

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2006

July 1, 2005 - June 30, 2006
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2006
July 1, 2005 - June 30, 2006



Montgomery County, Maryland
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2006
 TABLE OF CONTENTS

Exhibit	Description	Page	Exhibit	Description	Page	
INTRODUCTORY SECTION						
	Transmittal Letter	vii	B-4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Special Taxing Districts	117	
	Acknowledgments	xviii	B-5	Combining Balance Sheet – Nonmajor Governmental Funds – Housing Activities	118	
	Organization Chart	xix	B-6	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Housing Activities	119	
	Listing of Officials.....	xx	B-7	Combining Balance Sheet – Nonmajor Governmental Funds – Other	120	
 FINANCIAL SECTION			B-8	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Other	121	
	Independent Auditors’ Report	1	Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:			
	Management’s Discussion and Analysis	3	B-9	Debt Service	122	
 BASIC FINANCIAL STATEMENTS			B-10	Capital Projects.....	123	
Government-wide:			B-11	Recreation.....	124	
A-1	Statement of Net Assets	24	B-12	Fire Tax District	125	
A-2	Statement of Activities	26	B-13	Mass Transit Facilities.....	126	
Funds:			B-14	Urban Districts.....	127	
A-3	Balance Sheet – Governmental Funds	28	B-15	Noise Abatement Districts.....	129	
A-4	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	29	B-16	Housing Initiative	130	
A-5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds ..	30	B-17	Rehabilitation Loan	131	
A-6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	31	B-18	New Home Warranty Security	132	
A-7	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	32	B-19	Revenue Stabilization	133	
A-8	Statement of Net Assets – Proprietary Funds	36	B-20	Economic Development	134	
A-9	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	37	B-21	Cable TV	135	
A-10	Statement of Cash Flows – Proprietary Funds.....	38	B-22	Grants	136	
A-11	Statement of Fiduciary Net Assets – Fiduciary Funds	39	B-23	Drug Enforcement Forfeitures.....	138	
A-12	Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	40	B-24	Water Quality Protection.....	139	
Component Units:			B-25	Restricted Donations	140	
A-13	Statement of Net Assets – Component Units.....	41	Enterprise Funds:			
A-14	Statement of Activities – Component Units	42	C-1	Combining Statement of Net Assets – Nonmajor Enterprise Funds.....	142	
Notes to Financial Statements.....			43	C-2	Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Nonmajor Enterprise Funds	143
 SUPPLEMENTARY DATA – Combining and Individual Fund Financial Statements and Supplementary Schedules			C-3	Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	144	
Governmental Funds:			C-4	Schedule of Expenses – Budget and Actual – Enterprise Funds.....	145	
B-1	Combining Balance Sheet – Nonmajor Governmental Funds.....	112	Internal Service Funds:			
B-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	114	D-1	Combining Statement of Net Assets – Internal Service Funds	150	
B-3	Combining Balance Sheet – Nonmajor Governmental Funds - Special Taxing Districts.....	116	D-2	Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds	151	
			D-3	Combining Statement of Cash Flows – Internal Service Funds	152	
			D-4	Schedule of Expenses – Budget and Actual – Internal Service Funds	153	

Montgomery County, Maryland
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2006
 TABLE OF CONTENTS

Exhibit	Description	Page	Exhibit	Description	Page
SUPPLEMENTARY DATA, Continued					
Fiduciary Funds:					
E-1	Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds	155	9-b	Real and Personal Property Tax Rates – County Special Taxing Districts – Last Ten Fiscal Years...	185
E-2	Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds	156	9-c	Real and Personal Property Tax Rates – Overlapping Governments – Cities and Towns – Last Ten Fiscal Years	186
E-3	Combining Statement of Fiduciary Net Assets – Private Purpose Trust Funds	157	9-d	Real and Personal Property Tax Rates – Overlapping Governments – Villages – Last Ten Fiscal Years	188
E-4	Combining Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds	158	10	Ten Highest Commercial Property Taxpayers – Current Fiscal Year and Nine Years Ago	189
E-5	Combining Statement of Changes in Assets and Liabilities – All Agency Funds	159	11	Property Tax Levies and Collections – Last Ten Fiscal Years	190
Component Units:			12	Schedule of Fiscal Year Property Tax Levy, Property Tax Revenues, and Additional Items Related to the Property Tax Billing	191
F-1	Combining Statement of Net Assets – Nonmajor Component Units	162	13	Schedule of Property Taxes Receivable by Fund Type.....	192
F-2	Combining Statement of Activities – Nonmajor Component Units	163	14	Income Tax Rates – Last Ten Tax Years.....	194
Capital Assets Used in the Operation of Governmental Funds:			15	Income Tax Filers Summary Information – Last Ten Tax Years.....	195
G-1	Schedule By Source.....	165	16	Income Tax Filers, Net Taxable Income, and Liability By Adjusted Gross Income Level – Last Ten Tax Years.....	196
G-2	Schedule By Function.....	166	DEBT CAPACITY		
G-3	Schedule of Changes By Function.....	167	17	Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	198
STATISTICAL SECTION – “Unaudited”			18	Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years	200
Tables:			19	Direct and Overlapping Governmental Activities Debt	201
FINANCIAL TRENDS			20	Computation of Legal Debt Margin – Last Ten Fiscal Years	202
1	Net Assets by Component – Government-Wide (Governmental and Business-type Activities) – Last Five Fiscal Years	173	21	Pledged-Revenue Coverage – Last Ten Fiscal Years	204
2-a	Changes in Net Assets – Government-Wide (Governmental and Business-type Activities) – Last Five Fiscal Years	174	DEMOGRAPHIC AND ECONOMIC INFORMATION		
2-b	General Tax Revenues – Governmental Activities – Last Five Fiscal Years	176	22	Principal Employers – Current Fiscal Year and Nine Years Ago	205
3	Fund Balances – Governmental Funds – Last Ten Fiscal Years	177	23	Demographic Statistics – Last Ten Fiscal Years	206
4	Changes in Fund Balances – Governmental Funds – Last Ten Fiscal Years	178	OPERATING INFORMATION		
5	Combined Schedule of "Cash and Investments" and "Investment and Interest Income" – All Funds	180	24	Employee Workyears by Function – Last Ten Fiscal Years	207
6	Combined Schedule of Cash and Investments – By Financial Institution	181	25	Operating Indicators by Function – Last Ten Fiscal Years	208
7	Combined Schedule of Investments	181	26	Capital Asset Statistics by Function	210
REVENUE CAPACITY			INDEX		
8	Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	182	Fund Titles.....		
9-a	Real and Personal Property Tax Rates – County Direct Rate – Last Ten Fiscal Years	184	212		



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 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, 2006, 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 Housing Opportunities Commission, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 100% of the total assets, revenues and net assets 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 insofar as it relates to the amounts included for those 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, 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, 2006, 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 U.S. generally accepted accounting principles.



As discussed in note 1 (E) to the basic financial statements, the County has implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries* and No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 22 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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, accordingly, we express no opinion on such information.

KPMG LLP

December 11, 2006

Management's Discussion and Analysis

INTRODUCTION

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

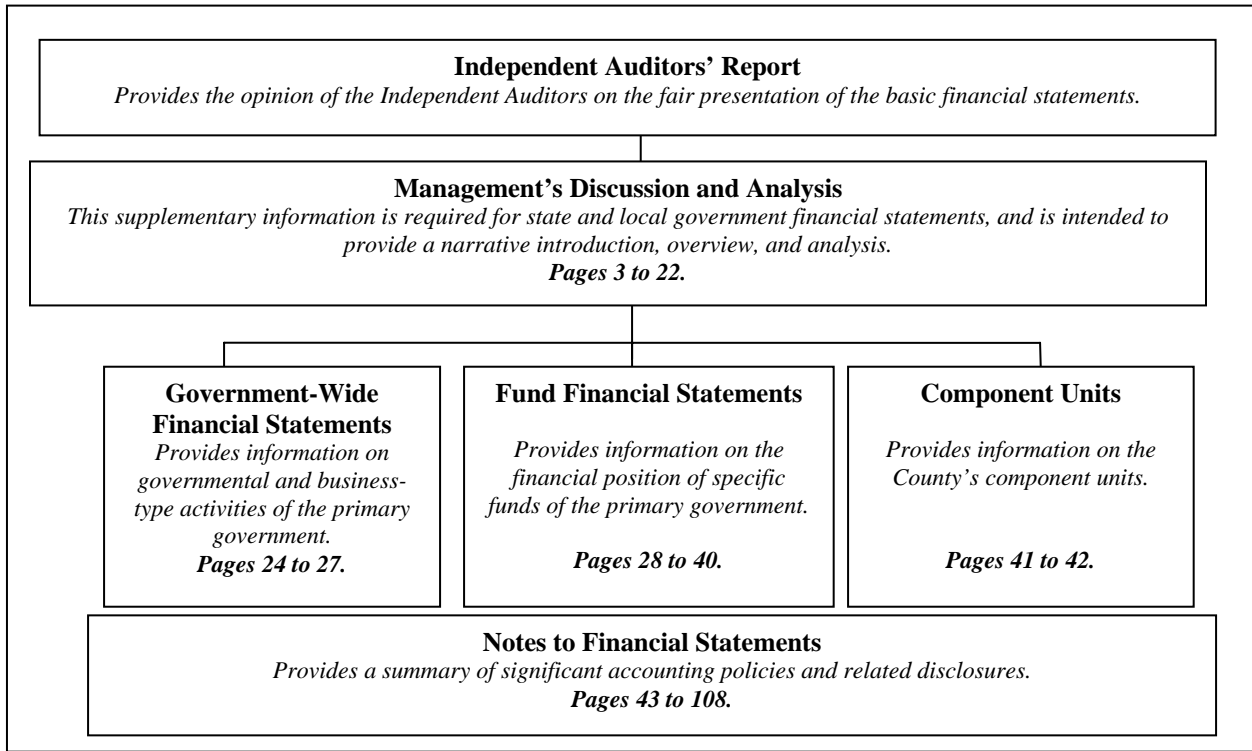
FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY06 by \$1,946.5 million. That amount is net of a \$349.7 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 \$902.2 million at June 30, 2006. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$552.6 million.
- The County's total government-wide net assets increased by \$136.7 million.
- As of the close of FY06, the County's governmental funds reported combined ending fund balances of \$606.2 million, an increase of \$151.7 million over the prior year's ending fund balances. Of the total ending fund balances, \$407.6 million is available for spending at the County's discretion.
- At the end of FY06, unreserved fund balance for the General Fund was \$281.8 million, or 13 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$184.9 million during FY06. The key factors in this increase are:
 - The issuance of: \$100 million in general obligation (GO) bonds, \$100 million in variable rate demand obligations (VRDO's), \$300 million in bond anticipation notes (BANS), and \$10.1 million in capital leases.
 - The retirement of: \$121.3 million in GO bonds, \$200 million in BANS, \$9.8 million in certificates of participation, and \$7 million in capital leases.

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, 2006 and 2005:

Summary of Net Assets *						
June 30, 2006 and 2005						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and other assets	\$ 1,304,315,737	\$ 1,075,863,211	\$ 173,615,035	\$ 160,556,687	\$ 1,477,930,772	\$ 1,236,419,898
Capital assets, net	2,543,442,004	2,457,984,150	222,822,767	220,863,626	2,766,264,771	2,678,847,776
Total Assets	3,847,757,741	3,533,847,361	396,437,802	381,420,313	4,244,195,543	3,915,267,674
Liabilities:						
Long-term liabilities outstanding	1,821,440,093	1,644,854,128	96,784,732	88,467,255	1,918,224,825	1,733,321,383
Other liabilities	343,543,337	334,802,038	35,920,200	37,365,374	379,463,537	372,167,412
Total Liabilities	2,164,983,430	1,979,656,166	132,704,932	125,832,629	2,297,688,362	2,105,488,795
Net assets:						
Invested in capital assets, net of related debt	1,769,233,330	1,747,572,143	152,244,454	158,430,251	1,876,884,699	1,859,401,883
Restricted	338,811,955	287,333,081	80,486,538	68,389,069	419,298,493	355,722,150
Unrestricted (deficit)	(425,270,974)	(480,714,029)	31,001,878	28,768,364	(349,676,011)	(405,345,154)
Total Net Assets	\$ 1,682,774,311	\$ 1,554,191,195	\$ 263,732,870	\$ 255,587,684	\$ 1,946,507,181	\$ 1,809,778,879
* Primary Government						

The County's current and other assets increased by \$241.5 million or 19.5 percent over FY05. The County's assets exceeded its liabilities at the close of FY06 by \$1,946.5 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of \$44.6 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$902.2 million at June 30, 2006. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$552.6 million. An additional portion of the County's net assets (\$419.3 million or 21.5 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$107.8 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

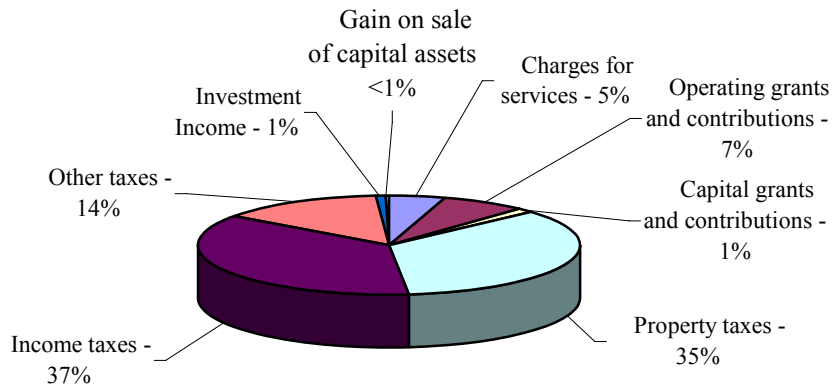
The following table summarizes the County's change in net assets for the years ended June 30, 2006 and 2005:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2006 and 2005						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program Revenues:						
Charges for services**	\$ 142,122,486	\$ 125,190,526	\$ 348,690,179	\$ 328,047,302	\$ 490,812,665	\$ 453,237,828
Operating grants and contributions**	222,187,806	212,150,068	-	-	222,187,806	212,150,068
Capital grants and contributions	44,270,838	66,118,819	-	-	44,270,838	66,118,819
General revenues:						
Property taxes	1,064,737,107	1,010,964,428	9,199,581	8,412,877	1,073,936,688	1,019,377,305
Income taxes	1,117,543,440	940,274,273	-	-	1,117,543,440	940,274,273
Other taxes	420,485,598	423,349,041	-	-	420,485,598	423,349,041
Investment income	29,769,889	15,806,293	6,267,935	3,557,676	36,037,824	19,363,969
Gain on sale of capital assets	5,187,736	13,112,218	-	-	5,187,736	13,112,218
Total Revenues	3,046,304,900	2,806,965,666	364,157,695	340,017,855	3,410,462,595	3,146,983,521
EXPENSES						
Governmental Activities:						
General government	257,586,189	227,211,859	-	-	257,586,189	227,211,859
Public safety	473,624,268	418,990,301	-	-	473,624,268	418,990,301
Public works and transportation	192,228,591	178,010,395	-	-	192,228,591	178,010,395
Health and human services	235,394,838	213,988,337	-	-	235,394,838	213,988,337
Culture and recreation	93,460,648	84,339,831	-	-	93,460,648	84,339,831
Community development and housing	19,280,438	19,915,566	-	-	19,280,438	19,915,566
Environment	9,157,156	8,664,457	-	-	9,157,156	8,664,457
Education	1,595,747,791	1,446,592,632	-	-	1,595,747,791	1,446,592,632
Interest on long-term debt	73,675,523	70,401,131	-	-	73,675,523	70,401,131
Business-type Activities:						
Liquor control	-	-	168,325,049	152,098,599	168,325,049	152,098,599
Solid waste activities	-	-	99,911,970	104,106,630	99,911,970	104,106,630
Parking lot districts	-	-	26,568,228	24,063,575	26,568,228	24,063,575
Permitting services	-	-	21,962,821	20,744,660	21,962,821	20,744,660
Community use of public facilities	-	-	6,810,783	5,958,685	6,810,783	5,958,685
Total Expenses	2,950,155,442	2,668,114,509	323,578,851	306,972,149	3,273,734,293	2,975,086,658
Increase in Net Assets Before Transfers	96,149,458	138,851,157	40,578,844	33,045,706	136,728,302	171,896,863
Transfers	32,433,658	29,801,928	(32,433,658)	(29,801,928)	-	-
Increase in Net Assets	128,583,116	168,653,085	8,145,186	3,243,778	136,728,302	171,896,863
Net Assets, beginning of year	1,554,191,195	1,385,538,110	255,587,684	252,343,906	1,809,778,879	1,637,882,016
Net Assets, end of year	\$ 1,682,774,311	\$ 1,554,191,195	\$ 263,732,870	\$ 255,587,684	\$ 1,946,507,181	\$ 1,809,778,879
* Primary Government						
**Certain FY05 amounts have been reclassified to conform with the current year's presentation						

Governmental Activities

Revenues for the County's governmental activities were \$3,046.3 million for FY06. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2006**

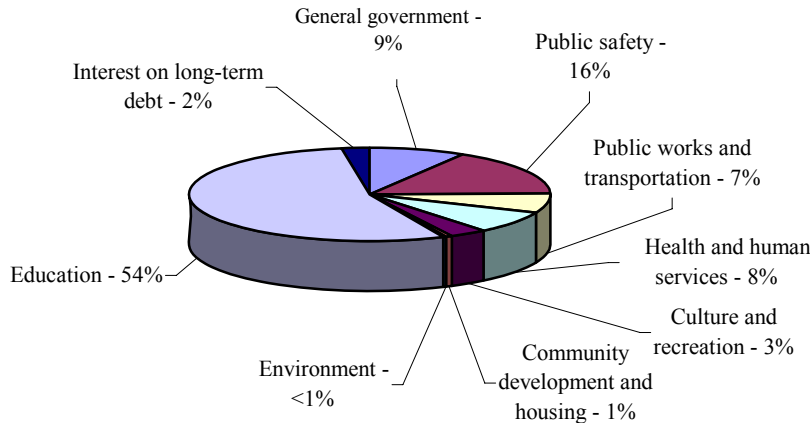


- Taxes constitute the largest source of County revenues, amounting to \$2,602.8 million for FY06. Property and local income tax combined comprise 71.6 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2006 and 2005. 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 (\$100.8 million or 45.4 percent), public works and transportation (\$65.8 million or 29.6 percent) and public safety (\$33.7 million or 15.2 percent).

A more detailed discussion of the County's revenue results for FY06 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 FY06 was \$2,950.2 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.6 billion. Public safety expenses totaled \$473.6 million, general government services totaled \$257.6 million, and health and human services, the fourth largest expense for the County, totaled \$235.4 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2006**



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, 2006 and 2005						
	Expenses		Revenues		Net Cost of Services	
	2006	2005	2006	2005	2006	2005
Education	\$ 1,595,747,791	\$ 1,446,592,632	\$ -	\$ -	\$ 1,595,747,791	\$ 1,446,592,632
Public safety	473,624,268	418,990,301	59,085,387	57,680,645	414,538,881	361,309,656
General government	257,586,189	227,211,859	80,005,768	94,408,747	177,580,421	132,803,112
Health and human services	235,394,838	213,988,337	104,579,161	116,628,462	130,815,677	97,359,875
Public works and transportation	192,228,591	178,010,395	108,418,998	87,286,300	83,809,593	90,724,095
Culture and recreation	93,460,648	84,339,831	37,427,297	37,761,559	56,033,351	46,578,272
Other	102,113,117	98,981,154	19,064,519	9,693,700	83,048,598	89,287,454
Total	\$ 2,950,155,442	\$ 2,668,114,509	\$ 408,581,130	\$ 403,459,413	\$ 2,541,574,312	\$ 2,264,655,096

Of the total cost of governmental activities of \$2,950.2 million, \$408.6 million was paid by those who directly benefited from the programs (\$142.1 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$266.5 million). Of the \$2,541.6 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,602.8 million; also available to contribute towards such net costs were investment income and gain on sale of capital assets.

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

- General government expense includes:
 - \$6 million in financial incentives paid through the Economic Development Fund to assist in building a parking garage at Westfield Shoppingtown Wheaton, in support of the Wheaton Central Business District; and

- Approximately \$8 million in additional expenses relating to the operation of the Conference Center in North Bethesda.
- Public safety expense includes:
 - \$1.9 million in lease costs for an interim fire station in Clarksburg, and approximately \$3.9 million to provide fire and rescue services; and
 - \$1.3 million for Hurricane Katrina relief efforts.

Highlights of significant changes in governmental activities revenues compared to last year are:

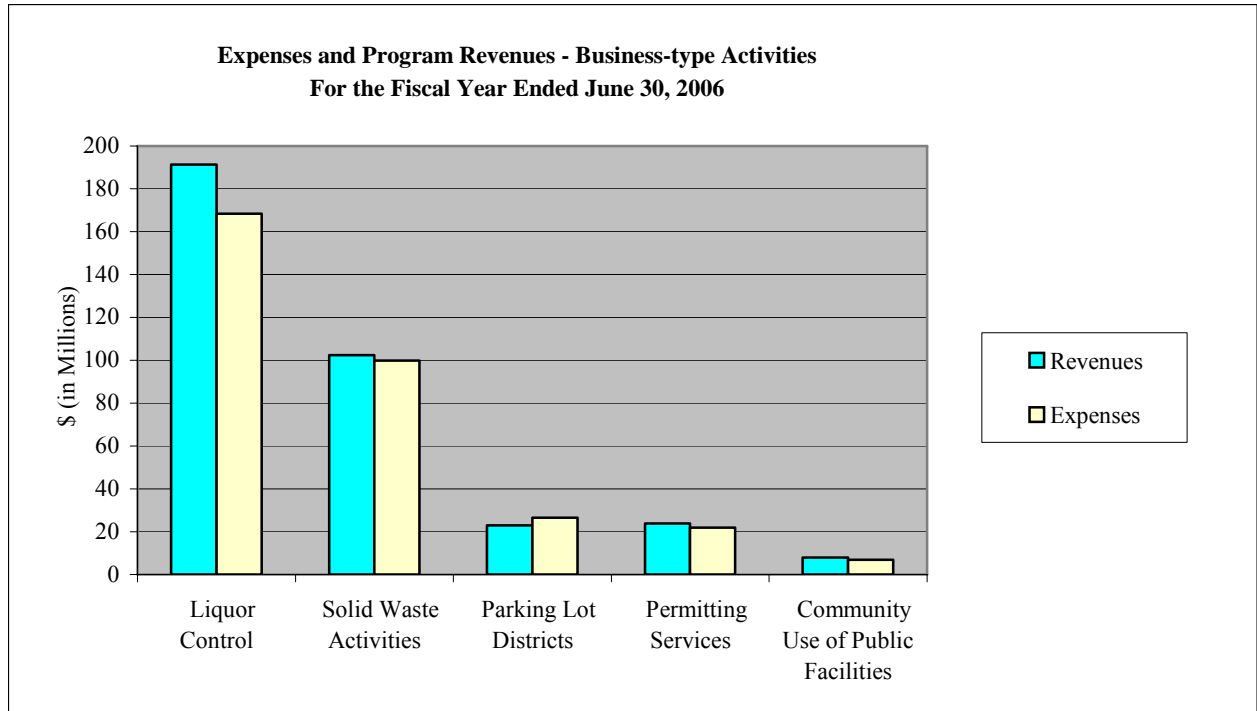
- General government – Capital grants and contributions declined by \$29.6 million, because FY05 amounts included \$19.7 million in State funding towards construction of the Montgomery County Conference Center and \$10.4 million from MCPS in the form of major renovations and improvements to a closed school, whose ownership was transferred from MCPS to the County. Charges for services include approximately \$9 million in increased revenues from the operation of the Conference Center in North Bethesda.
- Health and human services – Operating grants and contributions decreased by \$11.6 million due in large part to retroactive federal claims in prior years.
- Public works and transportation – Capital grants and contributions increases include \$10.7 million in Federal and state funding for bus purchases. Operating grants and contributions include an increase in highway user revenues of approximately \$6 million.
- Other – Community development and housing operating grants and contributions include approximately \$4.1 million in increased condominium transfer taxes, which are restricted for housing purposes. Environment capital grants and contributions increased \$3.5 million due primarily to additional state aid for the County’s agricultural land preservation easement program.

Business-type Activities

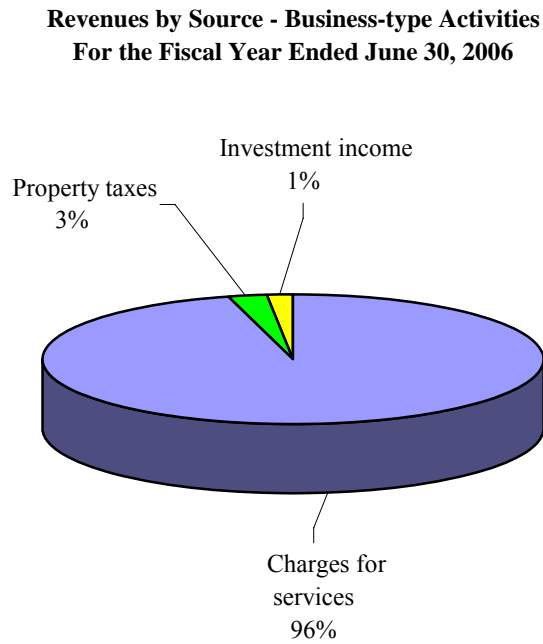
Highlights of the County’s business-type activities for FY06 are as follows:

- Business-type activities experienced an increase in net assets of \$8.1 million for FY06. However, this amount is reported after total net transfers out of \$32.4 million. The most significant components of this amount include:
 - \$1.7 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 leased parking garages; netted against
 - \$8.7 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
 - \$20.7 million in FY06 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 95.7 percent of revenues, with \$191.4 million (54.9 percent of charges for services revenue) attributable to liquor control operations and \$102.4 million (29.4 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$9.2 million is the second largest source of revenue at only 2.5 percent.
- Investment income of \$6.3 million reflects an increase of \$2.7 million or 76.2 percent, primarily because of the continuing increases 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:



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 FY06, the County's governmental funds reported combined ending fund balances of \$606.2 million, an increase of \$151.7 million from the end of FY05. Of the total ending fund balances, \$407.6 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$198.5 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 FY06, unreserved and undesignated fund balance of the General Fund was \$107.3 million, while total fund balance was \$288.8 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 4.4 percent of the total General Fund expenditures and transfers out, while total fund balance represents 11.9 percent of the same amount.

The fund balance of the County's General Fund increased by \$42.2 million during FY06, primarily due to higher than originally estimated income taxes, and transfer and recordation taxes.

The Capital Projects Fund has a total fund balance of \$34.7 million. The unreserved fund deficit of \$33.9 million results primarily from recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments. The unreserved fund deficit represents the excess of expenditures incurred over proceeds of bonds issued, and reimbursements from federal, state, and other agencies. To help fund such expenditures, the General Fund advances funds to the Capital Projects Fund.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain a 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 FY06 amounted to \$27.1 million, and operating income was \$22.7 million. After a subsidy transfer to the General Fund of \$20.7 million, the fund ended FY06 with an increase in net assets of \$2.1 million.

The Solid Waste Activities Fund total net assets amounted to \$58.5 million, of which the unrestricted net assets were \$17.2 million. Restricted net assets of \$32.8 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to \$.2 million in FY06, resulting in total ending net assets of \$164 million. Of this amount, \$133.5 million (81.4 percent) is invested in capital net of related debt; \$7.2 million (4.4 percent) is restricted for debt service on revenue bonds; and \$23.3 million (14.2 percent) is unrestricted.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$10.6 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$6 million for snow removal operations, relating to nine snow events with total snow accumulation of approximately 17.5 inches, and for wind and rain storm clean up;
- \$1.7 million in overtime costs for correction officers to backfill employees on military, sick, and disability leave;
- \$1 million for emergency tree maintenance, allowing an existing backlog to be reduced by approximately one half;
- \$.7 million for increased cost of a custodial contract for County facilities; and
- \$.6 million relating to the addition of a Juvenile Division courtroom, including court support staff, prosecutors, Sheriff's deputies to secure the courtroom, and building related costs.

Actual revenues were greater than budget amounts by \$159 million, while actual expenditures and net transfers out were less than final budget by \$3.5 million and \$14.1 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2006, include the following:

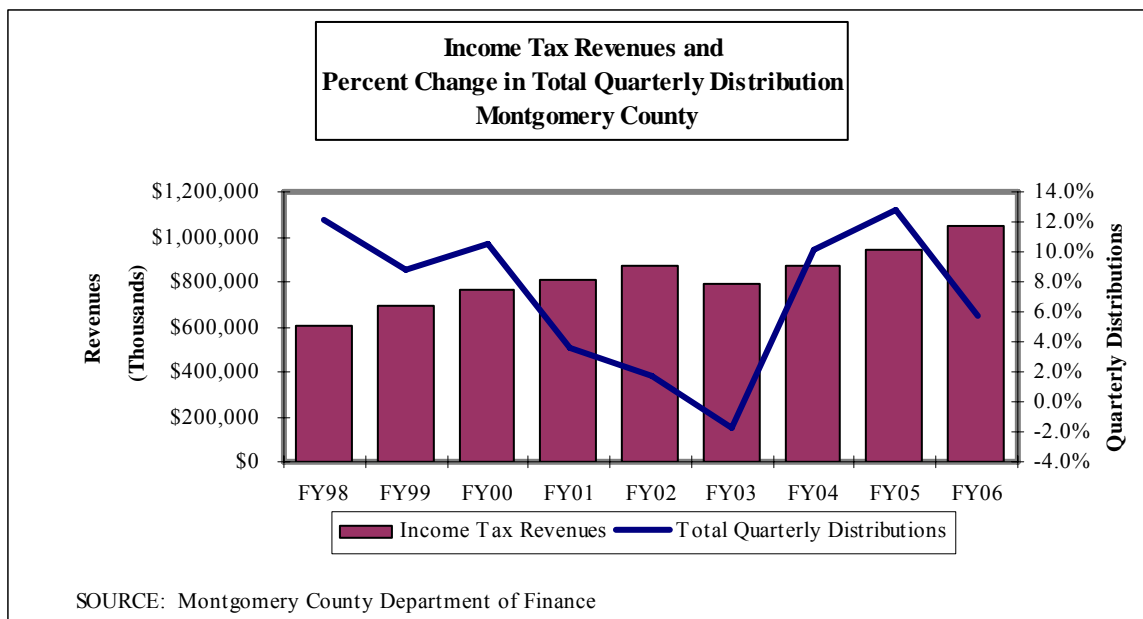
- Actual expenditures of \$779.8 million were \$3.5 million less than the final budget, which represents .4 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$48.3 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 \$2,422.6 million and were 7.0 percent above the budget estimate for the fiscal year and 4.4 percent above actual revenues for FY05. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑ \$95.8 million above the budget

estimate), followed by the transfer tax (↑ \$32.5 million above the budget estimate), and finally, the recordation tax (↑ \$25.2 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$164.8 million in FY06. That amount was \$2.3 million or 1.4 percent above the budget estimate. Investment income was approximately \$3.6 million above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑ 3.4%) and miscellaneous revenues (↑ 32.3%). Intergovernmental revenues were 0.9 percent below the budget estimate. Such decrease was attributed to the state reimbursements which came in 4.4 percent below the budget estimate, and other intergovernmental revenues which were 28.3 percent below the budget estimate. Federal reimbursements, however, came in 15.5 percent above the budget estimate.

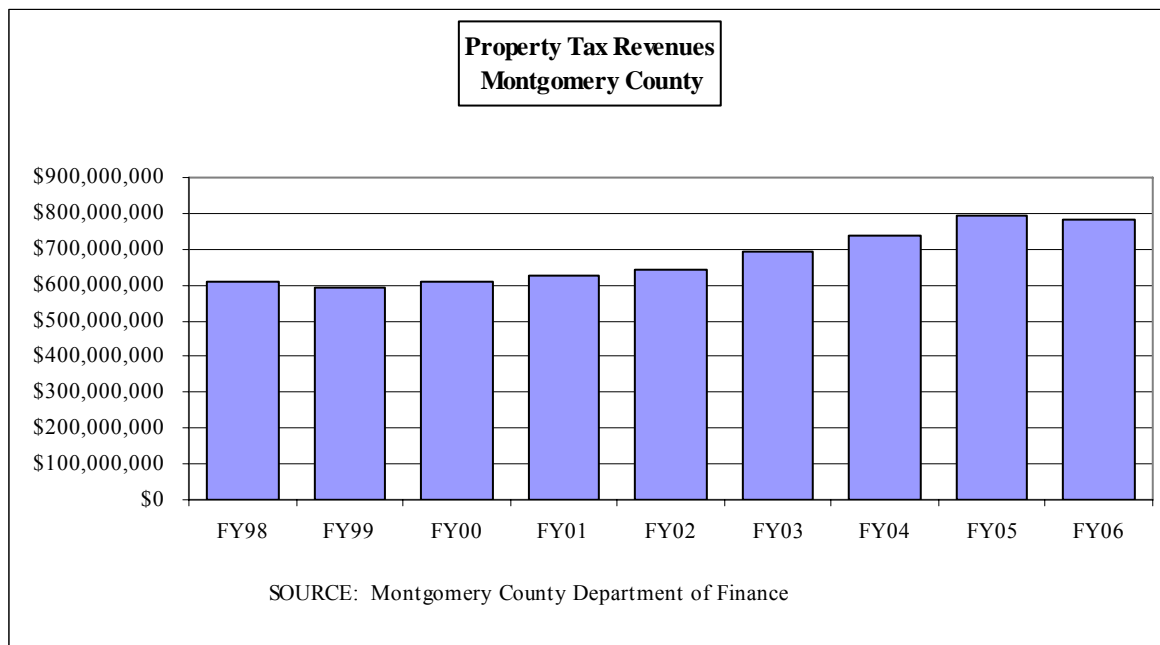
Income Taxes - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,044.6 million and represented 46.8 percent of actual tax revenues and 43.1 percent of total actual revenues in FY06. Income tax receipts became the majority source of tax revenues 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 and growth in capital gains. With a stock market that recovered in 2004 (↑ 26.4% in the S&P 500 index) after three consecutive years of decline between 2001 and 2003 (↓ 10.1%, ↓ 13.0%, and ↓ 23.4%, in the S&P 500 index, respectively) and meager growth in the County’s payroll employment during the FY2002-2005 period, revenues increased 6.7 percent in FY02, 10.4 percent in FY04, and 8.2 percent in FY05. With strong employment growth and significant capital gains attributed to home sales and a rebound in the stock market, income taxes increased 11.0 percent in FY06 – the largest increase since FY99. With a significant improvement in employment and the stock market during calendar year 2005 and 2006, actual income tax revenues were up nearly \$103.7 million in FY06 over FY05. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 5.8 percent (FY06), +12.7 percent (FY05), and +10.2 percent (FY04).



Property Taxes - Property tax collections in the General Fund amounted to \$782.1 million in FY06, which were \$0.4 million below the budget estimate and 1.3 percent below actual revenues in FY05. Actual property taxes, excluding penalty and interest and other items, were \$781.1 million in FY06 – a decrease of 1.2 percent over last year. Collections from penalty and interest were \$1.0 million, a decrease of 40.1 percent compared to FY05 actual

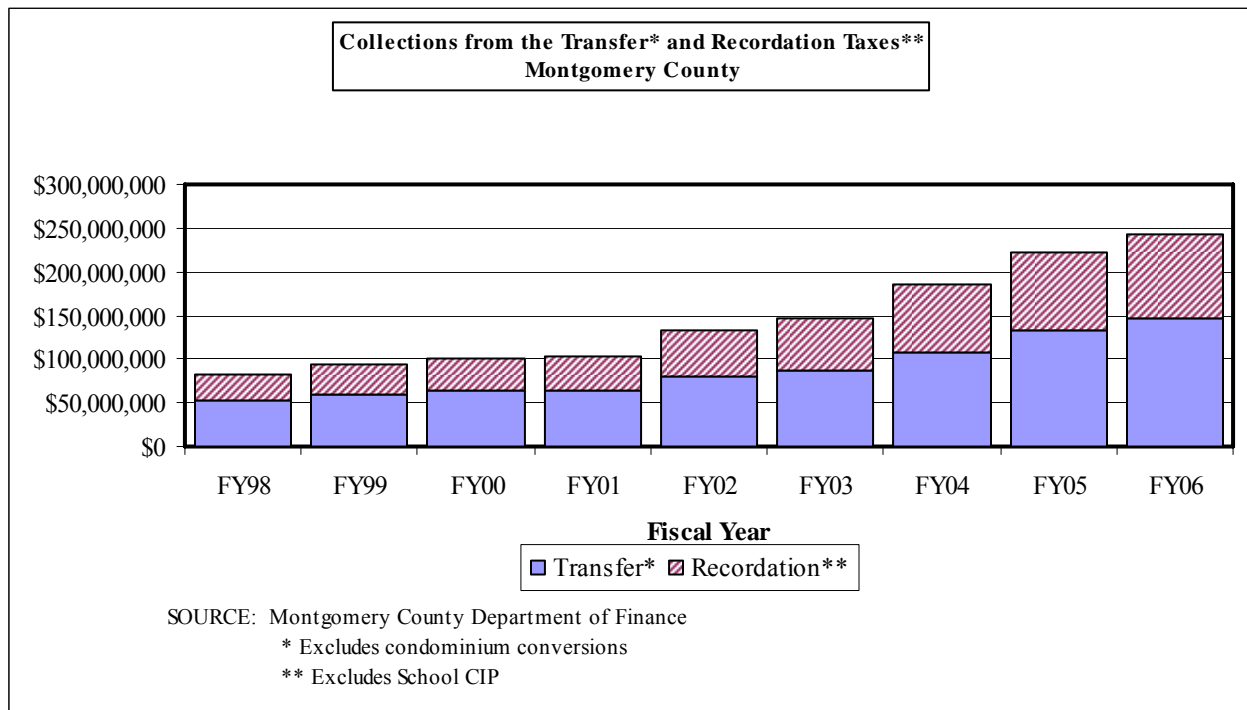
revenues. The reason for the decline in property tax revenues compared to the budget estimate is attributed to a greater than expected decline in personal property taxable assessments and a lower than expected amount for penalties and interest. The modest decrease in property tax collections for the General Fund was also attributed to actions by the County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included a 5 cent reduction in the overall real property tax rate, an income tax offset to homeowners in the amount of \$28.5 million, and a significantly enhanced County supplemental Homeowner’s Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 12.5 percent from FY05 to FY06. This was the largest increase in over seventeen years. New construction, which added \$1.5 billion to the base in FY06, was 7.6 percent lower than in FY05. The continued strong real estate market, particularly the annual double-digit price increases, fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County’s real property, which followed an increase in the rate from 13.5 percent to 51.8 percent for Cycle One reassessments in FY05 and from 6.4 percent to 36.3 percent for Cycle Three. However, because of the homestead credit, annual increases in homeowners’ taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. Over 60 percent of the County’s taxable assessment is capped by the credit. While there were dramatic increases in the reassessment rates, which added nearly \$15.4 billion to the assessable base in FY06, such increases were limited by the homestead credit, which excluded \$8.5 billion in assessments from taxation in FY06.



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, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. For the past three years, taxable assessments for personal property declined from a high of \$4.2 billion in FY03 to \$3.8 billion in FY06. Despite the weaker trend in personal property, the total taxable assessment grew 7.6 percent in FY04, 9.6 percent in FY05, and 11.9 percent in FY06.

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 \$241.7 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 31.4 percent above the budget estimate and 9.8 percent above actual revenues in FY05. Collections from transfer and recordation taxes continue to remain at record levels. As the accompanying chart illustrates, the amount collected from these taxes increased from \$83.0 million in FY98 to \$241.7 million in FY06 — a nearly threefold increase.

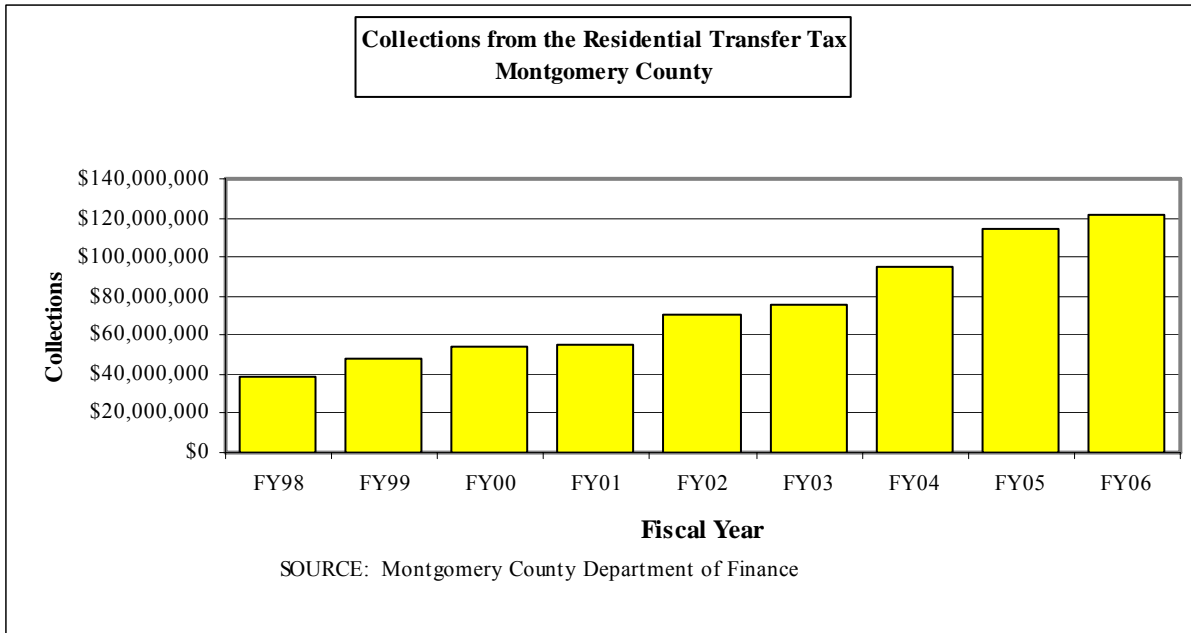


Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderating in FY00 and FY01, then accelerating another 17.2 percent per year from FY01 to FY06. The increase between FY01 and FY06 was attributed to a strong housing sales and significant price appreciations. Collections from transfer tax revenues increased 8.8 percent in FY06 compared to recordation tax revenues (excluding School CIP), which increased 9.8 percent.

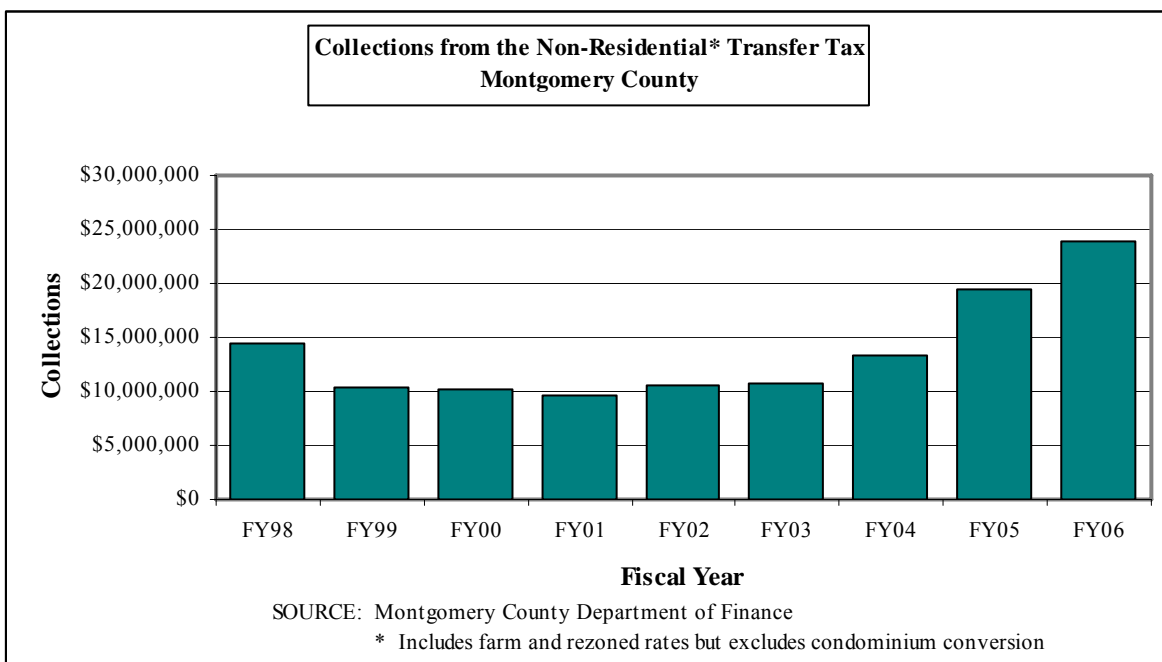
Revenues from the transfer tax experienced a slowdown in FY06 compared to the previous two fiscal years with total collections at \$145.5 million but still at an all time high. The slowdown in the home sales, especially during the latter half of FY06, attributed to the deceleration in the rate of growth in the transfer and recordation taxes. Because of the slowdown attributed to a dramatic reduction in sales in FY06 (↓15.7%), revenues from the residential sector were \$121.6 million, an increase of only 6.4 percent over FY05 – the smallest annual increase since FY01. However, the strong commercial market helped offset the slowdown in the residential sector. Revenues from the non-residential sector were \$23.9 million, an increase of 20.6 percent over FY05.

A closer examination of the trend in the transfer tax from FY98 to FY06 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Tax collections increased at an average annual rate of 14.4 percent from FY98 to FY06. In FY01, FY03, and FY06, the growth rates were below double-digit rates for the first time since FY97 but still remained positive (FY01: ↑1.6%; FY03: ↑7.8%; FY06: ↑6.8%). Because of such exceptional increases over these fiscal years, the transfer tax amount collected in FY06, \$121.6

million, was a record. The average residential transfer tax doubled during this period from \$2,250 in FY98 to approximately \$5,110 in FY06, representing an average annual growth rate of 10.3 percent and indicative of the jump in housing prices during FY04 and FY05.



The commercial or non-residential sector attained the highest level of collections ever in FY06. Revenues from that sector increased 20.6 percent compared to 6.8 percent for the residential sector. Over the previous six fiscal years, non-residential transfer tax revenues exhibited two distinct three-year cyclical patterns. For example, from FY98 to FY01, revenues decreased at an average annual rate of 13.5 percent, whereas from FY01 to FY06, revenues increased at an average annual rate of 18.2 percent.



Other Taxes - The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled \$164.8 million and were approximately \$2.3 million, or 1.4 percent, above the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 continued to contribute to a healthy growth in revenues from the hotel/motel industry (↑ 21.9% percent above the budget estimate) during FY06. Revenues from the telephone tax were 0.1 percent above the budget estimate. The modest increase in telephone revenues was attributed to the growth in the use of cellular telephones which offset the decline in landlines. The increases in the hotel/motel and telephone taxes also offset the modest decline in the fuel/energy tax (↓ 0.2%) from the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from non-electric energy products such as fuel oil (↓ 12.3%) and natural gas (↓ 6.5%); and the dramatic decrease in the admissions tax (↓ 12.3%) from the budget estimate, which was attributed to the decline in tax receipts from movie theaters (↓ 14.4%) and coin-operated amusements (↓ 27.6%).

Investment Income - In the General Fund, investment income increased from \$3.7 million in FY05 to \$8.7 million in FY06 and was 71.1 percent above the budget estimate. The dramatic increases in FY05 and FY06 followed declines in FY01, FY02, FY03, and FY04, which were the result of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in January 2001. From June 2004 to June 2006, the FOMC raised the target interest rate for federal funds seventeen times from 1.25 percent to 5.25 percent. Because of this 400 basis point increase over a two-year period, short-term or money market rates increased as well, hence the average yield on cash equity for the County increased from 1.13 percent in FY04, to 2.19 percent in FY05, to 4.12 percent in FY06. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$36.4 million or 134.5 percent above last fiscal year. That increase in revenues with a lesser rate of increase in spending is reflected in the daily portfolio balance which increased from \$710.0 million in FY05 to \$883.6 million in FY06.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County’s investment in capital assets as of June 30, 2006, amounted to \$2,766.3 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation				
June 30, 2006				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY06	FY05
Land	\$ 544,279,988	\$ 52,777,663	\$ 597,057,651	\$ 558,486,782
Buildings*	482,335,453	135,707,565	618,043,018	596,384,141
Improvements other than buildings*	29,956,012	22,788,714	52,744,726	49,833,925
Furniture, fixtures, equipment and machinery*	123,146,358	6,001,509	129,147,867	144,687,057
Leasehold improvements	10,765,782	-	10,765,782	7,874,792
Automobiles and trucks*	93,544,480	1,007,402	94,551,882	80,236,514
Infrastructure*	1,112,270,123	-	1,112,270,123	1,101,067,826
Other assets	796,126	-	796,126	1,004,099
Construction in progress	146,347,682	4,539,914	150,887,596	139,272,640
Total	<u>\$ 2,543,442,004</u>	<u>\$ 222,822,767</u>	<u>\$ 2,766,264,771</u>	<u>\$ 2,678,847,776</u>

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

Changes in the County's capital assets for FY06 are summarized as follows:

Change in Capital Assets				
For the Fiscal Year Ended June 30, 2006				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY06	FY05
Beginning Balance	\$ 2,457,984,150	\$ 220,863,626	\$ 2,678,847,776	\$ 2,572,349,587
Additions*	177,797,922	14,972,910	192,770,832	200,035,629
Retirements, net*	223,997	1,714,856	1,938,853	3,894,663
Depreciation expense	92,116,071	11,298,913	103,414,984	89,642,777
Ending Balance	<u>\$ 2,543,442,004</u>	<u>\$ 222,822,767</u>	<u>\$ 2,766,264,771</u>	<u>\$ 2,678,847,776</u>

* 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 included the following:

- Construction costs of \$7.8 million were incurred, related to the Germantown Indoor Swim Center which opened during FY06 and will meet the needs of the currently underserved Germantown area as well as serve the needs of 12 schools in this region.
- The Department of Liquor Control incurred \$1.6 million, reported as construction-in-progress, related to the acquisition and development of a new warehouse management, accounting and point-of-sale system.
- Roads, including underlying land, valued at \$10.5 million were transferred to the County by various developers.
- 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 \$25.3 million was spent to construct Montrose Parkway West. This will be a new four-lane road from Montrose Road traveling east to 'old' Old Georgetown Road.
- Construction costs of \$15 million were incurred, related to the new Rockville Regional Library which will include the Rockville Regional Library, and the Department of Public Libraries Administrative and Technology Management offices. The new facility will allow for increased collection size, additional public meeting and study space, as well as provide adequate staff spaces.
- The County incurred \$4.5 million in construction costs towards restoration of the Bethesda Woodmont Corner Garage.

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

Long-Term Debt:

The following is a summary of the County’s gross outstanding long-term debt as of June 30, 2006:

Long-Term Debt				
June 30, 2006				
	Governmental Activities	Business-type Activities	Total FY06	Total FY05
General obligation bonds	\$ 1,393,883,160	\$ 4,894	\$1,393,888,054	\$1,415,208,054
Variable rate demand obligation	100,000,000	-	100,000,000	-
Bond anticipation notes	100,000,000	-	100,000,000	-
Revenue bonds	-	70,620,000	70,620,000	62,655,000
Lease revenue bonds	39,790,000	-	39,790,000	41,275,000
Notes payable *	13,980,419	-	13,980,419	12,773,529
Certificates of participation	-	-	-	9,780,000
Capital leases	87,086,843	-	87,086,843	83,969,583
Compensated absences	55,274,147	4,055,496	59,329,643	55,258,541
Claims and judgements	-	-	-	1,200,000
Landfill closure costs	-	22,150,923	22,150,923	22,108,523
Total	<u>\$ 1,790,014,569</u>	<u>\$ 96,831,313</u>	<u>\$1,886,845,882</u>	<u>\$1,704,228,230</u>

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

At June 30, 2006, the County had outstanding general obligation (GO) bonds of \$1,393.9 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$100 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. The County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY96, the County sold general obligation bond issues, exclusive of refundings, of up to \$200 million. Over the last ten fiscal years, the County’s annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$149 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 consistently had an 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, 2006, Montgomery County is one of only eight ‘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. The County is currently satisfying its disclosure requirements via electronic filings with the Texas Municipal Advisory Council at <http://www.disclosureusa.org>. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY06 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for \$100 million in May 2006, funds capital expenditures for roads, schools, and government facilities. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs. Notable with this sale was that the average maturity of these bonds was approximately five years; previous County GO issues have an average maturity of about ten years.
- Variable Rate Demand Obligations – In June 2006, the County for the first time issued long-term variable rate demand obligations in the amount of \$100 million. The proceeds of this issue were used to pay off an equivalent amount of the County's BANs. The variable rate demand obligations mature in 20 years, with equal sinking fund payments required in years 2017 through 2026.
- Parking System Revenue Bonds – In August 2005, the County issued revenue bonds in the amount of \$16.5 million to fund renovations of public parking facilities in the Bethesda Parking Lot District.
- Bond Anticipation Notes (BANs) – During FY06, the County issued BANs in the amounts of \$150 million in July, \$50 million in December, and \$100 million in April.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY07 budget:

- The County's economic projections in the FY07 budget assume a continued modest economic expansion in FY07 with the County experiencing low unemployment and an increase in total payroll employment.
- On a calendar year basis, total payroll employment increased 2.2 percent in CY05, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.4 percent between CY01 and CY03 and 1.1 percent in CY04. Following such a strong performance in payroll employment during CY05, the County anticipates a slight slowdown in the growth of payroll employment in CY06 and CY07 with an estimated increase of 1.5 percent and 1.4 percent, respectively, and moderating further to 1.2 percent by CY12.
- The projection in the FY07 budget assumes that personal income will increase 5.6 percent in CY06 and 4.9 percent in CY07. That rate is below the estimated two-year annual average of 7.4 percent between CY04-CY05. However, the deceleration in the growth of personal income estimated for CY06 and CY07 reflects a moderation in the growth of employment.

- On a calendar year basis, employment in Montgomery County based on the labor force series as opposed to payroll employment, is expected to increase 1.7 percent in CY06 and decelerate to 1.2 percent in CY07. The rate of growth in resident employment is estimated to remain steady at an annual rate of 1.1-1.2 percent between CY07 and CY12. That estimate is consistent with the slower estimated growth in County population moderating to 0.8 percent annual growth rate by CY12.
- The deceleration in the growth of employment in FY07 and personal income reflects the estimated slowdown in the national economy. That slowdown is attributed to the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to reduce the rate of inflation through seventeen consecutive increases in the target rate for federal funds.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.6 percent in FY07 which follows a 4.1 percent increase in FY06. Because of the recent policy directives by the FOMC of the Federal Reserve, the County's economic projections include an increase in the yield on its investments from 4.12 percent in FY06 to 4.55 percent for FY07.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, (GASB 45) addresses how state and local governments should account for and report their costs and obligations related to other postemployment benefits (OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The County anticipates implementing GASB 45 as required in FY08.

In November 2006, the County obtained actuarial valuation information addressing the extent of the County's liability to its retirees for OPEB as of July 1, 2006. The OPEB report is subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County's pension fund liabilities.

Based on the assumptions and qualifications stated therein, the OPEB report concluded that, assuming full prefunding, the FY08 annual required contribution (ARC) for the County and its tax supported agencies is \$240.0 million, and the related actuarial accrued liability (AAL) is \$2.6 billion. Assuming a five-year phase-in approach to full prefunding, the budgetary impact in FY08 for the tax supported agencies would be \$38.9 million. This includes \$31.9 million to meet the OPEB phase-in obligation and \$7.0 million related to increased retiree benefit costs.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2006
Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
ASSETS				
Equity in pooled cash and investments	\$ 623,040,181	\$ 94,843,832	\$ 717,884,013	\$ 43,606,235
Cash with fiscal agents	33,197,083	-	33,197,083	8,624,362
Cash	181,776	165,400	347,176	8,612,733
Investments-cash equivalents	-	-	-	89,847,173
Investments	4,946,796	-	4,946,796	54,093,982
Receivables (net of allowances for uncollectibles):				
Income taxes	297,176,999	-	297,176,999	-
Property taxes	21,500,022	1,665,903	23,165,925	-
Capital leases	39,790,000	-	39,790,000	41,170,427
Accounts	42,307,445	4,762,820	47,070,265	29,587,918
Special assessments	13,606	-	13,606	-
Notes	5,156,272	-	5,156,272	33,553,434
Parking violations	609,817	2,070,871	2,680,688	-
Mortgages receivable	110,363,343	-	110,363,343	244,114,007
Interest	60,110	-	60,110	5,436,900
Other	260,482	-	260,482	4,905,276
Net internal balance	1,600,841	(1,600,841)	-	-
Due from primary government	-	-	-	64,162,537
Due from component units	55,053,234	344,219	55,397,453	-
Due from other governments	53,932,174	165,615	54,097,789	28,372,089
Inventory of supplies	8,408,337	29,599,588	38,007,925	11,187,661
Prepays	1,908,801	399,937	2,308,738	2,034,695
Deferred charges	4,808,418	1,119,012	5,927,430	734,856
Other assets	-	84,209	84,209	33,788,264
Restricted Assets:				
Equity in pooled cash and investments	-	35,523,586	35,523,586	-
Cash	-	-	-	258,811
Cash with fiscal agents	-	-	-	31,872,415
Investments - cash equivalents	-	-	-	82,621,743
Investments	-	4,470,884	4,470,884	216,383,100
Capital Assets:				
Nondepreciable assets	690,627,670	57,317,577	747,945,247	431,264,102
Depreciable assets, net	1,852,814,334	165,505,190	2,018,319,524	1,727,846,577
Total Assets	<u>\$ 3,847,757,741</u>	<u>\$ 396,437,802</u>	<u>\$ 4,244,195,543</u>	<u>\$ 3,194,079,297</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2006

Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
LIABILITIES				
Accounts payable	\$ 57,454,679	\$ 19,185,986	\$ 76,640,665	\$ 60,696,614
Interest payable	20,817,644	479,089	21,296,733	16,537,697
Retainage payable	6,146,636	727,324	6,873,960	15,443,154
Accrued liabilities	50,634,789	10,812,244	61,447,033	66,400,038
Claims payable	88,977,285	-	88,977,285	23,919,394
Deposits	167,944	339,030	506,974	7,543,335
Due to primary government	-	-	-	55,764,544
Due to component units	63,553,336	609,201	64,162,537	-
Due to other governments	16,738,703	2,704,024	19,442,727	206,622
Unearned revenue	39,052,321	771,888	39,824,209	29,536,063
Other liabilities	-	291,414	291,414	10,705,999
Noncurrent Liabilities:				
Due within one year	285,278,355	12,946,069	298,224,424	100,189,506
Due in more than one year	1,536,161,738	83,838,663	1,620,000,401	939,711,996
Total Liabilities	<u>2,164,983,430</u>	<u>132,704,932</u>	<u>2,297,688,362</u>	<u>1,326,654,962</u>
NET ASSETS				
Invested in capital, net of related debt	1,769,233,330	152,244,454	1,876,884,699	1,783,628,138
Restricted for:				
Capital projects	54,191,514	-	54,191,514	1,069,895
Nonexpendable permanent fund - housing	5,536,573	-	5,536,573	-
General government	128,354,639	-	128,354,639	-
Public safety	11,641,476	-	11,641,476	-
Public works and transportation	3,789,579	80,486,538	84,276,117	-
Recreation	8,791,058	-	8,791,058	-
Community development and housing	123,705,355	-	123,705,355	-
Environment	2,801,761	-	2,801,761	-
Debt service	-	-	-	41,453,636
Other purposes	-	-	-	22,530,980
Unrestricted (deficit)	(425,270,974)	31,001,878	(349,676,011)	18,741,686
Total Net Assets	<u>\$ 1,682,774,311</u>	<u>\$ 263,732,870</u>	<u>\$ 1,946,507,181</u>	<u>\$ 1,867,424,335</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, 2006
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
General government	\$ 257,586,189	\$ 70,760,591	\$ 8,624,075	\$ 621,102
Public safety	473,624,268	21,261,849	33,672,335	4,151,203
Public works and transportation	192,228,591	17,417,455	65,846,601	25,154,942
Health and human services	235,394,838	3,733,918	100,845,243	-
Culture and recreation	93,460,648	24,180,695	4,284,853	8,961,749
Community development and housing	19,280,438	201,156	8,905,322	1,703,776
Environment	9,157,156	4,566,822	9,377	3,678,066
Education	1,595,747,791	-	-	-
Interest on long-term debt	73,675,523	-	-	-
Total Governmental Activities	<u>2,950,155,442</u>	<u>142,122,486</u>	<u>222,187,806</u>	<u>44,270,838</u>
Business-type Activities:				
Liquor control	168,325,049	191,351,999	-	-
Solid waste disposal and collection	99,911,970	102,432,416	-	-
Parking lot districts	26,568,228	22,978,890	-	-
Permitting services	21,962,821	23,949,256	-	-
Community use of public facilities	6,810,783	7,977,618	-	-
Total Business-type Activities	<u>323,578,851</u>	<u>348,690,179</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 3,273,734,293</u>	<u>\$ 490,812,665</u>	<u>\$ 222,187,806</u>	<u>\$ 44,270,838</u>
Component Units:				
General government (BUPI)	\$ 3,296,351	\$ 3,060,245	\$ 267,796	\$ -
Culture and recreation (MCRA)	14,650,557	13,527,180	-	127,470
Community development and housing (HOC)	182,539,606	87,884,426	83,070,936	10,431,854
Education:				
Elementary and secondary education (MCPS)	1,887,951,249	33,258,786	100,830,453	42,218,202
Higher education (MCC)	212,513,635	65,802,118	23,307,560	1,028,931
Total Component Units	<u>\$ 2,300,951,398</u>	<u>\$ 203,532,755</u>	<u>\$ 207,476,745</u>	<u>\$ 53,806,457</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				
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
\$ (177,580,421)	\$ -	\$ (177,580,421)	\$ -
(414,538,881)	-	(414,538,881)	-
(83,809,593)	-	(83,809,593)	-
(130,815,677)	-	(130,815,677)	-
(56,033,351)	-	(56,033,351)	-
(8,470,184)	-	(8,470,184)	-
(902,891)	-	(902,891)	-
(1,595,747,791)	-	(1,595,747,791)	-
(73,675,523)	-	(73,675,523)	-
<u>(2,541,574,312)</u>	<u>-</u>	<u>(2,541,574,312)</u>	<u>-</u>
-	23,026,950	23,026,950	-
-	2,520,446	2,520,446	-
-	(3,589,338)	(3,589,338)	-
-	1,986,435	1,986,435	-
-	1,166,835	1,166,835	-
-	<u>25,111,328</u>	<u>25,111,328</u>	-
<u>(2,541,574,312)</u>	<u>25,111,328</u>	<u>(2,516,462,984)</u>	-
-	-	-	31,690
-	-	-	(995,907)
-	-	-	(1,152,390)
-	-	-	(1,711,643,808)
-	-	-	(122,375,026)
-	-	-	<u>(1,836,135,441)</u>
1,064,737,107	9,199,581	1,073,936,688	-
1,117,543,440	-	1,117,543,440	-
145,478,479	-	145,478,479	-
96,239,932	-	96,239,932	-
117,381,196	-	117,381,196	-
15,869,779	-	15,869,779	-
29,176,263	-	29,176,263	-
16,339,949	-	16,339,949	-
-	-	-	2,005,157,958
29,769,889	6,267,935	36,037,824	10,436,946
5,187,736	-	5,187,736	33,358
32,433,658	(32,433,658)	-	-
<u>2,670,157,428</u>	<u>(16,966,142)</u>	<u>2,653,191,286</u>	<u>2,015,628,262</u>
128,583,116	8,145,186	136,728,302	179,492,821
1,554,191,195	255,587,684	1,809,778,879	1,687,931,514
<u>\$ 1,682,774,311</u>	<u>\$ 263,732,870</u>	<u>\$ 1,946,507,181</u>	<u>\$ 1,867,424,335</u>

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	\$ 219,194,105	\$ 776,805	\$ 103,671,506	\$ 176,921,721	\$ 500,564,137
Cash with fiscal agents	59,476	28,817,249	4,320,358	-	33,197,083
Cash	151,576	-	-	29,900	181,476
Investments	-	-	-	4,946,796	4,946,796
Receivables (net of allowances for uncollectibles):					
Income taxes	297,176,999	-	-	-	297,176,999
Property taxes	16,757,606	-	-	4,742,416	21,500,022
Capital leases	-	39,790,000	-	-	39,790,000
Accounts	36,600,232	18,600	572,175	2,519,576	39,710,583
Special assessments	-	13,606	-	-	13,606
Notes	-	-	91,465	5,053,379	5,144,844
Parking violations	609,817	-	-	-	609,817
Mortgages receivable	190,142	-	300,000	109,873,201	110,363,343
Interest	-	-	-	60,110	60,110
Other	-	-	3,829	255,436	259,265
Due from other funds	79,513,795	-	-	3,089,573	82,603,368
Due from component units	3,939,383	-	13,584,187	36,762,896	54,286,466
Due from other governments	23,637,594	-	7,596,224	22,434,032	53,667,850
Inventory of supplies	4,542,264	-	828,573	-	5,370,837
Prepays	532,173	-	1,335	825,803	1,359,311
Total Assets	<u>\$ 682,905,162</u>	<u>\$ 69,416,260</u>	<u>\$ 130,969,652</u>	<u>\$ 367,514,839</u>	<u>\$ 1,250,805,913</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 25,182,492	\$ 521,778	\$ 12,308,083	\$ 12,867,825	\$ 50,880,178
Retainage payable	18,860	-	6,080,192	47,584	6,146,636
Accrued liabilities	31,056,440	-	643,718	9,387,582	41,087,740
Deposits	-	-	-	167,944	167,944
Due to other funds	8,275,567	28,771,304	53,986,924	3,324,836	94,358,631
Due to component units	42,799,201	-	18,991,247	1,550,396	63,340,844
Due to other governments	2,162,999	-	1,810,413	12,400,252	16,373,664
Deferred revenue	284,623,188	40,123,178	2,454,122	45,089,769	372,290,257
Total Liabilities	<u>394,118,747</u>	<u>69,416,260</u>	<u>96,274,699</u>	<u>84,836,188</u>	<u>644,645,894</u>
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	-	4,211,706	-	4,211,706
Long-term receivables	-	-	13,584,187	113,845,883	127,430,070
Inventory	4,542,264	-	828,573	-	5,370,837
Prepays	532,173	-	1,335	824,331	1,357,839
Fire-Rescue Grant	-	-	-	1,512,354	1,512,354
Donor-specified purposes	-	-	-	1,192,950	1,192,950
Other purposes	1,941,790	-	49,979,808	5,536,573	57,458,171
Total Reserved	<u>7,016,227</u>	<u>-</u>	<u>68,605,609</u>	<u>122,912,091</u>	<u>198,533,927</u>
Unreserved, designated for, reported in:					
Encumbrances	19,184,118	-	-	13,771,457	32,955,575
General Fund	155,304,163	-	-	-	155,304,163
Special Revenue Funds	-	-	-	17,506,449	17,506,449
Unreserved, undesignated (deficit), reported in:					
General Fund	107,281,907	-	-	-	107,281,907
Capital Projects Fund	-	-	(33,910,656)	-	(33,910,656)
Special Revenue Funds	-	-	-	128,488,654	128,488,654
Total Unreserved (Deficit)	<u>281,770,188</u>	<u>-</u>	<u>(33,910,656)</u>	<u>159,766,560</u>	<u>407,626,092</u>
Total Fund Balances	<u>288,786,415</u>	<u>-</u>	<u>34,694,953</u>	<u>282,678,651</u>	<u>606,160,019</u>
Total Liabilities and Fund Balances	<u>\$ 682,905,162</u>	<u>\$ 69,416,260</u>	<u>\$ 130,969,652</u>	<u>\$ 367,514,839</u>	<u>\$ 1,250,805,913</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, 2006
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$ 606,160,019
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	\$ 544,257,482	
Construction in progress	146,347,682	
Depreciable capital assets:		
Buildings	708,096,616	
Improvements other than buildings	44,080,705	
Furniture, fixtures, equipment and machinery	223,571,713	
Automobiles and trucks	116,093,480	
Infrastructure	1,497,802,708	
Other capital assets	<u>2,079,731</u>	
Total capital assets	3,282,330,117	
Less accumulated depreciation	<u>(768,941,770)</u>	2,513,388,347
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	(1,393,883,160)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(100,000,000)	
Lease revenue bonds payable	(39,790,000)	
Accrued interest payable	(20,817,644)	
Capital leases payable	(87,086,843)	
Notes payable	(13,980,419)	
Compensated absences	<u>(53,889,623)</u>	(1,809,447,689)
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	(60,555,745)	
Deferred amount on refunding	29,130,221	
Deferred issuance costs	<u>4,808,418</u>	(26,617,106)
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	134,932,961	
Capital assets	71,121,613	
Less accumulated depreciation	(41,067,956)	
Liabilities	(102,482,074)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>1,236,032</u>	63,740,576
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	241,150,000	
Property taxes	18,163,000	
Intergovernmental revenue	26,017,586	
Other revenue	<u>50,219,578</u>	<u>335,550,164</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 1,682,774,311</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, 2006
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,233,204,779	\$ -	\$ 58,073,018	\$ 254,629,055	\$ 2,545,906,852
Licenses and permits	10,335,016	-	-	1,690,077	12,025,093
Intergovernmental	137,164,714	-	19,555,194	109,065,569	265,785,477
Charges for services	31,369,420	40,798	787,887	45,005,918	77,204,023
Fines and forfeitures	9,381,741	-	-	923,436	10,305,177
Investment income	6,225,453	7,018,823	2,323,949	9,264,049	24,832,274
Miscellaneous	10,716,432	-	777,212	3,151,521	14,645,165
Total Revenues	<u>2,438,397,555</u>	<u>7,059,621</u>	<u>81,517,260</u>	<u>423,729,625</u>	<u>2,950,704,061</u>
EXPENDITURES					
Current:					
General government	207,807,654	-	-	20,861,784	228,669,438
Public safety	279,363,380	-	-	176,070,111	455,433,491
Public works and transportation	45,747,862	-	-	107,089,990	152,837,852
Health and human services	194,695,778	-	-	39,271,443	233,967,221
Culture and recreation	43,134,361	-	-	35,352,176	78,486,537
Community development and housing	11,837,295	-	-	5,459,959	17,297,254
Environment	3,328,077	-	-	3,124,394	6,452,471
Education	1,382,898,458	-	-	-	1,382,898,458
Debt Service:					
Principal retirement:					
General obligation bonds	-	121,268,382	-	-	121,268,382
Bond anticipation notes	-	200,000,000	-	-	200,000,000
Other notes	-	2,915,915	-	-	2,915,915
Interest:					
General obligation bonds	-	62,992,561	-	-	62,992,561
Variable rate demand obligations	-	253,302	-	-	253,302
Bond anticipation notes	-	4,675,356	-	-	4,675,356
Other notes	-	243,311	-	-	243,311
Leases and other obligations	-	26,245,116	-	-	26,245,116
Issuing costs	-	1,044,430	-	-	1,044,430
Capital projects	-	-	382,096,212	-	382,096,212
Total Expenditures	<u>2,168,812,865</u>	<u>419,638,373</u>	<u>382,096,212</u>	<u>387,229,857</u>	<u>3,357,777,307</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>269,584,690</u>	<u>(412,578,752)</u>	<u>(300,578,952)</u>	<u>36,499,768</u>	<u>(407,073,246)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	35,719,620	217,169,994	59,491,660	27,730,474	340,111,748
Transfers (out)	(265,144,094)	(4,719,842)	(814,828)	(36,624,738)	(307,303,502)
Sale of property	-	-	3,750	5,201,674	5,205,424
Financing under notes and leases payable	329,459	-	-	4,877,918	5,207,377
Debt Issued:					
General obligation bonds	-	100,000,000	-	-	100,000,000
Premium on general obligation bonds	-	128,600	5,328,100	-	5,456,700
Bond anticipation notes	-	-	300,000,000	-	300,000,000
Lease revenue bonds	1,747,573	-	-	-	1,747,573
Variable rate demand obligations	-	100,000,000	-	-	100,000,000
Capital lease financing	-	-	8,379,687	-	8,379,687
Total Other Financing Sources (Uses)	<u>(227,347,442)</u>	<u>412,578,752</u>	<u>372,388,369</u>	<u>1,185,328</u>	<u>558,805,007</u>
Net Change in Fund Balances	42,237,248	-	71,809,417	37,685,096	151,731,761
Fund Balances (Deficit) - Beginning of Year	246,549,167	-	(37,114,464)	244,993,555	454,428,258
Fund Balances - End of Year	<u>\$ 288,786,415</u>	<u>\$ -</u>	<u>\$ 34,694,953</u>	<u>\$ 282,678,651</u>	<u>\$ 606,160,019</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, 2006
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5) \$ 151,731,761

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	\$ 160,950,327	
Depreciation expense	<u>(85,779,536)</u>	75,170,791

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. (17,688)

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. 11,769,234

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	72,981,451	
Property taxes	(14,068,828)	
Intergovernmental revenues	(14,110,510)	
Other revenues	<u>(2,870,256)</u>	41,931,857

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	(105,456,700)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes	(300,000,000)	
Capital lease financing	(8,379,687)	
Lease revenue bonds	(1,747,573)	
Notes payable	(5,207,377)	
Less issuance costs	408,569	
Principal repayments:		
General obligation bonds	121,268,382	
Bond anticipation notes	200,000,000	
Certificates of participation	9,780,000	
Leases payable	2,568,463	
Capital leases	7,010,000	
Notes payable	<u>2,915,915</u>	(176,840,008)

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	1,370,411	
Compensated absences	(3,885,301)	
Claims and judgments	1,200,000	
Amortization	<u>3,085,840</u>	1,770,950

The current year gain for certain activities of internal service funds is reported with governmental activities. 23,066,219

Change in net assets of governmental activities (see Exhibit A-2) \$ 128,583,116

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, 2006
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 777,849,280	\$ 777,849,280	\$ -	\$ 777,849,280	\$ 781,090,696	\$ 3,241,416
Property - penalty and interest	-	4,635,720	4,635,720	-	4,635,720	1,040,917	(3,594,803)
Other	-	-	-	-	-	217	217
Total Property Tax	-	782,485,000	782,485,000	-	782,485,000	782,131,830	(353,170)
County Income Tax	-	948,720,000	948,720,000	-	948,720,000	1,044,561,989	95,841,989
Other Local Taxes:							
Real property transfer	-	112,950,000	112,950,000	-	112,950,000	145,478,479	32,528,479
Recordation	-	71,070,000	71,070,000	-	71,070,000	96,239,932	25,169,932
Fuel energy	-	117,600,000	117,600,000	-	117,600,000	117,381,196	(218,804)
Hotel - motel	-	13,020,000	13,020,000	-	13,020,000	15,869,779	2,849,779
Telephone	-	29,140,000	29,140,000	-	29,140,000	29,176,263	36,263
Other	-	2,698,000	2,698,000	-	2,698,000	2,365,311	(332,689)
Total Other Local Taxes	-	346,478,000	346,478,000	-	346,478,000	406,510,960	60,032,960
Total Taxes	-	2,077,683,000	2,077,683,000	-	2,077,683,000	2,233,204,779	155,521,779
Licenses and Permits:							
Business	-	5,404,120	5,404,120	(2,720)	5,401,400	5,695,489	294,089
Non business	-	4,615,870	4,615,870	-	4,615,870	4,639,527	23,657
Total Licenses and Permits	-	10,019,990	10,019,990	(2,720)	10,017,270	10,335,016	317,746
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	36,474,990	36,474,990	-	36,474,990	34,453,164	(2,021,826)
Highway user revenue	-	38,566,658	38,566,658	-	38,566,658	36,623,789	(1,942,869)
Police protection	-	13,000,000	13,000,000	-	13,000,000	13,125,433	125,433
Health and human services programs	-	6,260,060	6,260,060	-	6,260,060	6,559,748	299,688
Public libraries	-	3,844,310	3,844,310	-	3,844,310	3,853,987	9,677
911 Emergency	-	7,099,010	7,099,010	-	7,099,010	6,873,027	(225,983)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,711,610	2,711,610	-	2,711,610	1,617,059	(1,094,551)
Total State Aid and Reimbursements	-	110,722,638	110,722,638	-	110,722,638	105,871,760	(4,850,878)
Federal Reimbursements:							
Federal financial participation	-	22,816,790	22,816,790	-	22,816,790	26,795,733	3,978,943
Other	-	3,290,640	3,290,640	-	3,290,640	3,359,981	69,341
Total Federal Reimbursements	-	26,107,430	26,107,430	-	26,107,430	30,155,714	4,048,284
Other Intergovernmental	-	1,586,540	1,586,540	-	1,586,540	1,137,240	(449,300)
Total Intergovernmental Revenue	-	138,416,608	138,416,608	-	138,416,608	137,164,714	(1,251,894)
Charges for Services:							
General government	-	1,574,440	1,574,440	4,834	1,579,274	1,452,980	(126,294)
Public safety	-	10,413,920	10,413,920	-	10,413,920	9,678,730	(735,190)
Health and human services	-	1,768,560	1,768,560	-	1,768,560	1,422,214	(346,346)
Culture and recreation	-	2,600	2,600	-	2,600	29,767	27,167
Environment	-	200,000	200,000	-	200,000	96,808	(103,192)
Public works and transportation	-	49,000	49,000	-	49,000	133,530	84,530
Total Charges for Services	-	14,008,520	14,008,520	4,834	14,013,354	12,814,029	(1,199,325)
Fines and forfeitures	-	10,014,710	10,014,710	44,720	10,059,430	9,381,741	(677,689)
Investment Income:							
Pooled investment income	-	5,060,000	5,060,000	-	5,060,000	8,649,379	3,589,379
Other interest income	-	10,000	10,000	-	10,000	26,239	16,239
Total Investment Income	-	5,070,000	5,070,000	-	5,070,000	8,675,618	3,605,618
Miscellaneous Revenue:							
Property rentals	-	3,863,150	3,863,150	-	3,863,150	4,218,705	355,555
Sundry	-	4,384,790	4,384,790	84,240	4,469,030	6,805,579	2,336,549
Total Miscellaneous Revenue	-	8,247,940	8,247,940	84,240	8,332,180	11,024,284	2,692,104
Total Revenues	-	2,263,460,768	2,263,460,768	131,074	2,263,591,842	2,422,600,181	159,008,339
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	6,778,863	6,778,863	42,150	6,821,013	6,626,485	194,528
Operating	77,966	772,840	850,806	(43,710)	807,096	771,139	35,957
Totals	77,966	7,551,703	7,629,669	(1,560)	7,628,109	7,397,624	230,485
Board of Appeals:							
Personnel	-	441,501	441,501	14,870	456,371	456,364	7
Operating	5,162	81,530	86,692	(4,030)	82,662	82,658	4
Totals	5,162	523,031	528,193	10,840	539,033	539,022	11
Legislative Oversight:							
Personnel	-	913,892	913,892	5,060	918,952	894,250	24,702
Operating	4,579	61,610	66,189	(1,706)	64,483	37,095	27,388
Totals	4,579	975,502	980,081	3,354	983,435	931,345	52,090
Merit System Protection Board:							
Personnel	-	122,090	122,090	-	122,090	118,550	3,540
Operating	-	15,160	15,160	-	15,160	9,186	5,974
Totals	-	137,250	137,250	-	137,250	127,736	9,514
Zoning and Administrative Hearings:							
Personnel	-	377,591	377,591	-	377,591	360,950	16,641
Operating	136	92,710	92,846	(136)	92,710	91,754	956
Totals	136	470,301	470,437	(136)	470,301	452,704	17,597

(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, 2006
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Inspector General:							
Personnel	\$ -	\$ 428,111	\$ 428,111	\$ -	\$ 428,111	\$ 422,765	\$ 5,346
Operating	-	55,620	55,620	-	55,620	15,860	39,760
Totals	-	483,731	483,731	-	483,731	438,625	45,106
People's Counsel:							
Personnel	-	203,780	203,780	-	203,780	201,906	1,874
Operating	305	18,380	18,685	(305)	18,380	7,601	10,779
Totals	305	222,160	222,465	(305)	222,160	209,507	12,653
Circuit Court:							
Personnel	-	7,020,900	7,020,900	27,420	7,048,320	6,704,666	343,654
Operating	325,720	2,081,340	2,407,060	122,159	2,529,219	2,529,000	219
Capital outlay	-	90,000	90,000	9,160	99,160	99,155	5
Totals	325,720	9,192,240	9,517,960	158,739	9,676,699	9,332,821	343,878
State's Attorney:							
Personnel	-	9,678,523	9,678,523	141,810	9,820,333	9,820,326	7
Operating	9,558	471,790	481,348	47,586	528,934	528,925	9
Totals	9,558	10,150,313	10,159,871	189,396	10,349,267	10,349,251	16
County Executive:							
Personnel	-	3,958,474	3,958,474	50,920	4,009,394	3,717,790	291,604
Operating	-	323,130	323,130	-	323,130	297,373	25,757
Totals	-	4,281,604	4,281,604	50,920	4,332,524	4,015,163	317,361
Commission for Women:							
Personnel	-	944,022	944,022	(1,140)	942,882	938,820	4,062
Operating	-	123,730	123,730	10,280	134,010	134,008	2
Totals	-	1,067,752	1,067,752	9,140	1,076,892	1,072,828	4,064
Regional Service Centers:							
Personnel	-	2,772,229	2,772,229	(187,680)	2,584,549	2,584,545	4
Operating	28,465	706,401	734,866	(75,196)	659,670	658,030	1,640
Totals	28,465	3,478,630	3,507,095	(262,876)	3,244,219	3,242,575	1,644
Ethics Commission:							
Personnel	-	178,218	178,218	20,770	198,988	198,988	-
Operating	365	32,050	32,415	(3,565)	28,850	19,099	9,751
Totals	365	210,268	210,633	17,205	227,838	218,087	9,751
Intergovernmental Relations:							
Personnel	-	542,350	542,350	(19,970)	522,380	504,841	17,539
Operating	8,286	123,760	132,046	15,534	147,580	147,575	5
Totals	8,286	666,110	674,396	(4,436)	669,960	652,416	17,544
Board of Liquor License Commissioners:							
Personnel	-	918,860	918,860	8,360	927,220	900,276	26,944
Operating	3,070	133,970	137,040	(3,070)	133,970	126,907	7,063
Totals	3,070	1,052,830	1,055,900	5,290	1,061,190	1,027,183	34,007
Public Information:							
Personnel	-	963,747	963,747	(1,260)	962,487	962,482	5
Operating	29,171	177,970	207,141	44,264	251,405	251,402	3
Totals	29,171	1,141,717	1,170,888	43,004	1,213,892	1,213,884	8
Board of Elections:							
Personnel	-	1,839,570	1,839,570	121,660	1,961,230	1,961,225	5
Operating	2,386	1,676,470	1,678,856	(112,980)	1,565,876	1,143,001	422,875
Totals	2,386	3,516,040	3,518,426	8,680	3,527,106	3,104,226	422,880
County Attorney:							
Personnel	-	4,392,821	4,392,821	(98,790)	4,294,031	4,294,019	12
Operating	127,590	483,380	610,970	99,914	710,884	710,878	6
Totals	127,590	4,876,201	5,003,791	1,124	5,004,915	5,004,897	18
Management and Budget:							
Personnel	-	3,406,076	3,406,076	(64,770)	3,341,306	3,199,586	141,720
Operating	8,231	169,100	177,331	89,625	266,956	219,161	47,795
Totals	8,231	3,575,176	3,583,407	24,855	3,608,262	3,418,747	189,515
Finance:							
Personnel	-	7,887,854	7,887,854	(53,080)	7,834,774	7,825,297	9,477
Operating	319,413	1,581,840	1,901,253	(340,567)	1,560,686	1,520,679	40,007
Totals	319,413	9,469,694	9,789,107	(393,647)	9,395,460	9,345,976	49,484
Human Resources:							
Personnel	-	4,809,882	4,809,882	32,020	4,841,902	4,840,197	1,705
Operating	547,770	2,261,590	2,809,360	(33,309)	2,776,051	2,776,050	1
Totals	547,770	7,071,472	7,619,242	(1,289)	7,617,953	7,616,247	1,706
Technology Services:							
Personnel	-	15,615,915	15,615,915	(325,680)	15,290,235	15,251,125	39,110
Operating	2,870,541	11,629,480	14,500,021	116,137	14,616,158	14,616,143	15
Capital outlay	-	152,630	152,630	57,950	210,580	210,571	9
Totals	2,870,541	27,398,025	30,268,566	(151,593)	30,116,973	30,077,839	39,134
Procurement:							
Personnel	-	2,532,452	2,532,452	(5,170)	2,527,282	2,455,325	71,957
Operating	62,019	199,610	261,629	(264)	261,365	261,003	362
Totals	62,019	2,732,062	2,794,081	(5,434)	2,788,647	2,716,328	72,319
Corrections and Rehabilitation:							
Personnel	-	46,499,672	46,499,672	1,494,880	47,994,552	47,994,552	-
Operating	31,213	6,658,660	6,689,873	818,465	7,508,338	7,508,338	-
Capital outlay	-	-	-	13,220	13,220	13,220	-
Totals	31,213	53,158,332	53,189,545	2,326,565	55,516,110	55,516,110	-
Human Relations Commission:							
Personnel	-	1,964,681	1,964,681	7,530	1,972,211	1,915,961	56,250
Operating	500	153,320	153,820	-	153,820	149,035	4,785
Totals	500	2,118,001	2,118,501	7,530	2,126,031	2,064,996	61,035

(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, 2006
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Police:							
Personnel	\$ -	\$ 155,351,269	\$ 155,351,269	\$ 459,530	\$ 155,810,799	\$ 155,810,795	\$ 4
Operating	494,781	26,401,055	26,895,836	624,825	27,520,661	27,520,661	-
Capital outlay	-	-	-	8,000	8,000	8,000	-
Totals	494,781	181,752,324	182,247,105	1,092,355	183,339,460	183,339,456	4
Sheriff:							
Personnel	-	13,865,596	13,865,596	40,643	13,906,239	13,906,232	7
Operating	218,677	1,683,640	1,902,317	505,903	2,408,220	2,408,216	4
Totals	218,677	15,549,236	15,767,913	546,546	16,314,459	16,314,448	11
Homeland Security:							
Personnel	-	4,260,604	4,260,604	72,840	4,333,444	4,333,430	14
Operating	-	761,900	761,900	(76,190)	685,710	594,682	91,028
Capital outlay	-	27,000	27,000	(26,360)	640	-	640
Totals	-	5,049,504	5,049,504	(29,710)	5,019,794	4,928,112	91,682
Public Works and Transportation:							
Personnel	-	31,829,736	31,829,736	1,504,680	33,334,416	33,334,416	-
Operating	1,668,055	25,689,100	27,357,155	7,301,464	34,658,619	34,658,619	-
Totals	1,668,055	57,518,836	59,186,891	8,806,144	67,993,035	67,993,035	-
Health and Human Services:							
Personnel	-	103,997,240	103,997,240	168,230	104,165,470	104,165,467	3
Operating	2,513,001	80,162,620	82,675,621	(169,174)	82,506,447	82,506,447	-
Capital outlay	-	-	-	33,912	33,912	33,912	-
Totals	2,513,001	184,159,860	186,672,861	32,968	186,705,829	186,705,826	3
Libraries:							
Personnel	-	26,935,931	26,935,931	107,660	27,043,591	26,921,712	121,879
Operating	1,546,759	7,255,980	8,802,739	(73,350)	8,729,389	8,728,547	842
Totals	1,546,759	34,191,911	35,738,670	34,310	35,772,980	35,650,259	122,721
Housing and Community Affairs:							
Personnel	-	6,592,878	6,592,878	(104,810)	6,488,068	6,330,271	157,797
Operating	104,663	901,850	1,006,513	123,403	1,129,916	1,129,916	-
Totals	104,663	7,494,728	7,599,391	18,593	7,617,984	7,460,187	157,797
Economic Development:							
Personnel	-	3,747,715	3,747,715	(251,550)	3,496,165	3,492,109	4,056
Operating	145,336	2,818,230	2,963,566	269,675	3,233,241	3,233,235	6
Totals	145,336	6,565,945	6,711,281	18,125	6,729,406	6,725,344	4,062
Environmental Protection:							
Personnel	-	3,257,138	3,257,138	(303,390)	2,953,748	2,882,661	71,087
Operating	51,808	948,570	1,000,378	32,197	1,032,575	1,032,564	11
Totals	51,808	4,205,708	4,257,516	(271,193)	3,986,323	3,915,225	71,098
Total Departments	11,205,526	652,008,197	663,213,723	12,283,504	675,497,227	673,118,029	2,379,198
Nondepartmental:							
State retirement contribution - personnel	-	38,300	38,300	(3,830)	34,470	-	34,470
State retirement contribution - operating	-	769,830	769,830	38,300	808,130	808,129	1
Retirees group insurance - operating	-	21,587,860	21,587,860	-	21,587,860	21,587,860	-
State positions supplement - personnel	-	168,380	168,380	-	168,380	153,802	14,578
Judges special pension contribution - personnel	-	3,740	3,740	-	3,740	3,740	-
Compensation adjustment - personnel	-	1,464,230	1,464,230	(455,520)	1,008,710	1,008,704	6
Compensation adjustment - operating	-	415,240	415,240	(38,350)	376,890	376,885	5
Municipal tax duplication - operating	-	7,306,890	7,306,890	-	7,306,890	7,306,887	3
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	504,880	504,880	59,790	564,670	564,669	1
Rebate - Takoma Park library - personnel	-	-	-	130	130	128	2
Rebate - Takoma Park library - operating	-	89,670	89,670	13,910	103,580	103,573	7
Homeowners' association roadways - operating	-	276,390	276,390	53,430	329,820	329,812	8
Contribution to risk management - operating	-	13,254,760	13,254,760	(351,120)	12,903,640	12,886,810	16,830
Support for the arts - operating	280,463	-	280,463	-	280,463	280,271	192
Historical activities - operating	-	329,510	329,510	-	329,510	329,510	-
Conference and Visitors Bureau - operating	89,627	478,100	567,727	-	567,727	567,727	-
Arts Council - operating	40,368	3,963,600	4,003,968	(40,368)	3,963,600	3,963,600	-
Community grants - operating	1,778,712	5,548,070	7,326,782	(33,983)	7,292,799	7,258,186	34,613
Conference Center - personnel	-	80,810	80,810	-	80,810	69,001	11,809
Conference Center - operating	270,214	525,000	795,214	(267,155)	528,059	278,346	249,713
County associations - operating	-	62,180	62,180	-	62,180	62,173	7
Metropolitan Washington C O G - operating	-	697,080	697,080	-	697,080	673,097	23,983
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	25,000	2,500
Independent audit - operating	5,925	313,640	319,565	(5,925)	313,640	290,129	23,511
Prisoner medical services - operating	-	10,000	10,000	-	10,000	647	9,353
Boards, committees and commissions - operating	-	15,000	15,000	4,880	19,880	19,874	6
Charter Review Commission - operating	-	1,000	1,000	-	1,000	624	376
Closing costs assistance - operating	-	136,830	136,830	-	136,830	132,270	4,560
Working families income supplement - operating	-	10,518,000	10,518,000	98,200	10,616,200	10,262,024	354,176
Interagency tech, policy & coord comm - operating	578	30,000	30,578	(13)	30,565	3,350	27,215
County Leases - personnel	-	-	-	6,320	6,320	6,318	2
County Leases - operating	46,175	12,745,120	12,791,295	(42,359)	12,748,936	12,482,535	266,401
Rockville parking district - operating	130,000	130,000	260,000	-	260,000	260,000	-
Desktop computer modernization - operating	30,828	6,016,660	6,047,488	-	6,047,488	6,047,146	342
Utilities - operating	20,652	19,124,190	19,144,842	(671,170)	18,473,672	18,473,663	8
Total - Nondepartmental:	2,693,542	106,660,480	109,354,022	(1,634,833)	107,719,189	106,644,503	1,074,686
Total Expenditures	13,899,068	758,668,677	772,567,745	10,648,671	783,216,416	779,762,532	3,453,884
Excess of Revenues over (under) Expenditures	(13,899,068)	1,504,792,091	1,490,893,023	(10,517,597)	1,480,375,426	1,642,837,649	162,462,223

(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, 2006
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	\$ -	\$ 120,750	\$ 120,750	\$ -	\$ 120,750	\$ 120,750	\$ -
Recreation	-	4,474,530	4,474,530	-	4,474,530	4,474,530	-
Mass Transit	-	4,995,810	4,995,810	-	4,995,810	4,995,810	-
Water Quality Protection	-	111,850	111,850	-	111,850	111,850	-
Urban Districts	-	313,740	313,740	-	313,740	313,740	-
Housing Activities	-	81,040	81,040	-	81,040	81,040	-
Cable TV	-	2,351,100	2,351,100	-	2,351,100	2,351,100	-
Total Special Revenue Funds	-	12,448,820	12,448,820	-	12,448,820	12,448,820	-
Enterprise Funds:							
Liquor	-	20,698,760	20,698,760	-	20,698,760	20,698,760	-
Parking Lot Districts	-	400,370	400,370	-	400,370	400,370	-
Solid Waste Activities	-	1,582,840	1,582,840	-	1,582,840	1,582,840	-
Community Use of Public Facilities	-	254,560	254,560	-	254,560	254,560	-
Permitting Services	-	2,598,240	2,598,240	-	2,598,240	2,598,240	-
Total Enterprise Funds	-	25,534,770	25,534,770	-	25,534,770	25,534,770	-
Internal Service Funds:							
Central Duplicating	-	551,430	551,430	(551,430)	-	-	-
Total Internal Service Funds	-	551,430	551,430	(551,430)	-	-	-
Total Transfers In	-	38,535,020	38,535,020	(551,430)	37,983,590	37,983,590	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery Community College	-	-	-	-	-	272,738	272,738
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	601,158	272,738
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,261,600)	(1,261,600)	(168,260)	(1,429,860)	(1,429,860)	-
Urban Districts	-	(962,490)	(962,490)	-	(962,490)	(962,490)	-
Mass Transit	-	(513,010)	(513,010)	-	(513,010)	(513,010)	-
Revenue Stabilization	-	-	-	-	-	(6,609,329)	(6,609,329)
Housing Activities	-	(8,229,560)	(8,229,560)	-	(8,229,560)	(8,229,560)	-
Economic Development	-	(530,680)	(530,680)	-	(530,680)	(530,680)	-
Grants	-	(4,215)	(4,215)	(394,460)	(398,675)	(382,939)	15,736
Total Special Revenue Funds	-	(11,501,555)	(11,501,555)	(562,720)	(12,064,275)	(18,657,868)	(6,593,593)
Internal Service Funds:							
Motor Pool	-	(17,400)	(17,400)	(1,144,960)	(1,162,360)	(1,053,172)	109,188
Total Internal Service Funds	-	(17,400)	(17,400)	(1,144,960)	(1,162,360)	(1,053,172)	109,188
Enterprise Funds:							
Community Use of Public Facilities	-	(25,000)	(25,000)	-	(25,000)	(25,000)	-
Parking Lot Districts	(189,967)	-	(189,967)	-	(189,967)	(93,255)	96,712
Solid Waste Activities	-	(1,484,820)	(1,484,820)	-	(1,484,820)	(1,484,820)	-
Permitting Services	-	(1,099,290)	(1,099,290)	-	(1,099,290)	(1,099,290)	-
Total Enterprise Funds	(189,967)	(2,609,110)	(2,799,077)	-	(2,799,077)	(2,702,365)	96,712
Debt Service Fund	-	(198,736,870)	(198,736,870)	(557,558)	(199,294,428)	(195,435,109)	3,859,319
Capital Projects Fund	(20,949,092)	(13,993,680)	(34,942,772)	(7,563,019)	(42,505,791)	(49,879,689)	(7,373,898)
Total Transfers (Out)	(21,139,059)	(226,858,615)	(247,997,674)	(9,828,257)	(257,825,931)	(267,728,203)	(9,902,272)
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,274,468,590)	(1,274,468,590)	(9,809,670)	(1,284,278,260)	(1,284,278,185)	75
Montgomery County Public Schools - capital	(13,110,347)	(4,460,000)	(17,570,347)	(10,214,000)	(27,784,347)	(14,175,738)	13,608,609
Total Montgomery County Public Schools	(13,110,347)	(1,278,928,590)	(1,292,038,937)	(20,023,670)	(1,312,062,607)	(1,298,453,923)	13,608,684
Montgomery Community College - operating	-	(78,948,374)	(78,948,374)	-	(78,948,374)	(78,948,374)	-
Montgomery Community College - capital	(12,185,216)	(758,000)	(12,943,216)	(2,000,001)	(14,943,217)	(5,496,162)	9,447,055
Total Montgomery Community College	(12,185,216)	(79,706,374)	(91,891,590)	(2,000,001)	(93,891,591)	(84,444,536)	9,447,055
Housing Opportunity Commission - operating	-	-	-	(4,964,070)	(4,964,070)	(4,332,612)	631,458
Housing Opportunity Commission - capital	-	(315,699)	(315,699)	-	(315,699)	(310,102)	5,597
Total Housing Opportunity Commission	-	(315,699)	(315,699)	(4,964,070)	(5,279,769)	(4,642,714)	637,055
M-NCPPC - operating	-	-	-	(250,000)	(250,000)	(250,000)	-
Total Transfers (Out) - Component Units and JV	(25,295,563)	(1,358,950,663)	(1,384,246,226)	(27,237,741)	(1,411,483,967)	(1,387,791,173)	23,692,794
Total Other Financing Sources (Uses)	(46,434,622)	(1,546,945,838)	(1,593,380,460)	(37,617,428)	(1,630,997,888)	(1,616,934,628)	14,063,260
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(60,333,690)	(42,153,747)	(102,487,437)	(48,135,025)	(150,622,462)	25,903,021	176,525,483
Fund Balance - Beginning of Year	60,333,690	188,005,993	248,339,683	(909,010)	247,430,673	247,430,673	-
Fund Balance - End of Year	\$ -	\$ 145,852,246	\$ 145,852,246	\$ (49,044,035)	\$ 96,808,211	\$ 273,333,694	\$ 176,525,483

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
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	\$ 9,212,722	\$ 45,493,803	\$ 22,161,362	\$ 17,975,945	\$ 94,843,832	\$ 122,476,044
Cash	34,450	3,000	127,900	50	165,400	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,665,903	-	1,665,903	-
Accounts	2,079,989	2,665,022	4,216	13,593	4,762,820	2,596,862
Notes	-	-	-	-	-	11,428
Parking violations	-	-	2,070,871	-	2,070,871	-
Due from other funds	-	5,230	-	-	5,230	5,370,245
Due from component units	-	67,839	276,380	-	344,219	766,768
Due from other governments	-	165,615	-	-	165,615	264,324
Inventory of supplies	29,599,588	-	-	-	29,599,588	3,037,500
Prepays	388,455	2,268	7,812	1,402	399,937	409,490
Other assets	84,209	-	-	-	84,209	-
Total Current Assets	<u>41,399,413</u>	<u>48,402,777</u>	<u>26,314,444</u>	<u>17,990,990</u>	<u>134,107,624</u>	<u>134,932,961</u>
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	29,534,688	5,988,898	-	35,523,586	-
Investments	-	3,290,441	1,180,443	-	4,470,884	-
Restricted Assets	-	<u>32,825,129</u>	<u>7,169,341</u>	-	<u>39,994,470</u>	-
Unamortized bond costs	-	<u>412,197</u>	<u>706,815</u>	-	<u>1,119,012</u>	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,667,565	44,297,904	-	116,965,469	268,565
Buildings	7,388,354	23,515,099	178,639,081	-	209,542,534	315,732
Furniture, fixtures, equipment, and machinery	5,236,330	10,479,878	298,874	2,818,363	18,833,445	4,299,665
Automobiles and trucks	3,221,061	463,196	91,763	131,254	3,907,274	66,215,145
Construction in progress	4,166,252	327,808	45,854	-	4,539,914	-
Subtotal	<u>20,493,427</u>	<u>125,288,301</u>	<u>257,834,954</u>	<u>2,949,617</u>	<u>406,566,299</u>	<u>71,121,613</u>
Less: Accumulated depreciation	<u>10,670,775</u>	<u>94,116,020</u>	<u>76,432,553</u>	<u>2,524,184</u>	<u>183,743,532</u>	<u>41,067,956</u>
Total Capital Assets (net of accumulated depreciation)	<u>9,822,652</u>	<u>31,172,281</u>	<u>181,402,401</u>	<u>425,433</u>	<u>222,822,767</u>	<u>30,053,657</u>
Total Noncurrent Assets	<u>9,822,652</u>	<u>64,409,607</u>	<u>189,278,557</u>	<u>425,433</u>	<u>263,936,249</u>	<u>30,053,657</u>
Total Assets	<u>51,222,065</u>	<u>112,812,384</u>	<u>215,593,001</u>	<u>18,416,423</u>	<u>398,043,873</u>	<u>164,986,618</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	10,813,948	5,925,108	1,854,981	591,949	19,185,986	6,574,501
Interest payable	-	83,901	395,188	-	479,089	-
Retainage payable	-	56,334	670,990	-	727,324	-
Deposits	339,030	-	-	-	339,030	-
Claims payable	-	-	-	-	-	88,977,285
Accrued liabilities	1,958,471	970,156	357,090	10,145,176	13,430,893	3,583,701
Due to other funds	284,240	117,326	38,762	352,685	793,013	250,697
Due to component units	-	-	-	609,201	609,201	212,492
Due to other governments	503,459	2,178,629	21,936	-	2,704,024	365,039
Unearned revenue	3,467	-	-	768,421	771,888	2,172,228
General obligation bonds payable	-	2,447	-	-	2,447	-
Revenue bonds payable	-	3,005,000	5,815,000	-	8,820,000	-
Landfill closure costs	-	1,082,000	-	-	1,082,000	-
Other liabilities	-	-	291,414	-	291,414	-
Total Current Liabilities	<u>13,902,615</u>	<u>13,420,901</u>	<u>9,445,361</u>	<u>12,467,432</u>	<u>49,236,309</u>	<u>102,135,943</u>
Noncurrent Liabilities:						
General obligation bonds payable	-	2,447	-	-	2,447	-
Revenue bonds payable	-	19,688,001	42,065,418	-	61,753,419	-
Landfill closure costs	-	21,068,923	-	-	21,068,923	-
Compensated absences	373,437	164,721	66,706	409,009	1,013,873	346,131
Total Noncurrent Liabilities	<u>373,437</u>	<u>40,924,092</u>	<u>42,132,124</u>	<u>409,009</u>	<u>83,838,662</u>	<u>346,131</u>
Total Liabilities	<u>14,276,052</u>	<u>54,344,993</u>	<u>51,577,485</u>	<u>12,876,441</u>	<u>133,074,971</u>	<u>102,482,074</u>
NET ASSETS						
Invested in capital, net of related debt	9,822,652	8,474,386	133,521,983	425,433	152,244,454	30,053,657
Restricted for debt service	-	32,825,129	7,169,341	-	39,994,470	-
Unrestricted	27,123,361	17,167,876	23,324,192	5,114,549	72,729,978	32,450,887
Total Net Assets	<u>\$ 36,946,013</u>	<u>\$ 58,467,391</u>	<u>\$ 164,015,516</u>	<u>\$ 5,539,982</u>	<u>264,968,902</u>	<u>\$ 62,504,544</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,236,032)	
Net assets of business-type activities					<u>\$ 263,732,870</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, 2006
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	\$ 191,333,415	\$ -	\$ -	\$ -	\$ 191,333,415	\$ -
Charges for services	16,050	102,110,339	15,685,638	10,072,217	127,884,244	233,777,794
Licenses and permits	-	10,025	-	21,749,464	21,759,489	-
Fines and penalties	-	36,553	6,651,860	105,193	6,793,606	-
Claim recoveries	-	-	-	-	-	1,764,035
Total Operating Revenues	<u>191,349,465</u>	<u>102,156,917</u>	<u>22,337,498</u>	<u>31,926,874</u>	<u>347,770,754</u>	<u>235,541,829</u>
OPERATING EXPENSES						
Cost of goods sold	139,296,435	-	-	-	139,296,435	-
Personnel costs	19,081,940	10,483,766	3,008,948	20,623,534	53,198,188	17,991,724
Postage	52,889	25,781	2,102	42,882	123,654	1,670,552
Self-insurance incurred and estimated claims	-	-	-	-	-	129,594,724
Insurance	916,640	787,860	68,500	14,680	1,787,680	19,419,608
Supplies and materials	495,651	530,938	387,133	460,647	1,874,369	22,204,619
Contractual services	1,693,297	80,525,209	5,313,386	3,558,871	91,090,763	11,391,700
Communications	402,002	248,287	130,259	362,085	1,142,633	216,263
Transportation	606,972	1,741,550	237,185	570,454	3,156,161	206,955
Public utility services	661,707	98,141	2,118,168	1,300,000	4,178,016	680,979
Rentals	3,819,496	23,627	1,459,359	1,571,169	6,873,651	512,702
Maintenance	546,479	215,864	2,004,618	217,807	2,984,768	7,978,728
Depreciation	760,178	2,685,225	7,784,011	69,499	11,298,913	6,336,535
Landfill closure expense	-	1,076,000	-	-	1,076,000	-
Other	327,643	428,423	27,579	144,706	928,351	107,210
Total Operating Expenses	<u>168,661,329</u>	<u>98,870,671</u>	<u>22,541,248</u>	<u>28,936,334</u>	<u>319,009,582</u>	<u>218,312,299</u>
Operating Income (Loss)	<u>22,688,136</u>	<u>3,286,246</u>	<u>(203,750)</u>	<u>2,990,540</u>	<u>28,761,172</u>	<u>17,229,530</u>
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,199,581	-	9,199,581	-
Intergovernmental	-	-	-	-	-	379,442
Gain (loss) on disposal of capital assets	(4,223)	27,475	(1,710,633)	-	(1,687,381)	130,791
Investment income	66,119	3,960,333	1,531,503	709,980	6,267,935	5,727,395
Interest expense	-	(1,169,691)	(2,354,985)	-	(3,524,676)	-
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Insurance recoveries	-	-	-	-	-	40,718
Total Nonoperating Revenues (Expenses)	<u>64,430</u>	<u>3,093,616</u>	<u>7,306,858</u>	<u>709,980</u>	<u>11,174,884</u>	<u>6,479,477</u>
Income (Loss) Before Capital Contributions and Transfers	<u>22,752,566</u>	<u>6,379,862</u>	<u>7,103,108</u>	<u>3,700,520</u>	<u>39,936,056</u>	<u>23,709,007</u>
Capital Contributions	-	-	1,747,573	-	1,747,573	-
Transfers In (Out):						
Transfers in	-	-	93,255	25,000	118,255	1,372,985
Transfers out	(20,698,760)	(1,586,080)	(9,161,846)	(2,852,800)	(34,299,486)	-
Total Transfers In (Out)	<u>(20,698,760)</u>	<u>(1,586,080)</u>	<u>(9,068,591)</u>	<u>(2,827,800)</u>	<u>(34,181,231)</u>	<u>1,372,985</u>
Change in Net Assets	2,053,806	4,793,782	(217,910)	872,720	7,502,398	25,081,992
Total Net Assets - Beginning of Year	<u>34,892,207</u>	<u>53,673,609</u>	<u>164,233,426</u>	<u>4,667,262</u>		<u>37,422,552</u>
Total Net Assets - End of Year	<u>\$ 36,946,013</u>	<u>\$ 58,467,391</u>	<u>\$ 164,015,516</u>	<u>\$ 5,539,982</u>		<u>\$ 62,504,544</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					642,788	
Change in net assets of business-type activities					<u>\$ 8,145,186</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, 2006
Exhibit A-10

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 195,335,921	\$ 100,003,267	\$ 22,247,075	\$ 30,820,905	\$ 348,407,168	\$ 233,021,737
Payments to suppliers	(153,888,995)	(85,993,525)	(12,007,832)	(8,064,136)	(259,954,488)	(63,140,735)
Payments to employees	(18,884,854)	(10,641,685)	(3,003,798)	(20,405,154)	(52,935,491)	(17,833,249)
Internal activity - operating payments from other funds	-	2,323,070	-	1,099,290	3,422,360	-
Internal activity - operating payments to other funds	-	-	-	-	-	(369,000)
Other operating payments	-	-	-	(4,913,274)	(4,913,274)	-
Other operating receipts	-	-	-	5,158,175	5,158,175	-
Claims paid	-	-	-	-	-	(120,606,494)
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Net Cash Provided (Used) by Operating Activities	<u>22,564,606</u>	<u>5,966,626</u>	<u>7,876,837</u>	<u>3,695,806</u>	<u>40,103,875</u>	<u>31,273,390</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,127,533	-	9,127,533	-
Operating subsidies and transfers from other funds	-	-	93,255	25,000	118,255	-
Operating subsidies and transfers to other funds	(20,698,760)	(1,586,080)	(9,161,846)	(2,852,800)	(34,299,486)	-
Intergovernmental revenue	-	-	-	-	-	379,442
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(20,698,760)</u>	<u>(1,586,080)</u>	<u>58,942</u>	<u>(2,827,800)</u>	<u>(25,053,698)</u>	<u>379,442</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	15,161,861	-	15,161,861	-
Proceeds from sale of capital assets	-	27,475	-	-	27,475	377,818
Purchases of capital assets	(1,879,544)	(816,198)	(10,239,439)	(290,156)	(13,225,337)	(8,094,482)
Principal paid on capital debt	-	(2,971,618)	(5,610,000)	-	(8,581,618)	-
Interest paid on capital debt	-	(1,095,838)	(1,811,679)	-	(2,907,517)	-
Internal activity - payments from other funds	-	-	-	-	-	1,372,985
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,879,544)</u>	<u>(4,856,179)</u>	<u>(2,499,257)</u>	<u>(290,156)</u>	<u>(9,525,136)</u>	<u>(6,343,679)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	66,119	3,858,381	1,597,383	709,980	6,231,863	5,713,444
Investment income from nonpooled investments	-	26,716	1,726	-	28,442	13,951
Net Cash Provided (Used) by Investing Activities	<u>66,119</u>	<u>3,885,097</u>	<u>1,599,109</u>	<u>709,980</u>	<u>6,260,305</u>	<u>5,727,395</u>
Net Increase (Decrease) in Cash and Cash Equivalents	52,421	3,409,464	7,035,631	1,287,830	11,785,346	31,036,548
Balances - Beginning of Year	9,194,751	71,622,027	21,242,529	16,688,165	118,747,472	91,439,796
Balances - End of Year	<u>\$ 9,247,172</u>	<u>\$ 75,031,491</u>	<u>\$ 28,278,160</u>	<u>\$ 17,975,995</u>	<u>\$ 130,532,818</u>	<u>\$ 122,476,344</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 22,688,136	\$ 3,286,246	\$ (203,750)	\$ 2,990,540	\$ 28,761,172	\$ 17,229,530
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	760,178	2,685,225	7,784,011	69,499	11,298,913	6,336,535
Other revenue	2,534	275,499	641,392	-	919,425	201,131
Changes in assets and liabilities:						
Receivables, net	468,027	121,498	(92,271)	21,053	518,307	(2,514,222)
Inventories, prepaids and other assets	359,109	1,085	1,843	777	362,814	(351,041)
Accounts payable and other liabilities	(1,645,096)	(226,304)	(250,831)	150,688	(1,971,543)	9,816,628
Accrued expenses	(68,282)	(176,623)	(3,557)	463,249	214,787	554,829
Net Cash Provided (Used) by Operating Activities	<u>\$ 22,564,606</u>	<u>\$ 5,966,626</u>	<u>\$ 7,876,837</u>	<u>\$ 3,695,806</u>	<u>\$ 40,103,875</u>	<u>\$ 31,273,390</u>
Noncash investing, capital and financing activities:						
Capital asset disposals	\$ 4,223	\$ -	\$ 1,710,633	\$ -	\$ 1,714,856	\$ 822
Assets acquired through transfers from governmental activities	-	-	1,747,573	-	1,747,573	-
Change in fair value of investments that are not cash equivalents	-	(49,803)	(67,606)	-	(117,409)	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
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	\$ 865,827	\$ 26,991,702	\$ 1,560,266	\$ 56,015,829
Cash	-	-	-	63,513
Investments:				
U.S. Government and agency obligations	232,995,778	-	-	-
Asset-backed securities	64,293,203	-	-	-
Municipal/Provincial bonds	1,254,177	-	-	-
Corporate bonds	290,400,350	-	-	-
Collateralized mortgage obligations	14,495,328	-	-	-
Commercial mortgage-backed securities	17,596,302	-	-	-
Common and preferred stock	1,476,304,775	-	-	-
Mutual and commingled funds	301,787,514	-	-	-
Short-term investments	147,756,147	-	-	-
Cash collateral received under securities lending agreements	336,590,875	-	-	-
Real estate holdings	5,600,193	-	-	-
Alternative investments	44,610,809	-	-	-
Total investments	2,933,685,451	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	8,361,260	-	-	-
Property taxes	-	-	-	6,017,962
Accounts	129,932	-	-	172,164
Due from other funds	7,425,340	-	-	-
Due from component units	367,091	-	-	-
Due from other governments	48,780	-	-	-
Total Current Assets	2,950,883,681	26,991,702	1,560,266	62,269,468
Total Assets	2,950,883,681	26,991,702	1,560,266	\$ 62,269,468
LIABILITIES				
Current Liabilities:				
Accounts payable	339,419,522	-	-	5,758
Accrued liabilities	171,294	-	-	-
Deposits	-	-	-	977,648
Due to other funds	1,842	-	-	-
Due to other governments	-	-	-	5,235,393
Uncollected property taxes due to governments	-	-	-	5,693,476
Undistributed taxes and refunds	-	-	-	20,268,169
Unearned revenue	114,846	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,234,873
Other liabilities	-	-	-	26,854,151
Total Current Liabilities	339,707,504	-	-	62,269,468
Noncurrent Liabilities:				
Compensated absences	36,752	-	-	-
Total Liabilities	339,744,256	-	-	\$ 62,269,468
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	\$ 2,611,139,425	\$ 26,991,702	\$ 1,560,266	

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, 2006
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
ADDITIONS			
Contributions:			
Employers	\$ 97,621,349	\$ -	\$ -
Members	38,507,690	-	1,136,616
Share purchases	-	17,542,580	-
Total Contributions	<u>136,129,039</u>	<u>17,542,580</u>	<u>1,136,616</u>
Investment income	234,753,236	1,175,344	41,530
Less: Investment expenses	20,087,481	-	-
Net Investment Income	<u>214,665,755</u>	<u>1,175,344</u>	<u>41,530</u>
Other income - forfeitures	<u>1,061,073</u>	-	-
Total Additions, net	<u>351,855,867</u>	<u>18,717,924</u>	<u>1,178,146</u>
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	112,210,585	-	-
Survivors	1,483,035	-	-
Disability	12,124,706	-	-
Total Benefits	<u>125,818,326</u>	-	-
Share redemptions	-	16,000,000	-
Member refunds	16,166,442	-	-
Program expenses	-	-	491,631
Return of trust assets	-	-	1,168,740
Administrative expenses	<u>2,163,082</u>	-	-
Total Deductions	<u>144,147,850</u>	<u>16,000,000</u>	<u>1,660,371</u>
Net Increase (Decrease)	207,708,017	2,717,924	(482,225)
Net Assets - Beginning of Year	<u>2,403,431,408</u>	<u>24,273,778</u>	<u>2,042,491</u>
Net Assets - End of Year	<u>\$ 2,611,139,425</u>	<u>\$ 26,991,702</u>	<u>\$ 1,560,266</u>

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 16,012,663	\$ 5,860,673	\$ 21,732,899	\$ 43,606,235
Cash with fiscal agents	-	6,632,229	1,992,133	8,624,362
Cash	6,090,400	17,658	2,504,675	8,612,733
Investments-cash equivalents	21,508,581	57,350,796	10,987,796	89,847,173
Investments	4,718,000	-	49,375,982	54,093,982
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	41,170,427	41,170,427
Accounts	17,178,683	6,431,193	5,978,042	29,587,918
Notes	-	3,434	33,550,000	33,553,434
Mortgages receivable	-	244,114,007	-	244,114,007
Interest	-	5,436,900	-	5,436,900
Other	1,316,633	2,420,340	1,168,303	4,905,276
Due from primary government	59,470,345	736,170	3,956,022	64,162,537
Due from other governments	23,585,642	629,021	4,157,426	28,372,089
Inventory of supplies	8,926,000	434,223	1,827,438	11,187,661
Prepays	125,942	1,244,024	664,729	2,034,695
Deferred charges	-	-	734,856	734,856
Other assets	-	31,023,429	2,764,835	33,788,264
Restricted Assets:				
Cash	-	-	258,811	258,811
Cash with fiscal agents	-	1,005,636	30,866,779	31,872,415
Investments - cash equivalents	-	75,887,782	6,733,961	82,621,743
Investments	-	216,383,100	-	216,383,100
Capital Assets:				
Nondepreciable assets	287,281,569	83,081,812	60,900,721	431,264,102
Depreciable assets, net	1,252,435,749	291,239,899	184,170,929	1,727,846,577
Total Assets	<u>1,698,650,207</u>	<u>1,029,932,326</u>	<u>465,496,764</u>	<u>3,194,079,297</u>
LIABILITIES				
Accounts payable	40,652,738	5,466,362	14,577,514	60,696,614
Interest payable	23,031	15,496,788	1,017,878	16,537,697
Retainage payable	14,283,244	-	1,159,910	15,443,154
Accrued liabilities	61,739,939	4,104,755	555,344	66,400,038
Claims payable	23,919,394	-	-	23,919,394
Deposits	-	7,529,499	13,836	7,543,335
Due to primary government	1,112,910	52,995,416	1,656,218	55,764,544
Due to other governments	-	-	206,622	206,622
Unearned revenue	3,824,932	20,533,899	5,177,232	29,536,063
Other liabilities	-	10,705,999	-	10,705,999
Noncurrent Liabilities:				
Due within one year	24,619,785	70,025,738	5,543,983	100,189,506
Due in more than one year	109,045,770	670,522,668	160,143,558	939,711,996
Total Liabilities	<u>279,221,743</u>	<u>857,381,124</u>	<u>190,052,095</u>	<u>1,326,654,962</u>
NET ASSETS				
Invested in capital, net of related debt	1,514,828,381	57,402,587	211,397,170	1,783,628,138
Restricted for:				
Capital projects	-	-	1,069,895	1,069,895
Debt service	-	36,944,920	4,508,716	41,453,636
Other purposes	1,547,078	3,190,335	17,793,567	22,530,980
Unrestricted (deficit)	(96,946,995)	75,013,360	40,675,321	18,741,686
Total Net Assets	<u>\$ 1,419,428,464</u>	<u>\$ 172,551,202</u>	<u>\$ 275,444,669</u>	<u>\$ 1,867,424,335</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, 2006
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	\$ 3,296,351	\$ 3,060,245	\$ 267,796	\$ -	\$ -	\$ -	\$ 31,690	\$ 31,690
Culture and recreation	14,650,557	13,527,180	-	127,470	-	-	(995,907)	(995,907)
Community development and housing	182,539,606	87,884,426	83,070,936	10,431,854	-	(1,152,390)	-	(1,152,390)
Education:								
Secondary education	1,887,951,249	33,258,786	100,830,453	42,218,202	(1,711,643,808)	-	-	(1,711,643,808)
Higher education	212,513,635	65,802,118	23,307,560	1,028,931	-	-	(122,375,026)	(122,375,026)
Total component units	<u>\$ 2,300,951,398</u>	<u>\$ 203,532,755</u>	<u>\$ 207,476,745</u>	<u>\$ 53,806,457</u>	<u>(1,711,643,808)</u>	<u>(1,152,390)</u>	<u>(123,339,243)</u>	<u>(1,836,135,441)</u>
General revenues:								
Grants and contributions not restricted to specific programs					1,870,006,994	-	135,150,964	2,005,157,958
Investment income					1,383,563	2,449,547	6,603,836	10,436,946
Gain (loss) on sale of capital assets					-	-	33,358	33,358
Total general revenues					<u>1,871,390,557</u>	<u>2,449,547</u>	<u>141,788,158</u>	<u>2,015,628,262</u>
Change in net assets					159,746,749	1,297,157	18,448,915	179,492,821
Net assets - beginning					1,259,681,715	171,254,045	256,995,754	1,687,931,514
Net assets - ending					<u>\$ 1,419,428,464</u>	<u>\$ 172,551,202</u>	<u>\$ 275,444,669</u>	<u>\$ 1,867,424,335</u>

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY

NOTE III – DETAILED NOTES ON ALL FUNDS

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

NOTE IV – OTHER INFORMATION

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) Reporting Entity

Background

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

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

Discretely Presented Component Units

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

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education 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' 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 20707-5902	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 21201-3330

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, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

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

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 account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes. During FY06, the County returned the Strathmore Hall Trust Fund to the Strathmore Hall Foundation, Inc., for the foundation to independently manage and invest, in accordance with the terms of the trust; therefore the Strathmore Hall Private Purpose Trust Fund was closed as of year-end.

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 FY06, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, interest rate swaps, 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, “cash equivalents” are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for “cash and cash equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” and “Restricted Equity in pooled cash and investments.”

2) **Receivables and Payables**

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

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

3) **Inventories and Prepaids**

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

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

4) **Restricted Assets**

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

5) **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

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

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave 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, 2006, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$902,249,062. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$552,573,051.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes \$54,695,044 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$44,593,085 at June 30, 2006, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

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

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

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY06. 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 2005 (i.e., FY06), in conjunction with an enhanced homeowner's tax credit program and a one-time income tax offset credit, met the Charter limit for that year.

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

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

E) Accounting Changes

The County has adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The primary impact of the Statement to the County's financial statements relates to the classification of insurance recoveries from external insurance companies.

The County early adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*, in FY05 (see Note III – H2).

The County has also adopted GASB Statement No. 47, *Accounting for Termination Benefits*, which did not have a significant impact on the County's financial statements.

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 preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

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

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY06, the County Council increased the operating budget through supplemental and special appropriations by \$55.5 million. In addition, supplemental appropriations increased the CIP budget by \$56.9 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.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.

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

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

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	\$ 2,422,600,181	\$ 779,762,532	\$ (1,616,934,628)	\$ 25,903,021
Reconciling items:				
Cancellation of prior year encumbrances	(909,010)	-	-	(909,010)
Elimination of encumbrances outstanding	-	(19,184,118)	-	19,184,118
Unrealized gains (losses)	(2,450,165)	-	-	(2,450,165)
Financing under capital lease	-	1,747,573	1,747,573	-
Financing under notes payable	-	329,459	329,459	-
Conference Center activity	16,291,421	15,782,137	-	509,284
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,263,970	-	(2,263,970)	-
Public agency permits	-	1,099,289	1,099,289	-
Solid waste tipping fees	-	1,484,820	1,484,820	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	601,158	-	(601,158)	-
Component Units - Transfer out	-	1,387,791,173	1,387,791,173	-
As reported - GAAP basis	<u>\$ 2,438,397,555</u>	<u>\$ 2,168,812,865</u>	<u>\$ (227,347,442)</u>	<u>\$ 42,237,248</u>

B) **Deficit Fund Equity**

Capital Projects – The \$33,910,656 unreserved deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets and the planned FY07 issuance of debt to fund that construction.

Central Duplicating - The \$238,827 unrestricted deficit in the Central Duplicating Internal Service Fund results primarily from a revenue shortfall in covering expenses associated with records management/imaging services which started in FY05. Revenue adjustments implemented in FY06 reduced the fund's unrestricted deficit from \$641,914 to \$238,827. While these adjustments were expected to fully recover the deficit, additional adjustments are still required. County actions subsequent to year-end include implementation of a policy requiring substantially all printing services to be performed through Central Duplicating, and implementing future rate adjustments. These additional actions are anticipated to recover the existing unrestricted deficit by the end of FY09.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2006, totaled \$4,351,472,680, of which \$3,815,552,126 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	\$ 803,317,637	\$ 43,606,235	\$ 846,923,872
Cash with fiscal agents	33,197,083	8,624,362	41,821,445
Cash	410,689	8,612,733	9,023,422
Investments - cash equivalents	-	89,847,173	89,847,173
Investments	2,938,632,247	54,093,982	2,992,726,229
Restricted equity in pooled cash and investments	35,523,586	-	35,523,586
Restricted cash with fiscal agents	-	31,872,415	31,872,415
Restricted cash	-	258,811	258,811
Restricted investments - cash equivalents	-	82,621,743	82,621,743
Restricted investments	4,470,884	216,383,100	220,853,984
Total	<u>\$ 3,815,552,126</u>	<u>\$ 535,920,554</u>	<u>\$ 4,351,472,680</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 94,788,890	\$ (1,005,795)	\$ 93,783,095
Investments	3,687,155,464	403,922,453	4,091,077,917
Cash on hand, fiscal agents, safe deposit escrow	33,607,772	133,003,896	166,611,668
Total	<u>\$ 3,815,552,126</u>	<u>\$ 535,920,554</u>	<u>\$ 4,351,472,680</u>

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

Government-wide	\$ 796,369,538
Fiduciary funds	<u>3,019,182,588</u>
Total	<u>\$ 3,815,552,126</u>

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

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

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

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of “2a-7 like.” The fair value of U. S. Government securities, 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 an industry accepted index, 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) is recorded in the General Fund, since this amount is not material.

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

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 803,317,637	\$ 11,465,816	\$ 814,783,453
Restricted equity in pooled cash and investments	35,523,586	-	35,523,586
Total	<u>\$ 838,841,223</u>	<u>\$ 11,465,816</u>	<u>\$ 850,307,039</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 94,788,890	\$ -	\$ 94,788,890
Investments	744,052,333	11,465,816	755,518,149
Total	<u>\$ 838,841,223</u>	<u>\$ 11,465,816</u>	<u>\$ 850,307,039</u>

Deposits:

Custodial Credit Risk

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

Deposits include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end.

Investments:

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

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Rate Range</u>
Repurchase agreements	\$ 146,978,051	\$ 147,000,000	July 06	5.20 %
U. S. Government securities	376,863,040	376,537,530	July 06 - June 08	4.04 - 5.54
Commercial paper	38,801,650	38,500,861	July - August 06	4.97 - 5.31
Bankers' acceptances	163,764,023	162,611,239	July - December 06	4.82 - 5.54
Money market mutual funds	29,111,385	29,111,385	n/a	5.05 - 5.25
Total	<u>\$ 755,518,149</u>	<u>\$ 753,761,015</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2006, the County's investment maturities are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-2</u>
Repurchase agreements	\$ 146,978,051	\$ 146,978,051	\$ -
U. S. Government securities	376,863,040	332,074,872	44,788,168
Commercial paper	38,801,650	38,801,650	-
Bankers' acceptances	163,764,023	163,764,023	-
Money market mutual funds	29,111,385	29,111,385	-
Total	<u>\$ 755,518,149</u>	<u>\$ 710,729,981</u>	<u>\$ 44,788,168</u>

Credit Risk

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

with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

As of June 30, 2006, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Ratings</u>		
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Repurchase agreements ¹	N/R	N/R	N/R
U.S. Government securities ² :			
Agency discounts	A-1+	F1+	P-1
Federal Agricultural Mortgage Corp discount notes	N/R	N/R	N/R
Federal National Mortgage Association mortgage backed securities discount notes	N/R	N/R	N/R
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper ³	A-1	F1	P-1
Bankers' acceptances ⁴	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R-Not Rated

1 Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.

2 Only includes securities implicitly guaranteed by the U.S. Government.

3 Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.

4 While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2006, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

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

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

* At time of purchase

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

As of June 30, 2006, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

<u>Issuer</u>	<u>Fair Value</u>
Bank of America	\$ 71,302,128
Federal Home Loan Bank	139,833,702
Federal Home Loan Mortgage Corp	108,313,564
Federal National Mortgage Association	103,775,575
Morgan Stanley	174,705,689
Wachovia	63,991,800

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2006, are as follows:

Statement of Net Assets
June 30, 2006

Assets:	
Investment in securities, at fair value	\$755,518,149
Cash	94,788,890
Total assets and net assets	<u>\$850,307,039</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$823,315,337
External participants' units outstanding (\$1.00 par)	26,991,702
Net assets	<u>\$850,307,039</u>
Participants net asset value, offering price and redemption price per share (\$850,307,039 / 855,006,071 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Investment Income *	\$ 34,074,524
Distributions to participants:	
Distributions paid and payable	(34,074,524)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$12,460,139,467
Redemption of units	<u>(12,275,159,748)</u>
Net increase in net assets and shares resulting from share transactions	<u>184,979,719</u>
Total increase in net assets	184,979,719
Net assets, July 1, 2005	<u>665,327,320</u>
Net assets, June 30, 2006	<u>\$850,307,039</u>

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

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

Debt Service Fund - Cash with fiscal agents of \$28,817,249 is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds.

Capital Projects Fund – Cash with fiscal agents of \$4,320,358 is held in money market mutual funds and U.S Government securities.

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

4) **Fiduciary Funds**

Employees' Retirement System:

Investment Overview

Section 33-61 of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to purchase investments with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments shall be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County. Investments in real property are limited to a pooled investment arrangement in which the Board has no power or right to manage the real estate property, provided that the pooled arrangement does not invest more than 10 percent of its assets in real property located in the County.

Credit Risk/Concentration of Credit Risk

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

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2006, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$116,952,530	15.21 %
Foreign Government Obligations	AAA	82,287,034	10.70
	AA	16,157,351	2.10
	A	1,991,858	0.26
	BBB	7,493,455	0.97
	BB	7,439,364	0.97
	B	292,125	0.04
	Unrated	382,061	0.05
	Asset-Backed Securities	AAA	22,607,162
A		1,519,518	0.20
B		7,411,314	0.96
CCC		2,447,178	0.32
Unrated		29,641,756	3.85
Commercial Mortgage-Backed Securities	AAA	5,245,121	0.68
	A	2,718,512	0.35
	BBB	7,641,936	0.99
	BB	1,707,005	0.22
	B	283,728	0.04
Collateralized Mortgage Obligations	BBB	515,278	0.07
	BB	5,721,305	0.74
	B	5,857,788	0.76
	CCC	2,400,957	0.31
	Municipal /Provincial Bonds	AA	838,739
A		133,663	0.02
Unrated		281,775	0.04
Corporate Bonds	AAA	11,231,603	1.46
	AA	15,027,048	1.95
	A	29,793,929	3.87
	BBB	26,650,229	3.47
	BB	30,191,753	3.93
	B	56,201,257	7.31
	CCC	10,711,252	1.39
	CC	208,000	0.03
	Unrated	21,313,423	2.77
Fixed Income Pooled Funds	AAA	1,824,431	0.24
	AA	87,913,700	11.43
Short-term Investments and Other	AAA	12,945,472	1.68
	AA	7,906,364	1.03
	BBB	3,017,387	0.39
	BB	10,432,714	1.36
	B	14,445,466	1.88
	NA	99,263,367	12.91
Total Fixed Income Securities		\$769,045,908	100.00 %

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8 percent.

As of June 30, 2006, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	7.3	\$ 116,952,530	15.21 %
Foreign Government Obligations	11.06	116,043,248	15.09
Asset-Backed Securities	9.54	63,626,928	8.27
Commercial Mortgage-Backed Securities	13.91	17,596,302	2.29
Collateralized Mortgage Obligations	16.04	14,495,328	1.88
Municipal /Provincial Bonds	9.88	1,254,177	0.16
Corporate Bonds	5.85	201,328,494	26.18
Fixed Income Pooled Funds	0.03	89,738,131	11.67
Short-term Investments and Other	N/A	148,010,770	19.25
Total Fixed Income Securities		\$ 769,045,908	100.00 %

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Japanese Yen	\$ 83,136,499	\$ 26,487,775	\$ 3,497,985	\$ 113,122,259
British Pound Sterling	52,418,559	13,289,160	10,919,405	76,627,124
European Currency Unit	101,060,891	36,242,935	(92,156,543)	45,147,283
Swiss Franc	20,121,433	-	9,114,517	29,235,950
Australian Dollar	3,496,303	-	3,977,009	7,473,312
Hong Kong Dollar	21,862,860	-	-	21,862,860
Swedish Krona	5,080,777	21,765,318	(18,984,138)	7,861,957
Canadian Dollar	2,653,337	19,392,650	(10,350,599)	11,695,388
Chinese Yuan Renminbi	-	-	13,104,458	13,104,458
Thai Baht	4,172,714	-	-	4,172,714
Other Currencies	19,096,123	5,115,268	586,458	24,797,849
Total International Securities	\$313,099,496	\$122,293,106	\$ (80,291,448)	\$ 355,101,154

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY06, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchanged-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are specifically prohibited from purchasing securities on margin or leverage. The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with fair values of approximately \$354,579,000 are held for investment purposes and included within the financial statements at June 30, 2006. Gains and losses on futures and options are determined based upon fair market values and recorded in the Statements of Changes in Plan Net Assets.

Interest rate swaps and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2006, the System had approximately \$11,165,000 negative net exposure in interest rate swaps and \$61,876,000 negative net exposure in forward foreign currency exchange contracts.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2006, the fair value of securities on loan was \$348,649,181. Cash received as collateral and the related liability of \$336,590,875 as of June 30, 2006, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$12,706,126 and \$12,089,748, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2006:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 85,095,468	\$ -	\$ 86,540,889
Foreign Government Obligations	15,508,692	-	15,987,460
Corporate Bonds	49,566,798	-	50,368,911
Equities	179,902,319	-	183,693,615
Lent for Non-Cash Collateral:			
U.S. Government Obligations	4,989,819	5,073,665	-
Corporate Bonds	5,590,013	5,681,162	-
Equities	7,996,072	8,180,718	-
Total	<u>\$348,649,181</u>	<u>\$ 18,935,545</u>	<u>\$ 336,590,875</u>

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2006, the fair value of the mutual and commingled investment funds was \$88,570,836. The fair value of the investments in international mutual funds was \$3,110,779.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2006, the fair value of the mutual and commingled investment funds was \$212,366,121. The fair value of the investments in international mutual funds included in the County Plan was \$15,957,962.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2006, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

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

Credit Risk

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

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

Custodial Risk

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

At June 30, 2006, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year		
<u>Cash Equivalents:</u>				
General Fund:				
Repurchase Agreement	\$ 6,197,732	\$	6,197,732	
Money Market Accounts	6,215,963		6,215,963	
U. S. Treasury Bills	7,028,404		7,028,404	
Opportunity Housing Fund:				
Investment in County External Investment Pool	5,860,674		5,860,674	
Investment in MLGIP	466,221		466,221	
Money Market Accounts	20,894,284		20,894,284	
Public Fund:				
Investment in MLGIP	4,911,957		4,911,957	
Money Market Accounts	8,522,196		8,522,196	
Multi-Family Fund - Money Market Accounts	30,400,235		30,400,235	
Single Family Fund - Money Market Accounts	44,059,000		44,059,000	
Total	<u>\$ 134,556,666</u>	<u>\$</u>	<u>134,556,666</u>	
<u>Short-term Investments:</u>				
Opportunity Housing Fund-U. S.				
Treasury Money Market	87,524		87,524	
Multi-Family Fund - GNMA Pool	436,055		436,055	
Single Family Fund:				
TransAmerica	540,292		540,292	
Society General Repurchase Agreement	14,415,762		14,415,762	
Federal Home Loan Banks	49,128,625		49,128,625	
Total	<u>\$ 64,608,258</u>	<u>\$</u>	<u>64,608,258</u>	
Long-Term Investments	Fair Value	1-5 years	Long-Term	Rating
<u>Long-term Investments:</u>				
Multi-Family Fund:				
Bank One Investment Agreement	\$ 591,525	\$ -	\$ 591,525	AA/Aa2
Freddie Mac	3,852,439	1,046,948	2,805,491	AAA
Fannie Mae	3,526,514	-	3,526,514	AAA
GNMA Pool	73,961,265	-	73,961,265	AAA
SSB Repurchase Agreement	2,602,247	-	2,602,247	AAA
Societe Generale/GIC	2,993,410	2,993,410	-	AAA
U. S. Treasury Bond	5,179,041	204,930	4,974,111	AAA
Single Family Fund:				
Federal Farm Credit Banks	10,794,804	-	10,794,804	AAA
Federal Home Loan Banks	3,107,736	755,361	2,352,375	AAA
Fannie Mae	1,455,808	-	1,455,808	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	AA1, AA-
Trinity Plus Investment Agreement	30,539,384	30,539,384	-	AAA
U. S. Treasury Bond	10,824,869	-	10,824,869	AAA
Total	<u>151,774,842</u>	<u>35,540,033</u>	<u>116,234,809</u>	
Cash balances	<u>844,666</u>			
Total Cash, Cash Equivalents and Investments	<u>\$ 351,784,432</u>			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2006, reported in the enterprise funds, amounted to:

Liquor	\$ 567,785
Solid Waste Activities	48,162
Parking Lot Districts	1,892,552
	<u>\$ 2,508,499</u>

2) Due from/to Component Units

The balances at June 30, 2006, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ 985,642	\$ 1,575,000	\$ -	\$ 1,378,741	\$ -	\$ 3,939,383
Capital Projects	-	-	-	13,584,187	-	13,584,187
Solid Waste Activities Enterprise	66,666	561	-	612	-	67,839
Nonmajor governmental	-	-	-	36,762,896	-	36,762,896
Major Enterprise	-	-	-	276,380	-	276,380
Internal Service	60,602	6,424	45,288	643,849	10,605	766,768
Fiduciary	-	-	18,340	348,751	-	367,091
Total Due to Primary Government	<u>\$ 1,112,910</u>	<u>\$ 1,581,985</u>	<u>\$ 63,628</u>	<u>\$ 52,995,416</u>	<u>\$ 10,605</u>	<u>\$ 55,764,544</u>

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 42,226,323	\$ 79,762	\$ -	\$ 493,116	\$ -	\$ 42,799,201
Capital Projects	15,022,557	3,858,264	-	110,426	-	18,991,247
Nonmajor governmental	1,399,772	-	-	132,628	17,996	1,550,396
Nonmajor Enterprise	609,201	-	-	-	-	609,201
Internal Service	212,492	-	-	-	-	212,492
Total Due from Primary Government	<u>\$ 59,470,345</u>	<u>\$ 3,938,026</u>	<u>\$ -</u>	<u>\$ 736,170</u>	<u>\$ 17,996</u>	<u>\$ 64,162,537</u>

In the nonmajor governmental funds, \$28,132,326 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 FY06, approximately \$800,000 in loans to HOC was forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2006, was comprised of the following:

	<u>General</u>	<u>Capital Projects</u>	<u>Solid Waste Activities</u>	<u>Nonmajor Governmental</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
Federal government	\$ 231,177	\$ 38,016	\$ 1,609	\$ 15,750,945	\$ 216,485	\$ -	\$ 16,238,232
State of Maryland	23,175,249	6,825,039	7,683	6,499,087	19,624	39,320	36,566,002
Other	231,168	733,169	156,323	184,000	28,215	9,460	1,342,335
Total	<u>\$ 23,637,594</u>	<u>\$ 7,596,224</u>	<u>\$ 165,615</u>	<u>\$ 22,434,032</u>	<u>\$ 264,324</u>	<u>\$ 48,780</u>	<u>\$ 54,146,569</u>

C) **Capital Assets**

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 505,709,119	\$ 38,570,869	\$ -	\$ 544,279,988
Construction in progress	126,992,324	106,685,125	87,329,767	146,347,682
Total Nondepreciable Capital Assets	<u>632,701,443</u>	<u>145,255,994</u>	<u>87,329,767</u>	<u>690,627,670</u>
Depreciable Capital Assets:				
Buildings	680,488,005	27,924,343	-	708,412,348
Improvements other than buildings*	42,596,928	1,752,342	-	44,349,270
Furniture, fixtures, equipment and machinery	210,322,126	6,143,777	667,098	215,798,805
Leasehold improvements	8,590,288	3,482,285	-	12,072,573
Automobiles and trucks	159,933,085	28,284,565	5,909,025	182,308,625
Infrastructure*	1,445,518,325	52,284,383	-	1,497,802,708
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	<u>2,549,528,488</u>	<u>119,871,695</u>	<u>6,576,123</u>	<u>2,662,824,060</u>
Less Accumulated Depreciation for:				
Buildings*	211,827,488	14,249,407	-	226,076,895
Improvements other than buildings*	13,423,128	970,130	-	14,393,258
Furniture, fixtures, equipment and machinery	72,085,005	21,224,902	657,460	92,652,447
Leasehold improvements	715,496	591,295	-	1,306,791
Automobiles and trucks	80,668,533	12,824,484	4,728,872	88,764,145
Infrastructure	344,450,499	42,047,880	965,794	385,532,585
Other assets	1,075,632	207,973	-	1,283,605
Total Accumulated Depreciation	<u>724,245,781</u>	<u>92,116,071</u>	<u>6,352,126</u>	<u>810,009,726</u>
Total Depreciable Assets, net	<u>1,825,282,707</u>	<u>27,755,624</u>	<u>223,997</u>	<u>1,852,814,334</u>
Governmental Activities Capital Assets, net	<u>\$ 2,457,984,150</u>	<u>\$ 173,011,618</u>	<u>\$ 87,553,764</u>	<u>\$ 2,543,442,004</u>
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 52,777,663	\$ -	\$ -	\$ 52,777,663
Construction in progress	12,280,316	14,013,370	21,753,772	4,539,914
Total Nondepreciable Capital Assets	<u>65,057,979</u>	<u>14,013,370</u>	<u>21,753,772</u>	<u>57,317,577</u>
Depreciable Capital Assets:				
Buildings	197,071,955	14,983,209	2,512,630	209,542,534
Improvements other than buildings	112,265,538	6,499,370	1,799,439	116,965,469
Furniture, fixtures, equipment and machinery	18,149,518	953,593	269,666	18,833,445
Automobiles and trucks	3,630,134	277,140	-	3,907,274
Total Capital Assets being Depreciated	<u>331,117,145</u>	<u>22,713,312</u>	<u>4,581,735</u>	<u>349,248,722</u>
Less Accumulated Depreciation for:				
Buildings*	69,348,331	6,735,801	2,249,163	73,834,969
Improvements other than buildings*	91,605,413	2,923,615	352,273	94,176,755
Furniture, fixtures, equipment and machinery*	11,699,582	1,397,797	265,443	12,831,936
Automobiles and trucks*	2,658,172	241,700	-	2,899,872
Total Accumulated Depreciation	<u>175,311,498</u>	<u>11,298,913</u>	<u>2,866,879</u>	<u>183,743,532</u>
Total Depreciable Assets, net	<u>155,805,647</u>	<u>11,414,399</u>	<u>1,714,856</u>	<u>165,505,190</u>
Business-Type Activities Capital Assets, net	<u>\$ 220,863,626</u>	<u>\$ 25,427,769</u>	<u>\$ 23,468,628</u>	<u>\$ 222,822,767</u>

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

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

Governmental activities:	
General government	\$ 10,595,343
Public safety	25,471,950
Public works and transportation	45,419,723
Health and human services	1,845,128
Culture and recreation	7,112,557
Community development and housing	1,463,178
Environment	208,192
Total depreciation expense-governmental activities	<u>\$ 92,116,071</u>
Business-type activities:	
Liquor	\$ 760,178
Solid waste activities	2,685,225
Parking lot districts	7,784,011
Permitting services	67,545
Community use of public facilities	1,954
Total depreciation expense-business-type activities	<u>\$ 11,298,913</u>

Construction commitments as of June 30, 2006, are as follows:

General government	\$ 11,564,902
Public safety	13,915,198
Public works and transportation	52,159,641
Culture and recreation	6,703,749
Community development and housing	7,527,217
Environment	1,930,674
Total	<u>\$ 93,801,381</u>

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,539,717,318 at June 30, 2006, are significant in relation to the total component unit capital assets.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 67,645,248	\$ 321,621	\$ -	\$ 67,966,869
Construction in progress	127,906,464	195,686,219	104,277,983	219,314,700
Total nondepreciable capital assets	<u>195,551,712</u>	<u>196,007,840</u>	<u>104,277,983</u>	<u>287,281,569</u>
Depreciable capital assets:				
Buildings and improvements	1,562,325,730	99,040,636	1,462,834	1,659,903,532
Land improvements	119,857,989	11,539,648	-	131,397,637
Machinery and equipment	126,695,235	13,825,279	4,886,756	135,633,758
Total depreciable capital assets	<u>1,808,878,954</u>	<u>124,405,563</u>	<u>6,349,590</u>	<u>1,926,934,927</u>
Less accumulated depreciation for:				
Buildings and improvements	539,202,071	37,828,897	1,462,834	575,568,134
Land improvements	24,979,991	2,902,194	-	27,882,185
Machinery and equipment	71,652,555	9,897,294	4,854,466	76,695,383
Total accumulated depreciation	<u>635,834,617</u>	<u>50,628,385</u>	<u>6,317,300</u>	<u>680,145,702</u>
Total depreciable capital assets, net	<u>1,173,044,337</u>	<u>73,777,178</u>	<u>32,290</u>	<u>1,246,789,225</u>
Government activities capital assets, net	<u>\$ 1,368,596,049</u>	<u>\$ 269,785,018</u>	<u>\$ 104,310,273</u>	<u>1,534,070,794</u>
Business-Type Activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Machinery and equipment	18,378,009	891,908	51,422	19,218,495
Total depreciable capital assets	<u>18,395,840</u>	<u>891,908</u>	<u>51,422</u>	<u>19,236,326</u>
Less accumulated depreciation for:				
Buildings	9,807	1,783	-	11,590
Machinery and equipment	12,602,123	1,027,511	51,422	13,578,212
Total accumulated depreciation	<u>12,611,930</u>	<u>1,029,294</u>	<u>51,422</u>	<u>13,589,802</u>
Business-type activities capital assets, net	<u>\$ 5,783,910</u>	<u>\$ (137,386)</u>	<u>\$ -</u>	<u>5,646,524</u>
Total MCPS government-wide capital assets				<u>\$ 1,539,717,318</u>

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

Governmental activities:	
Regular instruction	\$ 41,887,016
Special education	293,521
School administration	43,217
Student personnel services	4,670
Student transportation	6,578,637
Operation of plant	161,316
Maintenance of plant	650,001
Administration	<u>1,010,007</u>
Total depreciation expense-governmental activities	<u>\$ 50,628,385</u>
Business-type activities:	
Food services	\$ 1,008,244
Adult education and summer entrepreneurial	17,660
Real estate management	<u>3,390</u>
Total depreciation expense-business type activities	<u>\$ 1,029,294</u>

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2006, is as follows:

	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
<u>Due To Fund</u>						
General	\$ -	\$ 1,241	\$ -	\$ 3,425,623	\$ 4,848,703	\$ 8,275,567
Debt Service	27,619,265	-	1,152,039	-	-	28,771,304
Capital Projects	51,894,530	-	1,937,534	76,384	78,476	53,986,924
Liquor	-	1,606	-	153,431	129,203	284,240
Solid Waste Activities	-	-	-	52,164	65,162	117,326
Parking Lot Districts	-	2,133	-	18,397	18,232	38,762
Nonmajor Governmental	-	250	-	1,368,099	1,956,487	3,324,836
Nonmajor Enterprise	-	-	-	142,308	210,377	352,685
Internal Service	-	-	-	132,622	118,075	250,697
Fiduciary	-	-	-	1,217	625	1,842
Total	<u>\$ 79,513,795</u>	<u>\$ 5,230</u>	<u>\$ 3,089,573</u>	<u>\$ 5,370,245</u>	<u>\$ 7,425,340</u>	<u>\$ 95,404,183</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY07:

- \$11.6 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes; and
- \$28.8 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.

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, 2006, consisted of the following:

	Transfers In Fund							Total
	General	Debt Service	Capital Projects	Parking Lot Districts	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
Transfers Out Fund								
General	\$ -	\$ 195,435,109	\$ 49,879,690	\$ 1,840,828	\$ 18,657,868	\$ 25,000	\$ 1,053,172	\$ 266,891,667
Debt Service	-	-	4,719,842	-	-	-	-	4,719,842
Capital Projects	-	814,828	-	-	-	-	-	814,828
Liquor	20,698,760	-	-	-	-	-	-	20,698,760
Solid Waste Activities	1,582,840	-	-	-	-	-	3,240	1,586,080
Parking Lot Districts	400,370	-	29,419	-	8,732,057	-	-	9,161,846
Nonmajor Governmental	10,184,850	20,920,057	4,862,709	-	340,549	-	316,573	36,624,738
Nonmajor Enterprise	2,852,800	-	-	-	-	-	-	2,852,800
Total	<u>\$ 35,719,620</u>	<u>\$ 217,169,994</u>	<u>\$ 59,491,660</u>	<u>\$ 1,840,828</u>	<u>\$ 27,730,474</u>	<u>\$ 25,000</u>	<u>\$ 1,372,985</u>	<u>\$ 343,350,561</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 \$8,229,560 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Transfers at the government-wide financial statement level include \$1,747,573 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as capital contributions in the SSPLD, and expenditures and an other financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

E) **Leases**

1) **Operating Leases**

The County leases 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 \$12,430,000 for FY06. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2007	\$ 14,793,000
2008	13,325,000
2009	12,447,000
2010	10,755,000
2011	8,495,000
2012 - 2016	<u>17,236,000</u>
Total	<u><u>\$77,051,000</u></u>

2) **Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F6), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	<u>Shady Grove</u>	<u>Grosvenor</u>	<u>Total</u>
Minimum lease payments receivable	\$ 29,946,515	\$29,447,951	\$ 59,394,466
Unearned lease income	<u>(9,879,344)</u>	<u>(9,725,122)</u>	<u>(19,604,466)</u>
Net investment in direct financing leases	<u><u>\$ 20,067,171</u></u>	<u><u>\$19,722,829</u></u>	<u><u>\$ 39,790,000</u></u>

At June 30, 2006, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2007	\$ 3,294,214
2008	3,292,339
2009	3,295,276
2010	3,294,214
2011	3,292,008
Later years	<u>42,926,415</u>
Total minimum lease payments	<u><u>\$ 59,394,466</u></u>

3) **Capital Lease Obligations**

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

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

Land	\$ 13,449,033
Land improvements	997,516
Buildings	53,783,180
Furniture, fixtures, equipment and machinery	<u>159,291</u>
Subtotal	68,389,020
Less accumulated depreciation	<u>(16,270,131)</u>
Total asset value under capital leases	<u><u>\$ 52,118,889</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	
2007	\$ 5,597,097
2008	5,577,714
2009	5,194,454
2010	5,203,800
2011	4,859,932
2012-2016	19,223,592
2017-2021	11,125,090
2022-2023	<u>1,990,900</u>
Total minimum lease payments	58,772,579
Less: amount representing interest	<u>(16,047,579)</u>
Present value of minimum lease payments	<u><u>\$ 42,725,000</u></u>

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

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

The assets acquired through this capital lease are as follows:

	<u>Town Square</u>	<u>Wayne Avenue</u>	<u>Total</u>
Buildings	\$29,422,571	\$ 28,907,554	\$58,330,125
Less accumulated depreciation	(1,735,864)	(1,899,217)	(3,635,081)
Total asset value under capital leases	<u>\$27,686,707</u>	<u>\$ 27,008,337</u>	<u>\$54,695,044</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	<u>Town Square</u>	<u>Wayne Ave</u>	<u>Total</u>
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	2,476,851	3,113,475	5,590,326
2011	2,470,554	3,073,775	5,544,329
2012-2016	12,278,107	15,514,255	27,792,362
2017	2,442,178	3,094,144	5,536,322
Total minimum lease payments	27,113,331	34,356,900	61,470,231
Less: amount representing interest	(5,393,331)	(7,801,900)	(13,195,231)
Present value of minimum lease payments	<u>\$ 21,720,000</u>	<u>\$ 26,555,000</u>	<u>\$ 48,275,000</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.

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, 2006, \$74,250,000, and \$29,750,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2006, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium **	Unamortized		Carrying Value June 30, 2006
						Deferred Difference		
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 67,148,054	\$ -	\$ -	\$ -	\$ 67,148,054
03/15/96	1997-16	5.1 - 5.5	120,000,000	6,000,000	-	-	-	6,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	11,500,000	-	-	-	11,500,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	67,795,000	-	-	-	67,795,000
04/01/98	1999-18	4.875	115,000,000	17,250,000	-	-	-	17,250,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	30,000,000	-	-	-	30,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	32,500,000	-	-	-	32,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	49,000,000	-	-	-	49,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	132,705,000	5,369,709	(6,878,813)		131,195,896
02/01/02	2003-22	3.0 - 5.0	160,000,000	72,000,000	1,601,018	-		73,601,018
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	91,250,000	4,968,502	(3,756,078)		92,462,424
05/01/03	2004-23	1.5 - 4.0	155,000,000	131,750,000	1,007,207	-		132,757,207
05/01/03*	2004-11	2.0 - 5.0	49,505,000	37,805,000	1,875,740	(848,932)		38,831,808
03/15/04	2005-24	3.0 - 5.0	154,600,000	139,140,000	8,513,565	-		147,653,565
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	5,662,450	(6,932,395)		96,420,055
05/15/05	2006-25	4.0 - 5.0	200,000,000	190,000,000	13,080,031	-		203,080,031
06/01/05*	2005-16	3.781	120,355,000	120,355,000	13,051,509	(10,714,003)		122,692,506
05/01/06	2006-17	3.871	100,000,000	100,000,000	5,291,362	-		105,291,362
Total			<u>\$ 2,359,668,054</u>	<u>\$ 1,393,888,054</u>	<u>\$ 60,421,093</u>	<u>\$ (29,130,221)</u>		<u>\$ 1,425,178,926</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 FY06 are as follows:

	Balance July 1, 2005	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2006
Governmental Activities:					
General County	\$ 234,378,971	\$ 16,500,000	\$ 18,485,645	\$ -	\$ 232,393,326
Roads and Storm Drainage	356,423,586	20,000,000	32,426,787	-	343,996,799
Parks	53,218,967	3,500,000	4,080,101	-	52,638,866
Public Schools	679,651,179	50,000,000	58,389,165	-	671,262,014
Community College	53,903,576	6,000,000	3,555,394	-	56,348,182
Consolidated Fire Tax District	21,433,328	4,000,000	1,773,004	-	23,660,324
Mass Transit	15,291,272	-	2,311,956	-	12,979,316
Public Housing	850,663	-	246,330	-	604,333
	<u>1,415,151,542</u>	<u>100,000,000</u>	<u>121,268,382</u>	<u>-</u>	<u>1,393,883,160</u>
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	56,512	-	51,618	-	4,894
	<u>56,512</u>	<u>-</u>	<u>51,618</u>	<u>-</u>	<u>4,894</u>
Total	<u>\$ 1,415,208,054</u>	<u>\$ 100,000,000</u>	<u>\$ 121,320,000</u>	<u>\$ -</u>	<u>\$ 1,393,888,054</u>

For the general obligation bonds carried in the enterprise funds, \$4,894 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
2007	\$ 131,210,000	\$ 64,370,628	\$ 195,580,628
2008	130,940,000	58,163,590	189,103,590
2009	109,786,683	64,498,882	174,285,565
2010	108,387,086	55,284,454	163,671,540
2011	105,244,285	45,109,205	150,353,490
2012-2016	456,805,000	140,096,652	596,901,652
2017-2021	265,125,000	50,874,936	315,999,936
2022-2026	86,390,000	8,161,288	94,551,288
Total	<u>\$ 1,393,888,054</u>	<u>\$ 486,559,635</u>	<u>\$1,880,447,689</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2006, is \$5,612,611,278.

General obligation bonds authorized and unissued as of June 30, 2006, are as follows:

Purpose	Authority			Amount Unissued
	Chapter	Act	Amount	
General County, Parks, and Consolidated Fire Tax District	17	2001	\$ 35,200,000	\$ 7,290,000
	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
			<u>178,800,000</u>	<u>150,890,000</u>
Roads and Storm Drainage	18	2004	97,500,000	86,440,000
	19	2005	53,500,000	53,500,000
			<u>151,000,000</u>	<u>139,940,000</u>
Public Schools and Community College	18	2004	145,000,000	100,168,000
	19	2005	131,100,000	131,100,000
			<u>276,100,000</u>	<u>231,268,000</u>
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			<u>9,200,000</u>	<u>7,705,000</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>\$634,045,000</u>	<u>\$ 543,503,000</u>

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

2) **Variable Rate Demand Obligations**

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

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

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

VRDOs outstanding as of June 30, 2006, are as follows:

<u>Dated</u> <u>Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally</u> <u>Issued</u>	<u>Balance</u> <u>June 30, 2006</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>

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

Changes in VRDOs during FY06 are as follows:

	Balance July 1, 2005	VRDOs Issued	VRDOs Retired	Balance June 30, 2006
Governmental Activities:				
General County	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000
Roads and Storm Drainage	-	26,000,000	-	26,000,000
Parks	-	1,000,000	-	1,000,000
Public Schools	-	64,000,000	-	64,000,000
Community College	-	4,000,000	-	4,000,000
Consolidated Fire Tax District	-	2,100,000	-	2,100,000
Mass Transit	-	400,000	-	400,000
Total	\$ -	\$ 100,000,000	\$ -	\$ 100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2007	\$ -	\$ 4,020,000	\$ 4,020,000
2008	-	4,020,000	4,020,000
2009	-	4,020,000	4,020,000
2010	-	4,020,000	4,020,000
2011	-	4,020,000	4,020,000
2012-2016	-	20,100,000	20,100,000
2017-2021	50,000,000	16,080,000	66,080,000
2022-2026	50,000,000	6,030,000	56,030,000
Total	\$ 100,000,000	\$ 62,310,000	\$ 162,310,000

* Includes interest on VRDOs at estimated rates of 4.05 percent for Series A and 3.99 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to 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, 2006, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2006
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	\$ 14,560,000	\$ 5,535,000	\$ 54,686	\$ (113,234)	\$ 5,476,452
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	3,870,000	44,528	(74,690)	3,839,838
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	21,955,000	(18,116)	-	21,936,884
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	22,765,000	759,560	(831,559)	22,693,001
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	16,495,000	132,244	-	16,627,244
Total				\$ 100,260,000	\$ 70,620,000	\$ 972,902	\$ (1,019,483)	\$ 70,573,419

Changes in revenue bond principal during FY06 are as follows:

	Balance July 1, 2005	Bonds Issued	Bonds Retired	Balance June 30, 2006
Bethesda Parking Lot District	\$ 30,920,000	\$ 16,495,000	\$ 3,430,000	\$ 43,985,000
Silver Spring Parking Lot District	6,050,000	-	2,180,000	3,870,000
Solid Waste Disposal	25,685,000	-	2,920,000	22,765,000
Total	\$ 62,655,000	\$ 16,495,000	\$ 8,530,000	\$ 70,620,000

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
2007	\$ 3,550,000	\$ 1,848,185	\$ 2,265,000	\$ 173,438
2008	3,175,000	1,709,435	780,000	60,188
2009	3,340,000	1,566,585	825,000	30,938
2010	1,840,000	1,429,335	-	-
2011	1,915,000	1,355,235	-	-
2012-2016	10,910,000	5,508,836	-	-
2017-2021	13,625,000	2,947,173	-	-
2022-2026	5,630,000	602,635	-	-
Total	\$43,985,000	\$ 16,967,419	\$ 3,870,000	\$ 264,564

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2007	\$ 3,005,000	\$ 1,004,700	\$ 8,820,000	\$ 3,026,323	\$ 11,846,323
2008	3,160,000	854,450	7,115,000	2,624,073	9,739,073
2009	3,255,000	751,750	7,420,000	2,349,273	9,769,273
2010	3,420,000	589,000	5,260,000	2,018,335	7,278,335
2011	3,550,000	460,750	5,465,000	1,815,985	7,280,985
2012-2016	6,375,000	453,000	17,285,000	5,961,836	23,246,836
2017-2021	-	-	13,625,000	2,947,173	16,572,173
2022-2026	-	-	5,630,000	602,635	6,232,635
Total	\$22,765,000	\$ 4,113,650	\$ 70,620,000	\$ 21,345,633	\$ 91,965,633

Revenue bonds authorized and unissued as of June 30, 2006, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			\$143,098,000	\$ 40,848,000

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

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,126,622	\$ 1,209,224	\$ -
Debt Service Account - Used to pay debt service on bonds	449,849	203,203	-
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	1,180,443	-	3,290,441
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,958,398
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,802,740
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	3,773,550
Total	<u>\$ 4,256,914</u>	<u>\$ 2,912,427</u>	<u>\$ 32,825,129</u>

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

4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY06 are as follows:

	Balance July 1, 2005	BANs Issued	BANs Retired	Balance June 30, 2006
BAN Series 2002-G	\$ -	\$ 150,000,000	\$ 150,000,000	\$ -
BAN Series 2002-H	-	50,000,000	50,000,000	-
BAN Series 2002-I	-	100,000,000	-	100,000,000
Total	<u>\$ -</u>	<u>\$ 300,000,000</u>	<u>\$ 200,000,000</u>	<u>\$ 100,000,000</u>

BAN Notes, Series 2002-G and Series 2002-H totaling \$200,000,000 were retired with proceeds from general obligation bonds and variable rate demand obligations. On May 23, 2006, the County retired \$100,000,000 of Series 2002-G BANS and on June 7, 2006, the remaining \$100,000,000 balance, \$50,000,000 of Series 2002-G and \$50,000,000 of Series 2002-H, was retired.

The interest rate changes based on market conditions. During FY06, the rate of interest varied from 2.25 to 3.65 percent. Interest earned on BAN proceeds totaled \$2,941,977 during FY06, which was accounted for in the Debt Service Fund.

BANs totaling \$300 million were issued during FY06 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, and July 26, 2005, 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 FY07, and intends to use the proceeds for capital construction and improvements. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2005, with Fortis Bank S.A./N.V., acting through its Connecticut branch, under which the County may borrow, on a revolving basis, up to \$300 million to pay the principal on the notes, and up to \$22,191,781 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, Resolution No. 15-318 dated July 29, 2003, Resolution No. 15-729 dated July 27, 2004 and Resolution No. 15-1124 dated July 26, 2005, the amount of BANs authorized and unissued as of June 30, 2006, is \$433,103,000.

5) **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 represented 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 required the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County paid the entire price necessary to acquire the equipment, which was 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 was dependent upon sufficient funds being appropriated each year by the County Council for such purpose. The County could terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation was available if sufficient funds were not appropriated for any fiscal year. The County Council was under no obligation to make any appropriation with respect to the CPA. The CPA was not a general obligation of the County and did 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. During FY06, the County made the final purchase installments due under the CPA.

6) **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 of \$3,346,319, included in Capital Projects Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

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

Lease Revenue Bonds outstanding as of June 30, 2006, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2006	Unamortized Premium	Carrying Value June 30, 2006
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 35,375,000	\$ 112,494	\$ 35,487,494
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,415,000	22,158	4,437,158
Total				\$ 42,625,000	\$ 39,790,000	\$ 134,652	\$ 39,924,652

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2007	\$ 1,535,000	\$ 1,759,214	\$ 3,294,214
2008	1,585,000	1,707,339	3,292,339
2009	1,645,000	1,650,276	3,295,276
2010	1,705,000	1,589,214	3,294,214
2011	1,770,000	1,522,008	3,292,008
2012-2016	10,055,000	6,457,045	16,512,045
2017-2021	12,595,000	4,043,635	16,638,635
2022-2024	8,900,000	875,735	9,775,735
Total	\$ 39,790,000	\$19,604,466	\$59,394,466

7) **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 were 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. In January 2006, the loan was paid in full.

8) **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. On November 15, 2005, the County borrowed an additional \$95,432 for conference center furniture which was combined with the first term loan above. All other terms of the first term loan remain unchanged. The principal amount payable at June 30, 2006, under the taxable term loans is \$3,370,684.

9) **HUD Loan**

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of \$870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of \$870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2006, for this loan is \$784,000.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Governmental Activities					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,415,151,542	\$ 100,000,000	\$ (121,268,382)	\$ 1,393,883,160	\$ 131,270,553
Variable rate demand obligations	-	100,000,000	-	100,000,000	-
Bond anticipation notes	-	300,000,000	(200,000,000)	100,000,000	100,000,000
Lease revenue bonds	41,275,000	-	(1,485,000)	39,790,000	1,535,000
State MICRF loan	1,198,385	-	(1,198,385)	-	-
Equipment notes	6,432,429	5,111,945	(1,718,639)	9,825,735	2,619,417
Taxable term loans	4,315,715	95,432	(1,040,463)	3,370,684	1,084,775
HUD loan	827,000	-	(43,000)	784,000	43,000
Subtotal	1,469,200,071	505,207,377	(326,753,869)	1,647,653,579	236,552,745
Add remaining original issue premium	62,619,258	5,456,700	(7,520,213)	60,555,745	-
Less deferred amount on refundings	(33,247,968)	-	4,117,747	(29,130,221)	-
Total Bonds and Notes Payable	1,498,571,361	510,664,077	(330,156,335)	1,679,079,103	236,552,745
Other Liabilities:					
Certificates of participation	9,780,000	-	(9,780,000)	-	-
Compensated absences	51,333,184	41,619,430	(37,678,467)	55,274,147	41,455,610
Capital leases	83,969,583	10,127,260	(7,010,000)	87,086,843	7,270,000
Claims and judgments	1,200,000	-	(1,200,000)	-	-
Total Other Liabilities	146,282,767	51,746,690	(55,668,467)	142,360,990	48,725,610
Governmental Activities Long-Term Liabilities	\$ 1,644,854,128	\$ 562,410,767	\$ (385,824,802)	\$ 1,821,440,093	\$ 285,278,355
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	\$ 56,512	\$ -	\$ (51,618)	\$ 4,894	\$ 2,447
Revenue Bonds:					
Parking revenue bonds	36,970,000	16,495,000	(5,610,000)	47,855,000	5,815,000
Solid waste disposal revenue refunding bonds	25,685,000	-	(2,920,000)	22,765,000	3,005,000
Subtotal	62,711,512	16,495,000	(8,581,618)	70,624,894	8,822,447
Add remaining original issue premium	1,167,019	134,075	(310,076)	991,018	-
Less remaining original issue discount	(20,278)	-	2,162	(18,116)	-
Less deferred amount on refundings	(1,424,878)	-	405,395	(1,019,483)	-
Total General Obligation and Revenue Bonds	62,433,375	16,629,075	(8,484,137)	70,578,313	8,822,447
Other Liabilities:					
Compensated absences	3,925,357	133,790	(3,651)	4,055,496	3,041,622
Landfill closure costs	22,108,523	1,076,000	(1,033,600)	22,150,923	1,082,000
Total Other Liabilities	26,033,880	1,209,790	(1,037,251)	26,206,419	4,123,622
Business-Type Activities Long-Term Liabilities	\$ 88,467,255	\$ 17,838,865	\$ (9,521,388)	\$ 96,784,732	\$ 12,946,069

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, \$1,384,524 (\$1,038,393 due within one year and \$346,131 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, 2006, there were 41 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 24 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2006, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$189,350,000. The principal amount payable at June 30, 2006, for bonds issued after July 1, 1996, totaled \$331,041,701.

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 requested that the County issue additional bonds in exchange for the Junior Series 2002B bonds. The additional bonds, which were issued in FY05, are on a parity with the Series 2002A bonds (i.e., they are senior lien bonds) and have the same terms and conditions as the Series 2002B bonds.

The County was petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark (currently marketed as Greenway Village). These districts are in the evaluation phase.

COMPONENT UNITS

At June 30, 2006, HOC’s noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 65,672,365	\$527,991,796	\$ 593,664,161
Capital leases payable	76,160	20,264,223	20,340,383
Notes payable	4,277,213	122,266,649	126,543,862
Total	<u>\$ 70,025,738</u>	<u>\$670,522,668</u>	<u>\$ 740,548,406</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	\$ 354,377,125
Single Family Mortgage Purchase Program Fund	239,287,036
Total	<u>\$ 593,664,161</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.15 to 11.25 percent and 1.35 to 8.5 percent, respectively, as of June 30, 2006.

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:

Fiscal Ending	<u>Guaranteed Revenue Bond Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 290,000	\$ 560,043	\$ 850,043
2008	300,000	548,670	848,670
2009	310,000	536,647	846,647
2010	325,000	523,987	848,987
2011	340,000	510,490	850,490
2012-2016	1,515,000	2,314,969	3,829,969
2017-2021	2,880,000	2,091,075	4,971,075
2022-2026	-	1,443,075	1,443,075
2027-2031	5,430,000	959,753	6,389,753
Total	<u>\$ 11,390,000</u>	<u>\$ 9,488,709</u>	<u>\$ 20,878,709</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
2007	\$ 65,672,365	\$ 21,588,771	\$ 87,261,136
2008	10,898,381	19,857,144	30,755,525
2009	11,994,355	19,607,331	31,601,686
2010	42,771,089	19,320,373	62,091,462
2011	12,791,640	19,017,574	31,809,214
2012-2016	62,841,820	89,990,234	152,832,054
2017-2021	63,286,306	83,428,900	146,715,206
2022-2026	62,699,402	76,665,941	139,365,343
2027-2031	113,029,589	56,508,818	169,538,407
2032-2036	100,094,911	22,340,463	122,435,374
2037-2041	22,785,000	9,208,917	31,993,917
2042-2046	18,165,000	5,008,790	23,173,790
2047-2049	9,030,000	95,520	9,125,520
Unamortized Bond Discount	(2,395,697)	-	(2,395,697)
Total	<u>\$ 593,664,161</u>	<u>\$ 442,638,776</u>	<u>\$ 1,036,302,937</u>

Changes in the HOC revenue bonds during FY06 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2005	Issued*	Retired	June 30, 2006
Multi-Family Mortgage Purchase Program Fund	\$ 393,065,386	\$ 50,226,739	\$ 88,915,000	\$ 354,377,125
Single Family Mortgage Purchase Program Fund	217,428,100	90,364,068	68,505,132	239,287,036
Total	<u>\$ 610,493,486</u>	<u>\$ 140,590,807</u>	<u>\$ 157,420,132</u>	<u>\$ 593,664,161</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, 2005	\$ 293,994,000
Issuances during the year	38,000,000
Redemptions during the year	(325,000)
Bonds outstanding, June 30, 2006	<u>\$ 331,669,000</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. Summary financial information for each activity as of and for the year ended June 30, 2006, is presented below:

Condensed Statements of Net Assets

	<u>Solid Waste Disposal *</u>	<u>Silver Spring PLD</u>	<u>Bethesda PLD</u>
ASSETS			
Current assets	\$ 46,392,645	\$ 3,766,568	\$ 19,160,175
Due from component units	67,839	-	276,380
Other assets	33,237,326	2,964,382	4,911,774
Capital assets	31,153,067	91,546,963	83,132,952
Total Assets	<u>110,850,877</u>	<u>98,277,913</u>	<u>107,481,281</u>
LIABILITIES			
Current liabilities	12,811,711	4,016,546	5,301,884
Due to other funds	108,204	14,837	21,241
Long-term liabilities	40,897,301	1,607,462	40,519,251
Total Liabilities	<u>53,817,216</u>	<u>5,638,845</u>	<u>45,842,376</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,455,172	87,707,125	39,092,372
Restricted for debt service	32,825,129	2,912,427	4,256,914
Unrestricted	15,753,360	2,019,516	18,289,619
Total Net Assets	<u>\$ 57,033,661</u>	<u>\$ 92,639,068</u>	<u>\$ 61,638,905</u>

* Includes Solid Waste Leafing

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

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	\$ 96,361,017	\$ 6,577,895	\$ 8,360,068
Licenses and permits	10,025	-	-
Fines and penalties	36,553	1,893,556	4,273,736
Total Operating Revenues (pledged against bonds)	<u>96,407,595</u>	<u>8,471,451</u>	<u>12,633,804</u>
Depreciation	2,680,609	3,857,494	3,558,326
Other operating expenses	90,819,590	7,753,608	5,959,821
Operating Income (Loss)	<u>2,907,396</u>	<u>(3,139,651)</u>	<u>3,115,657</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	4,750,157	3,867,618
Gain (loss) on disposal of capital assets	27,475	-	(1,710,633)
Investment income	3,855,506	321,468	1,051,184
Interest expense	(1,169,691)	(306,166)	(2,048,819)
Other revenue	275,499	26,287	615,105
Capital contributions	-	1,747,573	-
Transfers in	-	93,255	-
Transfers out	(1,451,660)	(1,954,690)	(5,962,113)
Change in Net Assets	<u>4,444,525</u>	<u>1,538,233</u>	<u>(1,072,001)</u>
Beginning Net Assets	52,589,136	91,100,835	62,710,906
Ending Net Assets	<u>\$ 57,033,661</u>	<u>\$ 92,639,068</u>	<u>\$ 61,638,905</u>

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 5,557,909	\$ 1,312,833	\$ 6,415,681
Noncapital financing activities	(1,451,660)	2,490,677	(1,760,426)
Capital and related financing activities	(4,836,303)	(4,827,222)	2,588,508
Investing activities	3,780,270	321,468	1,118,790
Net Increase (Decrease)	<u>3,050,216</u>	<u>(702,244)</u>	<u>8,362,553</u>
Beginning Cash and Cash Equivalents	70,051,836	5,211,266	12,586,159
Ending Cash and Cash Equivalents	<u>\$ 73,102,052</u>	<u>\$ 4,509,022</u>	<u>\$ 20,948,712</u>

* Includes Solid Waste Leafing

H) **Fund Equity**

1) **Designated Fund Balances**

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2006:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$107,008,263	\$ 10,355,078	\$ 117,363,341
Designated for transfers to Capital Projects Fund	48,295,900	7,151,371	55,447,271
Total	<u>\$155,304,163</u>	<u>\$ 17,506,449</u>	<u>\$ 172,810,612</u>

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

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total</u>
Encumbrances *	\$ 317,524	\$ 93,801,382	\$11,542,932	\$105,661,838
Next year's budget	-	-	112,840	112,840
Transfers to Capital Projects Fund	-	-	2,470,831	2,470,831
Total	<u>\$ 317,524</u>	<u>\$ 93,801,382</u>	<u>\$14,126,603</u>	<u>\$108,245,509</u>

* Encumbrances relating to special revenue funds include \$9,682,498 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

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

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

Governmental activities	\$ 327,870,726
Business-type activities	<u>40,492,068</u>
Total	<u>\$ 368,362,794</u>

I) **Significant Transactions with Discretely Presented Component Units**

1) **Operating and Capital Funding**

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2006:

	General Fund			Capital Projects	Total
	Operating	Capital *	Total		
MCPS	\$1,284,278,185	\$ 14,175,738	\$1,298,453,923	\$ 201,777,377	\$1,500,231,300
MCC	78,948,374	5,496,162	84,444,536	11,071,957	95,516,493
HOC	4,332,612	310,102	4,642,714	-	4,642,714
Total	<u>\$1,367,559,171</u>	<u>\$ 19,982,002</u>	<u>\$1,387,541,173</u>	<u>\$ 212,849,334</u>	<u>\$1,600,390,507</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 \$2,861,772 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) **Risk Management**

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

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

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO's), are offered to participants.

WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY06 and FY05 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2004	\$64,206,000	\$ 11,470,902
Claims and changes in estimates	27,205,036	101,891,704
Claim payments *	<u>(20,524,036)</u>	<u>(103,886,103)</u>
Balance June 30, 2005	70,887,000	9,476,503
Claims and changes in estimates	29,159,586	115,374,182
Claim payments *	<u>(20,336,586)</u>	<u>(115,583,400)</u>
Balance June 30, 2006 **	<u>\$79,710,000</u>	<u>\$ 9,267,285</u>

* Includes non-monetary settlements.

** Includes incurred but not reported claims of \$45,146,000 and \$9,267,285, 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 \$55,117,000, which has been fully accrued through June 30, 2006. Of the total amount accrued, \$31,932,477 in actual costs has been paid out in prior years, and \$1,033,600 was paid in FY06, resulting in a net liability of \$22,150,923 at June 30, 2006. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,082,000 and \$21,068,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) 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 \$15,066,000. In accordance with general accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on none of the 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, 2006, 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, 2006, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
<u>Major Funds:</u>				
Liquor	\$ 3,922,936	\$ -	\$ 8,160,162	\$ 12,083,098
<u>Solid Waste Activities:</u>				
Disposal operations	5,013,175	240,000	-	5,253,175
Collection operations	16,530	-	-	16,530
Leafing operations	3,775	-	-	3,775
<u>Parking Lot Districts:</u>				
Silver Spring	537,197	2,727,498	-	3,264,695
Bethesda	558,937	4,308,814	-	4,867,751
Wheaton	165,762	163,513	-	329,275
Montgomery Hills	12,832	-	-	12,832
Subtotal	<u>10,231,144</u>	<u>7,439,825</u>	<u>8,160,162</u>	<u>25,831,131</u>
<u>Nonmajor Funds:</u>				
Permitting Services	125,405	-	-	125,405
Subtotal	<u>125,405</u>	<u>-</u>	<u>-</u>	<u>125,405</u>
Total Enterprise Funds	<u>10,356,549</u>	<u>7,439,825</u>	<u>8,160,162</u>	<u>25,956,536</u>
<u>Internal Service Funds:</u>				
Motor Pool	3,042,690	-	6,241,028	9,283,718
Central Duplicating	166,622	-	-	166,622
Liability and Property Coverage Self-Insurance	177,785	-	-	177,785
Employee Health Benefits Self-Insurance	436,553	-	-	436,553
Total Internal Service Funds	<u>3,823,650</u>	<u>-</u>	<u>6,241,028</u>	<u>10,064,678</u>
Total Proprietary Funds	<u>\$ 14,180,199</u>	<u>\$ 7,439,825</u>	<u>\$ 14,401,190</u>	<u>\$ 36,021,214</u>

As of June 30, 2006, the County has \$2,445,000 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 September 28, 2006, HOC issued \$36,350,000 of bonds guaranteed by the full faith and credit of the County to build public housing. On October 19, 2006, the County entered into an arrangement with Banc of America Public Capital Corporation to finance the construction of a temperature-controlled liquor warehouse for the County's Department of Liquor Control. The term of this financing arrangement is for eight years, and total proceeds were \$10,615,000. On October 27, 2006, the County issued \$20,000,000 in variable rate Economic Development Revenue Bonds (conduit debt obligations) on behalf of the Heights School. The bonds constitute conduit debt obligations of the County (see Note III-F11). On November 16, 2006, the County issued commercial paper bond anticipation notes (BANS) amounting to \$150,000,000. On November 28, 2006, the County Council approved legislation to increase the level of authorized general obligation bond principal by an additional \$315,800,000.

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, 2006, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$146,142,578, of which \$13,042,133 was self-supporting. Of the total amount payable, \$14,121,640 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, 2006, is \$38,111,743, 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, 2006, WSSC had outstanding notes payable and bonds payable in the amount of \$1,430,566,000, of which \$1,427,911,000 was self-supporting. Of the total amount payable, \$243,563,000 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, 2006, 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 \$89,688 to WSTC during FY06. The FY06 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 Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY06, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 38,243,052
Rail operating subsidy	25,326,581
Americans with Disabilities Act service	13,516,946
Metrobus and Metrorail capital replacement	35,683,426
Debt service on WMATA revenue bonds	4,867,500
Local bus program	27,898,724
Total	<u>\$145,536,229</u>

At June 30, 2006, WMATA had outstanding debt of \$203,481,000, of which \$23,865,000 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 work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY06 membership dues and fees for services amounting to \$673,097.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Frederick 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, 2006, NEMWDA had outstanding bonds payable in the amount of \$259,590,000 of which \$21,130,000 represented debt due within one year. Of these amounts, \$236,785,000 related to the Project, \$16,440,000 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 FY06 amounted to \$40,216,143.

E) Employee Benefits

1) Deferred Compensation

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

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

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

2) Annual, Sick Leave, and Other Compensated Absences

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

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY06, the County and its employees contributed \$71,517,683 and \$19,432,169, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$357,006, \$2,718,065, and \$47,437 for these component units, respectively, for FY06.

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, 4,493 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 \$21,587,860 for FY06; retired employee contributions were \$10,684,500.

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 \$1,086,848 in FY06 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 446 recipients comprising former volunteers and their beneficiaries at the end of FY06.

F) **Pension Plan Obligations**

1) **Defined Benefit Pension Plan**

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

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. 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.

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 FY06 were based on an actuarial valuation as of June 30, 2004, 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 FY06 were as follows:

Fiscal Year	APC	Percentage of APC	
		Contributed	NPO
2004	\$ 61,927,029	100 %	\$ -
2005	74,655,371	100	-
2006	88,184,159	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. The employer also contributes an additional .10 percent of regular earnings to defray expenses of the Plan. 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 FY06 were \$10,237,190 and \$5,860,277, respectively. In accordance with IRS 457 regulations and the County Code, \$800,000 in accumulated revenue was used to reduce employer contributions to \$9,437,190 for FY06.

3) **Other**

The County contributed \$808,129 during FY06 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.

INDEX

I N D E X

<u>Fund Titles</u>	<u>Page</u>			
	<u>Statements/Schedules</u>			
	<u>Balance Sheet/ Net Assets</u>	<u>Changes in Net Assets</u>	<u>Cash Flows</u>	<u>Budgetary</u>
Montgomery County, Maryland - Primary Government:				
Agricultural Transfer Tax Special Revenue	120	121	-	-
Cable TV Special Revenue	113	115	-	135
Capital Projects	28	30	-	123
Central Duplicating Internal Service	150	151	152	-
Community Use of Public Facilities Enterprise	142	143	144	145
Court Appointed Guardians Private Purpose Trust	157	158	-	-
Debt Service	28	30	-	122
Deferred Compensation POEB * Trust	155	156	-	-
Drug Enforcement Forfeitures Special Revenue	120	121	-	138
Economic Development Special Revenue	112	114	-	134
Employee Health Benefits Self-Insurance Internal Service	150	151	152	153
Employees' Retirement Saving Plan POEB * Trust	155	156	-	-
Employees' Retirement System POEB * Trust	155	156	-	-
Fire Tax District Special Revenue	116	117	-	125
General	28	30	-	32
Grants Special Revenue	113	115	-	136
Housing Initiative Special Revenue	118	119	-	130
HOC Treasury Bonds Permanent	113	115	-	-
Investment Trust	39	40	-	-
Liability and Property Coverage Self-Insurance Internal Service	150	151	152	153
Liquor Enterprise	36	37	38	145
Mass Transit Facilities Special Revenue	116	117	-	126
Miscellaneous Agency	159	-	-	-
Motor Pool Internal Service	150	151	152	-
New Home Warranty Security Special Revenue	118	119	-	132
Noise Abatement Districts Special Revenue	116	117	-	129
Parking Lot Districts Enterprise	36	37	38	147
Permitting Services Enterprise	142	143	144	145
Private Contributions Private Purpose Trust	157	158	-	-
Property Tax Agency	159	-	-	-

(Continued)

I N D E X, Concluded

<u>Fund Titles</u>	<u>Page</u>			
	<u>Statements/Schedules</u>			
	<u>Balance Sheet/ Net Assets</u>	<u>Changes in Net Assets</u>	<u>Cash Flows</u>	<u>Budgetary</u>
Recreation Activities Agency	159	-	-	-
Recreation Special Revenue	116	117	-	124
Rehabilitation Loan Special Revenue	118	119	-	131
Restricted Donations Special Revenue	120	121	-	140
Revenue Stabilization Special Revenue	112	114	-	133
Solid Waste Activities Enterprise	36	37	38	146
Strathmore Hall Private Purpose Trust	-	158	-	-
Tri-centennial Private Purpose Trust	157	158	-	-
Urban Districts Special Revenue	116	117	-	127
Water Quality Protection Special Revenue	120	121	-	139
Component Units:				
Bethesda Urban Partnership, Inc.	162	163	-	-
Housing Opportunities Commission of Montgomery County	41	42	-	-
Montgomery Community College	162	163	-	-
Montgomery County Public Schools	41	42	-	-
Montgomery County Revenue Authority	162	163	-	-

* POEB = Pension and Other Employee Benefit