changes in those functional categories from FY97 to FY98 are presented below:

Expenditures and Other Uses by Function	Amount		Increase (Decrease)
	FY98	FY97	
General Government	\$ 125,334,945	\$ 108,170,453	15.87%
Public Safety	234,512,149	220,518,575	6.35%
Public Works and Transportation	121,364,561	126,851,522	(4.33%)
Health and Human Services	131,591,397	125,126,229	5.17%
Culture and Recreation	48,201,121	45,275,957	6.46%
Community Development and Housing	8,645,315	6,480,275	33.41%
Environment	2,411,788	2,145,849	12.39%
Education	824,878,988	790,961,803	4.29%
Debt Service	143,020,600	138,481,865	3.28%
Total Expenditures and Other Uses by Function *	\$ 1,639,960,864	\$ 1,564,012,528	4.86%

* Excludes \$115 million in bond anticipation notes retired through the issuance of general obligation bonds in FY98.

Included in all General Governmental functional categories except education and debt service are general wage adjustments and service increments, effective in FY98, averaging approximately 5.5 percent. Other significant expenditure changes include the following:

- General Government - Expenditure increases were related to a major renovation of a leased facility, management and remediation of the Year 2000 computer problem, group health costs for retirees, and a contribution to the Economic Development Fund.
- Public Works and Transportation - Expenditure decreases related primarily to a grant for bus replacements which in FY97 was expended prior to year-end, but at the end of FY98 was only encumbered.
- Community Development and Housing - Expenditure increases were related to improvements in permitting services and to economic development initiatives.



Proprietary Operations

The County operates a variety of enterprise activities which include solid waste disposal and collection activities, community use of educational facilities, permitting services, four parking lot districts, and the nation's only county-controlled wholesale and retail liquor operation. The Liquor Enterprise Fund makes an annual operating transfer to the General Fund which, in FY98, amounted to \$13.9 million. Significant financial balances and results of operations of all enterprise funds as of and for the year ended June 30, 1998 include the following:

Total Assets	<u>\$ 285,433,662</u>	Operating Revenues	<u>\$ 226,878,599</u>
Total Equities	<u>\$ 135,003,735</u>	Net Income	<u>\$ 10,682,662</u>

The County maintains four internal service funds to account, on a cost reimbursement basis, for the financing of goods or services provided by one department to other departments and governments. Goods and services provided include motor pool operations, central duplicating services, liability and property coverage, and employee health benefits coverage. Charges for these services during FY98, to reimburse costs incurred, amounted to \$110.7 million.

Fiduciary Operations

All component units participate in various pension plans, either directly in their own plan or through participation in pension systems of Montgomery County or the State of Maryland. HOC and MCRA participate in the Employees' Retirement System and Employees' Retirement Savings Plan of Montgomery County, and their data is included in that of the retirement system.

Financial data relative to the pension plans administered by the County or its component units, except BUPI which operates a simplified employee pension plan, is as follows:

Plan Name	Covered Payroll	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL
Employees' Retirement System of Montgomery County	\$ 278,364,575	\$ 1,496,651,390	\$ 1,660,034,038	\$ 163,382,648
Employees' Retirement Savings Plan of Montgomery County	28,243,483	7,669,289	-	-
Montgomery County Public Schools Employees' Retirement and Pension System **	623,633,000	482,315,000	537,742,000	55,427,000
Montgomery Community College Aetna Plan	7,920,476	12,461,435	9,094,300	(3,367,135) *

* Represents actuarial value of assets in excess of unfunded AAL
 ** FY97 data

Plan Name	Employer Contributions	Employee Contributions	Number of Members	# of Persons Receiving or Entitled to Benefits
Employees' Retirement System of Montgomery County	\$ 51,097,622	\$ 10,520,321	6,642	3,585
Employees' Retirement Savings Plan of Montgomery County	1,850,834	900,020	1,043	1,043
Montgomery County Public Schools Employees' Retirement and Pension System **	18,123,379	1,486,546	24,549	8,650
Montgomery Community College Aetna Plan	-	916	446	290

** FY97 data

The County and MCPS operate numerous fiduciary funds for the benefit of various trust agreements.

Debt Administration

At June 30, 1998, the County had outstanding general obligation bonds of \$1,057,463,054 and outstanding bond anticipation notes (BANs) of \$150 million. Over the last ten years, the County has issued its general obligation bonds at least once a year, and in some years twice. With the passage of the Tax Reform Act of 1986, the County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS and MCC not otherwise financed by the State of Maryland. Since FY89, the County has sold single general obligation bond issues of up to \$120 million, with total annual issuances of up to \$150 million in bonds. Over the last ten fiscal years, the County's annual issues have averaged about \$115 million. During FY98, the County issued general obligation bonds, dated April 1, 1998, in the amount of \$115 million. The proceeds of this bond issue were used to pay off an equal amount of the County's BANs. The County issued \$69,510,000 in refunding bonds dated January 1, 1998, to take advantage of favorable interest rates.

The County continues to maintain its status as a top rated issuer of municipal securities. The County has the highest credit ratings possible for a local government - Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch Investors Service, L.P. Montgomery County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Bonds issued by the County since July 1976 have consistently been rated AAA by Standard and Poor's.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report will be provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to Exhibits A-1 through A-12 and Notes to the Financial Statements, as well as Tables I - IV, VI, VIII, X, and XI.

Cash Management

The County maintains an active 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 short-term investment policies as approved by the County Council. The County is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency or instrumentality issues in accordance with an Act of Congress, or in repurchase agreements that any of the foregoing listed obligations secure. Cited statutes also authorize investments in bankers acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade and money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7. The County requires that these money market funds also be of highest investment grade. The average maturity of the County's working capital portfolio is generally less than six months. At June 30, 1998, the investment balance of the County's portion of the consolidated portfolios was \$600.9 million and had earned investment income of \$38.6 million for FY98.

Risk Management

Montgomery County is self-insured for most claims filed by third parties. Property exposures are commercially insured above a high dollar retention. Potential losses are mitigated by a strong safety program, contractual transfer of exposure to others, and ongoing analysis of risk associated with County activities. In addition to the component units covered by this financial report (except for BUPI), the following agencies are also members of the risk management program: Maryland-National Capital Park and Planning Commission, City of Rockville, Housing Authority of the City of Rockville, City of Gaithersburg, the Town of Somerset, and the Village of Martin's Addition to Chevy Chase.

INDEPENDENT AUDIT

Article 3, Section 315 of the County Charter requires that "the Council shall contract with, or otherwise employ, a certified public accountant to make annually an independent post audit of all financial records and actions of the County, its officials and employees. The complete report of the audit shall be presented to the Council and copies of it shall be made available to the public." This requirement has been complied with and the auditors' opinion is included in this report. The Council has a policy that no certified public accounting firm shall be retained for more than two consecutive four year terms.

The County is required to undergo annual single audits in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to these audits, including schedules of Federal financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations, are available under separate cover from Montgomery County, MCPS, MCC, the Montgomery County Revenue Authority, and the Housing Opportunities Commission of Montgomery County. The Bethesda Urban Partnership, Inc. is not required to have a "Single Audit" as it receives no Federal grants.

AWARDS AND RECOGNITION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Montgomery County, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Montgomery County has received the Certificate of Achievement as early as 1951 and consecutively for twenty-six years, since 1972. The Department of Finance believes our current report continues to conform to the Certificate of Achievement program requirements, and it is being submitted to GFOA.

Distinguished Budget Presentation

The GFOA presented an award for Distinguished Budget Presentation to Montgomery County, Maryland, for its annual budget for the fiscal year beginning July 1, 1997. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium. The award is valid for a period of one year only. Montgomery County has received the award for Distinguished Budget Presentation consecutively since 1984. The Office of Management and Budget believes our current budget continues to conform to program requirements and it has been submitted to GFOA to determine its eligibility for another award.

Outstanding Program Awards

The County received 12 awards from the National Association of Counties (NACO) for outstanding programs in 1998. Award recipients from this and other organizations are mentioned below.

County Council: Councilmember Betty Ann Krahnke (District 1, Bethesda, Chevy Chase, Potomac) received a 1998 Governor's Award for Victim Assistance for her effort to establish a "used" cell phone program for domestic violence victims in Montgomery County. The Governor's Office of Crime Control and Prevention and the State Board of Victims Services sponsor the award.

County Executive: The Jewish Community Council of Greater Washington recognized County Executive Douglas M. Duncan by awarding him the group's prestigious Breslau-Goldman Award at its 60th Annual Meeting.

Education: Montgomery County Public Schools (MCPS): MCPS was awarded the 1997 Award for Excellence in Program Management by the Government Finance Officers Association of the Washington Metropolitan Area and KPMG Peat Marwick LLP. The award cited MCPS for leadership and innovation in facing new challenges while delivering exceptional services. MCPS was also awarded a second consecutive "Gold Medal" award from *Expansion Management Magazine* for offering educational services to companies considering relocation.

Environment: The Department of Environmental Protection's Stormwater Facility Maintenance Educational Program and Compost Bin Distribution programs won NACO awards. In recognition of its significant role in reducing nutrients in the Chesapeake Bay and its tributaries, Montgomery County has received the Governor's Award of Excellence for its voluntary participation in the State's Biological Nutrient Removal Program (BNR).

Health and Human Services: The Department won NACO Awards for Homeless Families Providers Team, Connect-A-Ride, and Linkages to Learning School Based Health Centers. In addition, the Montgomery County Senior Nutrition Program was selected by the Maryland Office on Aging as the best program in the state as part of the Federal Administration on Aging's 25th Anniversary Celebration.

General Government: The Department of Information Systems and Telecommunications' Tower and Monopole Management Program and Year 2000 Program won NACO Awards.

Public Safety: The Police Department's submission, "Police Deployment Based on School Boundaries," was one of only 14 submissions to receive the NACO "Best of Category" award. The Police Department program won this award in the Criminal Justice and Public Safety category. The Police Department's Domestic Violence Unit also won a NACO Award and the Certificate of Merit from the Attorney General and Lieutenant Governor's Family Violence Council. The Pre-Release Center was audited by the Maryland Commission on Correctional Standards, and was awarded the Recognition of Achievement for having met 100 percent of the State's standards. The Pre-Release Center was cited for a high degree of efficiency and effectiveness in carrying out its mission.

Public Works and Transportation: The Department had three NACO Award winners, including the Innovative Design Management for Large Capital Projects, ADA Paratransit Services, and Taxicab Ride On Home initiatives. The Department was awarded the 1998 Transportation Achievement Award from the Institute of Transportation Engineers (ITE), an international association comprised of nearly 15,000 transportation professionals from more than 80 countries. The award was made in recognition of the success and innovations of its Advanced Transportation Management System (ATMS). Ride On Operations was awarded a Transportation Association of Maryland Award for Best Transit System in Maryland, while the County's Paratransit Section won the Transportation Association of Maryland Award for Most Improved Operation. The Washington Council of Governments awarded its Organization Achievement Award for the Commuting Solutions Summit, at which Smart Moves 2000 program was introduced. The County also won the Association for Commuter Transportation Chesapeake Chapter Public Leadership Award. The County received two awards for parking garage designs at the International Parking Conference, including the Award of Excellence, the Conference's highest recognition, for the Kennett Street Garage. The Lakeforest Transit Center received the Public Project of the Year Award for Architectural Excellence from the Maryland Society/American Institute of Architects.

USE OF THIS REPORT

The Government Finance Officers Association of the United States and Canada reports a growing awareness that the Comprehensive Annual Financial Report should be management's report to its governing body, constituents, oversight bodies, resource providers, investors and creditors. We agree with this direction, and we continue to send copies of this report to elected officials, County management personnel, bond rating agencies, nationally recognized municipal securities information repositories, the State information depository, if any, and other agencies such as financial institutions and government agencies that have expressed an interest in the financial affairs of Montgomery County, Maryland.

In addition to the vast amount of financial information presented, there is included herein a Statistical Section containing comprehensive data which relates to the financial condition of the entire governmental structure of Montgomery County. Use of this report by the elected officials and department heads of the County is encouraged when furnishing information to interested parties. Considerable effort is being made to present financial information on a uniform and consistent basis nationwide, which will make this report all the more valuable to those desiring to secure information regarding the financial activities of the County.

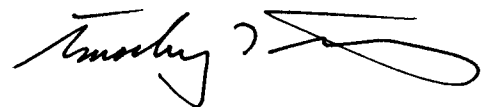
In conformity with County Administrative Procedure 1-6, copies of this report are being placed in the County Library System for use by the general public.

This report, and other financial information prepared by the Montgomery County Department of Finance, can be accessed on the World Wide Web at <http://www.co.mo.md.us/services/finance>.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the staff of the County's Department of Finance. I express my appreciation to all participants who assisted and contributed to its preparation. I particularly express my sincerest appreciation to Karen Q. Hawkins, CPA, Controller, and her staff, particularly the General Accounting and Administration Sections, for their outstanding performance in the preparation of this report. A list of individuals who labored long and hard in preparing this report is provided separately after this letter. A special appreciation is extended to the finance and accounting managers of the component units whose cooperation greatly facilitated the preparation of this report. I express my appreciation to the County Executive, the members of the County Council and the Chief Administrative Officer and their staffs for their continuing interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy L. Firestine", with a large, stylized flourish extending to the right.

Timothy L. Firestine
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

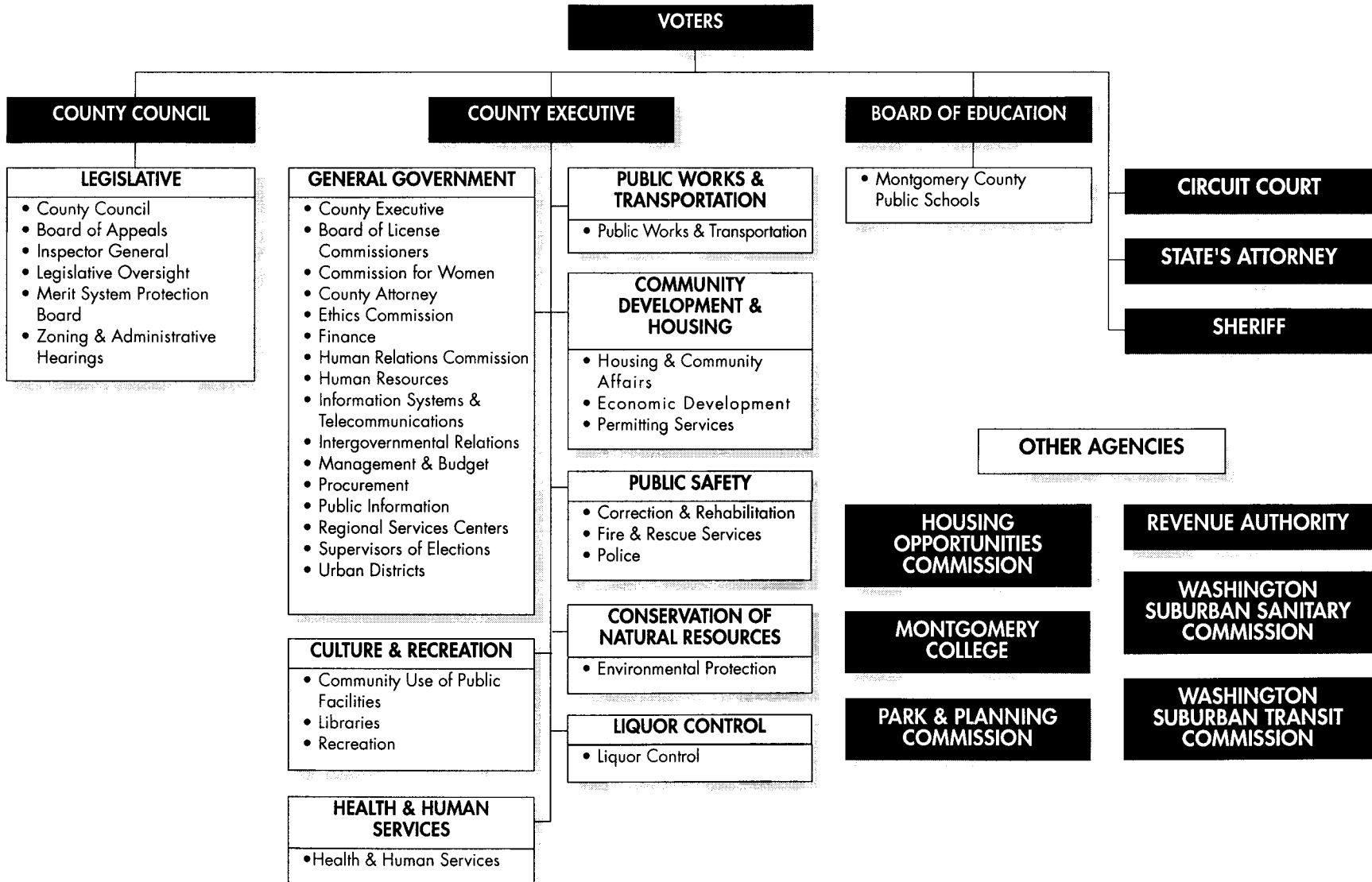
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Douglas R. Ellsworth
President

Jeffrey L. Eselle
Executive Director

MONTGOMERY COUNTY, MARYLAND FUNCTIONAL ORGANIZATION CHART



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The following individuals' efforts were instrumental in closing the County's funds to prepare this Comprehensive Annual Financial Report:

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Department of Liquor Control

Andy Brown

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