

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2004

July 1, 2003 - June 30, 2004
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2004
July 1, 2003 - June 30, 2004



Montgomery County, Maryland
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FINANCIAL SECTION



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' 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, 2004, 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 financial statements of the Montgomery County Public Schools, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 64% and 92%, respectively, of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, 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 Montgomery County, Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 23 is not a required part of the basic financial statements but is 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 combining and individual fund financial statements and supplementary schedules listed as supplementary data in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004 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 the 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.

KPMG LLP

December 3, 2004

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 year's 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

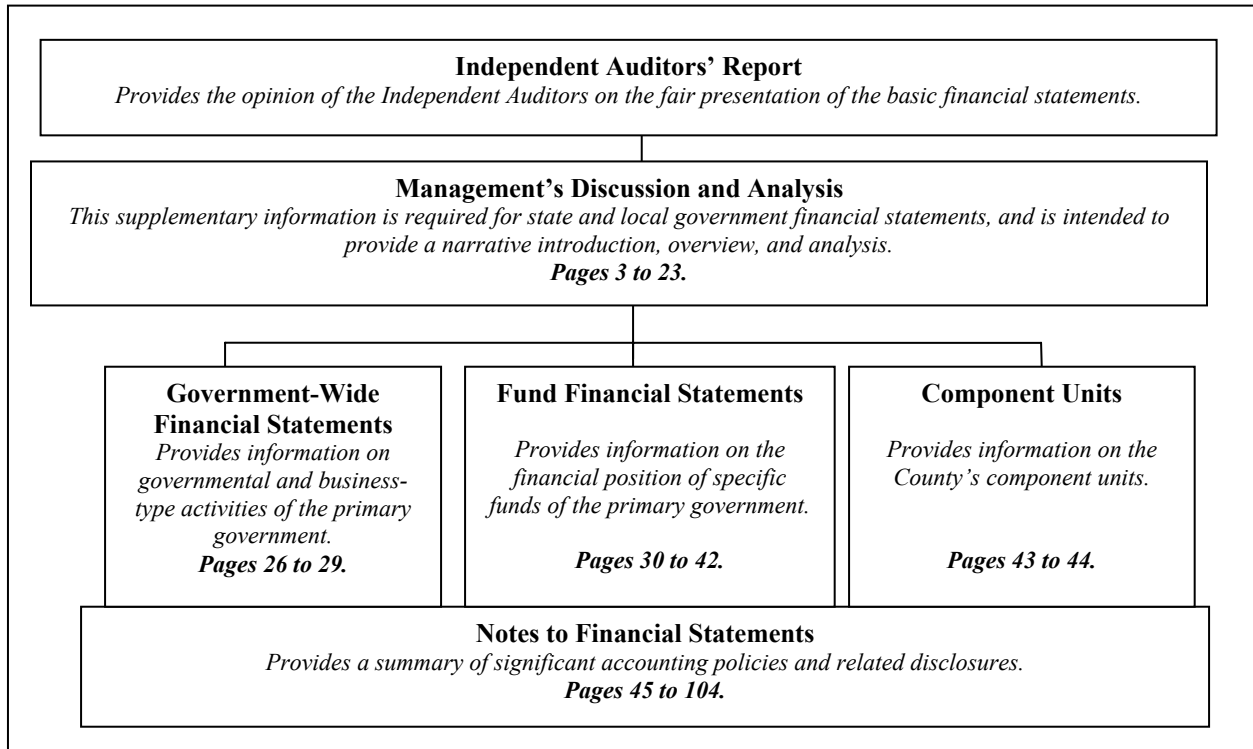
- The government-wide assets of the County exceeded its liabilities at the close of FY04 by \$1,637.9 million. That amount is net of a \$477.5 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community 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 \$817.7 million at June 30, 2004. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$340.2 million.
- The County's total government-wide net assets increased by \$53.7 million.
- As of the close of FY04, the County's governmental funds reported combined ending fund balances of \$445.6 million, an increase of \$65.3 million over the prior year's ending fund balances. Of the total ending fund balances, \$216.4 million is available for spending at the County's discretion.
- At the end of FY04, unreserved fund balance for the General Fund was \$139.1 million, or 7.5 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$101.5 million during FY04. The key factors in this increase are:
 - The issuance of: \$204.1 million in general obligation (GO) bonds, \$190 million in bond anticipation notes (BANS), and \$42.8 million in capital leases.
 - The retirement of: \$162.5 million in GO bonds, \$165 million in BANS, \$7.8 million in revenue bonds, and \$12.4 million in certificates of participation.

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 Community 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) how cash and other financial assets that can readily be converted to cash 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 three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

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, 2004 and 2003:

Summary of Net Assets *						
June 30, 2004 and 2003						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets	\$ 986,468,128	\$ 969,369,323	\$ 172,997,180	\$ 172,415,638	\$ 1,159,465,308	\$ 1,141,784,961
Capital assets, net	2,363,793,826	2,250,576,672	208,555,761	176,919,027	2,572,349,587	2,427,495,699
Total Assets	<u>3,350,261,954</u>	<u>3,219,945,995</u>	<u>381,552,941</u>	<u>349,334,665</u>	<u>3,731,814,895</u>	<u>3,569,280,660</u>
Liabilities:						
Long-term liabilities outstanding	1,686,045,195	1,575,665,607	97,474,189	106,358,950	1,783,519,384	1,682,024,557
Other liabilities	278,678,649	268,707,511	31,734,846	34,364,029	310,413,495	303,071,540
Total Liabilities	<u>1,964,723,844</u>	<u>1,844,373,118</u>	<u>129,209,035</u>	<u>140,722,979</u>	<u>2,093,932,879</u>	<u>1,985,096,097</u>
Net assets:						
Invested in capital assets, net of related debt	1,597,253,419	1,584,549,157	137,937,194	98,603,512	1,735,190,613	1,683,152,669
Restricted	288,675,222	253,868,311	91,478,147	90,462,462	380,153,369	344,330,773
Unrestricted (deficit)	(500,390,531)	(462,844,591)	22,928,565	19,545,712	(477,461,966)	(443,298,879)
Total Net Assets	<u>\$ 1,385,538,110</u>	<u>\$ 1,375,572,877</u>	<u>\$ 252,343,906</u>	<u>\$ 208,611,686</u>	<u>\$ 1,637,882,016</u>	<u>\$ 1,584,184,563</u>

* Primary Government

The County's current and other assets increased by \$17.7 million or only 1.6 percent over FY03. The County's assets exceeded its liabilities at the close of FY04 by \$1,637.9 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.

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 \$817.7 million at June 30, 2004. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$340.2 million.

An additional portion of the County's net assets (\$380.2 million or 23 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$95.9 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

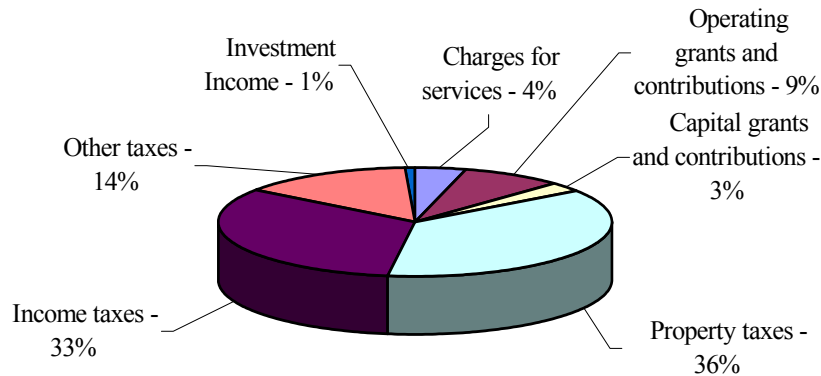
The following table summarizes the County's change in net assets for the years ended June 30, 2004 and 2003:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2004 and 2003						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
REVENUES						
Program Revenues:						
Charges for services	\$ 101,159,195	\$ 93,376,278	\$ 316,912,133	\$ 292,575,741	\$ 418,071,328	\$ 385,952,019
Operating grants and contributions	212,715,817	210,945,105	51,952	51,154	212,767,769	210,996,259
Capital grants and contributions	65,016,769	37,716,052	-	-	65,016,769	37,716,052
General revenues:						
Property taxes	919,320,985	856,439,593	7,591,413	7,096,856	926,912,398	863,536,449
Income taxes	812,975,046	757,486,559	-	-	812,975,046	757,486,559
Other taxes	349,045,891	222,860,308	-	-	349,045,891	222,860,308
Investment income	23,243,889	31,489,144	1,821,746	3,069,224	25,065,635	34,558,368
Gain on sale of capital assets	-	5,433,151	2,528,262	58,750	2,528,262	5,491,901
Total Revenues	<u>2,483,477,592</u>	<u>2,215,746,190</u>	<u>328,905,506</u>	<u>302,851,725</u>	<u>2,812,383,098</u>	<u>2,518,597,915</u>
EXPENSES						
Governmental Activities:						
General government	211,957,281	206,410,568	-	-	211,957,281	206,410,568
Public safety	373,518,674	348,701,601	-	-	373,518,674	348,701,601
Public works and transportation	175,276,975	157,009,091	-	-	175,276,975	157,009,091
Health and human services	210,481,464	208,820,841	-	-	210,481,464	208,820,841
Culture and recreation	79,110,368	86,021,724	-	-	79,110,368	86,021,724
Community development and housing	19,970,947	19,602,595	-	-	19,970,947	19,602,595
Environment	8,310,848	6,672,833	-	-	8,310,848	6,672,833
Education	1,322,003,030	1,225,921,559	-	-	1,322,003,030	1,225,921,559
Interest on long-term debt	69,895,441	66,928,923	-	-	69,895,441	66,928,923
Business-type Activities:						
Liquor control	-	-	144,912,612	135,890,772	144,912,612	135,890,772
Solid waste activities	-	-	97,987,992	90,633,907	97,987,992	90,633,907
Parking lot districts	-	-	19,370,927	19,662,075	19,370,927	19,662,075
Permitting services	-	-	19,970,101	17,866,311	19,970,101	17,866,311
Community use of public facilities	-	-	5,918,985	5,931,243	5,918,985	5,931,243
Total Expenses	<u>2,470,525,028</u>	<u>2,326,089,735</u>	<u>288,160,617</u>	<u>269,984,308</u>	<u>2,758,685,645</u>	<u>2,596,074,043</u>
Increase (Decrease) in Net Assets						
Before Special Item and Transfers	12,952,564	(110,343,545)	40,744,889	32,867,417	53,697,453	(77,476,128)
Special items:						
Loss on disposal of capital assets	-	-	-	(3,938,026)	-	(3,938,026)
Depreciation adjustment	-	-	-	599,465	-	599,465
Transfers	(2,987,331)	20,854,550	2,987,331	(20,854,550)	-	-
Increase (Decrease) in Net Assets	9,965,233	(89,488,995)	43,732,220	8,674,306	53,697,453	(80,814,689)
Net Assets, beginning of year	1,375,572,877	1,465,061,872	208,611,686	199,937,380	1,584,184,563	1,664,999,252
Net Assets, end of year	<u>\$ 1,385,538,110</u>	<u>\$ 1,375,572,877</u>	<u>\$ 252,343,906</u>	<u>\$ 208,611,686</u>	<u>\$ 1,637,882,016</u>	<u>\$ 1,584,184,563</u>
* Primary Government						

Governmental Activities

Revenues for the County's governmental activities were \$2,483.5 million for FY04. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities For the Fiscal Year Ended June 30, 2004

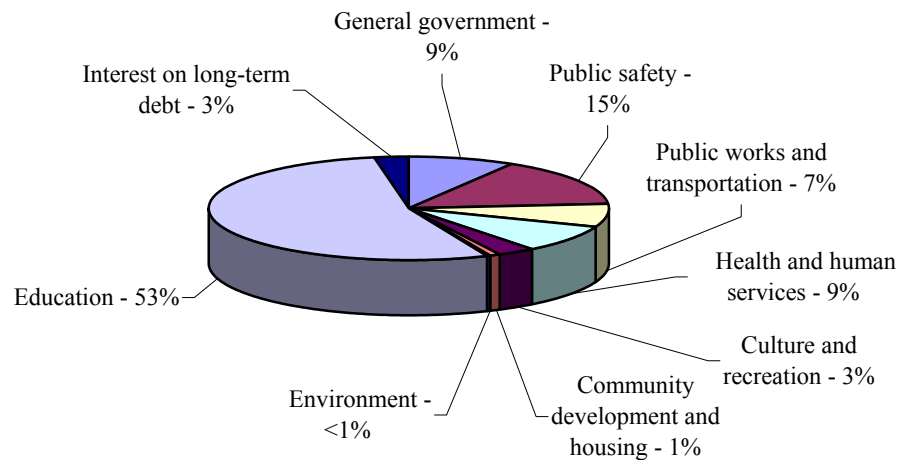


- Taxes constitute the largest source of County revenues, amounting to \$2,081.3 million for FY04. Property and local income tax combined comprise 70 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar year 2004 and 2.95 percent for 2003. 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 (\$113 million or 53 percent), public works and transportation (\$49.3 million or 23 percent) and public safety (\$32.5 million or 15 percent).

A more detailed discussion of the County's revenue results for FY04 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 FY04 was \$2,470.5 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.3 billion. Public safety expenses totaled \$373.5 million, general government services totaled \$212 million, and health and human services, the fourth largest expense for the County, totaled \$210.5 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2004**



The following table presents the cost and program revenues of 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, 2004 and 2003						
	Expenses		Revenues		Net Cost of Services	
	2004	2003	2004	2003	2004	2003
Education	\$ 1,322,003,030	\$ 1,225,921,559	\$ -	\$ -	\$ 1,322,003,030	\$ 1,225,921,559
Public safety	373,518,674	348,701,601	56,302,171	40,534,761	317,216,503	308,166,840
General government	211,957,281	206,410,568	50,439,718	45,261,534	161,517,563	161,149,034
Health and human services	210,481,464	208,820,841	116,265,854	117,823,577	94,215,610	90,997,264
Public works and transportation	175,276,975	157,009,091	83,645,717	84,346,430	91,631,258	72,662,661
Culture and recreation	79,110,368	86,021,724	55,869,027	31,240,009	23,241,341	54,781,715
Other	98,177,236	93,204,351	16,369,294	22,831,124	81,807,942	70,373,227
Total	\$ 2,470,525,028	\$ 2,326,089,735	\$ 378,891,781	\$ 342,037,435	\$ 2,091,633,247	\$ 1,984,052,300

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$101.2 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$277.7 million). Culture and recreation revenues in FY04 included \$23.6 million in State funding towards construction of an Arts Education facility and a Concert Hall at the Strathmore Hall facility; such costs have been capitalized.

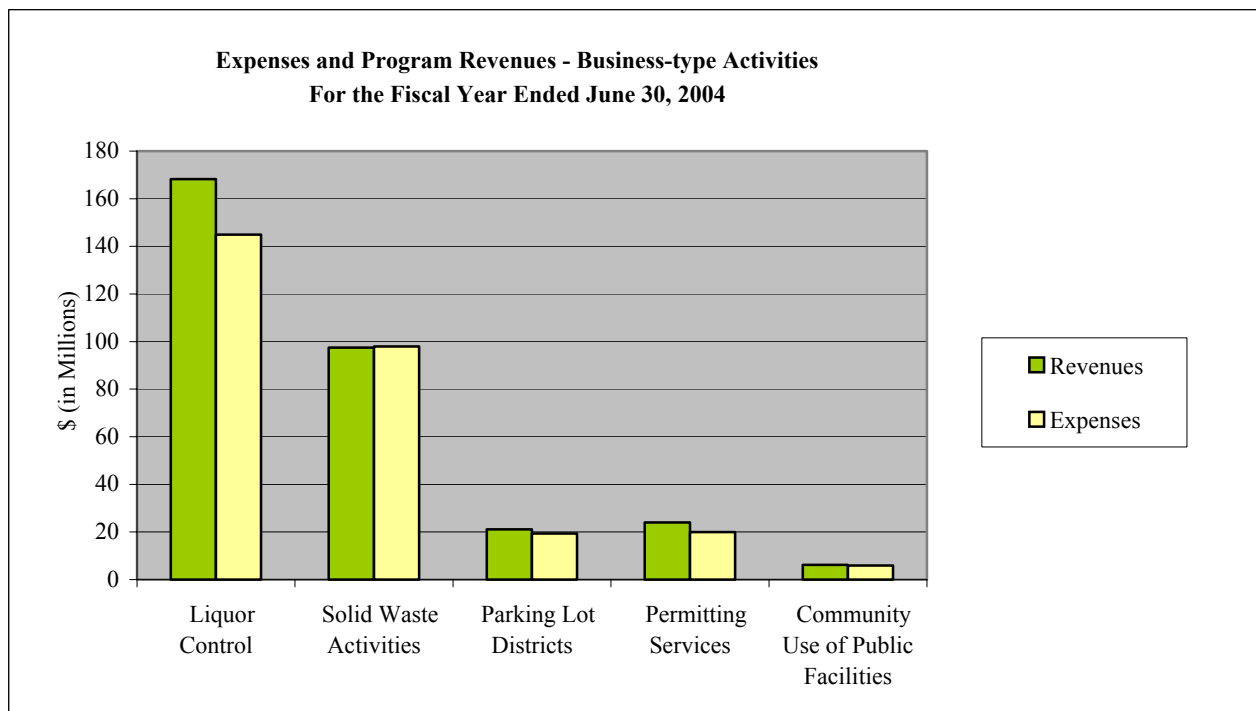
Of the \$2,091.6 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was \$2,081.3 million; the remainder was funded by investment income. Increases in expenses for public works and transportation include costs associated with Hurricane Isabel; expanded and more frequent bus service under the first full year of the Go Montgomery! program; a catch-up on preventive maintenance on buses; and increased operational costs, including fuel and insurance, associated with the bus fleet.

Business-type Activities

Highlights of the County's business-type activities for FY04 are as follows:

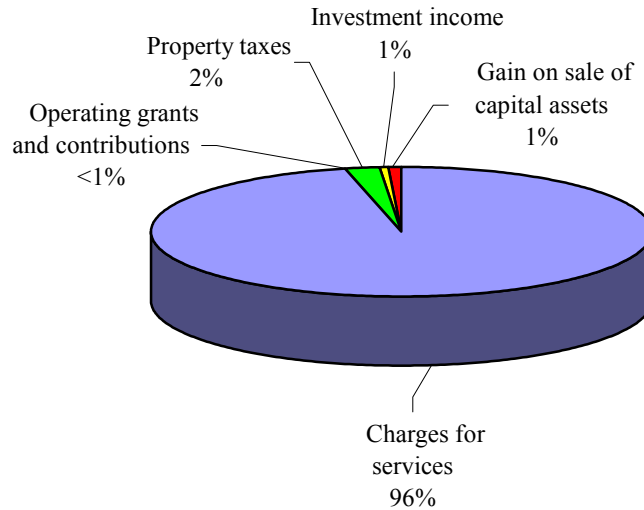
- Business-type activities experienced an increase in net assets of \$43.7 million for FY04. However, this amount is reported after total net transfers in of \$3 million. The most significant components of this amount include \$36 million in transfers in from the General Fund to the Silver Spring Parking Lot District, representing the value of donated assets in the form of garages under construction, netted against \$20.5 million in FY04 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.
- Charges for services to users comprise 96 percent of revenues, with \$168.3 million (53 percent of charges for services revenue) attributable to liquor control operations and \$97.4 million (31 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 \$7.6 million is the second largest source of revenue at only 2 percent.
- Investment income of \$1.8 million reflects a decrease of \$1.3 million (42 percent, after a 21 percent decrease in FY03), primarily because of the continuing significant drop in interest rates 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, 2004**



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 FY04, the County's governmental funds reported combined ending fund balances of \$445.6 million, an increase of \$65.3 million from the end of FY03. Of the total ending fund balances, \$216.4 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$229.2 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 FY04, unreserved and undesignated fund balance of the General Fund was \$26.7 million, while total fund balance was \$158.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 1.2 percent of the total General Fund expenditures and transfers out, while total fund balance represents 7.4 percent of the same amount.

The fund balance of the County's General Fund increased by \$32.5 million during FY04, primarily due to \$70.7 million in accelerated income tax distributions from the State, which is described more fully under the General Fund Budgetary Highlights section below, and in Note IC.

The Capital Projects Fund has a total fund balance of \$56.8 million, which represents authorized and funded projects that are not completed. The unreserved deficit in this fund results primarily from fund balance encumbrances and legal restrictions on debt proceeds on hand.

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.

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 FY04 amounted to \$23 million, and operating income was \$23.4 million. After a subsidy transfer to the General Fund of \$20.5 million, the fund ended FY04 with an increase in net assets of \$2.9 million.

The Solid Waste Activities Fund total net assets amounted to \$61 million, of which the unrestricted net assets were \$20 million. Restricted net assets of \$35.6 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to \$41.3 million in FY04, resulting in total ending net assets of \$161.5 million. Of this amount, \$125.7 million (78 percent) is invested in capital net of related debt; \$5.4 million (4 percent) is restricted for debt service on revenue bonds; and \$30.4 million (19 percent) is unrestricted. Of the \$41.3 million increase in net assets, \$36 million relates to transactions involving two garages entered into as part of the redevelopment of downtown Silver Spring. The County is acquiring the garages, under a capital lease. The lease is a general governmental obligation, and the asset is reflected in the Silver Spring Parking Lot District (SSPLD), as required by law. Therefore, the SSPLD reflects a transfer in from the General Fund of \$36 million, the value of additions to capital assets during FY04.

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 \$25.4 million, which included County Council approved supplemental and special appropriations and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$6.2 million for costs associated with excess snow removal;
- \$5.4 million for costs associated with Hurricane Isabel;
- \$2.2 million to replace Federal funding for developmental disability service providers that was lost due to a change in the State's developmental disability payment system; and
- \$7.5 million in health-related services funded by Federal Financial Participation revenue.

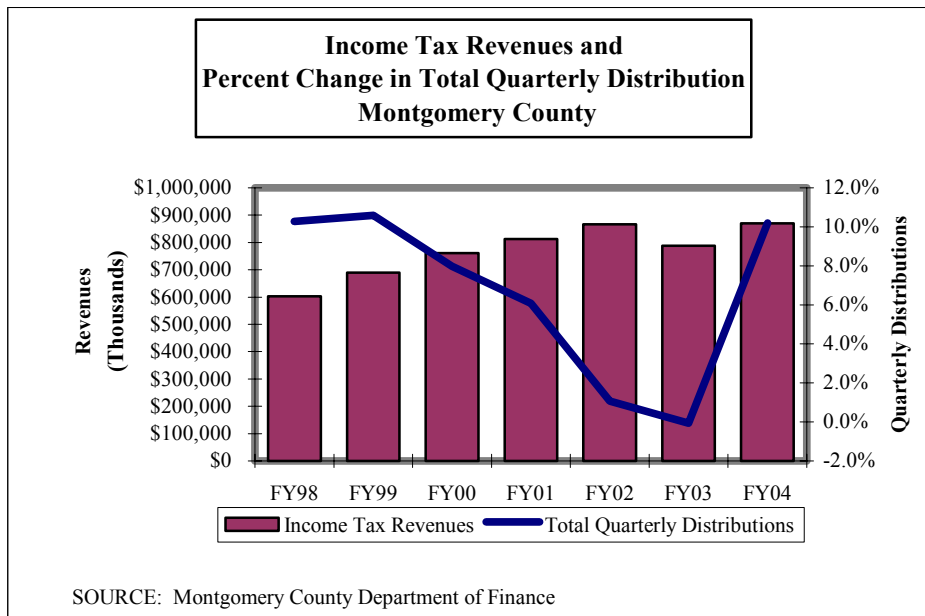
Actual revenues were greater than budget amounts by \$99 million, while actual expenditures and net transfers out were less than final budget by \$2.1 million and \$43.9 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2004, include the following:

- Actual expenditures of \$654.1 million were \$2.1 million less than the final budget, which represents .3 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 \$46.4 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 \$2,099.8 million and were 4.9 percent above the budget estimate for the fiscal year and 13.4 percent above actual revenues for FY03. The three largest contributors to the variance between the budget estimate and actual revenues were the recordation tax (\$48.3 million above the budget estimate), followed by the income tax (\$32 million above the estimate), and finally, the transfer tax (\$29.7 million above the estimate). The war on terror and the various terrorism alerts in the Washington metropolitan region had an effect on the region's and County's hospitality industry during FY04. While actual revenue from the County's hotel-motel room tax was 6.7 percent above actual revenue during FY03, it was 6 percent lower than the budget estimate. During FY04, the County Council adopted rate increases to the fuel and energy taxes and the telephone taxes. Fuel and energy tax rates were increased threefold, and the Council imposed a \$2.00 per month tax rate on cellular telephones, while doubling the rate on landlines. While low interest rates, particularly low mortgage rates, were a boon to the transfer and recordation tax receipts, they had a negative effect on revenues from the County's investments. Investment income was \$8 million below the budget estimate. Other nontax-tax sources of revenue came in below budget estimates. Such sources included licenses and permits (↓ 0.3 percent); charges for services (↓ 12.9 percent), which was attributed to a drop in public safety user fees; fines and forfeitures (↓ 61 percent), which was attributed to a significant decline in anticipated fines from photo red light operations; and miscellaneous sources (↓ 3.1 percent). Intergovernmental revenues were 4.4 percent above the budget estimate. Such increase was attributed to the federal reimbursements, primarily for Federal Financial Participation, which came in 25.4 percent above the budget estimate, while state aid and reimbursements were a very modest 0.1 percent below the budget estimate.

- Income Taxes** – The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$869.7 million and represented 44.8 percent of total tax revenues for the General Fund and 41.4 percent of total revenues in FY04. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County during the 1999-2001 period and growth in capital gains during that same period. Even with a sluggish stock market and minimal growth in the County’s payroll employment, revenues increased 10.4 percent in FY04 compared to a 9.1 percent decline in FY03. There are a number of factors that contributed to the increase in income tax revenues. First, the County Council increased the local income tax rate from 2.95 percent to 3.20 percent. Second, the Maryland State Comptroller (Comptroller) implemented three administrative changes to the distribution of revenue collections to the County. The first such change was the procedure expediting the submittal of withholding by employers. Previous to the change, the Comptroller received employers’ withholdings on the fifteenth day of the subsequent month. The new procedure requires employers to submit their withholdings within three business days. As a result, the Comptroller accelerated the August distribution to the month of July, and therefore, due to the County’s 30 day revenue availability period for the General Fund, the distribution was included in FY04 instead of the subsequent fiscal year. The second administrative change proposed by the state accelerated fifty percent of three years of unclaimed withholdings (tax years 2001, 2002, and 2003). The third and final administrative change modified the unallocated percentage with a three percentage point reduction, resulting in an increase in quarterly distributions of withholdings and estimated payments. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 10.2 percent (FY04) compared to -0.1percent (FY03), +1.1 percent (FY02), +6.1 percent (FY01), +8 percent (FY00), +10.6 percent (FY99), and +10.3 percent (FY98).

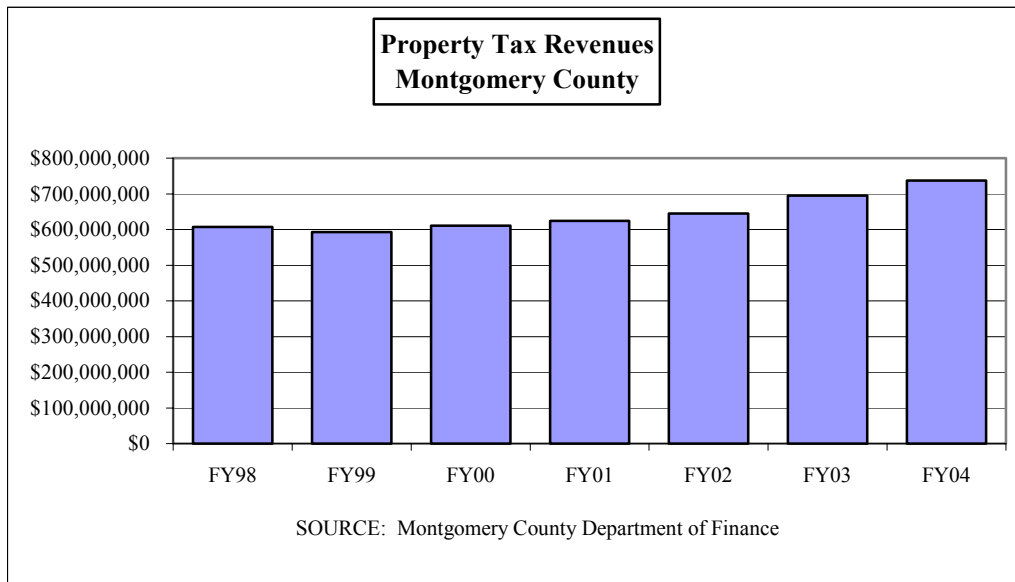


However, with the increase in the tax rate and the administrative changes to the distribution formulae by the Comptroller, underlying economic factors such as capital gains and employment were a drag on income tax receipts. While total payroll wages increased in nominal terms during calendar year (CY) 2003, the latest date from which data are available, wages did not increase in real dollars, i.e., adjusted for inflation. During CY03, the total number of payroll jobs was 449,909. When compared to CY02, the number of payroll jobs increased slightly by less than 1,800 jobs or 0.4 percent. The minimal growth is attributed to a

slight decline in the number of jobs in the local government sector and in goods-producing industries. However, the lack of growth in those sectors was offset by a gain in service-providing sectors, particularly in the professional and business, and financial services sectors.

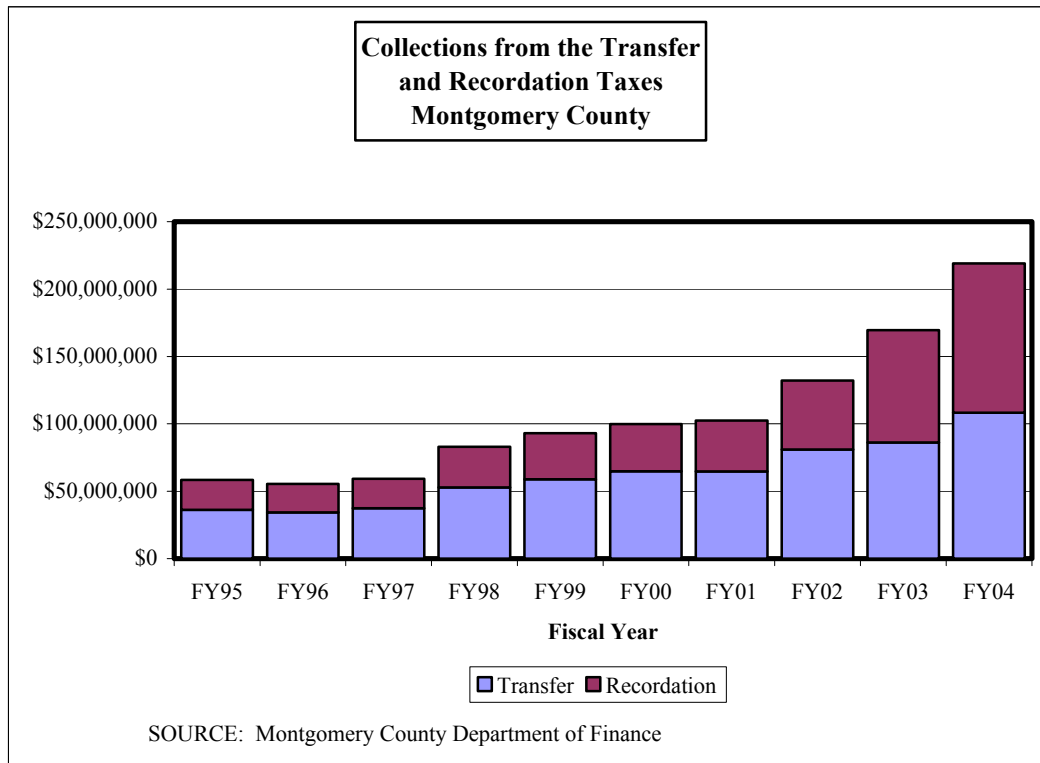
- **Property Taxes** – Property tax collections in the General Fund amounted to \$737 million in FY04, which were \$7.3 million higher than the budget estimate and 6 percent above actual revenues in FY03. Property taxes, excluding penalty and interest, were \$734.7 million in FY04 – an increase of 6.3 percent over last year. However, collections from penalty and interest were \$2.3 million, a decrease of 44.3 percent compared to FY03 actual revenues, and below the recent four-year annual average of approximately \$3.7 million.

The increase in property tax collections was the result of an 8.3 percent increase in the assessable base for real property from FY03 to FY04. This was the largest increase in over eight years. New construction, which added \$1.7 billion to the base in FY04, was 1.1 percent greater than FY03. The dramatic increase in the reassessment rate from 6.4 percent to 36.3 percent for Cycle Three reassessments (based on triennial reassessment cycles by geographic area performed by the State Department of Assessments and Taxation) of the County’s real property, which followed increases in the rate from 1.1 percent to 13.5 percent for Cycle One reassessments in FY02 and from 2.7 percent to 21.8 percent for Cycle Two reassessments, were the primary reasons for the increase in property tax collections. Because of the dramatic increases in the reassessment rates, such increases added \$5.2 billion to the real property tax base. As a result, the 6.1 percent increase in tax-supported property tax revenues in FY04 was one of the highest increases during the past eight fiscal years.



After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to a decline in corporate personal property reflecting the moderate economic growth in the County. Assessments of real property continued their growth with an increase of 6.2 percent in FY03 and 8.3 percent in FY04. As a result of continued growth in real property, the total assessable base grew 5.9 percent in FY03 and 7.6 percent in FY04.

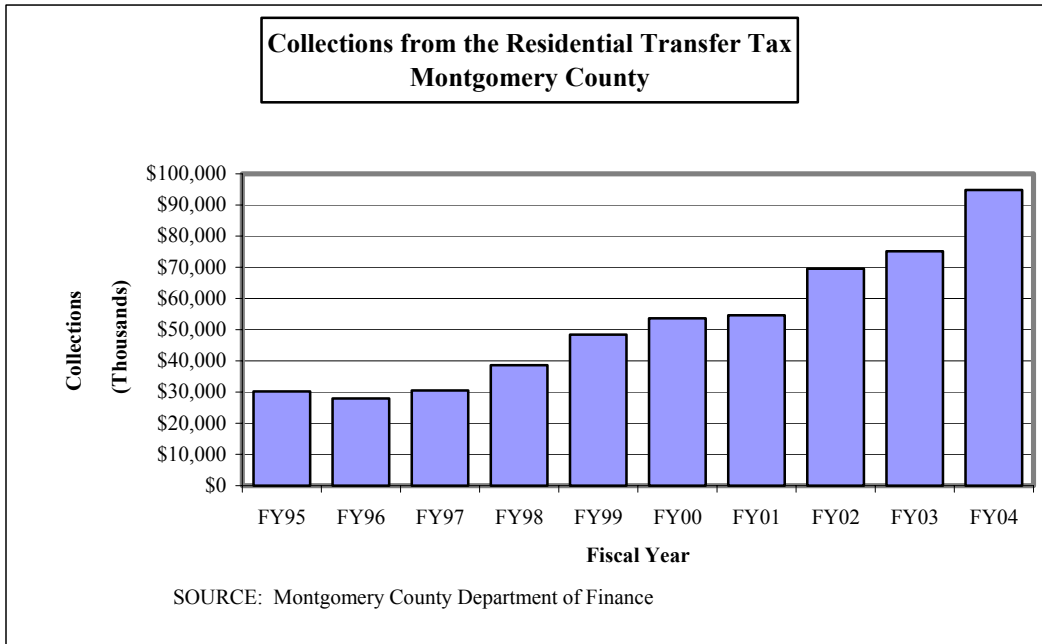
- Transfer and Recordation Taxes** – The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were \$219.1 million, which was 55.2 percent above the budget estimate and 29.2 percent above FY03. Collections from transfer and recordation taxes continue to reach record highs. As the accompanying chart illustrates, the amount collected from these taxes increased from \$83 million in FY98 to \$219 million in FY04, nearly a threefold increase.



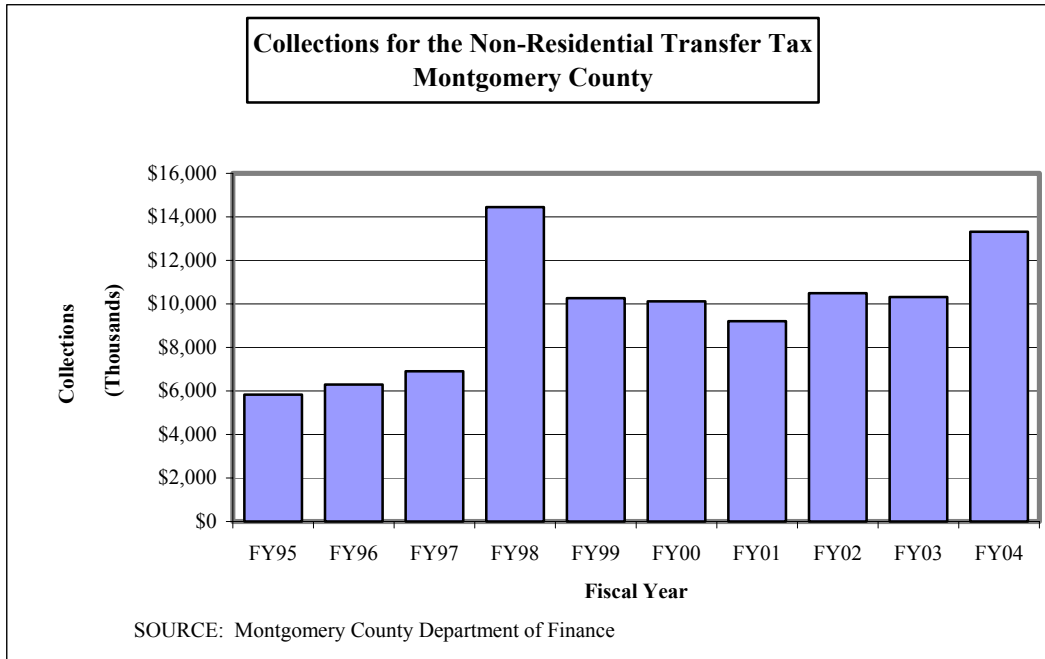
Following a two-year decline in tax collections from transfer and recordation taxes ending in FY96 that reflected a weak real estate market in the County, receipts began their historical rise in FY97 increasing 6.7 percent, jumping 40.1 percent in FY98 and 12.1 percent in FY99, moderating in FY00 and FY01, then accelerating another 29 percent per year from FY02 through FY04. Collections from recordation taxes exhibited the larger increase in FY04, 32.8 percent, compared to transfer taxes, which increased 25.7 percent. That increase was attributed to a 40 percent jump in revenues collected solely from mortgage refinancing. In FY03, mortgage refinancing contributed \$28.8 million, or 34.9 percent, of total recordation tax revenues. In FY04, mortgage refinancing contributed \$40.4 million, or 37.4 percent, of total recordation tax revenues – an increase of nearly 40 percent.

Revenues from the transfer tax were exceptionally strong in FY04 with total collections at \$108.3 million for an all time record high. Revenues from the residential sector were \$94.9 million, an increase 26.2 percent over FY03, and revenues from the nonresidential-residential sector were \$13.4 million, an increase of 29.1 percent. The continued surge of real estate activity in FY04, attributed to historic low mortgage interest rates and accelerating home prices, was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY04.

A closer examination of the trend in the transfer tax from FY98 to FY04 provides two different growth patterns between residential and nonresidential-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Excluding FY01 and FY03, tax collections increased at an average annual rate of 23.3 percent between FY98 and FY04. In FY01 and FY03, the growth rates were below 9 percent for the first time since FY97, but still remained positive. Because of such exceptional increases, the amount collected in FY04, \$94.9 million, was a record. The average transfer tax also increased during this period from \$2,254 in FY98 to \$3,806 in FY03, representing a 70 percent growth rate and indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County.



Similar to the residential sector, the commercial or nonresidential-residential sector experienced the same exceptional performance in FY04. However, over the previous six fiscal years, recordation taxes exhibited volatility. While the amount of collections from the commercial sector doubled in FY98 from the previous fiscal year, the growth rates declined over the next three fiscal years until FY02, when receipts increased 14 percent, decreasing 1.7 percent in FY03, and increasing 29.1 percent in FY04. The cause of the decline in the growth rates is attributed to the decline in the number of transfers from FY99 to FY01. The average nonresidential-residential tax increased from approximately \$33,500 in FY03 to \$42,300 in FY04, an increase of 26.3 percent.



- Other Taxes** – The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled \$116.9 million and were approximately \$1.2 million, or -1 percent, below the budget estimate. The modest economic expansion coupled with ongoing efforts against international terrorism had an effect on revenues from the hotel/motel industry (↓ 6 percent below budget estimate) during FY04. The economy, particularly the modest increase in real personal income of less than one percent, also affected revenues from the admissions tax (↓ 17.9 percent), attributed to a reduction in attendance at movie theaters and facilities providing video arcades and games, and the telephone tax (↓ 12.7 percent), attributed to a significant reduction in landlines. Fuel and energy taxes were 5.8 percent above the budget estimate.
- Investment Income** – In the General Fund, investment income fell 87.4 percent from \$3.3 million in FY03 to \$.4 million in FY04. Investment income was 95 percent below the budget estimate. The dramatic decline in investment income follows declines in FY01, FY02, and FY03 and is the result of the continuation of an accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since that time, the FOMC cut the target interest rate for federal funds rate thirteen times from 6.5 percent down to 1 percent by June 2003, and since that time, the rate remained at that level throughout most of FY04. Because of this unprecedented series of rate cuts, other short-term interest rates declined dramatically as well. As a result, the average yield on cash equity for the County decreased from 2.61 percent in FY02 to 1.59 percent in FY03 and 1.13 percent in FY04. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$6.4 million or 42.3 percent below last fiscal year. The decline in revenues without an offsetting decline in spending is reflected in the daily portfolio balance, which decreased from \$696.4 million in FY03 to \$566 million in FY04.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2004, amounted to \$2,572.3 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation June 30, 2004				
	Governmental Activities	Business-type Activities	Total FY04	Total FY03 *
Land	\$ 485,181,145	\$ 52,777,663	\$ 537,958,808	\$ 521,443,861
Buildings	340,676,593	129,547,298	470,223,891	395,712,521
Improvements other than buildings	23,607,954	18,728,658	42,336,612	41,265,814
Furniture, fixtures, equipment and machinery	127,089,279	6,303,198	133,392,477	122,626,308
Leasehold improvements	6,906,354	-	6,906,354	-
Automobiles and trucks	82,037,061	1,183,562	83,220,623	75,957,681
Infrastructure	1,063,279,269	-	1,063,279,269	1,035,920,382
Other assets	1,212,072	-	1,212,072	4,904,960
Construction in progress	233,804,099	15,382	233,819,481	229,664,172
Total	\$ 2,363,793,826	\$ 208,555,761	\$ 2,572,349,587	\$ 2,427,495,699

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

Changes in the County's capital assets for FY04 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2004				
	Governmental Activities	Business-type Activities	Total FY04	Total FY03
Beginning Balance	\$ 2,250,576,672	\$ 176,919,027	\$ 2,427,495,699	\$ 2,305,682,041
Additions*	193,623,060	41,647,407	235,270,467	211,913,612
Retirements, net*	8,920,675	565,381	9,486,056	7,063,310
Depreciation expense	71,485,231	9,445,292	80,930,523	83,036,644
Ending Balance	\$ 2,363,793,826	\$ 208,555,761	\$ 2,572,349,587	\$ 2,427,495,699

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

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

- In order to provide a multi-disciplinary education and performance center, the County invested an additional \$38 million to add an Arts Education facility and a Concert Hall to the existing Strathmore Hall facility.
- To further support the redevelopment of the Silver Spring Central Business District, the County has entered into a capital lease agreement, as lessee, for two new parking garages, for which costs of \$35.9 million were capitalized during the year.
- Roads, including underlying land, valued at \$17.4 million were transferred to the County by various developers.

- The County contributed an additional \$12.6 million towards the Public Safety 2000 projects, which were placed in service during FY03.
- In order to provide congestion relief and improve safe turning movement onto Montrose Road, as well as reduce neighborhood cut-through traffic in neighborhoods abutting Montrose Road, an additional \$5.9 million was spent to construct the Montrose Parkway West. This will be a new four-lane road from Montrose Road traveling east to 'old' Old Georgetown Road.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2004:

Long-Term Debt				
June 30, 2004				
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u> <u>FY04</u>	<u>Total</u> <u>FY03</u>
General obligation bonds	\$ 1,329,669,923	\$ 108,131	\$ 1,329,778,054	\$ 1,288,293,054
Bond anticipation notes	150,000,000	-	150,000,000	125,000,000
Revenue bonds	-	70,915,000	70,915,000	78,680,000
Lease revenue bonds	37,880,000	-	37,880,000	37,880,000
Notes payable *	10,896,091	800,000	11,696,091	5,779,944
Certificates of participation	19,215,000	-	19,215,000	31,570,000
Capital leases	69,173,538	-	69,173,538	31,201,945
Compensated absences	47,765,576	3,597,099	51,362,675	49,134,858
Claims and judgments	5,246,000	-	5,246,000	6,974,000
Landfill closure costs	-	22,458,523	22,458,523	23,854,523
Total	<u>\$ 1,669,846,128</u>	<u>\$ 97,878,753</u>	<u>\$ 1,767,724,881</u>	<u>\$ 1,678,368,324</u>

* Notes payable include equipment notes, State MICRF loan, taxable term loans, HUD loan, and HOC loan.

At June 30, 2004, the County had outstanding general obligation (GO) bonds of \$1,329.8 million and outstanding bond anticipation notes (BANs) of \$150 million. Over the last ten years, the County issued its GO bonds once a year. 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, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY94, the County has issued general obligation bonds, exclusive of refundings, of up to \$160 million. Over the last ten fiscal years, the County's annual issues averaged \$131 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. Since April 1973, Montgomery County has consistently had a Aaa rating from Moody's Investors Service, Inc. Since July 1976, bonds issued by the County were rated AAA by Standard and Poor's.

As of June 30, 2004, Montgomery County is one of only seven 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' 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. 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 6-8, 11, 12, 19-22, and 24.

Significant bond-related debt activities during FY04 were:

- General Obligation Bonds – This latest installment of the County’s annual issue, for \$154.6 million on March 30, 2004, funds capital expenditures for roads, schools, and government facilities. The proceeds of this bond issue, which included a substantial premium, were used to pay off \$165 million of the County’s BANs. Notable with this sale was that the true interest cost on these bonds was the second-lowest cost of funds in over 30 years.

In July 2003, the County issued GO refunding bonds in the amount of \$49.5 million. Proceeds were used to refund \$51.9 million in GO bonds previously issued at higher rates. This refunding issue resulted in net present value savings to the County of \$4.2 million.

In October 2003, the County initiated a restructuring of the escrow account for its GO refunding bonds, Series 2002. Given favorable market conditions, the County was able to redeem its existing escrow portfolio and use the proceeds to purchase a replacement portfolio and realize net savings of \$640,652.

- Bond Anticipation Notes (BANs) – During FY04, the County issued BANs in the amounts of \$75 million in December and \$115 million in May. The County issues commercial paper to initially fund its capital program and uses GO bond proceeds to retire the commercial paper.

Significant debt activities relating to capital lease agreements during FY04 were:

- Montgomery County Revenue Authority (MCRA) Germantown Indoor Swim Center Project – This issue of \$19.595 million, was sold in March 2004 to fund the Germantown Indoor Swim Center Project. MCRA bonds are lease revenue bonds and are secured by the County’s lease payments to MCRA which are sufficient to pay the debt service on the bonds. During FY04, \$1.6 million in planning and design costs on this project was incurred and is recorded as construction-in-progress.
- MCRA Conference Center Project – This issue was sold in January 2003 to fund, in part, the Conference Center Project in North Bethesda. MCRA lease revenue bonds were sold on the same schedule as the bonds sold by the Maryland Stadium Authority to fund its contribution to the project. During FY04, \$5.2 million in construction costs on this project was incurred and is recorded as construction-in-progress.
- Maryland Economic Development Corp. (MEDCO) Silver Spring Garages – These two issues were sold in September and October of 2002, to fund the construction of the Town Square and Wayne Avenue garages in Silver Spring. The lease revenue bonds were issued by MEDCO and the proceeds are being used to construct the garages. The County will make lease payments to MEDCO sufficient to pay the debt service on the bonds. During FY04, \$36 million in construction costs for the garages was incurred and has been capitalized.

The County also managed various debt transactions during FY04, which were outside the County's typical bonding activity. Below is a brief description.

- Taxable Term Loans – In January and March 2004, the County closed on two five-year taxable term loans; the loan amounts were \$4.0 million and \$1.3 million, respectively. The proceeds were used to finance the purchase of the Kay Property in Germantown and the purchase of various equipment items for the Conference Center.
- Conduit Debt – The Department of Finance administers and manages the County's Economic Development Revenue Bond program. During FY04, the County issued bonds on behalf of three borrowers. In January 2004, the County issued bonds in the amount of \$9.5 million on behalf of The Academy of the Holy Cross. During FY04, only a portion of those bond proceeds (\$8.9 million) was actually lent to Holy Cross to construct classroom space and a new theater. The remaining balance of \$.6 million will be drawn by Holy Cross as needed to complete construction.

In February 2004, the County again issued bonds, this time on behalf of Riderwood Village. The bond proceeds, \$77 million, were lent to Riderwood to refinance taxable debt that was originally used to acquire land and construct the first buildings in Riderwood Village, a retirement community.

Finally in May 2004, the County issued \$30 million in bonds on behalf of the George Meany Center for Labor Studies. The bond proceeds were used, in part, to finance the construction of a new dormitory and additional classroom space.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY05 budget:

- The County's economic projections in the FY05 budget assume a continued modest recovery in FY05 with the County experiencing low unemployment, but minimal growth in payroll employment.
- Total payroll employment increased only 0.4 percent in CY03, the latest calendar year for which data are available, and which was the lowest growth rate in over ten years. For the first quarter of CY04, total payroll employment also grew only 0.5 percent compared to the same period last year. Because of such weak growth in payroll employment over the past three years, the County estimates a similar low rate of increase in CY05.
- The projection in the FY05 budget assumes that personal income will increase 6.2 percent in FY05. That is above the estimated three-year annual average of 3.6 percent between CY02-CY04. Such an increase is attributed to a recovery in nominal wages and salaries over CY04 rather than a dramatic increase in employment.
- Employment by Montgomery County residents, as opposed to payroll employment, is expected to increase 1.8 percent during CY05. The rate of growth in resident employment is estimated to steadily decline to 0.8 percent by CY10. That estimate is consistent with the steady decline in the estimated growth in County population to 0.8 percent annual rate by CY11.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.7 percent in FY05, which is the same rate as in FY04. Because of the recent policy directives by the Federal Open Market Committee of the Federal Reserve, the County's economic projections include an increase in the yield on its investments from 1.13 percent in FY04 to 2.15 percent for FY05.

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 Services (A-Z), Finance, Financial Reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2004
Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
ASSETS				
Equity in pooled cash and investments	\$ 342,081,590	\$ 94,849,452	\$ 436,931,042	\$ 53,106,412
Cash	184,715	37,225	221,940	6,524,665
Cash with fiscal agents	37,589,508	-	37,589,508	14,114,865
Investments-cash equivalents	-	-	-	96,398,079
Investments	6,548,890	-	6,548,890	2,924,602
Receivables (net of allowances for uncollectibles):				
Income taxes	239,492,075	-	239,492,075	-
Property taxes	39,416,727	1,271,087	40,687,814	-
Capital leases	37,880,000	-	37,880,000	24,180,415
Accounts	32,978,811	5,786,247	38,765,058	19,269,863
Special assessments	69,403	-	69,403	-
Notes	4,332,059	-	4,332,059	731,768
Parking violations	627,573	1,938,397	2,565,970	-
Mortgages	82,055,041	-	82,055,041	219,338,739
Interest	105,227	-	105,227	3,755,160
Other	69,950	-	69,950	5,798,781
Net internal balance	2,415,273	(2,415,273)	-	-
Due from primary government	-	-	-	31,243,408
Due from component units	50,441,183	584,431	51,025,614	-
Due from other governments	97,924,398	337,224	98,261,622	27,375,820
Inventory of supplies	6,855,849	27,766,796	34,622,645	10,457,330
Prepays	1,779,203	542,299	2,321,502	2,077,244
Deferred charges	3,620,653	1,156,019	4,776,672	939,174
Other assets	-	96,629	96,629	27,826,566
Restricted assets:				
Equity in pooled cash and investments	-	37,923,414	37,923,414	12,096,443
Cash	-	-	-	108,025
Cash with fiscal agents	-	-	-	5,768,809
Investments-cash equivalents	-	-	-	97,989,738
Investments	-	3,123,233	3,123,233	200,707,154
Capital assets:				
Nondepreciable assets	718,985,244	52,793,045	771,778,289	303,327,462
Depreciable assets, net	1,644,808,582	155,762,716	1,800,571,298	1,554,113,622
Total Assets	<u>\$ 3,350,261,954</u>	<u>\$ 381,552,941</u>	<u>\$ 3,731,814,895</u>	<u>\$ 2,720,174,144</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2004
Exhibit A-1

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
LIABILITIES				
Accounts payable	\$ 46,804,996	\$ 19,198,752	\$ 66,003,748	\$ 75,053,452
Interest payable	21,911,055	247,386	22,158,441	13,718,923
Retainage payable	14,658,463	278,581	14,937,044	10,311,043
Accrued liabilities	44,865,253	8,875,026	53,740,279	4,409,079
Claims payable	75,676,902	-	75,676,902	20,339,593
Deposits	170,147	301,722	471,869	8,178,254
Due to primary government	-	-	-	51,142,191
Due to component units	30,751,288	492,120	31,243,408	-
Due to other governments	12,548,825	1,283,975	13,832,800	-
Deferred revenue	31,291,720	1,057,284	32,349,004	22,732,098
Other liabilities	-	-	-	9,438,401
Noncurrent liabilities:				
Due within one year	319,512,903	12,924,445	332,437,348	62,456,292
Due in more than one year	1,366,532,292	84,549,744	1,451,082,036	865,966,935
Total Liabilities	<u>1,964,723,844</u>	<u>129,209,035</u>	<u>2,093,932,879</u>	<u>1,143,746,261</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,597,253,419	137,937,194	1,735,190,613	1,507,625,180
Restricted for:				
Capital projects	56,790,594	-	56,790,594	4,371,962
Nonexpendable permanent fund - housing	7,106,577	-	7,106,577	-
General government	116,031,551	-	116,031,551	-
Public safety	10,123,557	-	10,123,557	-
Public works and transportation	5,488,333	91,478,147	96,966,480	-
Recreation	7,376,517	-	7,376,517	-
Community development and housing	84,004,208	-	84,004,208	-
Environment	1,544,147	-	1,544,147	-
Debt service	209,738	-	209,738	44,296,332
Other purposes	-	-	-	17,889,573
Unrestricted (deficit)	(500,390,531)	22,928,565	(477,461,966)	2,244,836
Total Net Assets	<u>\$ 1,385,538,110</u>	<u>\$ 252,343,906</u>	<u>\$ 1,637,882,016</u>	<u>\$ 1,576,427,883</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, 2004
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 211,957,281	\$ 38,997,961	\$ 9,867,856	\$ 1,573,901
Public safety	373,518,674	18,515,962	32,536,979	5,249,230
Public works and transportation	175,276,975	16,615,039	49,346,739	17,683,939
Health and human services	210,481,464	3,225,931	113,039,923	-
Culture and recreation	79,110,368	20,823,203	3,814,833	31,230,991
Community development and housing	19,970,947	8,014	4,095,431	7,321,863
Environment	8,310,848	2,973,085	14,056	1,956,845
Education	1,322,003,030	-	-	-
Interest on long-term debt	69,895,441	-	-	-
Total Governmental Activities	<u>2,470,525,028</u>	<u>101,159,195</u>	<u>212,715,817</u>	<u>65,016,769</u>
Business-type Activities:				
Liquor control	144,912,612	168,250,661	-	-
Solid waste activities	97,987,992	97,428,833	51,952	-
Parking lot districts	19,370,927	21,065,475	-	-
Permitting services	19,970,101	24,005,994	-	-
Community use of public facilities	5,918,985	6,161,170	-	-
Total Business-type Activities	<u>288,160,617</u>	<u>316,912,133</u>	<u>51,952</u>	<u>-</u>
Total Primary Government	<u>\$ 2,758,685,645</u>	<u>\$ 418,071,328</u>	<u>\$ 212,767,769</u>	<u>\$ 65,016,769</u>
Component Units:				
General government (BUPI)	\$ 2,798,202	\$ 2,659,247	\$ 216,795	\$ -
Culture and recreation (MCRA)	11,271,067	9,934,954	-	-
Community development and housing (HOC)	173,217,265	80,786,223	80,406,035	3,888,071
Education:				
Elementary and secondary education (MCPS)	1,665,124,074	30,358,686	88,449,256	51,045,217
Higher education (MCC)	174,472,198	59,092,427	17,523,286	40,707
Total Component Units	<u>\$ 2,026,882,806</u>	<u>\$ 182,831,537</u>	<u>\$ 186,595,372</u>	<u>\$ 54,973,995</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 on sale of capital assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning, as Restated				
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
\$ (161,517,563)	\$ -	\$ (161,517,563)	\$ -
(317,216,503)	-	(317,216,503)	-
(91,631,258)	-	(91,631,258)	-
(94,215,610)	-	(94,215,610)	-
(23,241,341)	-	(23,241,341)	-
(8,545,639)	-	(8,545,639)	-
(3,366,862)	-	(3,366,862)	-
(1,322,003,030)	-	(1,322,003,030)	-
(69,895,441)	-	(69,895,441)	-
<u>(2,091,633,247)</u>	<u>-</u>	<u>(2,091,633,247)</u>	<u>-</u>
-	23,338,049	23,338,049	-
-	(507,207)	(507,207)	-
-	1,694,548	1,694,548	-
-	4,035,893	4,035,893	-
-	242,185	242,185	-
-	<u>28,803,468</u>	<u>28,803,468</u>	-
<u>(2,091,633,247)</u>	<u>28,803,468</u>	<u>(2,062,829,779)</u>	<u>-</u>
-	-	-	77,840
-	-	-	(1,336,113)
-	-	-	(8,136,936)
-	-	-	(1,495,270,915)
-	-	-	(97,815,778)
-	-	-	<u>(1,602,481,902)</u>
919,320,985	7,591,413	926,912,398	-
812,975,046	-	812,975,046	-
108,270,290	-	108,270,290	-
110,810,439	-	110,810,439	-
74,594,014	-	74,594,014	-
12,695,573	-	12,695,573	-
26,927,301	-	26,927,301	-
15,748,274	-	15,748,274	-
-	-	-	1,638,906,942
23,243,889	1,821,746	25,065,635	4,295,224
-	2,528,262	2,528,262	1,457,504
(2,987,331)	2,987,331	-	-
<u>2,101,598,480</u>	<u>14,928,752</u>	<u>2,116,527,232</u>	<u>1,644,659,670</u>
9,965,233	43,732,220	53,697,453	42,177,768
1,375,572,877	208,611,686	1,584,184,563	1,534,250,115
<u>\$ 1,385,538,110</u>	<u>\$ 252,343,906</u>	<u>\$ 1,637,882,016</u>	<u>\$ 1,576,427,883</u>

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	\$ 40,638,732	\$ 883,052	\$ 86,342,330	\$ 143,886,383	\$ 271,750,497
Cash with fiscal agents	-	30,668,797	6,920,711	-	37,589,508
Cash	152,490	-	-	31,925	184,415
Investments	-	-	-	6,548,890	6,548,890
Receivables (net of allowances for uncollectibles):					
Income taxes	239,492,075	-	-	-	239,492,075
Capital leases	-	37,880,000	-	-	37,880,000
Property taxes	32,220,479	-	-	7,196,248	39,416,727
Accounts	27,436,141	5,646	820,475	3,649,857	31,912,119
Special assessments	-	69,403	-	-	69,403
Notes	-	-	18,900	4,298,120	4,317,020
Parking violations	627,573	-	-	-	627,573
Mortgages	204,897	-	-	81,850,144	82,055,041
Interest	-	-	-	105,227	105,227
Other	-	-	2,734	66,208	68,942
Due from other funds	89,710,213	-	-	1,782,217	91,492,430
Due from component units	5,278,561	-	18,768,031	26,047,825	50,094,417
Due from other governments	23,471,183	-	35,668,408	38,726,487	97,866,078
Inventory of supplies	3,336,062	-	1,047,979	-	4,384,041
Prepays	628,824	-	152,689	465,910	1,247,423
Total Assets	<u>\$ 463,197,230</u>	<u>\$ 69,506,898</u>	<u>\$ 149,742,257</u>	<u>\$ 314,655,441</u>	<u>\$ 997,101,826</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 15,165,175	\$ 217,124	\$ 15,339,803	\$ 11,850,259	\$ 42,572,361
Retainage payable	20,100	-	14,638,363	-	14,658,463
Accrued liabilities	30,053,877	-	533,473	7,231,513	37,818,863
Deposits	-	-	-	170,147	170,147
Due to other funds	5,866,335	30,662,609	50,945,480	11,897,621	99,372,045
Due to component units	26,024,259	-	1,849,817	2,851,429	30,725,505
Due to other governments	1,160,602	-	2,343,454	9,011,151	12,515,207
Deferred revenue	225,970,686	38,417,427	7,301,273	41,993,301	313,682,687
Total Liabilities	<u>304,261,034</u>	<u>69,297,160</u>	<u>92,951,663</u>	<u>85,005,421</u>	<u>551,515,278</u>
Fund balances:					
Reserved for:					
Encumbrances	13,840,682	209,738	88,550,672	10,562,911	113,164,003
Legal debt restrictions	-	-	4,551,991	-	4,551,991
Long-term receivables	-	-	14,839,401	79,316,842	94,156,243
Inventory and prepaids	3,964,886	-	1,200,668	459,948	5,625,502
Fire-Rescue Grant	-	-	-	1,410,346	1,410,346
Donor-specified purposes	-	-	-	1,164,750	1,164,750
Other purposes	2,024,870	-	-	7,106,577	9,131,447
Total Reserved	<u>19,830,438</u>	<u>209,738</u>	<u>109,142,732</u>	<u>100,021,374</u>	<u>229,204,282</u>
Unreserved:					
Designated, reported in:					
General Fund	112,378,712	-	-	-	112,378,712
Special Revenue Funds	-	-	-	23,125,570	23,125,570
Undesignated (deficit), reported in:					
General Fund	26,727,046	-	-	-	26,727,046
Capital Projects Fund	-	-	(52,352,138)	-	(52,352,138)
Special Revenue Funds	-	-	-	106,503,076	106,503,076
Total Unreserved	<u>139,105,758</u>	<u>-</u>	<u>(52,352,138)</u>	<u>129,628,646</u>	<u>216,382,266</u>
Total Fund Balances	<u>158,936,196</u>	<u>209,738</u>	<u>56,790,594</u>	<u>229,650,020</u>	<u>445,586,548</u>
Total Liabilities and Fund Balances	<u>\$ 463,197,230</u>	<u>\$ 69,506,898</u>	<u>\$ 149,742,257</u>	<u>\$ 314,655,441</u>	<u>\$ 997,101,826</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, 2004
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$ 445,586,548
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	\$ 485,158,639	
Construction in progress	233,804,099	
Depreciable capital assets:		
Buildings	527,961,378	
Improvements other than buildings	45,521,237	
Furniture, fixtures, equipment and machinery	183,849,249	
Automobiles and trucks	93,932,747	
Infrastructure	1,378,746,354	
Other capital assets	<u>2,079,731</u>	
Total capital assets	2,951,053,434	
Less accumulated depreciation	<u>(615,838,570)</u>	2,335,214,864
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	(1,329,669,923)	
Bond anticipation notes payable	(150,000,000)	
Lease revenue bonds payable	(37,880,000)	
Certificates of participation	(19,215,000)	
Accrued interest payable	(21,911,055)	
Capital leases payable	(69,173,538)	
Notes payable	(8,346,091)	
Other long-term debt payable	(2,550,000)	
Compensated absences	(46,520,030)	
Claims and judgments	<u>(5,246,000)</u>	(1,690,511,637)
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	(32,545,879)	
Deferred amount on refunding	16,346,812	
Deferred issuance costs	<u>3,620,653</u>	(12,578,414)
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 assets	78,490,124	
Capital assets	68,048,911	
Less accumulated depreciation	(39,469,949)	
Liabilities	(83,854,356)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>2,157,483</u>	25,372,213
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	168,753,207	
Property taxes	39,168,972	
Intergovernmental revenue	13,944,085	
Other revenue	<u>60,588,272</u>	<u>282,454,536</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 1,385,538,110</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, 2004
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,942,602,947	\$ -	\$ 5,679,916	\$ 181,656,449	\$ 2,129,939,312
Licenses and permits	9,201,123	-	-	1,783,217	10,984,340
Intergovernmental	117,131,716	-	57,113,957	101,831,473	276,077,146
Charges for services	15,060,193	3,745	309,358	34,959,211	50,332,507
Fines and forfeitures	7,404,248	-	-	1,163,516	8,567,764
Investment income (loss)	(1,324,209)	3,668,616	75,991	2,591,972	5,012,370
Miscellaneous	7,695,458	-	2,506,546	1,996,052	12,198,056
Total Revenues	<u>2,097,771,476</u>	<u>3,672,361</u>	<u>65,685,768</u>	<u>325,981,890</u>	<u>2,493,111,495</u>
EXPENDITURES					
Current:					
General government	163,288,984	-	-	11,229,855	174,518,839
Public safety	224,619,261	-	-	131,293,407	355,912,668
Public works and transportation	46,356,308	-	-	85,455,749	131,812,057
Health and human services	160,652,278	-	-	48,366,822	209,019,100
Culture and recreation	38,205,968	-	-	27,833,396	66,039,364
Community development and housing	10,952,037	-	-	5,039,277	15,991,314
Environment	3,221,066	-	-	2,398,369	5,619,435
Education	1,217,639,366	-	-	-	1,217,639,366
Debt Service:					
Principal retirement:					
General obligation bonds	-	110,630,749	-	-	110,630,749
Bond anticipation notes	-	165,000,000	-	-	165,000,000
Other notes	-	285,853	-	-	285,853
Interest:					
General obligation bonds	-	58,842,758	-	-	58,842,758
Bond anticipation notes	-	1,317,433	-	-	1,317,433
Other notes	-	70,788	-	-	70,788
Leases and other obligations	-	24,312,486	-	-	24,312,486
Issuing costs	-	876,054	-	-	876,054
Capital Projects	-	-	298,405,112	-	298,405,112
Total Expenditures	<u>1,864,935,268</u>	<u>361,336,121</u>	<u>298,405,112</u>	<u>311,616,875</u>	<u>2,836,293,376</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>232,836,208</u>	<u>(357,663,760)</u>	<u>(232,719,344)</u>	<u>14,365,015</u>	<u>(343,181,881)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	38,727,410	193,029,881	34,624,946	38,353,070	304,735,307
Transfers (out)	(275,042,216)	(1,083,101)	-	(32,369,870)	(308,495,187)
Sale of property	-	-	4,990,328	2,293,737	7,284,065
Financing under notes and leases payable	35,990,624	-	-	870,000	36,860,624
Payment to refunded bond escrow agent	-	(54,073,409)	-	-	(54,073,409)
Debt Issued:					
General obligation bonds	-	154,600,000	-	-	154,600,000
Premium on general obligation bonds	-	11,106,411	-	-	11,106,411
Bond anticipation notes	-	-	190,000,000	-	190,000,000
General obligation refunding bonds	-	49,505,000	-	-	49,505,000
Premium on general obligation refunding bonds	-	4,788,716	-	-	4,788,716
Notes payable	-	-	5,332,000	-	5,332,000
Capital lease financing	-	-	6,790,969	-	6,790,969
Total Other Financing Sources (Uses)	<u>(200,324,182)</u>	<u>357,873,498</u>	<u>241,738,243</u>	<u>9,146,937</u>	<u>408,434,496</u>
Net Change in Fund Balances	32,512,026	209,738	9,018,899	23,511,952	65,252,615
Fund Balances - Beginning of Year	126,424,170	-	47,771,695	206,138,068	380,333,933
Fund Balances - End of Year	<u>\$ 158,936,196</u>	<u>\$ 209,738</u>	<u>\$ 56,790,594</u>	<u>\$ 229,650,020</u>	<u>\$ 445,586,548</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, 2004
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5) \$ 65,252,615

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	\$ 167,934,758	
Depreciation expense	<u>(65,711,581)</u>	102,223,177

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. (8,640,976)

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. 17,484,413

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	(56,692,841)	
Property taxes	(2,394,458)	
Intergovernmental revenues	(2,312,022)	
Other revenues	<u>11,433,312</u>	(49,966,009)

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	(165,706,411)	
General obligation refunding bonds	(54,293,716)	
Bond anticipation notes	(190,000,000)	
Capital lease financing	(42,781,593)	
Notes payable	(6,202,000)	
Less issuance costs	876,054	
Principal repayments:		
General obligation bonds	110,630,749	
Bond anticipation notes	165,000,000	
Certificates of participation	12,355,000	
Capital leases	4,810,000	
Notes payable	285,853	
Payment to escrow agent for refunding	<u>54,073,409</u>	(110,952,655)

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	(2,526,349)	
Compensated absences	(1,915,846)	
Claims and judgments	1,728,000	
Amortization	<u>1,019,371</u>	(1,694,824)

The current year loss for certain activities of internal service funds is reported with governmental activities. (3,740,508)

Change in net assets of governmental activities (see Exhibit A-2) \$ 9,965,233

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

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Revenues:							
Taxes:							
Property	\$ -	\$ 726,979,670	\$ 726,979,670	\$ -	\$ 726,979,670	\$ 734,700,963	\$ 7,721,293
Property - penalty and interest	-	2,656,070	2,656,070	-	2,656,070	2,253,799	(402,271)
Other	-	-	-	-	-	6,716	6,716
Total Property Tax	-	729,635,740	729,635,740	-	729,635,740	736,961,478	7,325,738
County income tax	-	837,660,000	837,660,000	-	837,660,000	869,667,887	32,007,887
Other Local Taxes:							
Real property transfer	-	78,590,000	78,590,000	-	78,590,000	108,270,290	29,680,290
Recordation	-	62,550,000	62,550,000	-	62,550,000	110,810,439	48,260,439
Fuel energy	-	70,520,000	70,520,000	-	70,520,000	74,594,014	4,074,014
Hotel - motel	-	13,510,000	13,510,000	-	13,510,000	12,695,573	(814,427)
Telephone	-	30,834,249	30,834,249	-	30,834,249	26,927,301	(3,906,948)
Other	-	3,260,000	3,260,000	-	3,260,000	2,675,965	(584,035)
Total Other Local Taxes	-	259,264,249	259,264,249	-	259,264,249	335,973,582	76,709,333
Total Taxes	-	1,826,559,989	1,826,559,989	-	1,826,559,989	1,942,602,947	116,042,958
Licenses and Permits:							
Business	-	4,744,900	4,744,900	-	4,744,900	4,757,567	12,667
Non business	-	4,485,830	4,485,830	-	4,485,830	4,443,556	(42,274)
Total Licenses and Permits	-	9,230,730	9,230,730	-	9,230,730	9,201,123	(29,607)
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	36,972,400	36,972,400	-	36,972,400	35,188,626	(1,783,774)
Highway user revenue	-	22,341,990	22,341,990	-	22,341,990	24,704,751	2,362,761
Police protection	-	12,705,130	12,705,130	-	12,705,130	12,678,702	(26,428)
Health and human services programs	-	6,394,840	6,394,840	-	6,394,840	6,528,513	133,673
Public libraries	-	3,744,000	3,744,000	-	3,744,000	3,668,147	(75,853)
911 Emergency	-	6,507,430	6,507,430	-	6,507,430	6,268,222	(239,208)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,074,165	(691,835)
Other	-	2,433,430	2,433,430	1,200,000	3,633,430	3,872,507	239,077
Total State Aid and Reimbursements	-	93,865,220	93,865,220	1,200,000	95,065,220	94,983,633	(81,587)
Federal Reimbursements:							
Federal financial participation	-	10,992,620	10,992,620	3,223,100	14,215,720	16,111,400	1,895,680
Other	-	2,308,360	2,308,360	-	2,308,360	4,616,845	2,308,485
Total Federal Reimbursements	-	13,300,980	13,300,980	3,223,100	16,524,080	20,728,245	4,204,165
Other Intergovernmental	-	499,420	499,420	100,000	599,420	1,419,838	820,418
Total Intergovernmental Revenue	-	107,665,620	107,665,620	4,523,100	112,188,720	117,131,716	4,942,996
Charges for Services:							
General government	-	1,578,250	1,578,250	-	1,578,250	1,457,214	(121,036)
Public safety	-	11,028,080	11,028,080	1,500,000	12,528,080	10,861,756	(1,666,324)
Health and human services	-	1,729,120	1,729,120	-	1,729,120	1,548,820	(180,300)
Culture and recreation	-	3,500	3,500	-	3,500	6,858	3,358
Environment	-	300,000	300,000	-	300,000	228,967	(71,033)
Public works and transportation	-	103,000	103,000	-	103,000	37,538	(65,462)
Total Charges for Services	-	14,741,950	14,741,950	1,500,000	16,241,950	14,141,153	(2,100,797)
Fines and Forfeitures	-	18,996,070	18,996,070	-	18,996,070	7,404,248	(11,591,822)
Investment Income:							
Pooled investment income	-	8,323,000	8,323,000	-	8,323,000	413,830	(7,909,170)
Other interest income	-	40,000	40,000	-	40,000	2,758	(37,242)
Total Investment Income	-	8,363,000	8,363,000	-	8,363,000	416,588	(7,946,412)
Miscellaneous Revenue:							
Property rentals	-	4,187,000	4,187,000	-	4,187,000	5,468,104	1,281,104
Sundry	-	4,957,800	4,957,800	88,298	5,046,098	3,477,878	(1,568,220)
Total Miscellaneous Revenues	-	9,144,800	9,144,800	88,298	9,233,098	8,945,982	(287,116)
Total Revenues	-	1,994,702,159	1,994,702,159	6,111,398	2,000,813,557	2,099,843,757	99,030,200
Expenditures:							
Departments or Offices:							
County Council:							
Personnel costs	-	6,184,530	6,184,530	9,500	6,194,030	6,071,820	122,210
Operating	32,651	601,200	633,851	(8,459)	625,392	516,855	108,537
Totals	32,651	6,785,730	6,818,381	1,041	6,819,422	6,588,675	230,747
Board of Appeals:							
Personnel costs	-	455,150	455,150	(44,610)	410,540	393,823	16,717
Operating	-	66,780	66,780	(6,670)	60,110	57,168	2,942
Totals	-	521,930	521,930	(51,280)	470,650	450,991	19,659
Legislative Oversight:							
Personnel costs	-	668,840	668,840	(37,600)	631,240	631,231	9
Operating	15,977	50,250	66,227	(6,035)	60,192	42,710	17,482
Totals	15,977	719,090	735,067	(43,635)	691,432	673,941	17,491
Merit System Protection Board:							
Personnel costs	-	104,080	104,080	180	104,260	104,255	5
Operating	-	13,770	13,770	(180)	13,590	8,120	5,470
Totals	-	117,850	117,850	-	117,850	112,375	5,475

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Zoning and Administrative Hearings:							
Personnel costs	\$ -	\$ 378,640	\$ 378,640	\$ -	\$ 378,640	\$ 334,004	\$ 44,636
Operating	-	87,670	87,670	-	87,670	85,968	1,702
Totals	-	466,310	466,310	-	466,310	419,972	46,338
Inspector General:							
Personnel costs	-	427,270	427,270	13,690	440,960	440,954	6
Operating	-	35,870	35,870	(3,580)	32,290	14,227	18,063
Totals	-	463,140	463,140	10,110	473,250	455,181	18,069
People's Counsel:							
Personnel costs	-	188,180	188,180	-	188,180	179,555	8,625
Operating	-	25,230	25,230	-	25,230	7,699	17,531
Totals	-	213,410	213,410	-	213,410	187,254	26,156
Circuit Court:							
Personnel costs	-	6,133,780	6,133,780	(162,720)	5,971,060	5,971,060	-
Operating	63,020	1,840,820	1,903,840	97,498	2,001,338	2,001,328	10
Totals	63,020	7,974,600	8,037,620	(65,222)	7,972,398	7,972,388	10
State's Attorney:							
Personnel costs	-	8,372,640	8,372,640	193,301	8,565,941	8,565,932	9
Operating	-	271,390	271,390	238,970	510,360	510,356	4
Totals	-	8,644,030	8,644,030	432,271	9,076,301	9,076,288	13
County Executive:							
Personnel costs	-	3,808,370	3,808,370	(182,564)	3,625,806	3,625,803	3
Operating	392	277,110	277,502	(27,967)	249,535	240,423	9,112
Totals	392	4,085,480	4,085,872	(210,531)	3,875,341	3,866,226	9,115
Commission for Women:							
Personnel costs	-	756,350	756,350	24,190	780,540	780,535	5
Operating	435	116,350	116,785	(11,630)	105,155	87,340	17,815
Totals	435	872,700	873,135	12,560	885,695	867,875	17,820
Regional Service Centers:							
Personnel costs	-	2,400,310	2,400,310	68,210	2,468,520	2,468,513	7
Operating	116,520	466,350	582,870	(47,489)	535,381	508,520	26,861
Totals	116,520	2,866,660	2,983,180	20,721	3,003,901	2,977,033	26,868
Ethics Commission:							
Personnel costs	-	166,090	166,090	(13,840)	152,250	135,973	16,277
Operating	711	22,250	22,961	13,129	36,090	36,083	7
Totals	711	188,340	189,051	(711)	188,340	172,056	16,284
Intergovernmental Relations:							
Personnel costs	-	430,250	430,250	33,540	463,790	463,786	4
Operating	3,757	155,860	159,617	(4,540)	155,077	155,070	7
Capital outlay	18,358	-	18,358	-	18,358	-	18,358
Totals	22,115	586,110	608,225	29,000	637,225	618,856	18,369
Board of Liquor License Commissioners:							
Personnel costs	-	780,470	780,470	(970)	779,500	735,887	43,613
Operating	-	112,090	112,090	2,230	114,320	114,311	9
Totals	-	892,560	892,560	1,260	893,820	850,198	43,622
Public Information:							
Personnel costs	-	1,067,110	1,067,110	(14,530)	1,052,580	1,052,575	5
Operating	19,645	61,450	81,095	87,335	168,430	168,430	-
Totals	19,645	1,128,560	1,148,205	72,805	1,221,010	1,221,005	5
Board of Elections:							
Personnel costs	-	1,794,980	1,794,980	306,490	2,101,470	2,101,465	5
Operating	3,050	2,292,540	2,295,590	(230,039)	2,065,551	2,045,328	20,223
Totals	3,050	4,087,520	4,090,570	76,451	4,167,021	4,146,793	20,228
County Attorney:							
Personnel costs	-	4,057,360	4,057,360	(268,170)	3,789,190	3,789,184	6
Operating	70,417	378,950	449,367	438,000	887,367	887,361	6
Totals	70,417	4,436,310	4,506,727	169,830	4,676,557	4,676,545	12
Management and Budget:							
Personnel costs	-	3,053,820	3,053,820	39,820	3,093,640	3,093,632	8
Operating	1,258	216,540	217,798	(22,611)	195,187	165,793	29,394
Capital outlay	-	-	-	6,551	6,551	6,551	-
Total Management and Budget	1,258	3,270,360	3,271,618	23,760	3,295,378	3,265,976	29,402
Finance:							
Personnel costs	-	7,015,010	7,015,010	(169,640)	6,845,370	6,845,365	5
Operating	291,431	959,910	1,251,341	(46,857)	1,204,484	1,047,600	156,884
Totals	291,431	7,974,920	8,266,351	(216,497)	8,049,854	7,892,965	156,889
Human Resources:							
Personnel costs	-	4,406,370	4,406,370	7,030	4,413,400	4,413,393	7
Operating	104,431	1,985,400	2,089,831	(195,047)	1,894,784	1,894,784	-
Totals	104,431	6,391,770	6,496,201	(188,017)	6,308,184	6,308,177	7
Technology Services:							
Personnel costs	-	13,225,980	13,225,980	(536,450)	12,689,530	12,689,074	456
Operating	3,823,546	8,324,860	12,148,406	(224,727)	11,923,679	11,922,770	909
Capital outlay	755	184,950	185,705	(1,755)	183,950	60,995	122,955
Totals	3,824,301	21,735,790	25,560,091	(762,932)	24,797,159	24,672,839	124,320
Procurement:							
Personnel costs	-	2,259,190	2,259,190	(116,120)	2,143,070	2,143,062	8
Operating	524	135,480	136,004	23,800	159,804	159,795	9
Totals	524	2,394,670	2,395,194	(92,320)	2,302,874	2,302,857	17
Corrections and Rehabilitation:							
Personnel costs	-	37,812,120	37,812,120	3,262,240	41,074,360	41,074,351	9
Operating	309,189	5,899,810	6,208,999	1,999,630	8,208,629	7,503,812	704,817
Totals	309,189	43,711,930	44,021,119	5,261,870	49,282,989	48,578,163	704,826

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Human Rights Commission:							
Personnel costs	\$ -	\$ 1,765,273	\$ 1,765,273	\$ (34,280)	\$ 1,730,993	\$ 1,730,990	\$ 3
Operating	444	108,987	109,431	(11,083)	98,348	80,542	17,806
Totals	444	1,874,260	1,874,704	(45,363)	1,829,341	1,811,532	17,809
Police:							
Personnel costs	-	128,524,260	128,524,260	6,222,090	134,746,350	134,746,348	2
Operating	770,934	21,792,410	22,563,344	(771,207)	21,792,137	21,792,133	4
Totals	770,934	150,316,670	151,087,604	5,450,883	156,538,487	156,538,481	6
Sheriff:							
Personnel costs	-	11,631,860	11,631,860	316,500	11,948,360	11,948,356	4
Operating	136,871	1,427,160	1,564,031	(90,429)	1,473,602	1,473,594	8
Totals	136,871	13,059,020	13,195,891	226,071	13,421,962	13,421,950	12
Public Works and Transportation:							
Personnel costs	-	30,077,330	30,077,330	1,917,284	31,994,614	31,994,609	5
Operating	2,474,171	27,620,580	30,094,751	9,851,497	39,946,248	39,946,243	5
Capital outlay	-	-	-	9,106	9,106	9,106	-
Totals	2,474,171	57,697,910	60,172,081	11,777,887	71,949,968	71,949,958	10
Health and Human Services:							
Personnel costs	-	88,077,880	88,077,880	185,430	88,263,310	88,263,301	9
Operating	1,530,807	63,501,750	65,032,557	3,405,803	68,438,360	68,438,358	2
Totals	1,530,807	151,579,630	153,110,437	3,591,233	156,701,670	156,701,659	11
Libraries:							
Personnel costs	-	24,231,090	24,231,090	(400,660)	23,830,430	23,830,426	4
Operating	1,143,526	6,752,460	7,895,986	(265,755)	7,630,231	7,630,225	6
Totals	1,143,526	30,983,550	32,127,076	(666,415)	31,460,661	31,460,651	10
Housing and Community Affairs:							
Personnel costs	-	6,045,820	6,045,820	(144,290)	5,901,530	5,901,528	2
Operating	2,151	762,230	764,381	(77,820)	686,561	670,616	15,945
Totals	2,151	6,808,050	6,810,201	(222,110)	6,588,091	6,572,144	15,947
Economic Development:							
Personnel costs	-	2,941,090	2,941,090	(20,250)	2,920,840	2,920,832	8
Operating	194,441	2,136,200	2,330,641	(137,439)	2,193,202	2,193,193	9
Totals	194,441	5,077,290	5,271,731	(157,689)	5,114,042	5,114,025	17
Environmental Protection:							
Personnel costs	-	2,810,790	2,810,790	9,280	2,820,070	2,820,069	1
Operating	120,413	1,107,070	1,227,483	(145,231)	1,082,252	826,303	255,949
Totals	120,413	3,917,860	4,038,273	(135,951)	3,902,322	3,646,372	255,950
Total Departments	11,249,825	551,844,010	563,093,835	24,299,080	587,392,915	585,571,401	1,821,514
Nondepartmental:							
State retirement contribution - operating	-	733,350	733,350	120	733,470	733,345	125
Retirees group insurance - operating	-	17,763,240	17,763,240	-	17,763,240	17,763,240	-
State positions supplement - personnel	-	218,140	218,140	21,500	239,640	239,632	8
Judges special pension contribution - personnel	-	38,860	38,860	-	38,860	7,132	31,728
Compensation adjustment - personnel	-	445,980	445,980	(310,360)	135,620	128,771	6,849
Compensation adjustment - operating	-	279,500	279,500	106,740	386,240	386,232	8
Municipal tax duplication - operating	-	4,719,920	4,719,920	50,000	4,769,920	4,769,916	4
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	425,000	425,000	28,810	453,810	453,807	3
Rebate - Takoma Park library - operating	-	84,600	84,600	5,080	89,680	89,674	6
Homeowners' association roadways - operating	-	225,180	225,180	-	225,180	225,180	-
Contribution to risk management - operating	-	8,706,400	8,706,400	(389,000)	8,317,400	8,317,377	23
Support for the arts - operating	2,213,627	586,840	2,800,467	(2)	2,800,465	2,800,464	1
Historical activities - operating	-	304,290	304,290	-	304,290	304,290	-
Conference and Visitors Bureau - operating	81,581	472,850	554,431	(34,685)	519,746	519,745	1
Arts Council - operating	-	1,086,620	1,086,620	-	1,086,620	1,054,019	32,601
Community grants - operating	3,073,947	2,307,130	5,381,077	530,578	5,911,655	5,726,067	185,588
Conference Center	40,000	226,000	266,000	-	266,000	266,000	-
County associations - operating	-	56,520	56,520	-	56,520	56,511	9
Metropolitan Washington C O G - operating	-	660,170	660,170	-	660,170	660,162	8
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	26,679	282,000	308,679	(19,943)	288,736	288,736	-
Prisoner medical services - operating	-	20,000	20,000	-	20,000	3,946	16,054
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	3,272	1,728
Charter Review Commission - operating	-	1,500	1,500	-	1,500	667	833
Closing costs assistance - operating	-	137,250	137,250	-	137,250	133,130	4,120
Working families income supplement - operating	-	5,505,000	5,505,000	520,000	6,025,000	6,024,999	1
Information technology initiatives - operating	20,394	-	20,394	(15,000)	5,394	5,394	-
Interagency technology, policy and coordinating committee - operating	24,999	30,000	54,999	(24,369)	30,630	30,629	1
Desktop computer modernization - operating	5,616	4,045,960	4,051,576	(132,051)	3,919,525	3,919,520	5
Utilities - operating	46,423	12,681,670	12,728,093	793,461	13,521,554	13,521,552	2
Total - Nondepartmental	5,533,266	62,104,490	67,637,756	1,130,879	68,768,635	68,488,921	279,714
Total Expenditures	16,783,091	613,948,500	630,731,591	25,429,959	656,161,550	654,060,322	2,101,228
Excess of Revenues over (under) Expenditures	(16,783,091)	1,380,753,659	1,363,970,568	(19,318,561)	1,344,652,007	1,445,783,435	101,131,428

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	\$ -	\$ 120,750	\$ 120,750	\$ 55,000	\$ 175,750	\$ 175,750	\$ -
Economic Development	-	66,090	66,090	-	66,090	66,090	-
Recreation	-	2,988,100	2,988,100	-	2,988,100	2,988,100	-
Mass Transit	-	4,481,970	4,481,970	-	4,481,970	4,481,970	-
Water Quality Protection	-	83,990	83,990	-	83,990	83,990	-
Urban Districts	-	182,290	182,290	-	182,290	182,290	-
Housing Activities	-	18,550	18,550	-	18,550	18,550	-
Cable TV	-	5,207,000	5,207,000	-	5,207,000	5,207,000	-
Total Special Revenue Funds	-	13,148,740	13,148,740	55,000	13,203,740	13,203,740	-
Enterprise Funds:							
Liquor	-	20,501,030	20,501,030	-	20,501,030	20,501,030	-
Parking Lot Districts	-	371,100	371,100	-	371,100	371,100	-
Solid Waste Activities	-	1,371,240	1,371,240	-	1,371,240	1,371,240	-
Community Use of Public Facilities	-	244,710	244,710	-	244,710	244,710	-
Permitting Services	-	3,954,630	3,954,630	-	3,954,630	3,954,630	-
Total Enterprise Funds	-	26,442,710	26,442,710	-	26,442,710	26,442,710	-
Total Transfers In	-	39,591,450	39,591,450	55,000	39,646,450	39,646,450	-
Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	328,420	-
Transfers (Out):							
Special Revenue Fund:							
Recreation	-	(1,077,916)	(1,077,916)	-	(1,077,916)	(1,077,916)	-
Urban Districts	-	(1,101,390)	(1,101,390)	-	(1,101,390)	(1,101,390)	-
Mass Transit	-	(998,070)	(998,070)	-	(998,070)	(998,070)	-
Revenue Stabilization	-	-	-	-	-	(8,784,047)	(8,784,047)
Housing Activities	-	(12,394,890)	(12,394,890)	-	(12,394,890)	(12,394,890)	-
Economic Development	-	-	-	(6,375,000)	(6,375,000)	(6,375,000)	-
Grants	-	-	-	(449,487)	(449,487)	(511,751)	(62,264)
Total Special Revenue Funds	-	(15,572,266)	(15,572,266)	(6,824,487)	(22,396,753)	(31,243,064)	(8,846,311)
Internal Service Fund:							
Motor Pool	-	(92,410)	(92,410)	(55,945)	(148,355)	(116,423)	31,932
Total Internal Service Funds	-	(92,410)	(92,410)	(55,945)	(148,355)	(116,423)	31,932
Enterprise Funds:							
Community Use of Public Facilities	-	(122,420)	(122,420)	-	(122,420)	(122,420)	-
Parking Lot Districts	(612,596)	-	(612,596)	-	(612,596)	(222,788)	389,808
Solid Waste Activities	-	(1,316,550)	(1,316,550)	-	(1,316,550)	(1,316,550)	-
Permitting Services	-	(1,059,660)	(1,059,660)	-	(1,059,660)	(1,059,660)	-
Total Enterprise Funds	(612,596)	(2,498,630)	(3,111,226)	-	(3,111,226)	(2,721,418)	389,808
Debt Service Fund	-	(182,484,010)	(182,484,010)	(81,756)	(182,565,766)	(177,932,595)	4,633,171
Capital Projects Fund	(32,759,313)	(16,416,960)	(49,176,273)	(6,626,719)	(55,802,992)	(29,506,722)	26,296,270
Total Transfers (Out)	(33,371,909)	(217,064,276)	(250,436,185)	(13,588,907)	(264,025,092)	(241,520,222)	22,504,870
Transfers (Out) - Component Units / Joint Ventures:							
Montgomery County Public Schools - Operating	-	(1,134,454,359)	(1,134,454,359)	-	(1,134,454,359)	(1,133,171,738)	1,282,621
Montgomery County Public Schools - Capital	(11,807,114)	(11,314,000)	(23,121,114)	(4,950,000)	(28,071,114)	(16,450,530)	11,620,584
Total Montgomery County Public Schools	(11,807,114)	(1,145,768,359)	(1,157,575,473)	(4,950,000)	(1,162,525,473)	(1,149,622,268)	12,903,205
Montgomery Community College - Operating	-	(66,171,701)	(66,171,701)	(41,000)	(66,212,701)	(66,212,701)	-
Montgomery Community College - Capital	(6,684,787)	(3,585,000)	(10,269,787)	-	(10,269,787)	(1,804,397)	8,465,390
Total Montgomery Community College	(6,684,787)	(69,756,701)	(76,441,488)	(41,000)	(76,482,488)	(68,017,098)	8,465,390
Housing Opportunities Commission - Operating	-	(4,347,580)	(4,347,580)	-	(4,347,580)	(4,284,616)	62,964
Housing Opportunities Commission - Capital	(73,016)	(250,000)	(323,016)	-	(323,016)	(323,016)	-
Total Housing Opportunities Commission	(73,016)	(4,597,580)	(4,670,596)	-	(4,670,596)	(4,607,632)	62,964
Total Transfers (Out) - Component Units / Joint Ventures	(18,564,917)	(1,220,122,640)	(1,238,687,557)	(4,991,000)	(1,243,678,557)	(1,222,246,998)	21,431,559
Total Other Financing Sources (Uses)	(51,936,826)	(1,397,267,046)	(1,449,203,872)	(18,524,907)	(1,467,728,779)	(1,423,792,350)	43,936,429
Excess of Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses							
	(68,719,917)	(16,513,387)	(85,233,304)	(37,843,468)	(123,076,772)	21,991,085	145,067,857
Fund Balance - Beginning of Year	68,719,917	57,665,126	126,385,043	(1,571,556)	124,813,487	124,813,487	-
Fund Balance - End of Year	\$ -	\$ 41,151,739	\$ 41,151,739	\$ (39,415,024)	\$ 1,736,715	\$ 146,804,572	\$ 145,067,857

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004
Exhibit A-8

	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	\$ 5,325,222	\$ 48,642,206	\$ 28,442,464	\$ 12,439,560	\$ 94,849,452	\$ 70,331,093
Cash	34,025	3,000	150	50	37,225	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,271,087	-	1,271,087	-
Accounts	2,088,371	3,627,668	394	69,814	5,786,247	1,066,692
Notes	-	-	-	-	-	15,039
Parking violations	-	-	1,938,397	-	1,938,397	-
Due from other funds	-	5,155	-	-	5,155	3,668,326
Due from component units	-	77,488	506,943	-	584,431	346,766
Due from other governments	-	141,482	193,364	2,378	337,224	58,320
Inventory of supplies	27,766,796	-	-	-	27,766,796	2,471,808
Prepays	526,189	3,942	10,766	1,402	542,299	531,780
Other assets	96,629	-	-	-	96,629	-
Total Current Assets	<u>35,837,232</u>	<u>52,500,941</u>	<u>32,363,565</u>	<u>12,513,204</u>	<u>133,214,942</u>	<u>78,490,124</u>
Noncurrent Assets:						
Restricted equity in pooled cash and investments	-	32,479,195	5,444,219	-	37,923,414	-
Restricted investments	-	3,123,233	-	-	3,123,233	-
Restricted Assets	-	<u>35,602,428</u>	<u>5,444,219</u>	-	<u>41,046,647</u>	-
Unamortized bond costs	-	534,330	621,689	-	1,156,019	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,236,219	36,461,445	-	108,697,664	268,565
Buildings	7,388,354	23,515,099	163,684,772	-	194,588,225	315,732
Furniture, fixtures, equipment, and machinery	5,276,854	8,896,348	224,879	3,582,336	17,980,417	4,207,674
Automobiles and trucks	3,048,041	441,280	91,763	84,837	3,665,921	63,234,434
Construction in progress	-	-	15,382	-	15,382	-
Subtotal	16,194,679	122,923,701	234,939,719	3,667,173	377,725,272	68,048,911
Less: Accumulated depreciation	9,502,900	89,041,108	67,180,718	3,444,785	169,169,511	39,469,949
Total Capital Assets (net of accumulated depreciation)	<u>6,691,779</u>	<u>33,882,593</u>	<u>167,759,001</u>	<u>222,388</u>	<u>208,555,761</u>	<u>28,578,962</u>
Total Noncurrent Assets	<u>6,691,779</u>	<u>70,019,351</u>	<u>173,824,909</u>	<u>222,388</u>	<u>250,758,427</u>	<u>28,578,962</u>
Total Assets	<u>42,529,011</u>	<u>122,520,292</u>	<u>206,188,474</u>	<u>12,735,592</u>	<u>383,973,369</u>	<u>107,069,086</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	9,930,465	7,604,466	1,448,364	215,457	19,198,752	4,232,635
Interest payable	-	106,204	141,182	-	247,386	-
Retainage payable	-	68,422	210,159	-	278,581	-
Deposits	301,722	-	-	-	301,722	-
Claims payable	-	-	-	-	-	75,676,902
Accrued liabilities	1,625,857	917,409	306,587	8,430,750	11,280,603	2,958,836
Due to other funds	202,634	79,309	28,123	245,128	555,194	551,626
Due to component units	-	-	-	492,120	492,120	25,783
Due to other governments	441,385	842,590	-	-	1,283,975	33,618
Deferred revenue	-	-	383,828	673,456	1,057,284	63,569
General obligation bonds payable	-	51,619	-	-	51,619	-
Revenue bonds payable	-	2,835,000	5,425,000	-	8,260,000	-
Landfill closure costs	-	1,115,000	-	-	1,115,000	-
Notes payable	-	800,000	-	-	800,000	-
Total Current Liabilities	<u>12,502,063</u>	<u>14,420,019</u>	<u>7,943,243</u>	<u>10,056,911</u>	<u>44,922,236</u>	<u>83,542,969</u>
Noncurrent Liabilities:						
General obligation bonds payable	-	56,512	-	-	56,512	-
Revenue bonds payable	-	25,568,704	36,681,732	-	62,250,436	-
Landfill closure costs	-	21,343,523	-	-	21,343,523	-
Compensated absences	338,415	137,339	56,520	366,999	899,273	311,387
Total Noncurrent Liabilities	<u>338,415</u>	<u>47,106,078</u>	<u>36,738,252</u>	<u>366,999</u>	<u>84,549,744</u>	<u>311,387</u>
Total Liabilities	<u>12,840,478</u>	<u>61,526,097</u>	<u>44,681,495</u>	<u>10,423,910</u>	<u>129,471,980</u>	<u>83,854,356</u>
NET ASSETS						
Invested in capital, net of related debt	6,691,779	5,370,758	125,652,269	222,388	137,937,194	28,578,962
Restricted for debt service	-	35,602,428	5,444,219	-	41,046,647	-
Unrestricted	22,996,754	20,021,009	30,410,491	2,089,294	75,517,548	(5,364,232)
Total net assets	<u>\$ 29,688,533</u>	<u>\$ 60,994,195</u>	<u>\$ 161,506,979</u>	<u>\$ 2,311,682</u>	<u>\$ 254,501,389</u>	<u>\$ 23,214,730</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(2,157,483)	
Net assets of business-type activities					<u>\$ 252,343,906</u>	

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, 2004
Exhibit A-9

	Business-Type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds		
OPERATING REVENUES						
Sales - net	\$ 168,172,236	\$ -	\$ -	\$ -	\$168,172,236	\$ -
Charges for services	15,450	97,313,509	13,559,833	8,262,507	119,151,299	176,712,536
Licenses and permits	-	10,055	-	21,782,937	21,792,992	-
Fines and penalties	-	7,575	6,809,460	121,720	6,938,755	-
Claim recoveries	-	-	-	-	-	1,287,780
Total Operating Revenues	<u>168,187,686</u>	<u>97,331,139</u>	<u>20,369,293</u>	<u>30,167,164</u>	<u>316,055,282</u>	<u>178,000,316</u>
OPERATING EXPENSES						
Cost of goods sold	119,806,903	-	-	-	119,806,903	-
Personnel costs	16,124,278	8,781,096	2,525,439	17,881,076	45,311,889	16,069,048
Postage	48,439	82,747	2,267	45,104	178,557	1,372,116
Self-insurance incurred and estimated claims	-	-	-	-	-	99,397,642
Insurance	556,370	747,560	61,650	9,020	1,374,600	28,133,145
Supplies and materials	408,772	1,050,913	329,902	343,211	2,132,798	13,605,329
Contractual services	1,618,990	80,489,736	4,481,208	3,367,165	89,957,099	10,847,000
Communications	329,210	233,484	126,263	351,216	1,040,173	156,096
Transportation	405,564	1,418,822	174,633	449,437	2,448,456	128,086
Public utility service	479,312	83,601	1,076,460	619,939	2,259,312	617,975
Rentals	3,498,288	20,904	1,368,368	1,232,403	6,119,963	373,934
Maintenance	533,165	181,506	1,316,889	1,164,700	3,196,260	7,316,785
Depreciation	657,516	2,850,405	5,710,544	226,827	9,445,292	5,773,650
Landfill closure expense	-	346,000	-	-	346,000	-
Other	355,712	306,694	91,417	142,208	896,031	104,474
Total Operating Expenses	<u>144,822,519</u>	<u>96,593,468</u>	<u>17,265,040</u>	<u>25,832,306</u>	<u>284,513,333</u>	<u>183,895,280</u>
Operating Income (Loss)	<u>23,365,167</u>	<u>737,671</u>	<u>3,104,253</u>	<u>4,334,858</u>	<u>31,541,949</u>	<u>(5,894,964)</u>
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	7,591,413	-	7,591,413	-
Intergovernmental	-	51,952	-	-	51,952	5,187
Gain on disposal of capital assets	84	3,883	2,524,295	-	2,528,262	199,444
Investment income	-	1,236,513	456,688	128,545	1,821,746	1,025,933
Interest expense	-	(1,352,765)	(2,069,912)	-	(3,422,677)	-
Other revenue	62,975	97,694	696,181	-	856,850	699,286
Total Nonoperating Revenues (Expenses)	<u>63,059</u>	<u>37,277</u>	<u>9,198,665</u>	<u>128,545</u>	<u>9,427,546</u>	<u>1,929,850</u>
Nonoperating Income (Loss)	<u>23,428,226</u>	<u>774,948</u>	<u>12,302,918</u>	<u>4,463,403</u>	<u>40,969,495</u>	<u>(3,965,114)</u>
Transfers In (Out):						
Transfers in	-	55,142	36,213,412	30,000	36,298,554	772,549
Transfers out	(20,501,030)	(1,426,382)	(7,181,048)	(4,202,763)	(33,311,223)	-
Total Transfers In (Out)	<u>(20,501,030)</u>	<u>(1,371,240)</u>	<u>29,032,364</u>	<u>(4,172,763)</u>	<u>2,987,331</u>	<u>772,549</u>
Change in Net Assets	2,927,196	(596,292)	41,335,282	290,640	43,956,826	(3,192,565)
Total Net Assets - Beginning of Year	<u>26,761,337</u>	<u>61,590,487</u>	<u>120,171,697</u>	<u>2,021,042</u>		<u>26,407,295</u>
Total Net Assets - End of Year	<u>\$ 29,688,533</u>	<u>\$ 60,994,195</u>	<u>\$ 161,506,979</u>	<u>\$ 2,311,682</u>		<u>\$ 23,214,730</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(224,606)	
Change in net assets of business-type activities					<u>\$ 43,732,220</u>	

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, 2004
Exhibit A-10

	Business-Type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 171,235,160	\$ 95,095,472	\$ 20,063,727	\$ 29,166,121	\$ 315,560,480	\$ 177,895,752
Payments to suppliers	(133,877,308)	(85,277,691)	(9,783,485)	(7,833,019)	(236,771,503)	(62,180,645)
Payments to employees	(15,839,768)	(8,815,460)	(2,515,094)	(17,654,367)	(44,824,689)	(15,794,209)
Internal activity - payments from other funds	-	1,941,450	-	1,059,660	3,001,110	-
Claims paid	-	-	-	-	-	(89,741,488)
Other revenue	62,975	84,974	696,181	467,137	1,311,267	39,936
Net Cash Provided (Used) by Operating Activities	<u>21,581,059</u>	<u>3,028,745</u>	<u>8,461,329</u>	<u>5,205,532</u>	<u>38,276,665</u>	<u>10,219,346</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	7,582,205	-	7,582,205	-
Operating subsidies and transfers from other funds	-	-	222,788	30,000	252,788	-
Operating subsidies and transfers to other funds	(20,501,030)	(1,371,240)	(7,181,048)	(4,202,763)	(33,256,081)	-
Intergovernmental revenue	-	51,952	-	-	51,952	5,187
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(20,501,030)</u>	<u>(1,319,288)</u>	<u>623,945</u>	<u>(4,172,763)</u>	<u>(25,369,136)</u>	<u>5,187</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	500	3,883	2,580,000	-	2,584,383	443,285
Purchases of capital assets	(495,136)	(579,692)	(4,514,093)	-	(5,588,921)	(11,269,583)
Repayment of notes receivable	-	-	-	-	-	46,945
Principal paid on capital debt	-	(2,639,251)	(5,210,000)	-	(7,849,251)	-
Interest paid on capital debt	-	(1,479,947)	(1,897,666)	-	(3,377,613)	-
Internal activity - payments from other funds	-	-	-	-	-	772,549
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(494,636)</u>	<u>(4,695,007)</u>	<u>(9,041,759)</u>	<u>-</u>	<u>(14,231,402)</u>	<u>(10,006,804)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	-	1,257,212	456,688	128,545	1,842,445	1,008,685
Investment income from nonpooled investments	-	9,619	-	-	9,619	17,248
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>1,266,831</u>	<u>456,688</u>	<u>128,545</u>	<u>1,852,064</u>	<u>1,025,933</u>
Net Increase (Decrease) in Cash and Cash Equivalents	585,393	(1,718,719)	500,203	1,161,314	528,191	1,243,662
Balances - Beginning of Year	4,773,854	82,843,120	33,386,630	11,278,296	132,281,900	69,087,731
Balances - End of Year	<u>\$ 5,359,247</u>	<u>\$ 81,124,401</u>	<u>\$ 33,886,833</u>	<u>\$ 12,439,610</u>	<u>\$ 132,810,091</u>	<u>\$ 70,331,393</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 23,365,167	\$ 737,671	\$ 3,104,253	\$ 4,334,858	\$ 31,541,949	\$ (5,894,964)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	657,516	2,850,405	5,710,544	226,827	9,445,292	5,773,650
Other operating expenses	-	454,119	-	-	454,119	-
Other revenue	62,975	84,974	696,181	-	844,130	677,157
Changes in assets and liabilities:						
Receivables, net	209,305	(433,493)	(570,409)	(69,814)	(864,411)	(1,052,423)
Inventories, prepaids and other assets	461,517	385	510	(2,378)	460,034	(612,993)
Accounts payable and other liabilities	(3,394,126)	(612,762)	(483,123)	22,193	(4,467,818)	11,050,023
Accrued expenses	218,705	(52,554)	3,373	693,846	863,370	278,896
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,581,059</u>	<u>\$ 3,028,745</u>	<u>\$ 8,461,329</u>	<u>\$ 5,205,532</u>	<u>\$ 38,276,665</u>	<u>\$ 10,219,346</u>
Noncash investing, capital and financing activities:						
Capital asset donations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,129
Capital asset disposals	416	-	-	-	416	(1,455)
Assets acquired through transfers from governmental activities	-	-	35,990,624	-	35,990,624	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	\$ 1,057,716	\$ 20,657,990	\$ 2,129,949	\$ 45,481,965
Cash	-	-	-	6,658
Investments:				
U.S. Government and agency obligations	224,583,856	-	-	-
Asset-backed securities	25,130,943	-	-	-
Municipal/Provincial bonds	745,819	-	-	-
Corporate bonds	283,610,976	-	-	-
Collateralized mortgage obligations	3,308,835	-	-	-
Commercial mortgage-backed securities	3,214,617	-	-	-
Common and preferred stock	1,319,682,926	-	-	-
Mutual and commingled funds	294,949,917	-	-	-
Short-term investments	96,168,794	-	-	-
Cash collateral received under securities lending agreements	300,257,113	-	-	-
Real estate holdings	3,697,613	-	-	-
Alternative investment	6,563,331	-	-	-
Total investments	<u>2,561,914,740</u>	<u>-</u>	<u>-</u>	<u>-</u>
Receivables:				
Dividends receivable and accrued interest	6,630,325	-	-	-
Property taxes	-	-	-	7,807,971
Accounts	217,817	-	-	83,737
Other	-	-	-	377,013
Due from other funds	5,314,450	-	-	-
Due from component units	116,577	-	-	-
Due from other governments	21,995	-	-	-
Prepays	705	-	11,000	-
Total Current Assets	<u>2,575,274,325</u>	<u>20,657,990</u>	<u>2,140,949</u>	<u>53,757,344</u>
Total Assets	<u>2,575,274,325</u>	<u>20,657,990</u>	<u>2,140,949</u>	<u>\$ 53,757,344</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	302,661,610	-	7,799	25,151
Accrued liabilities	177,709	-	-	-
Deposits	-	-	-	720,134
Due to other funds	1,496	-	-	-
Due to other governments	-	-	-	2,201,237
Uncollected property taxes due to other governments	-	-	-	7,807,971
Undistributed taxes and refunds	-	-	-	14,099,213
Deferred revenue	139,048	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,777,107
Other liabilities	-	-	-	25,126,531
Total Current Liabilities	<u>302,979,863</u>	<u>-</u>	<u>7,799</u>	<u>53,757,344</u>
Noncurrent Liabilities:				
Compensated absences	43,747	-	-	-
Total Liabilities	<u>303,023,610</u>	<u>-</u>	<u>7,799</u>	<u>\$ 53,757,344</u>
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	<u>\$ 2,272,250,715</u>	<u>\$ 20,657,990</u>	<u>\$ 2,133,150</u>	

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, 2004
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
ADDITIONS			
Contributions:			
Employers	\$ 68,395,382	\$ -	\$ -
Members	40,580,132	-	388,897
Share purchases	-	14,249,089	-
Total Contributions	<u>108,975,514</u>	<u>14,249,089</u>	<u>388,897</u>
Investment income	331,401,193	203,525	19,623
Less: Investment expenses	<u>8,906,720</u>	<u>-</u>	<u>-</u>
Net Investment Income	<u>322,494,473</u>	<u>203,525</u>	<u>19,623</u>
Other income - forfeitures	<u>210,392</u>	<u>-</u>	<u>-</u>
Total Additions, net	<u>431,680,379</u>	<u>14,452,614</u>	<u>408,520</u>
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	87,122,662	-	-
Survivors	5,031,935	-	-
Disability	<u>19,491,388</u>	<u>-</u>	<u>-</u>
Total Benefits	<u>111,645,985</u>	<u>-</u>	<u>-</u>
Share redemptions	-	17,866,393	-
Member refunds	11,813,193	-	-
Program expenses	-	-	857,026
Administrative expenses	<u>2,319,106</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>125,778,284</u>	<u>17,866,393</u>	<u>857,026</u>
Net Increase (Decrease)	305,902,095	(3,413,779)	(448,506)
Net Assets - Beginning of Year	<u>1,966,348,620</u>	<u>24,071,769</u>	<u>2,581,656</u>
Net Assets - End of Year	<u>\$ 2,272,250,715</u>	<u>\$ 20,657,990</u>	<u>\$ 2,133,150</u>

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2004
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 12,323,149	\$ 5,297,641	\$ 35,485,622	\$ 53,106,412
Cash with fiscal agents	329,327	13,785,538	-	14,114,865
Cash	4,254,690	17,065	2,252,910	6,524,665
Investments - cash equivalents	15,597,169	40,450,978	40,349,932	96,398,079
Investments	2,924,602	-	-	2,924,602
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	24,180,415	24,180,415
Accounts	11,123,047	3,651,548	4,495,268	19,269,863
Notes	-	16,673	715,095	731,768
Mortgages	-	219,338,739	-	219,338,739
Interest	-	3,755,160	-	3,755,160
Other	1,394,747	3,315,150	1,088,884	5,798,781
Due from primary government	27,090,476	2,341,979	1,810,953	31,243,408
Due from other governments	22,398,330	2,350,841	2,626,649	27,375,820
Inventory of supplies	8,459,134	475,131	1,523,065	10,457,330
Prepays	278,633	1,261,262	537,349	2,077,244
Deferred charges	-	-	939,174	939,174
Other assets	-	25,435,000	2,391,566	27,826,566
Restricted Assets:				
Equity in pooled cash and investments	-	12,096,443	-	12,096,443
Cash with fiscal agents	-	5,768,809	-	5,768,809
Cash	-	-	108,025	108,025
Investments - cash equivalents	-	67,562,414	30,427,324	97,989,738
Investments	-	200,707,154	-	200,707,154
Capital assets:				
Nondepreciable assets	161,836,344	80,899,279	60,591,839	303,327,462
Depreciable assets, net	1,127,879,428	277,776,431	148,457,763	1,554,113,622
Total Assets	<u>1,395,889,076</u>	<u>966,303,235</u>	<u>357,981,833</u>	<u>2,720,174,144</u>
LIABILITIES				
Accounts payable	60,905,434	6,369,071	7,778,947	75,053,452
Interest payable	11,624	12,798,381	908,918	13,718,923
Retainage payable	9,616,720	-	694,323	10,311,043
Accrued liabilities	-	3,973,029	436,050	4,409,079
Claims payable	20,339,593	-	-	20,339,593
Deposits	-	8,148,431	29,823	8,178,254
Due to primary government	5,658,876	43,163,968	2,319,347	51,142,191
Deferred revenue	4,315,373	13,888,048	4,528,677	22,732,098
Other liabilities	-	9,398,392	40,009	9,438,401
Noncurrent liabilities:				
Due within one year	20,372,601	37,310,438	4,773,253	62,456,292
Due in more than one year	95,551,129	668,698,048	101,717,758	865,966,935
Total Liabilities	<u>216,771,350</u>	<u>803,747,806</u>	<u>123,227,105</u>	<u>1,143,746,261</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,270,178,058	55,553,904	181,893,218	1,507,625,180
Restricted for:				
Capital projects	-	-	4,371,962	4,371,962
Debt Service	-	40,949,391	3,346,941	44,296,332
Other purposes	106,644	4,040,635	13,742,294	17,889,573
Unrestricted (deficit)	(91,166,976)	62,011,499	31,400,313	2,244,836
Total net assets	<u>\$ 1,179,117,726</u>	<u>\$ 162,555,429</u>	<u>\$ 234,754,728</u>	<u>\$ 1,576,427,883</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, 2004
Exhibit A-14

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component Units:								
General government	\$ 2,798,202	\$ 2,659,247	\$ 216,795	\$ -	\$ -	\$ -	\$ 77,840	\$ 77,840
Culture and recreation	11,271,067	9,934,954	-	-	-	-	(1,336,113)	(1,336,113)
Community development and housing	173,217,265	80,786,223	80,406,035	3,888,071	-	(8,136,936)	-	(8,136,936)
Education:								
Secondary education	1,665,124,074	30,358,686	88,449,256	51,045,217	(1,495,270,915)	-	-	(1,495,270,915)
Higher education	174,472,198	59,092,427	17,523,286	40,707	-	-	(97,815,778)	(97,815,778)
Total component units	<u>\$ 2,026,882,806</u>	<u>\$ 182,831,537</u>	<u>\$ 186,595,372</u>	<u>\$ 54,973,995</u>	<u>(1,495,270,915)</u>	<u>(8,136,936)</u>	<u>(99,074,051)</u>	<u>(1,602,481,902)</u>
General revenues:								
Grants and contributions not restricted to specific programs					1,524,789,151	-	114,117,791	1,638,906,942
Investment income					174,387	956,522	3,164,315	4,295,224
Gain on sale of capital assets					-	-	1,457,504	1,457,504
Total general revenues					<u>1,524,963,538</u>	<u>956,522</u>	<u>118,739,610</u>	<u>1,644,659,670</u>
Change in net assets					29,692,623	(7,180,414)	19,665,559	42,177,768
Net assets - beginning, as restated					<u>1,149,425,103</u>	<u>169,735,843</u>	<u>215,089,169</u>	<u>1,534,250,115</u>
Net assets - ending					<u>\$ 1,179,117,726</u>	<u>\$ 162,555,429</u>	<u>\$ 234,754,728</u>	<u>\$ 1,576,427,883</u>

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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 Montgomery County, Maryland, 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 are elected by the voters. (One nonvoting student member is elected by secondary students.) 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 (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, a not-for-profit corporation, 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 Community 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' administrative 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 8720 Georgia Avenue, Suite 904 Silver Spring, MD 20910
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 20002-4290	Northeast Maryland Waste Disposal Authority 100 South Charles St, Tower II-Suite 402 Baltimore, MD 21201-2705

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.

General Fund 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 Fund 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. The agency funds also use the accrual basis of accounting to recognize assets and liabilities. 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.

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, historically, deferred revenue relating to income taxes has primarily included the final fiscal year quarterly distribution (which was normally received in August or September after the fiscal year-end), and

amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Most deferred revenue is 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. Beginning with FY04, the State began distributing the final fiscal year quarterly distribution in July, rather than in August or September. Also included in this July distribution was an accelerated payment of unallocated withholding relating to several prior years. Therefore, General Fund revenue for FY04 includes an additional \$70,738,868 (\$50,061,178 related to the final quarterly distribution and \$20,677,690 related to unallocated withholding), that would historically have been included in deferred revenue. 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.

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-five liquor stores and the Montgomery County Liquor Warehouse. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages 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) and Deferred Compensation Plan, 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 are used to account for funds whose principal and interest are legally held in trust 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. See Note III-A for additional information.

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a Primary Government fund) are stated at fair value.

Proprietary Fund Types – The Solid Waste Activities Enterprise Fund investment is a U.S. Government security which is stated at fair value.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled

funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The Employees' Retirement System Pension and Other Employee Benefit Trust Fund (System) invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY04, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, the County has defined “cash equivalents” 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 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 outstanding at the end of the year are current and are referred to as “due to/from other funds.” All other outstanding balances between funds are also reported as “due to/from other funds.” Any residual balances outstanding between the 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 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

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 usage, 75 percent and 25 percent of such accrued leave is classified as current and long-term, respectively. 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

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, 2004, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$817,668,162. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$317,277,631.

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.

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 FY04. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven 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 2003 (i.e., FY04) exceeded 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. Effective July 2000, owner-occupied residential property owners began paying 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.

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, 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 reserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding 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 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 IV-H1), such encumbrances are reserved 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 FY04, the County Council increased the operating budget through supplemental and special appropriations by \$38.9 million. In addition, supplemental appropriations increased the CIP budget by \$27.9 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.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Proceeds under certain capital lease financing.
- 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	\$ 2,099,843,757	\$ 654,060,322	\$ (1,423,792,350)	\$ 21,991,085
Reconciling items:				
Cancellation of prior year encumbrances	(1,571,556)	-	-	(1,571,556)
Elimination of encumbrances outstanding	-	(13,840,682)	-	13,840,682
Unrealized gains (losses)	(1,740,797)	-	-	(1,740,797)
Elimination of certain grant activity	(7,388)	-	-	(7,388)
Financing under capital lease	-	-	35,990,624	35,990,624
Transfer to Silver Spring Parking Lot District	-	-	(35,990,624)	(35,990,624)
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	919,040	-	(919,040)	-
Public agency permits	-	1,059,660	1,059,660	-
Solid waste tipping fees	-	1,316,550	1,316,550	-
Community use of public facilities for elections	-	92,420	92,420	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	328,420	-	(328,420)	-
Component Units - Transfer out	-	1,222,246,998	1,222,246,998	-
As reported - GAAP basis	<u>\$ 2,097,771,476</u>	<u>\$ 1,864,935,268</u>	<u>\$ (200,324,182)</u>	<u>\$ 32,512,026</u>

B) Deficit Fund Equity

Internal Service Fund – The \$11,847,992 unrestricted deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the year, and in incurred but not reported claims as determined by the actuary. Actions have been taken by management to adjust the rates beginning in FY03, to recover this deficit over an originally planned timeframe of three years. The deficit will be recovered by continuing to charge participating agencies higher insurance premium rates in future years; however higher than originally anticipated claims in FY04, and expected in FY05, have resulted in an extended timeframe for recovery, through FY06.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Authorization and Balances

The Montgomery County reporting entity total cash and investments as of June 30, 2004, totaled \$3,643,325,837, of which \$3,153,587,045 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	\$ 506,258,662	\$ 53,106,412	\$ 559,365,074
Cash with fiscal agents	37,589,508	14,114,865	51,704,373
Cash	228,598	6,524,665	6,753,263
Investments - cash equivalents	-	96,398,079	96,398,079
Investments	2,568,463,630	2,924,602	2,571,388,232
Restricted equity in pooled cash and investments	37,923,414	12,096,443	50,019,857
Restricted cash with fiscal agents	-	108,025	108,025
Restricted cash	-	5,768,809	5,768,809
Restricted investments - cash equivalents	-	97,989,738	97,989,738
Restricted investments	3,123,233	200,707,154	203,830,387
Total	<u>\$ 3,153,587,045</u>	<u>\$ 489,738,792</u>	<u>\$ 3,643,325,837</u>

Deposit and Investment Summary:

Deposits	\$ 36,861,351	\$ 10,303,836	\$ 47,165,187
Investments	3,078,907,588	366,320,195	3,445,227,783
Cash on hand, fiscal agents, safe deposit escrow	37,818,106	113,114,761	150,932,867
Total	<u>\$ 3,153,587,045</u>	<u>\$ 489,738,792</u>	<u>\$ 3,643,325,837</u>

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

Government-wide	\$ 522,338,027
Fiduciary funds	<u>2,631,249,018</u>
Total	<u>\$ 3,153,587,045</u>

PRIMARY GOVERNMENT

External Investment Pool - 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. 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, money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7, and the Maryland Local Government Investment Pool (MLGIP). The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months.

These same statutes require that securities underlying certificates of deposit and repurchase agreements have a market value of at least 102 percent of the cost of the investment. A third party custodian holds the collateral underlying all repurchase agreements. 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 in a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits at financial institutions were fully insured or collateralized throughout the fiscal year with the exception of Chevy Chase Bank, for periods in June 2004. As of June 30, 2004, the County's demand deposit account at Chevy Chase Bank was under collateralized. Upon notification to the bank, the bank immediately pledged additional collateral. The County has implemented a daily monitoring process to ensure collateral balances always exceed demand deposit balances at financial institutions.

The County's external investment pool is not subject to regulatory oversight by the SEC. However, the pool is subject to oversight by the County's investment committee. 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.

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 sold and 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, commercial paper and bankers’ acceptances are provided by the County’s custodian, which are based on various industry standard pricing sources. Fair value of investments in repurchase agreements are estimated based on consideration of composite quoted market prices, with comparable collateral or credit quality, as appropriate. 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) has been 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	\$ 506,258,662	\$ 9,302,883	\$ 515,561,545
Restricted equity in pooled cash and investments	37,923,414	-	37,923,414
Total	<u>\$ 544,182,076</u>	<u>\$ 9,302,883</u>	<u>\$ 553,484,959</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 36,861,351	\$ -	\$ 36,861,351
Investments	507,320,725	9,302,883	516,623,608
Total	<u>\$ 544,182,076</u>	<u>\$ 9,302,883</u>	<u>\$ 553,484,959</u>

A summary of investments is as follows:

<u>Investment Type:</u>	Fair Value	Principal	Maturity Range	Interest Rate Range
Repurchase agreements	\$ 84,996,623	\$ 85,000,000	07/04	1.55%
U.S. Government securities	227,926,399	229,712,071	07/04 - 04/06	.947 - 2.26%
Commercial paper	26,457,155	26,428,833	08/04	1.20 - 1.48%
Bankers' acceptances	85,118,291	85,008,700	07/04 - 02/05	1.06 - 1.36%
Money market funds	92,125,140	92,125,140	N/A	1.00 - 1.05%
Total	<u>\$ 516,623,608</u>	<u>\$ 518,274,744</u>		

During FY04, the County’s pension trust securities lending transactions, as described below, participated in an external investment pool.

Securities Lending Transactions – Montgomery County Code and Maryland State statutes allow the Employees’ Retirement System of Montgomery County, Maryland (MCERS) to participate in securities lending transactions, and MCERS has, via a Securities Lending Authorization Agreement, authorized The Northern Trust Company (Northern) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During FY04, Northern lent, at the direction of the Board of Investment Trustees, MCERS’ securities and received cash (both United States and foreign currency), United States government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Northern did

not have the ability to pledge or sell those collateral securities delivered unless there was a borrower default. Borrowers were required for each loan to deliver collateral amounting to 102 percent and 105 percent of the market value of the securities plus any accrued interest on the United States and foreign securities, respectively. MCERS did not impose any restriction during FY04 on the amount of loans that Northern made on its behalf. Northern 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 failures by any borrowers to return loaned securities or pay distributions thereon during FY04. Moreover, there were no losses during FY04 resulting from default of the borrowers or Northern. During FY04, MCERS and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral was invested at the direction of MCERS in the cash collateral fund of the Northern Core USA Collateral Section (the "Fund"). The Fund is accounted for on an amortized cost basis. The majority of the investments of the Fund consist of money market instruments which mature within one year. The Fund is not registered with the Securities and Exchange Commission but the Fund complies with a substantial majority of the requirements of SEC Rule 2a-7. Northern and consequently the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Illinois Commissioner of Banks and Real Estate. The Fund sponsor believes that the value of a participant's investment in the Fund determined by valuing the underlying assets at amortized cost is approximately equal to the value of the investment if the underlying assets are valued at fair value.

The average duration of such investment pool as of June 30, 2004, was 24 days and the average weighted maturity was 158 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, MCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for MCERS as of June 30, 2004, were \$344,168,604 and \$336,733,010, respectively. Cash collateral held, amounting to \$300,257,113, is included as an asset and corresponding liability in the accompanying financial statements at year-end.

COMPONENT UNITS

MCPS - The Annotated Code of Maryland requires that MCPS funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority or municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized. The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an Act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2a-7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The MCPS Employee Benefit Plan Internal Service Fund is authorized to invest in domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, money market funds and pooled real estate investments. Fixed income

investments are to be made primarily in issues rated “A” or better by Moody’s and “A” or better by Standards and Poor’s rating agencies.

HOC - Investments of HOC’s General Fund, Public Fund, and Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. government and federal agencies, bankers’ acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the MLGIP, commercial paper, and investments in the Montgomery County investment pool. Investments of the HOC Multi-Family Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by HOC providing for the issuance of bonds.

2) Credit and Market Risk

Deposit Collateral:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Total Collateral **</u>
<u>Primary Government:</u>			
Montgomery County *	\$ 36,861,351	\$ 48,089,177	\$ 45,372,216
<u>Component Units:</u>			
MCPS	4,918,540	16,311,938	16,311,938
MCC	1,043,030	2,867,573	2,867,573
MCRA	1,031,701	1,207,296	1,207,296
HOC	3,059,408	3,059,408	3,059,408
BUPI	251,157	318,359	189,796
Total Component Units	<u>10,303,836</u>	<u>23,764,574</u>	<u>23,636,011</u>
Total Reporting Entity	<u>\$ 47,165,187</u>	<u>\$ 71,853,751</u>	<u>\$ 69,008,227</u>

* County deposits are the same as external investment pool deposits.

** For those entities with fully collateralized deposits, total actual collateral equals or exceeds the amounts listed.

Deposits include bank accounts and non-negotiable certificates of deposit. The County’s bank balances, and therefore the external investment pool’s balances, were insured or collateralized with securities held by the County’s agent in the County’s name, with the exception of \$2,716,961, which was uncollateralized at year-end.

Of the component unit bank balances, \$20,237,528 was insured or collateralized with securities held by the component units' agents in the component units' names, \$3,398,483 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names, and \$128,563 was uncollateralized.

Investments by Category of Risk:

<u>Primary Government:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Pension Investments:					
Short-term investments	\$ 96,168,794	\$ -	\$ -	\$ 96,168,794	\$ 96,168,794
Asset-backed securities	25,130,943	-	-	25,130,943	25,130,943
Collateralized mortgage obligations	3,308,835	-	-	3,308,835	3,308,835
Commercial mortgage-backed securities	3,214,617	-	-	3,214,617	3,214,617
Municipal/provincial bonds	745,819	-	-	745,819	745,819
Convertible corporate bonds	1,326,272	-	-	1,326,272	1,326,272
Corporate bonds:					
Not on securities loan	240,522,059	-	-	240,522,059	240,522,059
On securities loan for securities collateral	759,577	-	-	759,577	759,577
U.S. Government obligations:					
Not on securities loan	75,568,455	-	-	75,568,455	75,568,455
On securities loan for securities collateral	33,954,926	-	-	33,954,926	33,954,926
Common and preferred stock:					
Not on securities loan	1,173,748,212	-	-	1,173,748,212	1,173,748,212
On securities loan for securities collateral	8,361,376	-	-	8,361,376	8,361,376
Subtotal Pension Investments	<u>1,662,809,885</u>	<u>-</u>	<u>-</u>	<u>1,662,809,885</u>	<u>1,662,809,885</u>
Other Investments:					
U.S. Government securities	9,672,123	-	-	9,672,123	9,672,123
	<u>\$ 1,672,482,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,672,482,008</u>	<u>1,672,482,008</u>
Pooled investments held in:					
Montgomery County external investment pool *				507,320,725	507,320,725
Pension Investments:					
Mutual and commingled funds				294,949,917	294,949,917
Securities lending short-term collateral investment pool				300,257,113	300,257,113
Investments held by broker dealers under securities loans with cash collateral:					
Common and preferred stock				137,573,338	137,573,338
Corporate bonds				41,003,068	41,003,068
Government obligations				115,060,475	115,060,475
Real estate				3,697,613	3,697,613
Alternative investment				6,563,331	6,563,331
Subtotal Pension Investments				<u>899,104,855</u>	<u>899,104,855</u>
Subtotal Pooled Investments				<u>1,406,425,580</u>	<u>1,406,425,580</u>
Total Investments				<u>\$ 3,078,907,588</u>	<u>\$ 3,078,907,588</u>
Component Units:					
Repurchase agreements	\$ 512,797	\$ 29,675,490	\$ 831,884	\$ 31,020,171	\$ 31,099,669
U.S. Government securities	217,139,952	7,780,652	30,427,324	255,347,928	255,356,422
Bankers' acceptances	118,786	-	-	118,786	118,786
	<u>\$ 217,771,535</u>	<u>\$ 37,456,142</u>	<u>\$ 31,259,208</u>	<u>286,486,885</u>	<u>286,574,877</u>
Pooled investments held in:					
Montgomery County external investment pool *				9,302,883	9,302,883
Maryland local government investment pool				40,337,612	40,337,612
Mutual funds				30,192,815	30,192,815
Total Investments				<u>\$ 366,320,195</u>	<u>\$ 366,408,187</u>

MCC short-term investments with original maturities of less than 90 days in U.S. Government securities and bankers' acceptances are carried at amortized cost.

* The Primary Government and Component Units' participation in the Montgomery County external investment pool is presented as pooled investments and not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form. The County, as sponsor of the pool, has disclosed the risk categorization of external pool investments below.

<u>External Investment Pool:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 84,996,623	\$ -	\$ -	\$ 84,996,623	\$ 84,996,623
U.S. Government securities	227,926,399	-	-	227,926,399	227,926,399
Commercial paper	26,457,155	-	-	26,457,155	26,457,155
Bankers' acceptances	84,118,291	-	-	84,118,291	84,118,291
	<u>\$ 423,498,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>423,498,468</u>	<u>423,498,468</u>
Pooled investments held in:					
Money market funds				92,125,140	92,125,140
Total Investments				<u>\$ 515,623,608</u>	<u>\$ 515,623,608</u>

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investment securities that are insured or registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in the entity's name. Investment amounts included as Category 3 did not significantly fluctuate during the fiscal year. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year.

Cash on hand, with fiscal agents, and in safe deposit escrow:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
Cash with fiscal agents	\$ 37,589,508	\$ 113,060,262	\$ 150,649,770
Petty cash/safe deposit escrow	228,598	54,499	283,097
	<u>\$ 37,818,106</u>	<u>\$ 113,114,761</u>	<u>\$ 150,932,867</u>

Primary Government cash with fiscal agents of \$30,662,609 is held for approximately one day in bank accounts that are not in the County's name and are not collateralized, and \$3,931,376 is held in money market funds. \$2,995,523 is held in U.S. Government obligations that are not in the County's name (Category 3). 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.

Component units' cash with fiscal agents of \$96,235,995 is held in money market mutual funds, \$329,327 is held for approximately one day in U.S. Government obligations that are not in the component unit's name (Category 3), and \$16,494,940 is held in repurchase agreements held by the counterparty's trust department or agent in the component unit's name (Category 2).

3) External Investment Pool Condensed Financial Statements

The condensed financial statements of the County's external investment pool at June 30, 2004, are as follows:

Statement of Net Assets
June 30, 2004

Assets:	
Investment in securities, at fair value	\$516,623,608
Cash	36,861,351
Total assets and net assets	<u>\$553,484,959</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$532,826,969
External participants' units outstanding (\$1.00 par)	20,657,990
Net assets	<u>\$553,484,959</u>
Participants net asset value, offering price and redemption price per share (\$553,484,959 / 551,402,442 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Investment Income *	\$ 4,565,217
Distributions to participants:	
Distributions paid and payable	(4,565,217)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$13,780,416,548
Redemption of units	<u>(13,827,096,575)</u>
Net increase in net assets and shares resulting from share transactions	<u>(46,680,027)</u>
Total increase in net assets	(46,680,027)
Net assets, July 1, 2003	600,164,986
Net assets, June 30, 2004	<u>\$553,484,959</u>

* The pool has no expenses.

B) Receivables

1) Accounts Receivable

The total allowance for doubtful accounts at June 30, 2004, amounted to:

<u>Enterprise Funds:</u>	
Liquor	\$ 436,049
Solid Waste Activities	61,847
Parking Lot Districts	4,307,274
	<u>\$ 4,805,170</u>

2) Due from/to Component Units

The balances at June 30, 2004, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ 1,642,482	\$ 2,250,000	\$ 7,338	\$ 1,378,741	\$ -	\$ 5,278,561
Capital Projects	3,928,630	-	-	14,839,401	-	18,768,031
Solid Waste Activities Enterprise	75,319	1,318	-	851	-	77,488
Parking Lot Districts Enterprise	-	-	-	506,943	-	506,943
Nonmajor governmental	-	-	-	26,047,825	-	26,047,825
Internal Service	12,445	5,966	33,780	287,309	7,266	346,766
Fiduciary	-	-	13,679	102,898	-	116,577
Total Due to Primary Government	\$ 5,658,876	\$ 2,257,284	\$ 54,797	\$ 43,163,968	\$ 7,266	\$ 51,142,191

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 25,187,074	\$ 22,973	\$ -	\$ 814,212	\$ -	\$ 26,024,259
Capital Projects	-	1,769,457	-	80,360	-	1,849,817
Nonmajor governmental	1,385,499	16,887	-	1,447,407	1,636	2,851,429
Nonmajor Enterprise	492,120	-	-	-	-	492,120
Internal Service	25,783	-	-	-	-	25,783
Total Due from Primary Government	\$ 27,090,476	\$ 1,809,317	\$ -	\$ 2,341,979	\$ 1,636	\$ 31,243,408

In the nonmajor governmental funds, \$20,788,254 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. During FY04, approximately \$130,000 in loans to HOC was forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2004, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Parking Lot Districts	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Fiduciary	Total
Federal government	\$ 49,863	\$ 5,193,635	\$ 765	\$ -	\$ 11,135,225	\$ -	\$ 1,783	\$ -	\$ 16,381,271
State of Maryland	23,166,320	30,271,784	10,722	-	27,399,033	2,378	22,867	15,940	80,889,044
Other	255,000	202,989	129,995	193,364	192,229	-	33,670	6,055	1,013,302
Total	\$ 23,471,183	\$ 35,668,408	\$ 141,482	\$ 193,364	\$ 38,726,487	\$ 2,378	\$ 58,320	\$ 21,995	\$ 98,283,617

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003*	Increases	Decreases	Balance June 30, 2004
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 468,610,493	\$ 22,038,336	\$ 5,467,684	\$ 485,181,145
Construction in progress	215,430,898	137,234,487	118,861,286	233,804,099
Total Nondepreciable Capital Assets	<u>684,041,391</u>	<u>159,272,823</u>	<u>124,328,970</u>	<u>718,985,244</u>
Depreciable Capital Assets:				
Buildings	487,201,726	42,949,405	1,874,021	528,277,110
Improvements other than buildings	44,189,031	1,600,771	-	45,789,802
Furniture, fixtures, equipment and machinery	155,231,289	28,373,540	2,769,488	180,835,341
Leasehold improvements	-	7,221,582	-	7,221,582
Automobiles and trucks	145,574,580	19,045,956	7,453,355	157,167,181
Infrastructure	1,324,726,085	54,020,269	-	1,378,746,354
Other assets	7,058,182	-	4,978,451	2,079,731
Total Capital Assets being Depreciated	<u>2,163,980,893</u>	<u>153,211,523</u>	<u>17,075,315</u>	<u>2,300,117,101</u>
Less Accumulated Depreciation for:				
Buildings	174,754,427	14,685,826	1,839,736	187,600,517
Improvements other than buildings	20,812,160	1,369,688	-	22,181,848
Furniture, fixtures, equipment and machinery	39,990,040	16,519,839	2,763,817	53,746,062
Leasehold improvements	-	315,228	-	315,228
Automobiles and trucks	70,930,060	11,227,451	7,027,391	75,130,120
Infrastructure	288,805,703	26,661,382	-	315,467,085
Other assets	2,153,222	705,817	1,991,380	867,659
Total Accumulated Depreciation	<u>597,445,612</u>	<u>71,485,231</u>	<u>13,622,324</u>	<u>655,308,519</u>
Total Depreciable Assets, net	<u>1,566,535,281</u>	<u>81,726,292</u>	<u>3,452,991</u>	<u>1,644,808,582</u>
Governmental Activities Capital Assets, net	<u>\$ 2,250,576,672</u>	<u>\$ 240,999,115</u>	<u>\$ 127,781,961</u>	<u>\$ 2,363,793,826</u>
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 52,833,368	\$ -	\$ 55,705	\$ 52,777,663
Construction in progress	14,233,274	40,492,055	54,709,947	15,382
Total Nondepreciable Capital Assets	<u>67,066,642</u>	<u>40,492,055</u>	<u>54,765,652</u>	<u>52,793,045</u>
Depreciable Capital Assets:				
Buildings	143,445,748	51,142,477	-	194,588,225
Improvements other than buildings	105,070,578	3,679,965	52,879	108,697,664
Furniture, fixtures, equipment and machinery	19,378,755	1,013,502	2,411,840	17,980,417
Automobiles and trucks	3,688,886	29,355	52,320	3,665,921
Total Capital Assets being Depreciated	<u>271,583,967</u>	<u>55,865,299</u>	<u>2,517,039</u>	<u>324,932,227</u>
Less Accumulated Depreciation for:				
Buildings	60,180,526	4,860,401	-	65,040,927
Improvements other than buildings	87,181,635	2,840,250	52,879	89,969,006
Furniture, fixtures, equipment and machinery	11,993,696	1,585,687	1,902,164	11,677,219
Automobiles and trucks	2,375,725	158,954	52,320	2,482,359
Total Accumulated Depreciation	<u>161,731,582</u>	<u>9,445,292</u>	<u>2,007,363</u>	<u>169,169,511</u>
Total Depreciable Assets, net	<u>109,852,385</u>	<u>46,420,007</u>	<u>509,676</u>	<u>155,762,716</u>
Business-Type Activities Capital Assets, net	<u>\$ 176,919,027</u>	<u>\$ 86,912,062</u>	<u>\$ 55,275,328</u>	<u>\$ 208,555,761</u>

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

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

Governmental activities:	
General government	\$ 9,297,293
Public safety	19,896,173
Public works and transportation	35,590,720
Health and human services	1,282,488
Culture and recreation	3,777,499
Community development and housing	1,449,345
Environment	191,713
Total depreciation expense-governmental activities	<u>\$ 71,485,231</u>
Business-type activities:	
Liquor	\$ 657,516
Solid waste activities	2,850,405
Parking lot districts	5,710,544
Permitting services	178,789
Community use of public facilities	48,038
Total depreciation expense-business-type activities	<u>\$ 9,445,292</u>

Construction commitments as of June 30, 2004, are as follows:

General government	\$ 12,174,940
Public safety	19,485,272
Public works and transportation	22,319,605
Culture and recreation	23,052,985
Community development and housing	7,847,268
Environment	3,670,602
Total	<u>\$ 88,550,672</u>

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,289,715,772 at June 30, 2004, are significant in relation to the total component unit capital assets.

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities				
Nondepreciable capital assets:				
Land	\$ 66,207,419	\$ 340,180	\$ -	\$ 66,547,599
Construction in progress	101,449,370	82,439,873	88,600,498	95,288,745
Total nondepreciable capital assets	<u>167,656,789</u>	<u>82,780,053</u>	<u>88,600,498</u>	<u>161,836,344</u>
Depreciable capital assets:				
Buildings and improvements	1,410,935,727	75,631,835	1,306,909	1,485,260,653
Site improvements	105,692,987	7,595,502	-	113,288,489
Vehicles and equipment	114,298,251	5,725,151	1,718,125	118,305,277
Total depreciable capital assets	<u>1,630,926,965</u>	<u>88,952,488</u>	<u>3,025,034</u>	<u>1,716,854,419</u>
Less accumulated depreciation for:				
Buildings and improvements	471,288,847	34,313,634	1,142,061	504,460,420
Site improvements	19,639,012	2,600,978	-	22,239,990
Vehicles and equipment	59,983,063	8,975,253	1,673,844	67,284,472
Total accumulated depreciation	<u>550,910,922</u>	<u>45,889,865</u>	<u>2,815,905</u>	<u>593,984,882</u>
Total depreciable capital assets, net	<u>1,080,016,043</u>	<u>43,062,623</u>	<u>209,129</u>	<u>1,122,869,537</u>
Government activities capital assets, net	<u>\$1,247,672,832</u>	<u>\$125,842,676</u>	<u>\$ 88,809,627</u>	<u>1,284,705,881</u>
Business-Type Activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Vehicles and equipment	16,171,563	535,784	93,952	16,613,395
Total depreciable capital assets	<u>16,189,394</u>	<u>535,784</u>	<u>93,952</u>	<u>16,631,226</u>
Less accumulated depreciation for:				
Buildings	6,241	1,783	-	8,024
Vehicles and equipment	10,623,103	1,073,835	83,627	11,613,311
Total accumulated depreciation	<u>10,629,344</u>	<u>1,075,618</u>	<u>83,627</u>	<u>11,621,335</u>
Business-type activities capital assets, net	<u>\$ 5,560,050</u>	<u>\$ (539,834)</u>	<u>\$ 10,325</u>	<u>5,009,891</u>
Total MCPS government-wide capital assets				<u>\$ 1,289,715,772</u>

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

Governmental activities:	
Regular instruction	\$ 37,766,348
Special education	229,089
School administration	24,682
Student transportation	6,064,101
Operation of plant	187,857
Maintenance of plant	407,831
Administration	1,165,621
Total depreciation expense-governmental activities	<u>\$ 45,845,529</u>
Business-type activities:	
Food services	\$ 1,070,620
Real estate management	4,998
Total depreciation expense-business type activities	<u>\$ 1,075,618</u>

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2004, is as follows:

	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
<u>Due To Fund</u>						
General	\$ -	\$ 1,572	\$ 450	\$ 2,330,725	\$ 3,533,588	\$ 5,866,335
Debt Service	29,434,840	-	1,227,769	-	-	30,662,609
Capital Projects	50,306,373	-	529,998	54,319	54,790	50,945,480
Liquor	-	2,571	-	109,546	90,517	202,634
Solid Waste Activities	-	-	-	36,116	43,193	79,309
Parking Lot Districts	-	809	-	13,981	13,333	28,123
Nonmajor Governmental	9,600,000	203	24,000	927,004	1,346,414	11,897,621
Nonmajor Enterprise	-	-	-	99,922	145,206	245,128
Internal Service	369,000	-	-	95,705	86,921	551,626
Fiduciary	-	-	-	1,008	488	1,496
Total	<u>\$ 89,710,213</u>	<u>\$ 5,155</u>	<u>\$ 1,782,217</u>	<u>\$ 3,668,326</u>	<u>\$ 5,314,450</u>	<u>\$ 100,480,361</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY05:

- \$30.5 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;
- \$29.4 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;
- \$9.6 million to the Mass Transit Facilities Special Revenue Fund, due to the delayed FY04 payment by the State for Ride-On program funding; and
- \$.369 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, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2004, consisted of the following:

		<u>Transfers In Fund</u>								
		Debt	Capital	Solid Waste	Parking	Nonmajor	Nonmajor	Internal		
<u>Transfers Out Fund</u>	<u>General</u>	<u>Service</u>	<u>Projects</u>	<u>Activities</u>	<u>Lot Districts</u>	<u>Governmental</u>	<u>Enterprise</u>	<u>Service</u>	<u>Total</u>	
General	\$ -	\$ 177,932,595	\$ 29,506,722	\$ -	\$36,213,412	\$ 31,243,064	\$ 30,000	\$ 116,423	\$ 275,042,216	
Debt Service	-	-	1,083,101	-	-	-	-	-	1,083,101	
Liquor	20,501,030	-	-	-	-	-	-	-	20,501,030	
Solid Waste Activities	1,371,240	-	-	55,142	-	-	-	-	1,426,382	
Parking Lot Districts	371,100	-	83,664	-	-	6,726,284	-	-	7,181,048	
Nonmajor Governmental	12,284,700	15,097,286	3,951,459	-	-	383,722	-	652,703	32,369,870	
Nonmajor Enterprise	4,199,340	-	-	-	-	-	-	3,423	4,202,763	
Total	<u>\$ 38,727,410</u>	<u>\$ 193,029,881</u>	<u>\$ 34,624,946</u>	<u>\$ 55,142</u>	<u>\$36,213,412</u>	<u>\$ 38,353,070</u>	<u>\$ 30,000</u>	<u>\$ 772,549</u>	<u>\$ 341,806,410</u>	

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is \$12,394,890 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program. Also included above is \$35,990,624 transferred by the General Fund to the Silver Spring Parking Lot District Enterprise Fund in the form of substantial completion of construction of two garages (see Note III-E3).

E) **Leases**

1) **Operating Leases**

The County leases building 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 \$10,265,000 for FY04. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2005	\$ 11,579,000
2006	8,950,000
2007	8,085,000
2008	7,881,000
2009	7,315,000
2010 - 2014	23,107,000
2015 - 2016	<u>1,773,000</u>
Total	<u><u>\$ 68,690,000</u></u>

2) **Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds (See Note III-F5), 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. The lease has a term of 22 years ending on June 1, 2024.

Construction of the Shady Grove and Grosvenor garages is complete. The composition of the capital lease receivable is as follows:

	<u>Shady Grove</u>	<u>Grosvenor</u>	<u>Total</u>
Minimum lease payments receivable	\$ 30,057,509	\$ 28,954,482	\$ 59,011,991
Unearned lease income	<u>(11,202,739)</u>	<u>(9,929,252)</u>	<u>(21,131,991)</u>
Net investment in direct financing leases	<u><u>\$ 18,854,770</u></u>	<u><u>\$ 19,025,230</u></u>	<u><u>\$ 37,880,000</u></u>

At June 30, 2004, the minimum future lease payments due under the direct financing capital lease are as follows:

Fiscal Year Ending June 30	
2005	\$ 2,882,005
2006	2,948,005
2007	2,948,961
2008	2,946,711
2009	2,949,399
Later years	<u>44,336,910</u>
Total minimum lease payments	<u>\$ 59,011,991</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 through MCRA capital leases are as follows:

Land	\$ 13,449,033
Land improvements	182,516
Buildings	23,429,646
Furniture, fixtures, equipment and machinery	159,291
Subtotal	37,220,486
Less accumulated depreciation	<u>(13,279,627)</u>
Total asset value under capital leases	<u>\$ 23,940,859</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, are as follows:

Fiscal Year Ending June 30	
2005	\$ 2,834,660
2006	2,799,872
2007	2,769,419
2008	2,748,386
2009	2,365,739
2010-2014	8,199,519
2015-2019	<u>1,922,600</u>
Total minimum lease payments	23,640,195
Less: amount representing interest	<u>(5,620,195)</u>
Present value of minimum lease payments	<u>\$ 18,020,000</u>

The County has also entered into a lease agreement as lessee with MCRA to lease from MCRA the Montgomery County Conference Center. The construction of the Conference Center is being funded through the issuance of lease revenue bonds by MCRA. The Maryland Stadium Authority (MSA) is also participating in financing the construction through the issuance of long-term debt. The County will recognize the MSA contribution as revenue when the Conference Center is opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term. Bond funded costs incurred as of year-end totaling \$5,216,711 are recorded as construction-in-progress. Since construction of the Conference Center is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

Fiscal Year Ending June 30	
2005	\$ 995,253
2006	994,853
2007	993,853
2008	997,253
2009	993,764
2010-2014	4,974,774
2015-2019	4,979,520
2020-2023	3,982,500
Total minimum lease payments	<u>18,911,770</u>
Less: amount representing interest	<u>(7,421,770)</u>
Present value of minimum lease payments	<u><u>\$11,490,000</u></u>

The County has also entered into a lease agreement as lessee with MCRA to lease from MCRA the Germantown Indoor Swim Center. The construction of the Germantown Swim Center is being funded through the issuance of lease revenue bonds by MCRA. The ownership of the Germantown Swim Center will transfer to the County at the end of the MCRA lease term. Bond funded costs incurred as of year-end totaling \$1,574,258 are recorded as construction-in-progress. Since construction of the Germantown Swim Center is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

Fiscal Year Ending June 30	
2005	\$ 1,855,221
2006	1,833,075
2007	1,833,825
2008	1,832,075
2009	1,834,950
2010-2014	9,173,300
2015-2019	9,171,100
Total minimum lease payments	<u>27,533,546</u>
Less: amount representing interest	<u>(7,938,546)</u>
Present value of minimum lease payments	<u><u>\$19,595,000</u></u>

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. This transaction has been reflected as a transfer from the General Fund (where it is offset by other financing sources – financing under capital lease) to the SSPLD, 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	\$ 24,409,836	\$ 25,976,677	\$ 50,386,513
Less accumulated depreciation	-	(72,157)	(72,157)
Total asset value under capital leases	<u>\$ 24,409,836</u>	<u>\$ 25,904,520</u>	<u>\$ 50,314,356</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2005	\$ 2,488,101	\$ 3,739,600	\$ 6,227,701
2006	2,485,201	3,373,788	5,858,989
2007	2,485,804	3,376,563	5,862,367
2008	2,482,246	3,108,763	5,591,009
2009	2,477,591	3,075,925	5,553,516
2010-2014	12,329,823	15,495,288	27,825,111
2015-2017	7,337,867	9,300,361	16,638,228
Total minimum lease payments	<u>32,086,633</u>	<u>41,470,288</u>	<u>73,556,921</u>
Less: amount representing interest	(7,076,633)	(10,440,288)	(17,516,921)
Present value of minimum lease payments	<u>\$ 25,010,000</u>	<u>\$ 31,030,000</u>	<u>\$ 56,040,000</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.

General obligation bonds that are reported in the Solid Waste Activities Enterprise Fund are payable first from revenues of that fund.

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.

On July 3, 2003, Montgomery County Government issued \$49,505,000 in general obligation refunding bonds dated May 1, 2003. These bonds were issued with a true interest cost of 2.29%, to current refund \$51,905,000 of general obligation (GO) refunding bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	<u>Dated Date</u>	<u>Original Maturity</u>	<u>True Interest Cost</u>	<u>Originally Issued</u>	<u>Years Refunded</u>	<u>Amount Refunded</u>
GO Refunding Bonds	8/15/93	1994-11	4.9908%	\$ 60,005,000	2004-11	\$ 51,905,000

The net proceeds of the general obligation refunding bonds were applied immediately to redeem the old debt.

The reacquisition price exceeded the net carrying amount of the old debt by \$2,168,409. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

<u>Fiscal Year</u>	<u>Refunded Debt Service Requirements</u>	<u>Refunding Debt Service Requirements</u>	<u>Debt Service Savings</u>
2004	\$ 2,524,570	\$ 998,963	\$ 1,525,607
2005	9,505,235	6,420,925	3,084,310
2006	9,099,755	9,095,788	3,967
2007	8,685,850	8,683,600	2,250
2008	8,268,795	8,268,300	495
2009	7,853,625	7,853,625	-
2010	7,438,750	7,438,750	-
2011	7,022,750	7,022,750	-
2012	3,602,875	3,602,875	-
Total	<u>\$ 64,002,205</u>	<u>\$ 59,385,576</u>	<u>\$ 4,616,629</u>

The present value of the above debt service savings (or economic gain) is \$4,230,387.

In January 1998, \$64,500,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. In November 2001, \$143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. In November 2002, \$95,750,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2004, \$30,000,000, \$122,250,000, and \$50,750,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2004, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2004	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2004
05/01/85	1986-05	7.6 - 8.6	\$ 65,000,000	\$ 3,250,000	\$ -	\$ -	\$ 3,250,000
04/01/86	1987-06	5.8 - 6.3	50,000,000	5,000,000	-	-	5,000,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	122,063,054	-	-	122,063,054
10/01/93	1994-13	4.4 - 4.9	100,000,000	5,000,000	-	-	5,000,000
10/01/94	1995-08	5.2 - 6.125	100,000,000	10,000,000	-	-	10,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	18,000,000	-	-	18,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	40,250,000	-	-	40,250,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	68,735,000	-	-	68,735,000
04/01/98	1999-18	4.875	115,000,000	69,000,000	-	-	69,000,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	84,000,000	-	-	84,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	52,000,000	-	-	52,000,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	119,000,000	-	-	119,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	144,530,000	6,908,557	(8,850,139)	142,588,418
02/01/02	2003-22	3.0 - 5.0	160,000,000	144,000,000	2,366,483	-	146,366,483
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	93,595,000	7,701,012	(5,821,794)	95,474,218
05/01/03	2004-23	1.5 - 4.0	155,000,000	147,250,000	1,253,153	-	148,503,153
05/01/03*	2004-11	2.0 - 5.0	49,505,000	49,505,000	3,699,762	(1,674,879)	51,529,883
03/15/04	2005-24	3.0 - 5.0	154,600,000	154,600,000	10,482,033	-	165,082,033
Total			<u>\$ 2,156,623,054</u>	<u>\$ 1,329,778,054</u>	<u>\$ 32,411,000</u>	<u>\$ (16,346,812)</u>	<u>\$ 1,345,842,242</u>

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation.

As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY04 are as follows:

	Balance July 1, 2003	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2004
Governmental Activities:					
General County	\$ 177,915,548	\$ 52,438,619	\$ 14,839,952	\$ 5,390,135	\$ 210,124,080
Roads and Storm Drainage	334,032,753	41,426,745	31,298,406	13,974,424	330,186,668
Parks	36,603,112	12,126,734	3,522,622	1,916,491	43,290,733
Public Schools	661,955,525	88,433,689	53,949,434	26,870,820	669,568,960
Community College	40,335,478	4,813,862	3,021,091	119,780	42,008,469
Consolidated Fire Tax District	18,028,437	1,108,912	1,438,810	638,830	17,059,709
Mass Transit	17,881,681	3,756,439	2,310,864	2,994,520	16,332,736
Public Housing	1,348,138	-	249,570	-	1,098,568
	<u>1,288,100,672</u>	<u>204,105,000</u>	<u>110,630,749</u>	<u>51,905,000</u>	<u>1,329,669,923</u>
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	192,382	-	84,251	-	108,131
	<u>192,382</u>	<u>-</u>	<u>84,251</u>	<u>-</u>	<u>108,131</u>
Total	<u>\$ 1,288,293,054</u>	<u>\$ 204,105,000</u>	<u>\$ 110,715,000</u>	<u>\$ 51,905,000</u>	<u>\$ 1,329,778,054</u>

For the general obligation bonds carried in the enterprise funds, \$51,619 from the Solid Waste Activities Fund is classified as a current liability.

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

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2005	\$ 114,615,000	\$ 61,698,094	\$ 176,313,094
2006	111,320,000	55,941,823	167,261,823
2007	111,210,000	50,706,178	161,916,178
2008	110,940,000	45,424,140	156,364,140
2009	91,131,683	52,869,557	144,001,240
2010-2014	402,186,371	154,279,200	556,465,571
2015-2019	274,015,000	61,323,062	335,338,062
2020-2024	114,360,000	11,876,248	126,236,248
Total	<u>\$1,329,778,054</u>	<u>\$ 494,118,302</u>	<u>\$1,823,896,356</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 basis of real property and 15 percent of the assessable basis of personal property and operating real property. The legal debt margin as of June 30, 2004, is \$4,469,301,580.

General obligation bonds authorized and unissued as of June 30, 2004, are as follows:

Purpose	Chapter	Authority		Amount Unissued
		Act	Amount	
General County, Parks, and Consolidated Fire Tax District	22	2000	\$ 78,300,000	\$ 62,090,000
	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
			<u>181,800,000</u>	<u>165,590,000</u>
Roads and Storm Drainage	22	2000	77,600,000	44,910,000
	17	2001	10,630,000	10,630,000
	21	2002	34,800,000	34,800,000
	17	2003	1,700,000	1,700,000
			<u>124,730,000</u>	<u>92,040,000</u>
Public Schools and Community College	17	2001	159,755,000	3,268,000
	21	2002	104,800,000	104,800,000
	17	2003	52,400,000	52,400,000
			<u>316,955,000</u>	<u>160,468,000</u>
Mass Transit	22	2000	1,400,000	105,000
	17	2001	6,700,000	6,700,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			<u>10,600,000</u>	<u>9,305,000</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
			<u>5,630,000</u>	<u>5,570,000</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>\$ 653,030,000</u>	<u>\$ 441,103,000</u>

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) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District, the Silver Spring Parking Lot District, and the Solid Waste Disposal activities. These revenue bonds are secured by pledges of the respective funds.

Revenue bond issues outstanding as of June 30, 2004, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2004	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2004
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	\$ 14,560,000	\$ 10,230,000	\$ 154,743	\$ (320,415)	\$ 10,064,328
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	8,160,000	147,719	(247,780)	8,059,939
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	24,005,000	(22,535)	-	23,982,465
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	28,520,000	1,226,881	(1,343,177)	28,403,704
Total				<u>\$ 83,765,000</u>	<u>\$ 70,915,000</u>	<u>\$ 1,506,808</u>	<u>\$ (1,911,372)</u>	<u>\$ 70,510,436</u>

Changes in revenue bond principal during FY04 are as follows:

	Balance July 1, 2003	Bonds Issued	Bonds Retired	Balance June 30, 2004
Bethesda Parking Lot District	\$ 37,425,000	\$ -	\$ 3,190,000	\$ 34,235,000
Silver Spring Parking Lot District	10,180,000	-	2,020,000	8,160,000
Solid Waste Disposal	31,075,000	-	2,555,000	28,520,000
Total	<u>\$ 78,680,000</u>	<u>\$ -</u>	<u>\$ 7,765,000</u>	<u>\$ 70,915,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2005	\$ 3,315,000	\$ 1,386,603	\$ 2,110,000	\$ 307,588
2006	3,430,000	1,282,103	2,180,000	244,288
2007	3,550,000	1,168,028	2,265,000	173,437
2008	2,595,000	1,043,778	780,000	60,187
2009	2,730,000	930,678	825,000	30,937
2010-2014	6,540,000	3,605,228	-	-
2015-2019	8,200,000	2,082,063	-	-
2020-2021	3,875,000	278,349	-	-
Total	\$34,235,000	\$ 11,776,830	\$ 8,160,000	\$ 816,437

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2005	\$ 2,835,000	\$ 1,177,350	\$ 8,260,000	\$ 2,871,541	\$ 11,131,541
2006	2,920,000	1,092,300	8,530,000	2,618,691	11,148,691
2007	3,005,000	1,004,700	8,820,000	2,346,165	11,166,165
2008	3,160,000	854,450	6,535,000	1,958,415	8,493,415
2009	3,255,000	751,750	6,810,000	1,713,365	8,523,365
2010-2014	13,345,000	1,502,750	19,885,000	5,107,978	24,992,978
2015-2019	-	-	8,200,000	2,082,063	10,282,063
2020-2022	-	-	3,875,000	278,349	4,153,349
Total	\$28,520,000	\$ 6,383,300	\$ 70,915,000	\$ 18,976,567	\$ 89,891,567

Revenue bonds authorized and unissued as of June 30, 2004, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 42,088,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			\$143,098,000	\$ 57,343,000

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	\$ 867,848	\$ 983,105	\$ -
Debt Service Account - Used to pay debt service on bonds	391,800	201,466	-
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	3,123,233
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,224,900
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	23,344,185
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	6,910,110
Total	\$ 2,759,648	\$ 2,684,571	\$ 35,602,428

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.

3) **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 FY04 are as follows:

	Balance July 1, 2003	BANs Issued	BANs Retired	Balance June 30, 2004
BAN Series 2002-B	\$ 45,000,000	\$ -	\$ 45,000,000	\$ -
BAN Series 2002-C	80,000,000	-	80,000,000	-
BAN Series 2002-D	-	75,000,000	40,000,000	35,000,000
BAN Series 2002-E	-	115,000,000	-	115,000,000
Total	\$ 125,000,000	\$ 190,000,000	\$ 165,000,000	\$ 150,000,000

BAN Notes, Series 2002-B and Series 2002-C, totaling \$125,000,000 were retired on April 8, 2004 in the amounts of \$45,000,000, and \$80,000,000 respectively with proceeds from general obligation bonds dated March 15, 2004. A portion of BAN Notes, Series 2002-D, totaling \$75,000,000 was retired on April 8, 2004 in the amount \$40,000,000 with proceeds from general obligation bonds dated March 15, 2004.

The interest rate changes based on market conditions. During FY03, the rate of interest varied from .72 to 1.15 percent. Interest earned on BAN proceeds totaled \$515,058 during FY04, which was accounted for in the Debt Service Fund.

BANs totaling \$190 million were issued during FY04 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 and July 29, 2003, 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 FY05, and intends to use the proceeds to replace a portion of the \$150 million in BANs outstanding at June 30, 2004. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2002, with Toronto-Dominion Bank, acting through its Houston agency, under which the County may borrow, on a revolving basis, up to \$200 million to pay the principal on the notes, and up to \$14.8 million to pay the interest. 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 line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, Resolution No. 14-1374 dated July 16, 2002, and Resolution No. 15-318 dated July 29, 2003, the amount of BANs authorized and unissued as of June 30, 2004, is \$280,703,000.

4) Certificates of Participation

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of \$54.66 million. The certificates represent proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and Wachovia Bank (formerly First Union National Bank), as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. 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 may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. 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 a charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4 to 4.5 percent and have a maturity schedule as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2005	\$ 9,435,000	\$ 841,087	\$ 10,276,087
2006	9,780,000	440,100	10,220,100
Total	<u>\$ 19,215,000</u>	<u>\$ 1,281,187</u>	<u>\$ 20,496,187</u>

5) 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. WMATA's obligation to make payments under the leases are 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 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.

Lease Revenue Bonds outstanding as of June 30, 2004, are as follows:

	Dated			Originally	Balance	Unamortized	Carrying Value
	Date	Maturity	Interest Rate	Issued	June 30, 2004	Premium	June 30, 2004
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 37,880,000	\$ 134,879	\$ 38,014,879

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2005	\$ 1,200,000	\$ 1,682,005	\$ 2,882,005
2006	1,305,000	1,643,005	2,948,005
2007	1,350,000	1,598,961	2,948,961
2008	1,395,000	1,551,711	2,946,711
2009	1,450,000	1,499,399	2,949,399
2010-2014	8,190,000	6,564,130	14,754,130
2015-2019	10,220,000	4,638,280	14,858,280
2020-2024	12,770,000	1,954,500	14,724,500
Total	<u>\$ 37,880,000</u>	<u>\$ 21,131,991</u>	<u>\$ 59,011,991</u>

6) State MICRF Loan

In September 1998, the County entered into a \$1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, \$150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, through the Economic Development Special Revenue Fund, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2004, for this loan is \$1,270,924.

7) **Taxable Term Loans**

During FY04, the County entered into two taxable term loan agreements with Wachovia Bank. The first term loan of \$4,000,000, which commenced on February 2, 2004, was used to finance the purchase of the Kay property in Germantown, which will be used for development of a biotechnology and information technology business park. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 3.24 percent. The second term loan of \$1,332,000, which commenced on March 30, 2004, was used to purchase kitchen and audio-visual equipment to be used in the County's conference center project which opened in November 2004. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 2.91 percent.

8) **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.

9) **Due to Component Unit – HOC Loan**

On March 31, 2003, with the assistance of HOC, the County acquired the former Econo Lodge in Gaithersburg. The property will be converted to a facility providing housing for eligible families and individuals. A portion of the funding for the acquisition, \$2.55 million, came from the HOC MPDU/Property Acquisition Fund. The County used this interim financing source until a permanent financing source could be identified. The County will repay HOC, and therefore the Fund, by July 2005.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within one year
Governmental Activities					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,288,100,672	\$ 204,105,000	\$ (162,535,749)	\$ 1,329,669,923	\$ 114,563,381
Bond anticipation notes	125,000,000	190,000,000	(165,000,000)	150,000,000	150,000,000
Lease revenue bonds	37,880,000	-	-	37,880,000	1,200,000
State MICRF loan	1,341,206	-	(70,282)	1,270,924	73,049
Equipment notes	1,088,738	-	(215,571)	873,167	222,049
Taxable term loans	-	5,332,000	-	5,332,000	1,017,242
HUD loan	-	870,000	-	870,000	43,000
Subtotal	1,453,410,616	400,307,000	(327,821,602)	1,525,896,014	267,118,721
Add remaining original issue premium	20,968,441	15,526,304	(3,948,866)	32,545,879	-
Less deferred amount on refundings	(16,755,342)	(2,168,409)	2,576,939	(16,346,812)	-
Total Bonds and Notes Payable	1,457,623,715	413,664,895	(329,193,529)	1,542,095,081	267,118,721
Other Liabilities:					
Certificates of participation	31,570,000	-	(12,355,000)	19,215,000	9,435,000
Due to component units - HOC loan	2,550,000	-	-	2,550,000	-
Compensated absences	45,745,947	36,332,140	(34,312,511)	47,765,576	35,824,182
Capital leases	31,201,945	42,781,593	(4,810,000)	69,173,538	7,135,000
Claims and judgments	6,974,000	-	(1,728,000)	5,246,000	-
Total Other Liabilities	118,041,892	79,113,733	(53,205,511)	143,950,114	52,394,182
Governmental Activities Long-Term Liabilities	\$ 1,575,665,607	\$ 492,778,628	\$ (382,399,040)	\$ 1,686,045,195	\$ 319,512,903
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	\$ 192,382	\$ -	\$ (84,251)	\$ 108,131	\$ 51,619
Revenue Bonds:					
Parking revenue refunding bonds	22,615,000	-	(4,225,000)	18,390,000	4,415,000
Parking revenue bonds	24,990,000	-	(985,000)	24,005,000	1,010,000
Solid waste disposal revenue refunding bonds	31,075,000	-	(2,555,000)	28,520,000	2,835,000
Subtotal	78,872,382	-	(7,849,251)	71,023,131	8,311,619
Add remaining original issue premium	1,942,485	-	(413,142)	1,529,343	-
Less remaining original issue discount	(24,887)	-	2,352	(22,535)	-
Less deferred amount on refundings	(2,474,465)	-	563,093	(1,911,372)	-
Total General Obligation and Revenue Bonds	78,315,515	-	(7,696,948)	70,618,567	8,311,619
Other Liabilities:					
Compensated absences	3,388,912	247,168	(38,981)	3,597,099	2,697,826
Notes payable	800,000	-	-	800,000	800,000
Landfill closure costs	23,854,523	346,000	(1,742,000)	22,458,523	1,115,000
Total Other Liabilities	28,043,435	593,168	(1,780,981)	26,855,622	4,612,826
Business-Type Activities Long-Term Liabilities	\$ 106,358,950	\$ 593,168	\$ (9,477,929)	\$ 97,474,189	\$ 12,924,445

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, \$1,245,546 (\$934,159 due within one year, and \$311,387 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.

11) 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 has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed 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, 2004, there were 42 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 28 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2004, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$218,937,000. The principal amount payable at June 30, 2004, for bonds issued after July 1, 1996, totaled \$269,052,974.

12) Special Taxing Districts

The County has 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, 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 with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or 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 assessment 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 \$11,600,000 of Senior Series 2002A bonds and \$4,315,000 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.

Pursuant to Section 2.07 (g) of the West Germantown Bond Indenture, upon the satisfaction of certain assessed value requirements which were met, the holders of the Junior Series 2002B bonds have requested that the County issue additional bonds in exchange for the Junior Series 2002B bonds. The additional bonds, which are anticipated to be issued in FY05, will be on a parity with the Series 2002A bonds (i.e., they will be senior lien bonds) and will otherwise have the same terms and conditions as the Series 2002B bonds.

The County has been petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark. These districts are in the evaluation phase.

COMPONENT UNITS

At June 30, 2004, HOC's noncurrent liabilities are comprised of the following:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Revenue bonds payable	\$ 27,556,389	\$ 552,789,890	\$ 580,346,279
Capital leases payable	1,589	19,977,946	19,979,535
Notes payable	9,752,460	95,930,212	105,682,672
Total	<u>\$ 37,310,438</u>	<u>\$ 668,698,048</u>	<u>\$ 706,008,486</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	\$ 356,955,046
Single Family Mortgage Purchase Program Fund	223,391,233
Total	<u>\$ 580,346,279</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.0 to 11.25 percent and 1.1 to 8.5 percent, respectively, as of June 30, 2004.

Pursuant to Section 2-103 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:

<u>Fiscal Year Ending June 30</u>	<u>Guaranteed Revenue Bond Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 275,000	\$ 576,010	\$ 851,010
2006	290,000	565,542	855,542
2007	300,000	554,542	854,542
2008	310,000	542,798	852,798
2009	325,000	530,498	855,498
2010-2014	1,855,000	2,437,638	4,292,638
2015-2019	-	2,110,312	2,110,312
2020-2024	2,880,000	1,515,067	4,395,067
2025-2029	5,430,000	1,096,852	6,526,852
Total	<u>\$ 11,665,000</u>	<u>\$ 9,929,259</u>	<u>\$ 21,594,259</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
2005	\$ 27,556,389	\$ 23,996,655	\$ 51,553,044
2006	9,175,833	23,706,522	32,882,355
2007	10,447,483	23,404,105	33,851,588
2008	10,156,619	23,117,863	33,274,482
2009	12,015,644	22,718,712	34,734,356
2010-2014	58,499,268	108,165,632	166,664,900
2015-2019	51,301,378	98,896,594	150,197,972
2020-2024	67,779,205	89,379,802	157,159,007
2025-2029	125,039,525	76,383,988	201,423,513
2030-2034	124,346,099	29,629,135	153,975,234
2035-2039	46,285,000	10,165,501	56,450,501
2040-2044	32,180,000	5,413,325	37,593,325
2045-2047	9,890,000	308,512	10,198,512
Unamortized Bond Discount	(4,326,164)	-	(4,326,164)
Total	<u>\$ 580,346,279</u>	<u>\$ 535,286,346</u>	<u>\$ 1,115,632,625</u>

Changes in the HOC revenue bonds during FY04 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2003	Issued *	Retired	June 30, 2004
Multi-Family Mortgage Purchase Program Fund	\$ 369,301,033	\$ 244,013	\$ 12,590,000	\$ 356,955,046
Single Family Mortgage Purchase Program Fund	258,037,964	105,808,980	140,455,711	223,391,233
Total	<u>\$ 627,338,997</u>	<u>\$ 106,052,993</u>	<u>\$ 153,045,711</u>	<u>\$ 580,346,279</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, 2003	\$ 314,855,880
Redemptions during the year	15,200,000
New issuances during the year	(711,880)
Bonds outstanding, June 30, 2004	<u>\$ 329,344,000</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. Beginning with fiscal year 2004, in the Solid Waste Activities Fund, the Leafing Program has been budgeted separately from Disposal Operations. Revenues from the Leafing Program are still considered to be pledged to pay Solid Waste Disposal Revenue Bonds. Summary financial information for each activity as of and for the year ended June 30, 2004, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	\$ 51,117,338	\$ 7,948,754	\$ 19,520,711
Due from component units	77,488	-	506,943
Other assets	36,136,758	2,772,153	3,293,755
Capital assets	33,873,366	87,003,001	73,933,203
Total Assets	<u>121,204,950</u>	<u>97,723,908</u>	<u>97,254,612</u>
LIABILITIES			
Current liabilities	13,824,558	2,990,954	4,828,350
Due to other funds	72,162	13,682	12,338
Long-term liabilities	47,069,793	5,977,634	30,756,097
Total Liabilities	<u>60,966,513</u>	<u>8,982,270</u>	<u>35,596,785</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,361,531	78,943,062	39,886,410
Restricted for debt service	35,602,428	2,684,571	2,759,648
Unrestricted	19,274,478	7,114,005	19,011,769
Total Net Assets	<u>\$ 60,238,437</u>	<u>\$ 88,741,638</u>	<u>\$ 61,657,827</u>

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	\$ 91,690,182	\$ 4,837,098	\$ 7,974,045
Licenses and permits	10,055	-	-
Fines and penalties	7,575	1,608,377	4,818,740
Total Operating Revenues (pledged against bonds)	<u>91,707,812</u>	<u>6,445,475</u>	<u>12,792,785</u>
Depreciation	2,845,133	1,987,254	3,394,701
Other operating expenses	88,366,006	5,443,131	5,160,881
Operating Income (Loss)	<u>496,673</u>	<u>(984,910)</u>	<u>4,237,203</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	3,599,166	3,586,445
Gain on disposal of capital assets	3,883	2,524,295	-
Investment income	1,204,927	106,792	293,535
Interest expense	(1,352,765)	(449,986)	(1,619,926)
Other revenue	149,156	140,271	555,749
TRANSFERS:			
Transfers in	55,142	36,213,412	-
Transfers out	(1,309,542)	(991,844)	(4,867,051)
Change in Net Assets	<u>(752,526)</u>	<u>40,157,196</u>	<u>2,185,955</u>
Beginning Net Assets	60,990,963	48,584,442	59,471,872
Ending Net Assets	<u>\$ 60,238,437</u>	<u>\$ 88,741,638</u>	<u>\$ 61,657,827</u>

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 2,776,342	\$ 1,232,639	\$ 7,205,484
Noncapital financing activities	(1,202,938)	2,834,084	(1,281,113)
Capital and related financing activities	(4,695,007)	(1,488,804)	(7,398,632)
Investing activities	1,235,245	106,792	293,535
Net Increase (Decrease)	<u>(1,886,358)</u>	<u>2,684,711</u>	<u>(1,180,726)</u>
Beginning Cash and Cash Equivalents	81,677,605	6,536,133	21,713,786
Ending Cash and Cash Equivalents	<u>\$ 79,791,247</u>	<u>\$ 9,220,844</u>	<u>\$ 20,533,060</u>

* Includes Solid Waste Leafing

H) Fund Equity

PRIMARY GOVERNMENT

1) Federal and State Grant Programs

Included in the financial statements are expenditures and revenues related to Federal and State grant programs for which the County is the grantee. The reserve for encumbrances in the governmental fund types does not include \$3,764,803 of encumbrances related to these grants, since appropriation and spending on such 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. The County believes that inclusion of such encumbrances as reserved fund balance would distort the unreserved fund balance.

2) Designated Fund Balances

Designated fund balances, which represent amounts 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 fund is current receipts in the governmental funds, are comprised of the following:

	General Fund	Special Revenue Funds	Total
Designated for next year's budget	\$ 30,017,660	\$ 16,999,107	\$ 47,016,767
Designated for transfers to Capital Projects Fund	82,361,052	6,126,463	88,487,515
Total	<u>\$112,378,712</u>	<u>\$ 23,125,570</u>	<u>\$ 135,504,282</u>

COMPONENT UNITS

Beginning Balance Restatements

As a result of MCC's implementation of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for the fiscal year ended June 30, 2004, the Montgomery Community College Foundation, Inc. (Foundation) is included as a component unit effective July 1, 2003. Net assets of the Foundation as of July 1, 2003, amounted to \$9,461,924. Beginning net assets have also been restated by \$750,000, relating to a previously unrecorded loan.

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, 2004:

	Operating	General Fund Capital *	Total	Capital Projects	Total
MCPS	\$1,133,171,738	\$ 16,450,530	\$1,149,622,268	\$ 94,708,405	\$1,244,330,673
MCC	66,212,701	1,804,397	68,017,098	9,655,259	77,672,357
HOC	4,284,616	323,016	4,607,632	-	4,607,632
Total	<u>\$1,203,669,055</u>	<u>\$ 18,577,943</u>	<u>\$1,222,246,998</u>	<u>\$ 104,363,664</u>	<u>\$1,326,610,662</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 \$2,527,299 earned under contracts with the County. For capital leases with MCRA, see Note III-E2. 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., 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. Effective January 1, 2004, the County reduced its commercial insurance coverage in the Employee Health Benefits Self-Insurance Fund by converting one of its two fully insured HMO plans to a self-insured arrangement, with certain insurance coverage for individual claims above \$250,000. 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 FY04 and FY03 are as follows:

	<u>Liability and Property Coverage</u>	<u>Employee Health Benefits</u>
Balance July 1, 2002	\$ 50,025,000	\$ 8,297,954
Claims and changes in estimates	26,112,574	84,674,426
Claim payments *	<u>(18,401,574)</u>	<u>(84,144,134)</u>
Balance June 30, 2003	57,736,000	8,828,246
Claims and changes in estimates	27,320,388	96,047,483
Claim payments *	<u>(20,850,388)</u>	<u>(93,404,827)</u>
Balance June 30, 2004 **	<u>\$ 64,206,000</u>	<u>\$ 11,470,902</u>

* Includes non-monetary settlements.

** Includes incurred but not reported claims of \$33,641,000 and \$11,470,902, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

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 \$53,391,000, which has been fully accrued through June 30, 2004. Of the total amount accrued, \$29,190,477 in actual costs has been paid out in prior years, and \$1,742,000 was paid in FY04, resulting in a net liability of \$22,458,523 at June 30, 2004. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,115,000 and \$21,343,523 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) 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 \$7,745,000. Of this amount, \$5,246,000 has been reflected as a liability in the accompanying governmental activities financial statements, as the County's liability on certain claims appears to be probable.

3) 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, 2004, 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.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2004, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 160,287	\$ -	\$ 8,681,523	\$ 8,841,810
Solid Waste Activities:				
Disposal operations	3,531,820	917,459	-	4,449,279
Collection operations	46,317	-	-	46,317
Leafing operations	672	-	-	672
Parking Lot Districts:				
Silver Spring	338,478	2,000,581	-	2,339,059
Bethesda	488,889	13,491,162	-	13,980,051
Wheaton	107,329	346,396	-	453,725
Montgomery Hills	8,615	-	-	8,615
Subtotal	<u>4,682,407</u>	<u>16,755,598</u>	<u>8,681,523</u>	<u>30,119,528</u>
Nonmajor Funds:				
Permitting Services	22,770	-	-	22,770
Subtotal	<u>22,770</u>	<u>-</u>	<u>-</u>	<u>22,770</u>
Total Enterprise Funds	<u>4,705,177</u>	<u>16,755,598</u>	<u>8,681,523</u>	<u>30,142,298</u>
<u>Internal Service Funds:</u>				
Motor Pool	1,918,523	-	5,901,579	7,820,102
Central Duplicating	55,951	-	-	55,951
Liability and Property Coverage Self-Insurance	132,566	-	-	132,566
Employee Health Benefits Self-Insurance	456,713	-	-	456,713
Total Internal Service Funds	<u>2,563,753</u>	<u>-</u>	<u>5,901,579</u>	<u>8,465,332</u>
Total Proprietary Funds	<u>\$ 7,268,930</u>	<u>\$ 16,755,598</u>	<u>\$ 14,583,102</u>	<u>\$ 38,607,630</u>

As of June 30, 2004, the County has \$7,720,000 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 13, 2004, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional \$273,700,000, effective August 9, 2004.

The County issued \$97,690,000 in general obligation refunding bonds on August 15, 2004, the proceeds of which, along with premium and accrued interest, will refund \$95,750,000 in outstanding general obligation bonds. The bonds were delivered on September 28, 2004. After adjustments, the true interest cost to the County was 3.72 percent and savings of over \$3.3 million will be realized, primarily in fiscal years 2005 through 2009.

The County issued \$4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004, to finance costs of parking structures and related facilities at the Shady Grove and the Grosvenor Metrorail Stations. These bonds supplement the initial County issued lease revenue bonds dated June 1, 2002, in the amount of \$37.88 million for Metrorail garage projects. The bonds were delivered on September 28, 2004.

In August 2004, the Department of Liquor Control executed a contract, valued at \$7,036,193, to replace virtually all of the Liquor Enterprise Fund's information technology systems.

On September 21, 2004, the County issued \$16,000,000 in variable rate Economic Development Revenue Bonds (conduit debt obligations) on behalf of the Sandy Spring Friends School. The bonds are secured by the facilities financed and are payable from the revenues of 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.

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, 2004, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$172,628,885, of which \$10,063,250 was self-supporting. Of the total amount payable, \$13,829,745 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, 2004, is \$36,925,635, 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, 2004, WSSC had outstanding notes payable and bonds payable in the amount of \$1,465,114,838, of which \$1,460,574,838 was self-supporting. Of the total amount payable, \$297,600,000 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, 2004, 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 \$79,474 to WSTC during FY04. The FY04 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 states of Maryland and 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 twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia 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 Rapid 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 Rapid Rail System. The County's share of the cost of construction of the Metro Rapid 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 assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues. The 40 percent criteria will revert to 50 percent effective in FY05 unless permanently set at 40 percent by the State legislature prior to FY05.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY04, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 31,233,519
Rail operating subsidy	25,311,258
Americans with Disabilities Act service	12,306,000
Metrobus and Metrorail capital replacement	24,940,393
Debt service on WMATA revenue bonds	4,867,500
Local bus program	20,924,042
Total	<u>\$119,582,712</u>

At June 30, 2004, WMATA had outstanding debt of \$251,131,000, of which \$21,890,000 represented debt 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 unite to solve regional problems. The County is a participant in COG 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 11 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 FY04 membership dues and fees for services amounting to \$660,162.

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 seven member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Harford County, Howard County, Carroll County, and City of Baltimore. 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, 2004, NEMWDA had outstanding bonds payable in the amount of \$286,710,000, of which \$18,100,000 represented debt due within one year. Of these amounts, \$266,985,000 related to the Project, \$14,675,000

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 FY04 amounted to \$43,270,468.

E) Employee Benefits

1) Deferred Compensation

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (the Plan). The purpose of the Plan is to extend to employees a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. During FY99, in accordance with Federal legislation, the assets of the 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 Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. Under the Plan, contributions are sent to contracted 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, which are not significant to the Plan, have been paid by the General Fund.

Legislation is pending with the County Council that, if enacted, would allow the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. Under the proposed legislation, the Board, Chief Administrative Officer, and the County will have no fiduciary or other responsibility for a collectively bargained plan except as required by federal law and any related regulations. Should such legislation pass as currently written, and should such plans be established, it is anticipated that such proposed new plans would not be included in the County's financial statements. The amount of assets currently included in the accompanying financial statements that may be transferred to such plans is not readily determinable.

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. Sick leave earned but not taken by June 30, 2004, totaling 4,933,895 hours approximates \$163,528,706 based on the salary scale in effect at that date. 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 FY04, the County and its employees contributed \$56,377,028 and \$15,476,693, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$316,978, \$2,035,860, and \$39,423 for these component units, respectively, for FY04.

4) Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance cost share. Currently, 4,105 retirees meet those eligibility requirements for postemployment benefits. Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were \$17,763,240 for FY04; retired employee contributions were \$8,621,473.

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's fire and rescue department volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$806,406 in FY04 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 318 recipients comprising former volunteers and their beneficiaries at the end of FY04.

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 nine 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 obtained by writing the Board of Investment Trustees, Montgomery County Government, 11 N. Washington Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. 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, 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 a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his 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 his 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. During FY04, total disbursements under these DROP Plans amounted to \$6,801,289.

Derivatives - At June 30, 2004, direct investments in derivatives represented 1 percent of the total fair value of the System’s portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual funds which hold derivative financial instruments.

Concentrations - The System does not have any investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

Funding Policy - Required employee contribution rates varying from 4 to 8.5 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.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY04 were based on an actuarial valuation as of June 30, 2002, 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 FY04 were as follows:

Fiscal Year	APC	Percentage of		NPO
		APC	Contributed	
2002	\$ 39,168,622	100	%	\$ -
2003	55,205,855	100		-
2004	61,927,029	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., and WSTC. 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 this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, 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 FY04 were \$7,668,353 and \$4,208,196, respectively. In accordance with IRS 457 regulations, and the County Code, \$1,200,000 in accumulated revenue was used to reduce employer contributions to \$6,468,353 for FY04.

3) **Other**

The County contributed \$733,345 during FY04 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.

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* POEB = Pension and Other Employee Benefit