

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2007

July 1, 2006 - June 30, 2007
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2007
July 1, 2006 - June 30, 2007

Montgomery County, Maryland
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2007
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FINANCIAL SECTION



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
of Montgomery County, Maryland:

We have audited the accompanying 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, 2007, 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 opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2007, 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.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 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 introductory section, combining and individual fund financial statements and supplementary schedules listed as supplementary data, and statistical section, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 7, 2007

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.

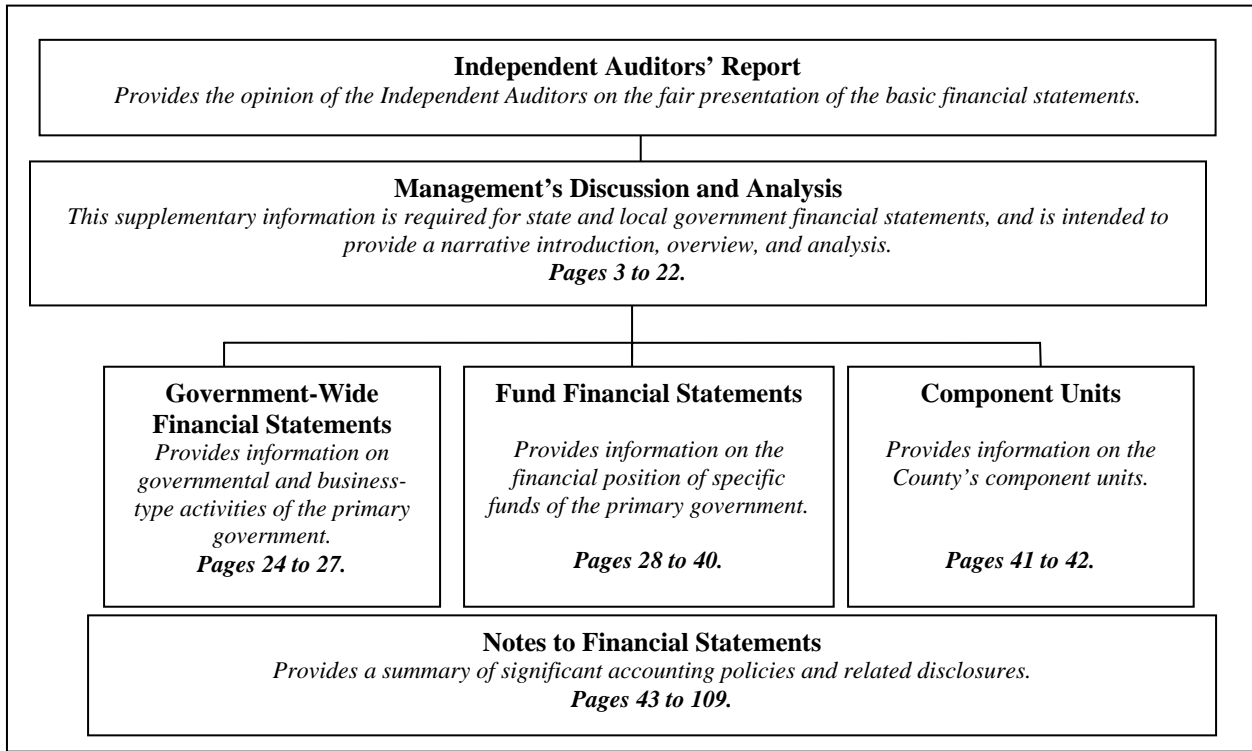
FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY07 by \$2,164.6 million. That amount is net of a \$348.4 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 \$1,109.7 million at June 30, 2007. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$761.3 million.
- The County's total government-wide net assets increased by \$218.1 million.
- As of the close of FY07, the County's governmental funds reported combined ending fund balances of \$789.9 million, an increase of \$183.8 million over the prior year's ending fund balances. Of the total ending fund balances, \$515.5 million is available for spending at the County's discretion.
- At the end of FY07, unreserved fund balance for the General Fund was \$309 million, or 13.1 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$185.9 million during FY07. The key factors in this increase are:
 - The issuance of: \$250 million in general obligation (GO) bonds, \$300 million in bond anticipation notes (BANS), and \$12.1 million in capital leases.
 - The retirement of: \$131.2 million in GO bonds, \$250 million in BANS, and \$7.9 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, 2007 and 2006:

Summary of Net Assets *						
June 30, 2007 and 2006						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 1,630,704,598	\$ 1,304,315,737	\$ 185,718,501	\$ 173,615,035	\$ 1,816,423,099	\$ 1,477,930,772
Capital assets, net	2,627,754,382	2,543,442,004	224,091,918	222,822,767	2,851,846,300	2,766,264,771
Total Assets	4,258,458,980	3,847,757,741	409,810,419	396,437,802	4,668,269,399	4,244,195,543
Liabilities:						
Long-term liabilities outstanding	2,000,934,120	1,821,440,093	103,188,517	96,784,732	2,104,122,637	1,918,224,825
Other liabilities	359,501,357	343,543,337	40,022,123	35,920,200	399,523,480	379,463,537
Total Liabilities	2,360,435,477	2,164,983,430	143,210,640	132,704,932	2,503,646,117	2,297,688,362
Net assets:						
Invested in capital assets, net of related debt	1,880,672,363	1,769,233,330	160,807,324	152,244,454	1,999,920,988	1,876,884,699
Restricted	440,714,792	338,811,955	72,370,254	80,486,538	513,085,046	419,298,493
Unrestricted (deficit)	(423,363,652)	(425,270,974)	33,422,201	31,001,878	(348,382,752)	(349,676,011)
Total Net Assets	\$ 1,898,023,503	\$ 1,682,774,311	\$ 266,599,779	\$ 263,732,870	\$ 2,164,623,282	\$ 1,946,507,181
* Primary Government						

The County's current and other assets increased by \$338.5 million or 22.9 percent over FY06. The County's assets exceeded its liabilities at the close of FY07 by \$2,164.6 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 \$41.6 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 \$1,109.7 million at June 30, 2007. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$761.4 million. An additional portion of the County's net assets (\$513.1 million or 24 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$119.6 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets increased by \$218.1 million for FY07 or 11.2 percent over FY06. This growth largely reflects general revenue increases in both property and county income taxes. These revenues have outstripped similar increases in ongoing expenses.

Statement of Activities

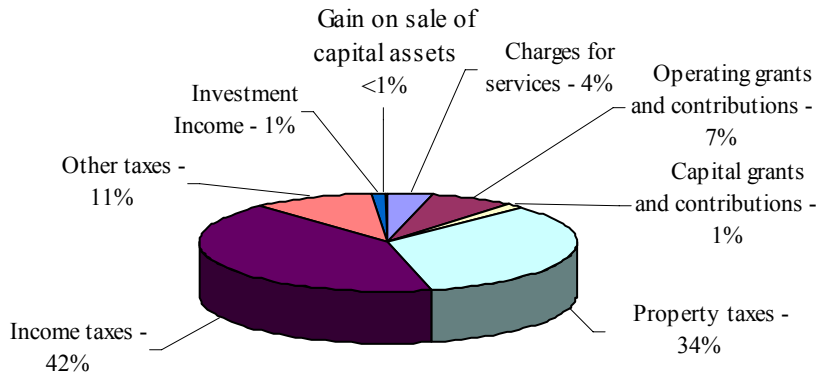
The following table summarizes the County's change in net assets for the years ended June 30, 2007 and 2006:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2007 and 2006						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program Revenues:						
Charges for services	\$ 134,172,562	\$ 142,122,486	\$ 360,435,582	\$ 348,690,179	\$ 494,608,144	\$ 490,812,665
Operating grants and contributions	231,568,832	222,187,806	11,135	-	231,579,967	222,187,806
Capital grants and contributions	51,450,977	44,270,838	-	-	51,450,977	44,270,838
General revenues:						
Property taxes	1,126,632,925	1,064,737,107	9,562,592	9,199,581	1,136,195,517	1,073,936,688
Income taxes	1,388,927,139	1,117,543,440	-	-	1,388,927,139	1,117,543,440
Other taxes	352,310,153	420,485,598	-	-	352,310,153	420,485,598
Investment income	42,003,532	29,769,889	8,339,098	6,267,935	50,342,630	36,037,824
Gain on sale of capital assets	6,209,594	5,187,736	34,637	-	6,244,231	5,187,736
Total Revenues	<u>3,333,275,714</u>	<u>3,046,304,900</u>	<u>378,383,044</u>	<u>364,157,695</u>	<u>3,711,658,758</u>	<u>3,410,462,595</u>
EXPENSES						
Governmental Activities:						
General government	274,005,357	257,586,189	-	-	274,005,357	257,586,189
Public safety	529,748,046	473,624,268	-	-	529,748,046	473,624,268
Public works and transportation	210,395,916	192,228,591	-	-	210,395,916	192,228,591
Health and human services	252,066,273	235,394,838	-	-	252,066,273	235,394,838
Culture and recreation	103,765,006	93,460,648	-	-	103,765,006	93,460,648
Community development and housing	18,213,040	19,280,438	-	-	18,213,040	19,280,438
Environment	12,962,711	9,157,156	-	-	12,962,711	9,157,156
Education	1,669,681,121	1,595,747,791	-	-	1,669,681,121	1,595,747,791
Interest on long-term debt	81,262,618	73,675,523	-	-	81,262,618	73,675,523
Business-type Activities:						
Liquor control	-	-	180,243,618	168,325,049	180,243,618	168,325,049
Solid waste activities	-	-	103,455,706	99,911,970	103,455,706	99,911,970
Parking lot districts	-	-	26,622,097	26,568,228	26,622,097	26,568,228
Permitting services	-	-	23,463,486	21,962,821	23,463,486	21,962,821
Community use of public facilities	-	-	7,657,662	6,810,783	7,657,662	6,810,783
Total Expenses	<u>3,152,100,088</u>	<u>2,950,155,442</u>	<u>341,442,569</u>	<u>323,578,851</u>	<u>3,493,542,657</u>	<u>3,273,734,293</u>
Increase in Net Assets Before Transfers	181,175,626	96,149,458	36,940,475	40,578,844	218,116,101	136,728,302
Transfers	34,073,566	32,433,658	(34,073,566)	(32,433,658)	-	-
Increase in Net Assets	215,249,192	128,583,116	2,866,909	8,145,186	218,116,101	136,728,302
Net Assets, beginning of year	1,682,774,311	1,554,191,195	263,732,870	255,587,684	1,946,507,181	1,809,778,879
Net Assets, end of year	<u>\$ 1,898,023,503</u>	<u>\$ 1,682,774,311</u>	<u>\$ 266,599,779</u>	<u>\$ 263,732,870</u>	<u>\$ 2,164,623,282</u>	<u>\$ 1,946,507,181</u>
* Primary Government						

Governmental Activities

Revenues for the County's governmental activities were \$3,333.3 million for FY07. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2007**

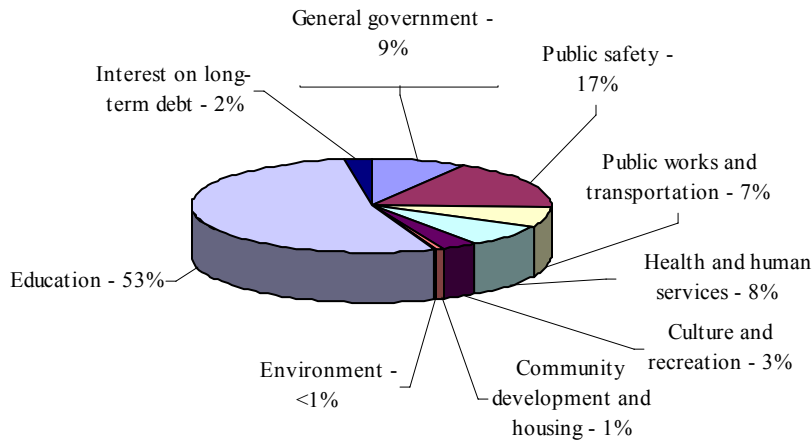


- Taxes constitute the largest source of County revenues, amounting to \$2,867.9 million for FY07. Property and local income tax combined comprise 75.5 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2007 and 2006. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$113.5 million or 49 percent), public works and transportation (\$65.8 million or 28.4 percent) and public safety (\$32.7 million or 14.1 percent).

A more detailed discussion of the County's revenue results for FY07 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 FY07 was \$3,152.1 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.7 billion. Public safety expenses totaled \$529.7 million, general government services totaled \$274 million, and health and human services, the fourth largest expense for the County, totaled \$252.1 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2007**



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, 2007 and 2006							
	Expenses		Revenues		Net Cost of Services		
	2007	2006	2007	2006	2007	2006	
Education	\$ 1,669,681,121	\$ 1,595,747,791	\$ -	\$ -	\$ 1,669,681,121	\$ 1,595,747,791	
Public safety	529,748,046	473,624,268	60,750,807	59,085,387	468,997,239	414,538,881	
General government	274,005,357	257,586,189	67,933,964	80,005,768	206,071,393	177,580,421	
Health and human services	252,066,273	235,394,838	117,352,426	104,579,161	134,713,847	130,815,677	
Public works and transportation	210,395,916	192,228,591	113,815,429	108,418,998	96,580,487	83,809,593	
Culture and recreation	103,765,006	93,460,648	42,982,703	37,427,297	60,782,303	56,033,351	
Other	112,438,369	102,113,117	14,357,042	19,064,519	98,081,327	83,048,598	
Total	\$ 3,152,100,088	\$ 2,950,155,442	\$ 417,192,371	\$ 408,581,130	\$ 2,734,907,717	\$ 2,541,574,312	

Of the total cost of governmental activities of \$3,152.1 million, \$417.2 million was paid by those who directly benefited from the programs (\$134.2 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$283 million). Of the \$2,734.9 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,867.9 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 revenue and expenses compared to last year are:

- General government includes:
 - \$2.5 million expenses for the first full year of operation of the Office of Consumer Protection, formerly part of the Department of Housing and Community Affairs;
 - \$3.8 million increase in expenses incurred for enhancement of the voting facilities and voting registration process;
 - \$221 million increase in County income tax due to low unemployment and increase in total payroll employment;

- \$62 million decrease in recordation tax due to the slow down in home sales; and
- \$0.4 million received for the first two months of operation for the Speed Camera program
- Public safety includes:
 - \$1.2 million in implementation of the Speed Camera program to ensure the safety of county residents; and
 - \$22 million in implementation of phase one of 4-person staffing on fire apparatus and the enhancement of fire services to five fire stations to improve effectiveness and responsiveness.
- Transportation includes:
 - Additional \$5.5 million for the replacement of new compressed natural gas, diesel and Ride-On buses.

In FY07 federal expenditures decreased by less than one percent or \$1 million from FY06. Although there were substantial decreases and increases in different portions of the Schedule of Federal Awards, the net effect on the total was very small.

- Department of Agriculture - In FY07, reimbursements for expenditures in programs financed by this federal agency decreased by 19% or \$0.8 million. Most of the decrease can be traced to the program financed by the "Food Stamps Administration" portion of the State House Bill 669. Last fiscal year, this program showed reimbursements in the amount of \$3.7 million, whereas this fiscal year that amount dropped to \$3.1 million.
- Department of Housing and Urban Development - Reimbursements for allowable expenditures from this federal agency increased this period by 10% or \$2.5 million. Federal financing for housing activities in the County come from two main grants: Home Investment Partnership and the Community Development Block Grant. Housing activities in the County this period continued to mirror the population growth, which has steadily increased during the last decade. Therefore, operating expenditures in housing programs grew at 10% as well as the balance of outstanding housing loans, which increased from \$17.2 million to \$18.8 million.
- Department of Transportation - In FY07, County programs financed by this federal agency increased by 17% or \$1.3 million in spite of a lesser number of buses purchased by the County with federal dollars. The main reason for the higher expenditures was higher activities in capital projects. In FY07, the County started the construction of the new Silver Spring Transit Center and during the period received reimbursements for expenditures in the amount of \$4.8 million. Expenditures in the construction of this transit center will continue to increase for several years to total over \$70 million.
- Department of Health and Human Services - Expenditures financed by this federal agency decreased by 11% or \$6.1 million during FY07. All of this drop in reimbursements can be traced to the HB-669, through which the County receives funding from the State of Maryland to finance the Health and Human Services available to County residents. In FY06, the County received \$38.6 million whereas in FY07 that amount dropped to \$31.1 million. Hopefully, this decrease is not a harbinger of future funding levels from the State as a result of its budget deficit adjustments.
- Department of Homeland Security - In FY07, expenditures in programs financed by this federal agency increased by 29% or \$2.3 million. The increment can be traced to a one-time reimbursement in the amount of \$1.4 million received by the County for expenditures incurred as a result of floods in CY05. In addition, the Fire and Rescue Services Department received \$2.6 million reimbursement for the purchase of a vehicle equipped with the latest technology to be used in case of an urban terrorist incident.

Business-type Activities

Highlights of the County’s business-type activities for FY07 are as follows:

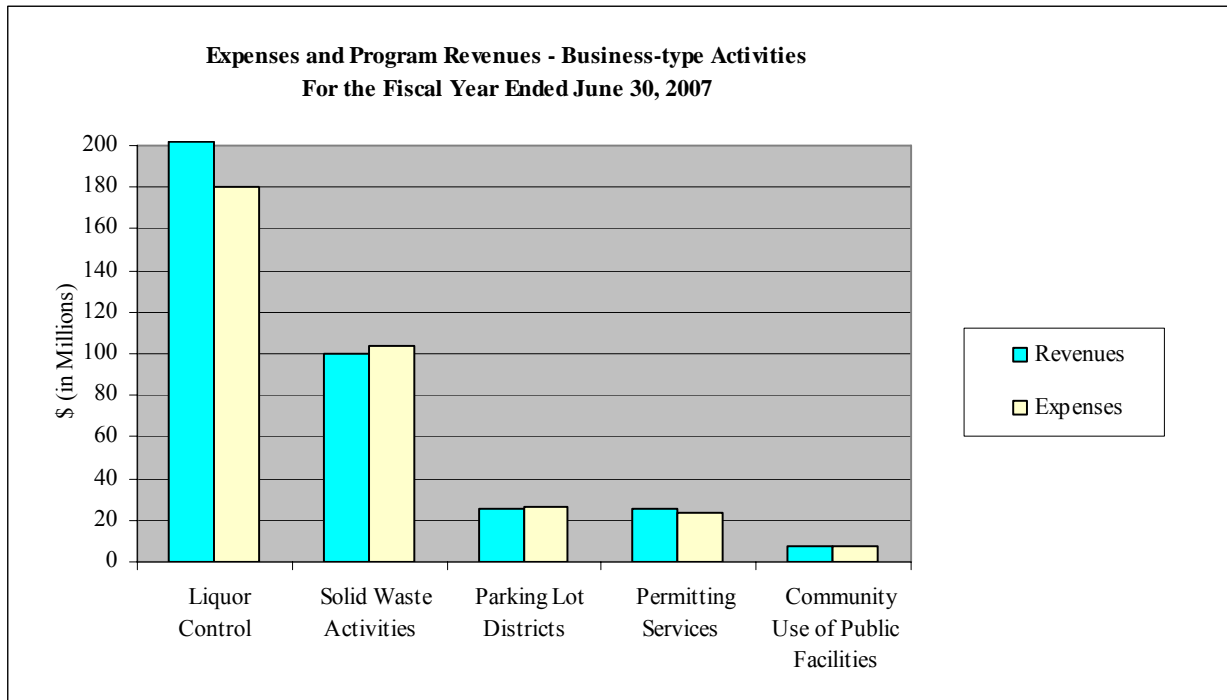
- Business-type activities experienced an increase in net assets of \$2.9 million for FY07. However, this amount is reported after total net transfers out of \$34.1 million. The most significant components of this amount include:
 - \$0.8 million in transfers in from the General Fund to the Silver Spring Parking Lot District, representing the value of donated assets in the form of leased parking garages; netted against
 - \$8.4 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
 - \$22.1 million in FY07 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 95.3 percent of revenues, with \$201.7 million (56 percent of charges for services revenue) attributable to liquor control operations and \$100 million (27.7 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 \$9.6 million is the second largest source of revenue at only 2.5 percent.

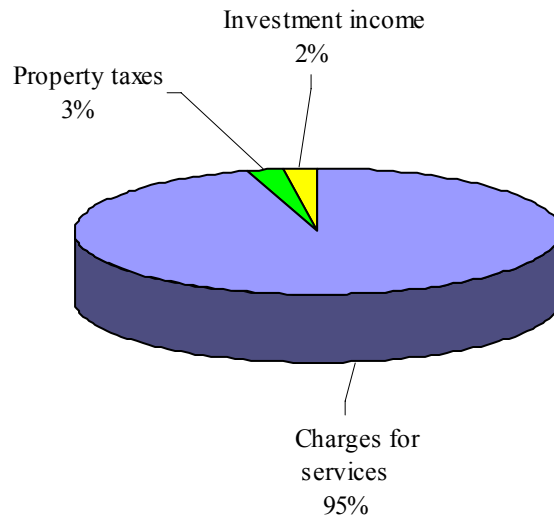
- Investment income of \$8.3 million reflects an increase of \$2.1 million or 33 percent, primarily because of the continuing increases in interest rates during the year.

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



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

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2007**



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 FY07, the County's governmental funds reported combined ending fund balances of \$789.9 million, an increase of \$183.8 million from the end of FY06. Of the total ending fund balances, \$515.5 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$274.4 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 FY07, unreserved and undesignated fund balance of the General Fund was \$140.7 million, while total fund balance was \$316.8 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 5.3 percent of the total General Fund expenditures and transfers out, while total fund balance represents 12 percent of the same amount.

The fund balance of the County's General Fund increased by \$28 million during FY07, primarily due to higher than originally estimated income taxes.

The Capital Projects Fund has a total fund balance of \$145.6 million, an increase of \$110.9 million from the end of FY06. The increase was primarily due to an increase of \$106.2 million in equity in pooled cash and investments, which was the result of issuing \$300 million of debt during the fiscal year.

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 FY07 amounted to \$18.6 million, and operating income was \$21.5 million. After a subsidy transfer to the General Fund of \$22.1 million, the fund ended FY07 with an decrease in net assets of \$0.3 million.

The Solid Waste Activities Fund total net assets amounted to \$58.3 million, of which the unrestricted net assets were \$11.6 million. Restricted net assets of \$32.1 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to \$3.1 million in FY07, resulting in total ending net assets of \$167.1 million. Of this amount, \$138.5 million (82.9 percent) is invested in capital net of related debt; \$7.4 million (4.4 percent) is restricted for debt service on revenue bonds; and \$21.2 million (12.7 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 \$12.9 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:

- \$9.7 million for snow removal operations, relating to 13 snow events with total snow accumulation of approximately 16 inches, and for wind and rain storm clean up;
- \$1.1 million for increases for the Working Families Income Account to match the State's Refundable Earned Income Tax Credit (EITC) because of the unanticipated jump in the number of eligible recipients;
- \$.6 million to connect the new HOC telephone system to the County's PBX processor;

- \$.3 million to provide emergency service to partially address the service gap left by the closure of the Montgomery Volunteer Dental Clinic; and
- \$.3 million relating to significant increases in occupational medical services.

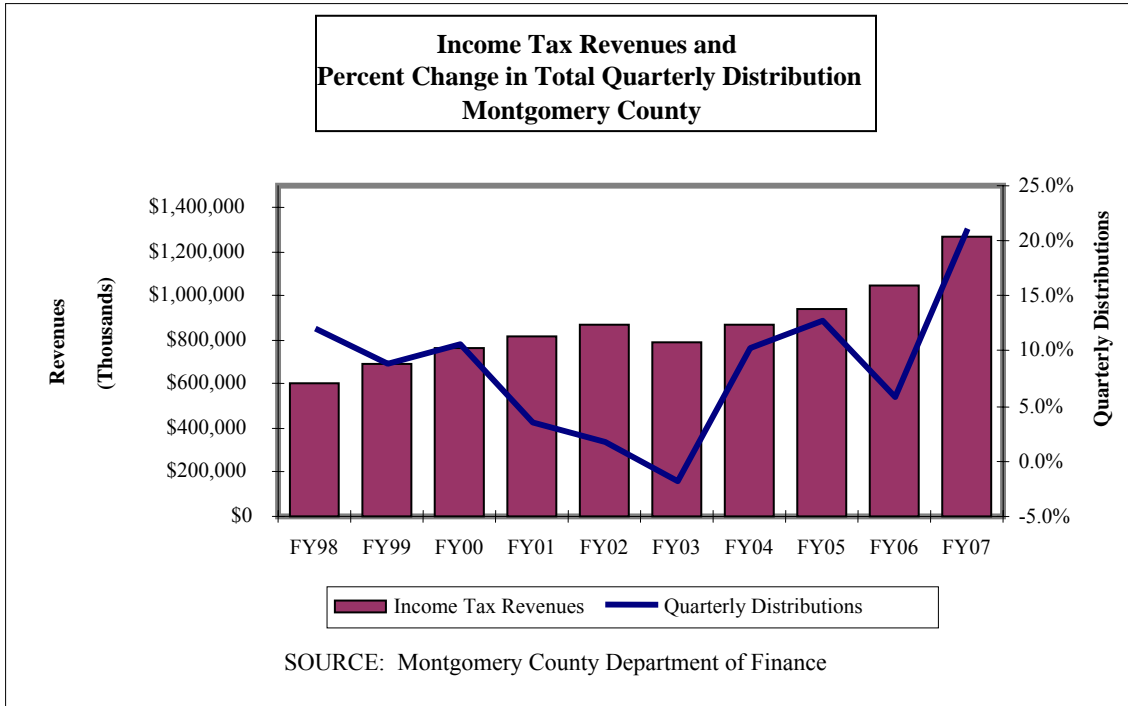
Actual revenues were greater than budget amounts by \$140.4 million, while actual expenditures and net transfers out were less than final budget by \$15.4 million and \$36.3 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2007, include the following:

- Actual expenditures of \$865.9 million were \$15.4 million less than the final budget, which represents 1.7 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 \$47.1 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:

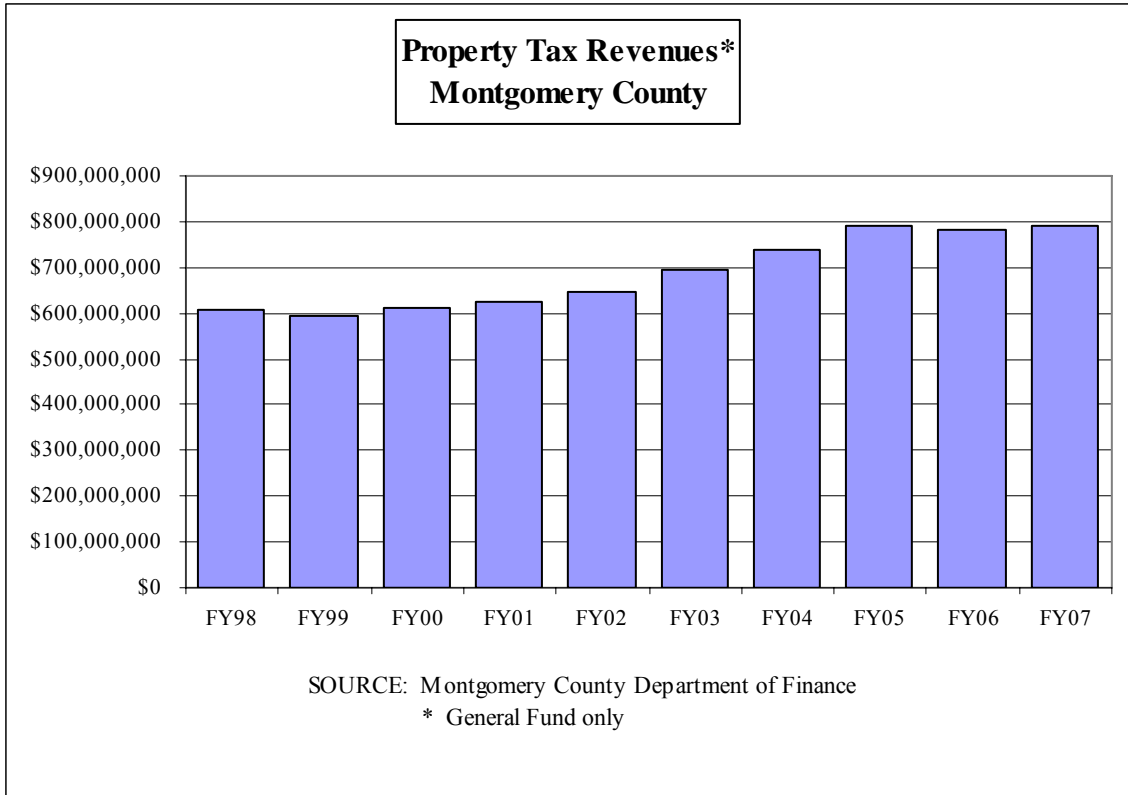
Overview - Actual revenues for the General Fund totaled \$2,598.5 million and were 5.7 percent above the budget estimate for the fiscal year and 7.3 percent above actual revenues for FY06. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑\$186 million above the budget estimate), followed by the transfer tax (↓\$33.7 million below the budget estimate), and finally, the recordation tax (↓\$12.5 million below the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$168.1 million in FY07. That amount was \$6.2 million or 3.6 percent below the budget estimate. Investment income was approximately \$3.7 million above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑5.2%) and miscellaneous revenues (↑7.6%). Intergovernmental revenues were 0.5 percent below the budget estimate. Such decrease was attributed to federal reimbursements which came in 6.1 percent below the budget estimate, and other intergovernmental revenues which were 37.5 percent below the budget estimate. State reimbursements, however, came in 1.5 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 \$1,265.4 million and represented 52.6 percent of actual tax revenues and 48.7 percent of total actual revenues in FY07. 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%, 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, decreased 9.1 percent in FY03, increased 10.4 percent in FY04, 8.2 percent in FY05, and 11 percent in FY06. With strong employment growth and significant capital gains attributed to home sales and a rebound in the stock market, income taxes increased 21.1 percent in FY07 – the largest increase since FY93. With a significant improvement in employment and the stock market during calendar year 2005 and 2006, actual income tax revenues were up nearly \$220.8 million in FY07 over FY06. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased +10.2 percent (FY04), +12.7 percent (FY05), +5.8 percent (FY06), and 21.1 percent (FY07).



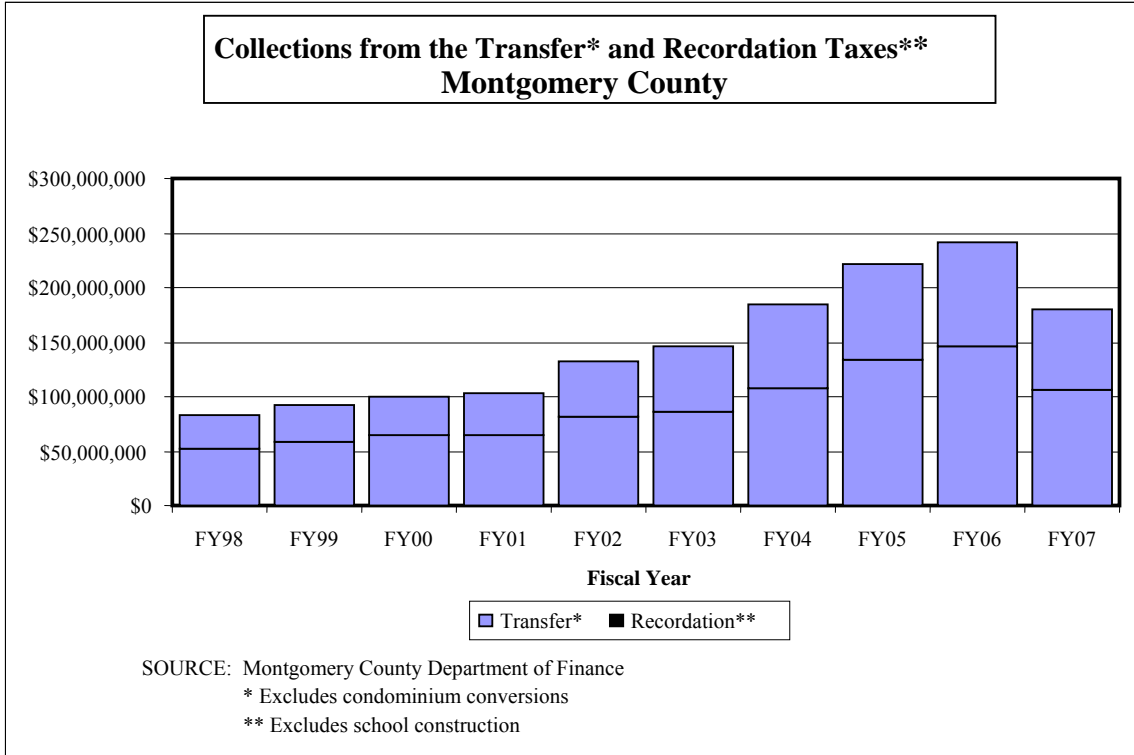
Property Taxes - Property tax collections in the General Fund amounted to \$791.3 million in FY07, which were \$6.6 million (0.8%) above the budget estimate and 1.2 percent above actual revenues in FY06. Actual property taxes, excluding penalty and interest and other items, were \$784.8 million in FY07 – an increase of 0.5 percent over last year. Collections from penalty and interest were \$6.4 million, a six-fold increase compared to FY06. The reason for the modest increase in property tax revenues compared to the budget estimate is attributed to a slightly better increase in personal property taxable assessments and a much greater than expected amount for penalties and interest. The modest increase 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 \$54.2 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 13.7 percent from FY06 to FY07. This was the largest increase in over eighteen years. New construction, which added \$1.6 billion to the base in FY07, was 4.1 percent higher than in FY06. The real estate market, particularly the annual double-digit price increases during prior fiscal years, fueled the dramatic increase in the reassessment rate from 21.8 percent to 65 percent for Cycle Two reassessments of the County’s real property in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 36.3 percent for Cycle One in LY07. 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. While there were dramatic increases in the reassessment rates, which added nearly \$13.6 billion to the assessable base in FY07, such increases were limited by the homestead credit, which excluded \$15 billion in assessments from taxation in FY07.

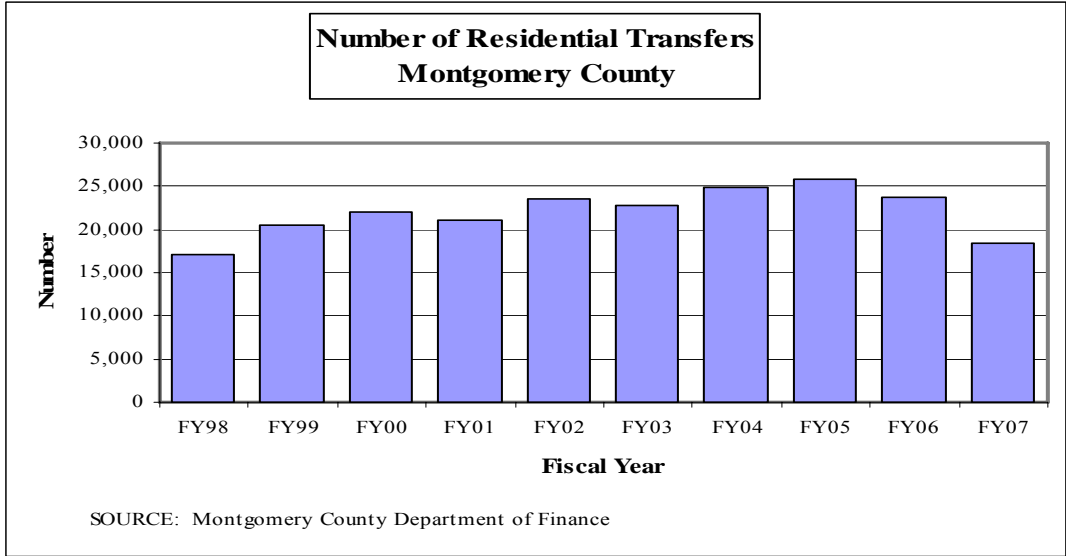


After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. 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. However, because of the rebound in personal property for utilities, assessments increased 3.1 percent in FY07. For the past four fiscal years, taxable assessments for personal property declined from a high of \$4.2 billion in FY03 to \$3.9 billion by FY07 – an average annual rate of decline of 1.7 percent. Despite the weaker trend in personal property since FY04, the total taxable assessment grew 9.6 percent in FY05, 11.9 percent in FY06, and 13.4 percent in FY07.

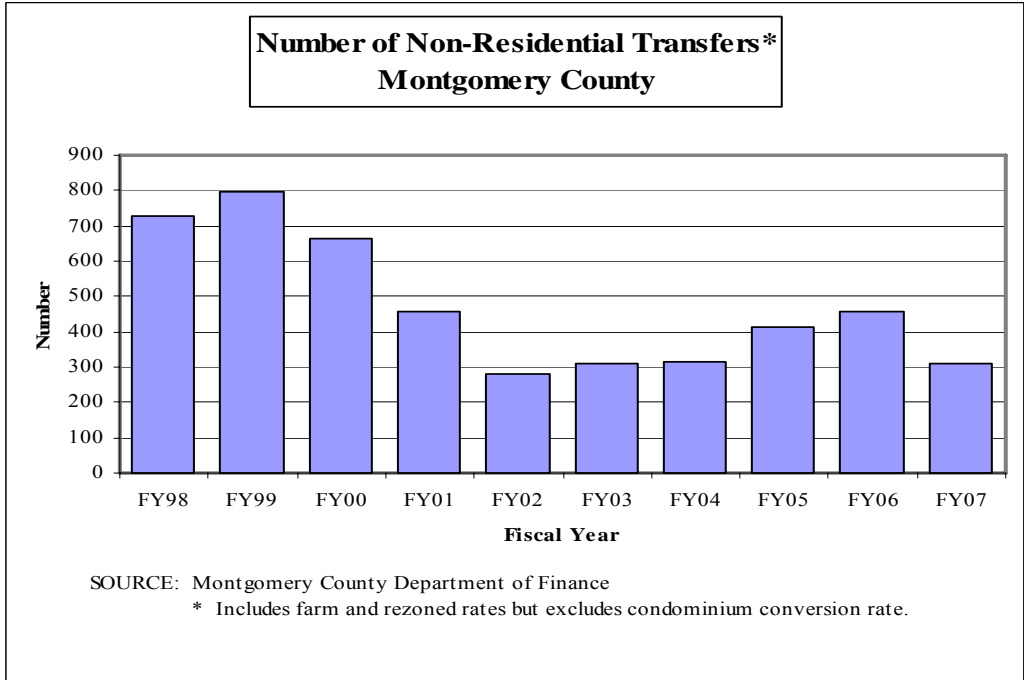
Transfer and Recordation Taxes - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were \$179.6 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 20.4 percent below the budget estimate and 25.7 percent below actual revenues in FY06. The decline in collections from transfer and recordation taxes was the first in over ten years. The drop in housing sales (↓21.7%) during FY07 was the major factor in the decline. As the accompanying chart illustrates, the amount collected from these taxes increased from \$83 million in FY98 to a peak of \$241.7 million in FY06, before declining to \$179.6 million in FY07, the lowest amount since the increase in the recordation tax beginning in FY03 from \$4.40 per \$1,000 to \$6.90 per \$1,000 of the value of the contract excluding the first \$50,000 exempted from taxation.



Revenues from the transfer tax experienced the greater decline in FY07 (↓26.5%) compared to the recordation tax (↓24.5%). Because of the decrease attributed to a dramatic reduction in sales in FY07, revenues from the residential sector were \$93.2 million, a decrease of 23.3 percent over FY06 – the first significant decrease since FY95. The number of residential transfers declined to approximately 18,400 (↓22.7%) – the lowest level since FY98 (17,100) and reflecting the drop in housing sales (↓21.7%).



The commercial market decline was greater than that for the residential sector with revenues decreasing 49.2 percent from \$19.5 million to \$9.9 million. The number of transfers declined 35.1 percent to 240 – the lowest level of activity since FY02 (169).



Other Taxes - The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled \$168.1 million and were approximately \$6.2 million, or 3.6 percent, below the budget estimate. The opening of the Conference Center in North Bethesda in late CY04 continued to contribute to growth in revenues from the hotel/motel industry (↑3.2% percent above the budget estimate) during FY07. The remaining consumption taxes were below budget estimates. Revenues from the telephone tax were 2.6 percent below the budget estimate. The decrease in telephone revenues was attributed to the decline in landlines which offset increases in the use of cellular telephones. The fuel/energy tax (↓4.5%) 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 (↓10.7%) and natural gas (↓2.9%); and the dramatic decrease in the admissions tax (↓13.9%) from the budget estimate, which was attributed to the decline in tax receipts from two largest sources of revenues – movie theaters (↓4.7%) and golf activities (↓20.8%).

Investment Income - In the General Fund, investment income increased from \$8.7 million in FY06 to \$13.2 million and was 39.3 percent above the budget estimate. The dramatic increases in FY05, FY06, and FY07 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 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, and to 5.21 percent in FY07. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$57.2 million or 57.1 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 \$883.6 to \$930.9 million in FY07.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2007, amounted to \$2,851.8 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation June 30, 2007				
	Governmental Activities	Business-type Activities	Total FY07	Total FY06
Land	\$ 570,094,938	\$ 52,777,663	\$ 622,872,601	\$ 597,057,651
Buildings	502,217,888	130,352,134	632,570,022	618,043,018
Improvements other than buildings	29,937,806	25,851,637	55,789,443	52,744,726
Furniture, fixtures, equipment and machinery	117,855,254	6,068,346	123,923,600	129,147,867
Leasehold improvements	10,701,654	-	10,701,654	10,765,782
Automobiles and trucks	104,609,300	1,270,557	105,879,857	94,551,882
Infrastructure	1,116,661,608	13,921	1,116,675,529	1,112,270,123
Other assets	588,153	-	588,153	796,126
Construction in progress	175,087,781	7,757,660	182,845,441	150,887,596
Total	<u>\$ 2,627,754,382</u>	<u>\$ 224,091,918</u>	<u>\$ 2,851,846,300</u>	<u>\$ 2,766,264,771</u>

Changes in the County's capital assets for FY07 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2007				
	Governmental Activities	Business-type Activities	Total FY07	Total FY06
Beginning Balance	\$ 2,543,442,004	\$ 222,822,767	\$ 2,766,264,771	\$ 2,678,847,776
Additions*	172,999,695	12,929,807	185,929,502	192,770,832
Retirements, net*	444,956	22,477	467,433	1,938,853
Depreciation expense	88,242,361	11,638,179	99,880,540	103,414,984
Ending Balance	<u>\$ 2,627,754,382</u>	<u>\$ 224,091,918</u>	<u>\$ 2,851,846,300</u>	<u>\$ 2,766,264,771</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:

- Roads, including underlying land, valued at \$17 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 \$12.4 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.

- The County incurred \$4.9 million in construction costs towards improvements to the Solid Waste Disposal Transfer Station.

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, 2007:

Long-Term Debt				
June 30, 2007				
	Governmental Activities	Business-type Activities	Total FY07	Total FY06
General obligation bonds	\$ 1,512,675,607	\$ 2,447	\$ 1,512,678,054	\$ 1,393,888,054
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	150,000,000	-	150,000,000	100,000,000
Revenue bonds	-	61,800,000	61,800,000	70,620,000
Lease revenue bonds	38,255,000	-	38,255,000	39,790,000
Notes payable *	13,975,293	926,268	14,901,561	13,980,419
Capital leases	81,316,156	10,033,172	91,349,328	87,086,843
Compensated absences	58,916,381	4,523,258	63,439,639	59,329,643
Claims and judgements	-	1,200,000	1,200,000	-
Landfill closure costs	-	24,697,923	24,697,923	22,150,923
Total	\$ 1,955,138,437	\$ 103,183,068	\$ 2,058,321,505	\$ 1,886,845,882

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

At June 30, 2007, the County had outstanding general obligation (GO) bonds of \$1,512.7 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$150 million. Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY97, the County sold general obligation bond issues, exclusive of refundings, of up to \$250 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$162.5 million.

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

As of June 30, 2007, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 900,000. 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 FY07 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for \$250 million in May 2007, 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.

Significant debt activities relating to capital lease agreements during FY07 were:

- Temperature-Controlled Liquor Warehouse Project – The County entered into a lease financing arrangement in October 2006 to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control. Total proceeds were \$10.6 million, and the lease term is for eight years. The true interest cost of this lease was 3.63%. During FY07, \$0.6 million in expenditures on this project were incurred and capitalized.

The County also managed two debt transactions during FY07 which were outside the County's typical bonding activity. Below is a brief description.

- Conduit Debt – The Department of Finance administers and manages the County's Economic Development Revenue Bond program. In October 2006, the County issued bonds in the amount of \$20 million on behalf of The Heights School. The proceeds will be used to finance, in part, the implementation of a campus master plan on the school's campus. In May 2007, the County issued bonds in the amount of \$15.3 million on behalf of Sidwell Friends School. The proceeds will be used to finance the construction of a new athletic facility, and the renovation and addition of new classrooms, on the school's campus.

Conduit Debt does not constitute indebtedness to which the full faith and credit of Montgomery County or any other public body is pledged. Bonds are issued and sold without direct or indirect cost to the County.

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 FY08 budget:

- The County's economic projections in the FY08 budget assume a continued modest economic expansion in FY08 with the County experiencing low unemployment and an increase in total payroll employment.
- On a calendar year basis, total payroll employment increased 1.3 percent in CY06, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.9 percent between CY02 and CY05. Following a modest improvement payroll employment during CY06, the County

anticipates a slight improvement in the growth of payroll employment in CY07 and CY08 with an estimated increase of 1.7 percent and 1.4 percent, respectively.

- The projection in the FY08 budget assumes that personal income will increase 5.7 percent in CY07 and 5.4 percent in CY08. Those rates are slightly below the estimated four-year annual average growth rate of 5.8 percent between CY03-CY06.
- On a calendar year basis, employment in Montgomery County based on the labor force series as opposed to payroll employment, is expected to increase 1.5 percent in CY07 and decelerate to 0.7 percent in CY08. The rate of growth in resident employment is estimated to remain steady at an annual rate of 1.1 percent between CY09 and CY13. That estimate is consistent with the slower estimated growth in County population moderating to 0.8 percent annual growth rate by CY13.
- The deceleration in the growth of employment in FY08 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 by holding the target rate on federal funds rate at 5.25 percent through the second half of CY07 and only a 25 basis point cut during the first half of CY08.
- Inflation, as measured by the Consumer Price Index, is expected to increase 3.1 percent in FY08 which follows a 3.4 percent increase in FY07. Because of the anticipated policy directives by the FOMC of the Federal Reserve during FY08, the County's economic projections include a decrease in the yield on its investments from 5.23 percent in FY07 to 5.15 percent for FY08.

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 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 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, 2007

Exhibit A-1

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units Total
ASSETS				
Equity in pooled cash and investments	\$ 793,046,101	\$ 94,617,411	\$ 887,663,512	\$ 60,602,360
Cash with fiscal agents	32,855,104	-	32,855,104	10,221,585
Cash	182,179	197,945	380,124	8,961,859
Investments-cash equivalents	-	-	-	114,360,274
Investments	4,723,343	-	4,723,343	41,216,214
Receivables (net of allowances for uncollectibles):				
Income taxes	434,040,693	-	434,040,693	-
Property taxes	18,150,328	1,464,862	19,615,190	-
Capital leases	38,255,000	-	38,255,000	38,658,715
Accounts	41,556,794	5,274,586	46,831,380	27,864,444
Special assessments	13,438	-	13,438	-
Notes	5,708,184	-	5,708,184	33,400,000
Parking violations	567,710	2,193,115	2,760,825	-
Mortgages receivable	127,840,721	-	127,840,721	341,083,260
Interest	60,110	-	60,110	5,674,914
Other	266,832	-	266,832	35,249,047
Net internal balance	1,124,965	(1,124,965)	-	-
Due from primary government	-	-	-	71,433,869
Due from component units	57,246,904	686,970	57,933,874	-
Due from other governments	59,967,494	135,747	60,103,241	31,604,960
Inventory of supplies	8,924,560	30,352,675	39,277,235	10,031,597
Prepays	1,176,688	650,386	1,827,074	2,864,192
Deferred charges	4,897,699	994,183	5,891,882	665,364
Other assets	-	135,058	135,058	38,750,404
Restricted Assets:				
Equity in pooled cash and investments	-	34,764,116	34,764,116	-
Cash with fiscal agents	99,751	10,645,654	10,745,405	9,732,046
Cash	-	-	-	457,996
Investments - cash equivalents	-	-	-	101,367,862
Investments	-	4,730,758	4,730,758	172,225,048
Capital Assets:				
Nondepreciable assets	745,182,719	60,535,323	805,718,042	391,940,402
Depreciable assets, net	1,882,571,663	163,556,595	2,046,128,258	1,939,749,016
Total Assets	<u>\$ 4,258,458,980</u>	<u>\$ 409,810,419</u>	<u>\$ 4,668,269,399</u>	<u>\$ 3,488,115,428</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
 STATEMENT OF NET ASSETS, CONCLUDED
 JUNE 30, 2007

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	\$ 74,371,757	\$ 24,033,676	\$ 98,405,433	\$ 81,150,565
Interest payable	20,855,016	455,632	21,310,648	17,647,655
Retainage payable	5,764,643	1,211,465	6,976,108	12,131,775
Accrued liabilities	48,495,408	10,695,402	59,190,810	77,922,919
Claims payable	86,072,292	-	86,072,292	24,815,807
Deposits	162,308	410,756	573,064	8,377,294
Due to primary government	-	-	-	58,065,652
Due to component units	70,837,129	596,740	71,433,869	-
Due to other governments	13,239,819	983,836	14,223,655	-
Unearned revenue	39,702,985	1,038,780	40,741,765	28,278,771
Other liabilities	-	595,836	595,836	11,777,455
Noncurrent Liabilities:				
Due within one year	350,660,216	18,141,579	368,801,795	86,033,627
Due in more than one year	1,650,273,904	85,046,938	1,735,320,842	1,051,465,691
Total Liabilities	<u>2,360,435,477</u>	<u>143,210,640</u>	<u>2,503,646,117</u>	<u>1,457,667,211</u>
NET ASSETS				
Invested in capital, net of related debt	1,880,672,363	160,807,324	1,999,920,988	1,885,645,105
Restricted for:				
Capital projects	110,925,610	-	110,925,610	2,577,289
Nonexpendable permanent fund - housing	5,322,443	-	5,322,443	-
General government	140,560,879	-	140,560,879	-
Public safety	19,794,471	-	19,794,471	-
Public works and transportation	9,197,192	72,370,254	81,567,446	-
Recreation	9,060,100	-	9,060,100	-
Community development and housing	141,924,238	-	141,924,238	-
Environment	3,929,859	-	3,929,859	-
Debt service	-	-	-	36,442,245
Other purposes	-	-	-	30,117,305
Unrestricted (deficit)	(423,363,652)	33,422,201	(348,382,752)	75,666,273
Total Net Assets	<u>\$ 1,898,023,503</u>	<u>\$ 266,599,779</u>	<u>\$ 2,164,623,282</u>	<u>\$ 2,030,448,217</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, 2007
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
General government	\$ 274,005,357	\$ 58,026,709	\$ 9,906,187	\$ 1,068
Public safety	529,748,046	21,633,121	32,672,761	6,444,925
Public works and transportation	210,395,916	18,262,635	65,774,815	29,777,979
Health and human services	252,066,273	3,894,842	113,457,584	-
Culture and recreation	103,765,006	26,155,477	4,852,256	11,974,970
Community development and housing	18,213,040	245,105	4,568,516	3,252,035
Environment	12,962,711	5,954,673	336,713	-
Education	1,669,681,121	-	-	-
Interest on long-term debt	81,262,618	-	-	-
Total Governmental Activities	<u>3,152,100,088</u>	<u>134,172,562</u>	<u>231,568,832</u>	<u>51,450,977</u>
Business-type Activities:				
Liquor control	180,243,618	201,744,558	-	-
Solid waste disposal and collection	103,455,706	99,990,932	11,135	-
Parking lot districts	26,622,097	25,306,635	-	-
Permitting services	23,463,486	25,523,639	-	-
Community use of public facilities	7,657,662	7,869,818	-	-
Total Business-type Activities	<u>341,442,569</u>	<u>360,435,582</u>	<u>11,135</u>	<u>-</u>
Total Primary Government	<u>\$ 3,493,542,657</u>	<u>\$ 494,608,144</u>	<u>\$ 231,579,967</u>	<u>\$ 51,450,977</u>
Component Units:				
General government (BUPI)	\$ 4,076,287	\$ 3,838,061	\$ 295,772	\$ -
Culture and recreation (MCRA)	19,973,068	18,406,512	-	358,171
Community development and housing (HOC)	185,196,037	100,990,296	86,969,258	5,126,988
Education:				
Elementary and secondary education (MCPS)	2,031,589,998	32,863,673	103,624,408	52,928,959
Higher education (MCC)	237,155,429	67,911,834	28,745,322	629,325
Total Component Units	<u>\$ 2,477,990,819</u>	<u>\$ 224,010,376</u>	<u>\$ 219,634,760</u>	<u>\$ 59,043,443</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
\$ (206,071,393)	\$ -	\$ (206,071,393)	\$ -
(468,997,239)	-	(468,997,239)	-
(96,580,487)	-	(96,580,487)	-
(134,713,847)	-	(134,713,847)	-
(60,782,303)	-	(60,782,303)	-
(10,147,384)	-	(10,147,384)	-
(6,671,325)	-	(6,671,325)	-
(1,669,681,121)	-	(1,669,681,121)	-
(81,262,618)	-	(81,262,618)	-
<u>(2,734,907,717)</u>	<u>-</u>	<u>(2,734,907,717)</u>	<u>-</u>
-	21,500,940	21,500,940	-
-	(3,453,639)	(3,453,639)	-
-	(1,315,462)	(1,315,462)	-
-	2,060,153	2,060,153	-
-	212,156	212,156	-
-	19,004,148	19,004,148	-
<u>(2,734,907,717)</u>	<u>19,004,148</u>	<u>(2,715,903,569)</u>	<u>-</u>
-	-	-	57,546
-	-	-	(1,208,385)
-	-	-	7,890,505
-	-	-	(1,842,172,958)
-	-	-	(139,868,948)
-	-	-	<u>(1,975,302,240)</u>
1,126,632,925	9,562,592	1,136,195,517	-
1,388,927,139	-	1,388,927,139	-
106,902,482	-	106,902,482	-
72,672,928	-	72,672,928	-
118,853,224	-	118,853,224	-
17,476,723	-	17,476,723	-
29,375,812	-	29,375,812	-
7,028,984	-	7,028,984	-
-	-	-	2,125,349,784
42,003,532	8,339,098	50,342,630	12,952,114
6,209,594	34,637	6,244,231	24,224
34,073,566	(34,073,566)	-	-
<u>2,950,156,909</u>	<u>(16,137,239)</u>	<u>2,934,019,670</u>	<u>2,138,326,122</u>
215,249,192	2,866,909	218,116,101	163,023,882
1,682,774,311	263,732,870	1,946,507,181	1,867,424,335
<u>\$ 1,898,023,503</u>	<u>\$ 266,599,779</u>	<u>\$ 2,164,623,282</u>	<u>\$ 2,030,448,217</u>

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	\$ 239,433,271	\$ 1,055,820	\$ 209,928,009	\$ 206,451,057	\$ 656,868,157
Cash with fiscal agents	1,239,215	27,826,160	3,789,729	-	32,855,104
Cash	151,579	-	-	30,300	181,879
Investments	-	-	-	4,723,343	4,723,343
Receivables (net of allowances for uncollectibles):					
Income taxes	434,040,693	-	-	-	434,040,693
Property taxes	14,118,766	-	-	4,031,562	18,150,328
Capital leases	-	38,255,000	-	-	38,255,000
Accounts	36,908,492	9,545	425,730	3,129,902	40,473,669
Special assessments	-	13,438	-	-	13,438
Notes	-	-	47,984	5,648,772	5,696,756
Parking violations	567,710	-	-	-	567,710
Mortgages receivable	182,905	-	300,000	127,357,816	127,840,721
Interest	-	-	-	60,110	60,110
Other	-	-	1,604	262,199	263,803
Due from other funds	80,112,248	-	-	6,808,954	86,921,202
Due from component units	3,385,963	-	14,268,153	39,035,782	56,689,898
Due from other governments	21,506,107	-	13,742,689	24,370,672	59,619,468
Inventory of supplies	5,121,740	-	567,508	-	5,689,248
Prepays	464,060	-	1,335	469,276	934,671
Total Assets	<u>\$ 837,232,749</u>	<u>\$ 67,159,963</u>	<u>\$ 243,072,741</u>	<u>\$ 422,379,745</u>	<u>\$ 1,569,845,198</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 29,486,944	\$ 328,653	\$ 17,452,569	\$ 20,145,494	\$ 67,413,660
Retainage payable	34,061	-	5,696,451	34,131	5,764,643
Accrued liabilities	26,969,508	-	676,524	10,754,973	38,401,005
Deposits	-	-	-	162,308	162,308
Due to other funds	9,523,976	27,824,160	53,389,483	10,181,092	100,918,711
Due to component units	53,551,366	-	15,143,550	2,064,592	70,759,508
Due to other governments	4,122,674	-	3,349,800	5,754,023	13,226,497
Deferred revenue	396,792,612	39,007,150	1,800,854	45,682,554	483,283,170
Total Liabilities	<u>520,481,141</u>	<u>67,159,963</u>	<u>97,509,231</u>	<u>94,779,167</u>	<u>779,929,502</u>
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	-	80,513,152	-	80,513,152
Long-term receivables	-	-	14,268,153	132,384,872	146,653,025
Inventory	5,121,740	-	567,508	-	5,689,248
Prepays	464,060	-	1,335	442,120	907,515
Fire-Rescue Grant	-	-	-	1,429,112	1,429,112
Donor-specified purposes	-	-	-	1,257,694	1,257,694
Other purposes	2,188,604	-	30,412,458	5,322,443	37,923,505
Total Reserved	<u>7,774,404</u>	<u>-</u>	<u>125,762,606</u>	<u>140,836,241</u>	<u>274,373,251</u>
Unreserved, designated for, reported in:					
Encumbrances	24,603,431	-	19,800,904	17,931,466	62,335,801
General Fund	143,723,513	-	-	-	143,723,513
Special Revenue Funds	-	-	-	25,856,076	25,856,076
Unreserved, undesignated (deficit), reported in:					
General Fund	140,650,260	-	-	-	140,650,260
Special Revenue Funds	-	-	-	142,976,795	142,976,795
Total Unreserved (Deficit)	<u>308,977,204</u>	<u>-</u>	<u>19,800,904</u>	<u>186,764,337</u>	<u>515,542,445</u>
Total Fund Balances	<u>316,751,608</u>	<u>-</u>	<u>145,563,510</u>	<u>327,600,578</u>	<u>789,915,696</u>
Total Liabilities and Fund Balances	<u>\$ 837,232,749</u>	<u>\$ 67,159,963</u>	<u>\$ 243,072,741</u>	<u>\$ 422,379,745</u>	<u>\$ 1,569,845,198</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, 2007
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$ 789,915,696
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	\$ 570,072,432	
Construction in progress	175,087,781	
Depreciable capital assets:		
Buildings	747,860,840	
Improvements other than buildings	45,356,635	
Furniture, fixtures, equipment and machinery	234,985,051	
Automobiles and trucks	132,508,985	
Infrastructure	1,532,498,928	
Other capital assets	<u>2,079,731</u>	
Total capital assets	3,440,450,383	
Less accumulated depreciation	<u>(844,500,529)</u>	2,595,949,854
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	(1,512,675,607)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(150,000,000)	
Lease revenue bonds payable	(38,255,000)	
Accrued interest payable	(20,848,695)	
Capital leases payable	(81,316,156)	
Notes payable	(13,246,071)	
Compensated absences	<u>(57,461,755)</u>	(1,973,803,284)
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	(71,004,509)	
Deferred amount on refunding	25,208,826	
Deferred issuance costs	<u>4,897,699</u>	(40,897,984)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and noncurrent assets	147,954,217	
Capital assets	76,289,267	
Less accumulated depreciation	(44,484,739)	
Liabilities		
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>710,493</u>	82,617,106
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	364,700,000	
Property taxes	14,713,560	
Intergovernmental revenue	19,260,054	
Other revenue	<u>45,568,501</u>	<u>444,242,115</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 1,898,023,503</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, 2007
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,404,365,480	\$ -	\$ 53,802,027	\$ 293,696,556	\$ 2,751,864,063
Licenses and permits	10,496,148	-	-	1,922,436	12,418,584
Intergovernmental	138,069,464	-	25,134,191	104,472,276	267,675,931
Charges for services	31,517,436	169	1,088,293	46,895,917	79,501,815
Fines and forfeitures	10,216,457	-	-	2,372,069	12,588,526
Investment income	12,551,303	5,885,146	2,817,411	12,893,568	34,147,428
Miscellaneous	9,828,650	-	834,140	2,536,368	13,199,158
Total Revenues	<u>2,617,044,938</u>	<u>5,885,315</u>	<u>83,676,062</u>	<u>464,789,190</u>	<u>3,171,395,505</u>
EXPENDITURES					
Current:					
General government	232,629,908	-	-	15,622,114	248,252,022
Public safety	308,405,960	-	-	198,323,370	506,729,330
Public works and transportation	57,598,162	-	-	114,303,672	171,901,834
Health and human services	207,203,634	-	-	44,193,100	251,396,734
Culture and recreation	47,470,093	-	-	40,402,627	87,872,720
Community development and housing	11,935,777	-	-	5,189,799	17,125,576
Environment	3,459,159	-	-	5,161,752	8,620,911
Education	1,490,679,488	-	-	-	1,490,679,488
Debt Service:					
Principal retirement:					
General obligation bonds	-	131,207,553	-	-	131,207,553
Bond anticipation notes	-	250,000,000	-	-	250,000,000
Other notes	-	2,775,866	-	-	2,775,866
Interest:					
General obligation bonds	-	64,370,363	-	-	64,370,363
Variable rate demand obligations	-	3,615,507	-	-	3,615,507
Bond anticipation notes	-	6,784,398	-	-	6,784,398
Other notes	-	363,258	-	-	363,258
Leases and other obligations	-	16,030,672	-	-	16,030,672
Issuing costs	-	1,208,672	-	-	1,208,672
Capital projects	-	-	342,299,052	-	342,299,052
Total Expenditures	<u>2,359,382,181</u>	<u>476,356,289</u>	<u>342,299,052</u>	<u>423,196,434</u>	<u>3,601,233,956</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>257,662,757</u>	<u>(470,470,974)</u>	<u>(258,622,990)</u>	<u>41,592,756</u>	<u>(429,838,451)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	39,178,664	226,238,628	48,175,737	36,295,040	349,888,069
Transfers (out)	(269,862,482)	(6,175,154)	-	(40,394,415)	(316,432,051)
Sale of property	-	-	2,220,612	4,319,907	6,540,519
Financing under notes and leases payable	150,640	-	-	3,108,640	3,259,280
Debt Issued:					
General obligation bonds	-	250,000,000	-	-	250,000,000
Premium on general obligation bonds	-	407,500	18,431,500	-	18,839,000
Bond anticipation notes	-	-	300,000,000	-	300,000,000
Lease revenue bonds	835,614	-	-	-	835,614
Capital lease financing	-	-	663,698	-	663,698
Total Other Financing Sources (Uses)	<u>(229,697,564)</u>	<u>470,470,974</u>	<u>369,491,547</u>	<u>3,329,172</u>	<u>613,594,129</u>
Net Change in Fund Balances	27,965,193	-	110,868,557	44,921,928	183,755,678
Fund Balances (Deficit) - Beginning of Year	288,786,415	-	34,694,953	282,678,650	606,160,018
Fund Balances - End of Year	<u>\$ 316,751,608</u>	<u>\$ -</u>	<u>\$ 145,563,510</u>	<u>\$ 327,600,578</u>	<u>\$ 789,915,696</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, 2007
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5) \$ 183,755,678

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	\$ 147,239,165	
Depreciation expense	<u>(81,418,848)</u>	65,820,317

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. (330,925)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 17,277,364

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	123,550,000	
Property taxes	(3,449,440)	
Intergovernmental revenues	(8,292,532)	
Other revenues	<u>(3,409,384)</u>	108,398,644

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	(268,839,000)	
Bond anticipation notes	(300,000,000)	
Capital lease financing	(663,698)	
Lease revenue bonds	(835,614)	
Notes payable	(3,259,280)	
Less issuance costs	429,982	
Principal repayments:		
General obligation bonds	131,207,553	
Bond anticipation notes	250,000,000	
Leases payable	2,673,356	
Capital leases	7,270,000	
Notes payable	2,841,050	
Other debt	<u>1,538,393</u>	(177,637,258)

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	(31,049)	
Compensated absences	(3,572,132)	
Amortization	<u>4,124,639</u>	521,458

The current year gain for certain activities of internal service funds is reported with governmental activities. 17,443,914

Change in net assets of governmental activities (see Exhibit A-2) \$ 215,249,192

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, 2007
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 779,634,172	\$ 779,634,172	\$ -	\$ 779,634,172	\$ 784,842,352	\$ 5,208,180
Property - penalty and interest	-	5,024,323	5,024,323	-	5,024,323	6,447,102	1,422,779
Other	-	-	-	-	-	10,001	10,001
Total Property Tax	-	784,658,495	784,658,495	-	784,658,495	791,299,455	6,640,960
County Income Tax	-	1,079,350,000	1,079,350,000	-	1,079,350,000	1,265,377,139	186,027,139
Other Local Taxes:							
Real property transfer	-	140,560,000	140,560,000	-	140,560,000	106,902,482	(33,657,518)
Recordation	-	85,170,000	85,170,000	-	85,170,000	72,672,928	(12,497,072)
Fuel energy	-	124,400,000	124,400,000	-	124,400,000	118,853,224	(5,546,776)
Hotel - motel	-	16,940,000	16,940,000	-	16,940,000	17,476,723	536,723
Telephone	-	30,170,000	30,170,000	-	30,170,000	29,375,812	(794,188)
Other	-	2,796,000	2,796,000	-	2,796,000	2,407,717	(388,283)
Total Other Local Taxes	-	400,036,000	400,036,000	-	400,036,000	347,688,886	(52,347,114)
Total Taxes	-	2,264,044,495	2,264,044,495	-	2,264,044,495	2,404,365,480	140,320,985
Licenses and Permits:							
Business	-	5,409,500	5,409,500	-	5,409,500	5,795,681	386,181
Non business	-	4,564,510	4,564,510	-	4,564,510	4,700,467	135,957
Total Licenses and Permits	-	9,974,010	9,974,010	-	9,974,010	10,496,148	522,138
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	36,751,910	36,751,910	-	36,751,910	37,400,005	648,095
Highway user revenue	-	40,385,532	40,385,532	-	40,385,532	38,104,839	(2,280,693)
Police protection	-	13,000,000	13,000,000	-	13,000,000	13,387,425	387,425
Health and human services programs	-	6,474,150	6,474,150	-	6,474,150	7,570,506	1,096,356
Public libraries	-	4,035,390	4,035,390	-	4,035,390	4,180,166	144,776
911 Emergency	-	4,928,050	4,928,050	-	4,928,050	7,508,125	2,580,075
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,719,320	2,719,320	-	2,719,320	1,814,773	(904,547)
Total State Aid and Reimbursements	-	111,060,352	111,060,352	-	111,060,352	112,731,392	1,671,040
Federal Reimbursements:							
Federal financial participation	-	20,333,750	20,333,750	-	20,333,750	19,270,822	(1,062,928)
Other	-	4,253,252	4,253,252	943,708	5,196,960	4,703,942	(493,018)
Total Federal Reimbursements	-	24,587,002	24,587,002	943,708	25,530,710	23,974,764	(1,555,946)
Other Intergovernmental	-	1,568,140	1,568,140	614,674	2,182,814	1,363,308	(819,506)
Total Intergovernmental Revenue	-	137,215,494	137,215,494	1,558,382	138,773,876	138,069,464	(704,412)
Charges for Services:							
General government	-	1,576,910	1,576,910	-	1,576,910	1,696,998	120,088
Public safety	-	9,396,450	9,396,450	-	9,396,450	8,321,395	(1,075,055)
Health and human services	-	1,655,200	1,655,200	-	1,655,200	1,603,970	(51,230)
Culture and recreation	-	10,600	10,600	-	10,600	20,173	9,573
Environment	-	200,000	200,000	-	200,000	212,217	12,217
Public works and transportation	-	55,000	55,000	-	55,000	124,708	69,708
Total Charges for Services	-	12,894,160	12,894,160	-	12,894,160	11,979,461	(914,699)
Fines and forfeitures	-	13,506,210	13,506,210	-	13,506,210	10,216,457	(3,289,753)
Investment Income:							
Pooled investment income	-	9,490,000	9,490,000	-	9,490,000	13,231,785	3,741,785
Other interest income	-	10,000	10,000	-	10,000	4,486	(5,514)
Total Investment Income	-	9,500,000	9,500,000	-	9,500,000	13,236,271	3,736,271
Miscellaneous Revenue:							
Property rentals	-	3,863,150	3,863,150	-	3,863,150	4,668,166	805,016
Sundry	-	5,550,720	5,550,720	-	5,550,720	5,457,024	(93,696)
Total Miscellaneous Revenue	-	9,413,870	9,413,870	-	9,413,870	10,125,190	711,320
Total Revenues	-	2,456,548,239	2,456,548,239	1,558,382	2,458,106,621	2,598,488,471	140,381,850
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	7,331,580	7,331,580	71,060	7,402,640	7,030,482	372,158
Operating	62,414	846,360	908,774	-	908,774	892,324	16,450
Totals	62,414	8,177,940	8,240,354	71,060	8,311,414	7,922,806	388,608
Board of Appeals:							
Personnel	-	491,940	491,940	4,140	496,080	493,592	2,488
Operating	-	72,900	72,900	-	72,900	60,585	12,315
Totals	-	564,840	564,840	4,140	568,980	554,177	14,803
Legislative Oversight:							
Personnel	-	1,168,642	1,168,642	14,180	1,182,822	1,044,981	137,841
Operating	356	63,900	64,256	(356)	63,900	27,309	36,591
Totals	356	1,232,542	1,232,898	13,824	1,246,722	1,072,290	174,432
Merit System Protection Board:							
Personnel	-	128,379	128,379	1,230	129,609	126,010	3,599
Operating	-	15,610	15,610	-	15,610	13,849	1,761
Totals	-	143,989	143,989	1,230	145,219	139,859	5,360
Zoning and Administrative Hearings:							
Personnel	-	358,940	358,940	28,620	387,560	387,557	3
Operating	-	94,620	94,620	(9,460)	85,160	54,588	30,572
Totals	-	453,560	453,560	19,160	472,720	442,145	30,575

(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, 2007
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Inspector General:							
Personnel	\$ -	\$ 521,731	\$ 521,731	\$ 1,260	\$ 522,991	\$ 503,400	\$ 19,591
Operating	140	55,530	55,670	(3,720)	51,950	27,498	24,452
Capital outlay	-	-	-	3,720	3,720	3,715	5
Totals	140	577,261	577,401	1,260	578,661	534,613	44,048
People's Counsel:							
Personnel	-	211,178	211,178	6,820	217,998	217,994	4
Operating	-	13,990	13,990	(1,390)	12,600	4,838	7,762
Totals	-	225,168	225,168	5,430	230,598	222,832	7,766
Circuit Court:							
Personnel	-	7,716,286	7,716,286	(347,590)	7,368,696	7,019,152	349,544
Operating	215,633	2,186,730	2,402,363	301,687	2,704,050	2,697,835	6,215
Capital outlay	80,530	-	80,530	32,490	113,020	113,019	1
Totals	296,163	9,903,016	10,199,179	(13,413)	10,185,766	9,830,006	355,760
State's Attorney:							
Personnel	-	10,480,619	10,480,619	33,480	10,514,099	10,432,607	81,492
Operating	6,485	504,050	510,535	69,645	580,180	580,171	9
Totals	6,485	10,984,669	10,991,154	103,125	11,094,279	11,012,778	81,501
County Executive:							
Personnel	-	4,127,918	4,127,918	64,170	4,192,088	4,192,087	1
Operating	20,000	339,340	359,340	49,700	409,040	409,030	10
Totals	20,000	4,467,258	4,487,258	113,870	4,601,128	4,601,117	11
Commission for Women:							
Personnel	-	1,064,310	1,064,310	(16,385)	1,047,925	1,013,333	34,592
Operating	-	171,000	171,000	30,435	201,435	193,683	7,752
Totals	-	1,235,310	1,235,310	14,050	1,249,360	1,207,016	42,344
Regional Service Centers:							
Personnel	-	2,992,938	2,992,938	21,576	3,014,514	2,877,335	137,179
Operating	35,198	903,821	939,019	29,374	968,393	906,291	62,102
Totals	35,198	3,896,759	3,931,957	50,950	3,982,907	3,783,626	199,281
Ethics Commission:							
Personnel	-	214,639	214,639	26,530	241,169	241,167	2
Operating	1,303	10,250	11,553	3,595	15,148	15,141	7
Totals	1,303	224,889	226,192	30,125	256,317	256,308	9
Intergovernmental Relations:							
Personnel	-	612,489	612,489	-	612,489	610,721	1,768
Operating	17,186	114,440	131,626	(1,423)	130,203	119,630	10,573
Totals	17,186	726,929	744,115	(1,423)	742,692	730,351	12,341
Board of Liquor License Commissioners:							
Personnel	-	900,820	900,820	44,470	945,290	945,283	7
Operating	15,000	142,250	157,250	(14,220)	143,030	133,704	9,326
Totals	15,000	1,043,070	1,058,070	30,250	1,088,320	1,078,987	9,333
Public Information:							
Personnel	-	1,034,277	1,034,277	78,560	1,112,837	1,112,832	5
Operating	33,249	208,480	241,729	106,895	348,624	348,623	1
Totals	33,249	1,242,757	1,276,006	185,455	1,461,461	1,461,455	6
Board of Elections:							
Personnel	-	2,578,250	2,578,250	458,740	3,036,990	3,036,990	-
Operating	55,090	4,587,410	4,642,500	(352,330)	4,290,170	3,819,152	471,018
Totals	55,090	7,165,660	7,220,750	106,410	7,327,160	6,856,142	471,018
County Attorney:							
Personnel	-	4,632,470	4,632,470	(54,050)	4,578,420	4,578,418	2
Operating	118,979	542,140	661,119	87,946	749,065	749,058	7
Totals	118,979	5,174,610	5,293,589	33,896	5,327,485	5,327,476	9
Management and Budget:							
Personnel	-	3,644,711	3,644,711	(161,700)	3,483,011	3,482,322	689
Operating	72,808	164,150	236,958	44,869	281,827	280,925	902
Totals	72,808	3,808,861	3,881,669	(116,831)	3,764,838	3,763,247	1,591
Finance:							
Personnel	-	8,580,824	8,580,824	(446,450)	8,134,374	8,134,367	7
Operating	612,959	1,966,780	2,579,739	(482,663)	2,097,076	2,096,339	737
Capital outlay	-	-	-	44,610	44,610	44,605	5
Totals	612,959	10,547,604	11,160,563	(884,503)	10,276,060	10,275,311	749
Human Resources:							
Personnel	-	5,140,808	5,140,808	(92,349)	5,048,459	5,047,223	1,236
Operating	391,913	2,366,360	2,758,273	419,004	3,177,277	3,177,277	-
Totals	391,913	7,507,168	7,899,081	326,655	8,225,736	8,224,500	1,236
Technology Services:							
Personnel	-	17,471,278	17,471,278	(1,066,870)	16,404,408	16,403,792	616
Operating	3,666,244	16,315,130	19,981,374	(103,841)	19,877,533	19,876,623	910
Capital outlay	133,367	152,630	285,997	202,010	488,007	488,004	3
Totals	3,799,611	33,939,038	37,738,649	(968,701)	36,769,948	36,768,419	1,529
Procurement:							
Personnel	-	2,697,021	2,697,021	20,290	2,717,311	2,690,382	26,929
Operating	46,817	232,750	279,567	(8,673)	270,894	260,016	10,878
Totals	46,817	2,929,771	2,976,588	11,617	2,988,205	2,950,398	37,807
Consumer Protection:							
Personnel	-	2,398,128	2,398,128	6,450	2,404,578	2,382,158	22,420
Operating	-	194,050	194,050	-	194,050	155,098	38,952
Totals	-	2,592,178	2,592,178	6,450	2,598,628	2,537,256	61,372

(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, 2007
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Corrections and Rehabilitation:							
Personnel	\$ -	\$ 51,828,048	\$ 51,828,048	\$ 1,082,750	\$ 52,910,798	\$ 52,910,794	\$ 4
Operating	16,901	6,876,782	6,893,683	1,154,356	8,048,039	8,048,039	-
Capital outlay	-	-	-	104,060	104,060	104,051	9
Totals	16,901	58,704,830	58,721,731	2,341,166	61,062,897	61,062,884	13
Human Relations Commission:							
Personnel	-	2,079,257	2,079,257	53,470	2,132,727	2,132,727	-
Operating	722	194,160	194,882	(12,830)	182,052	182,047	5
Totals	722	2,273,417	2,274,139	40,640	2,314,779	2,314,774	5
Police:							
Personnel	-	173,231,936	173,231,936	(1,738,500)	171,493,436	171,492,576	860
Operating	836,030	30,419,770	31,255,800	81,234	31,337,034	31,287,002	50,032
Capital outlay	-	-	-	11,190	11,190	11,185	5
Totals	836,030	203,651,706	204,487,736	(1,646,076)	202,841,660	202,790,763	50,897
Sheriff:							
Personnel	-	15,898,981	15,898,981	(357,733)	15,541,248	15,541,248	-
Operating	251,562	2,408,360	2,659,922	341,319	3,001,241	3,001,238	3
Totals	251,562	18,307,341	18,558,903	(16,414)	18,542,489	18,542,486	3
Homeland Security:							
Personnel	-	4,765,643	4,765,643	8,230	4,773,873	4,435,379	338,494
Operating	171,892	1,305,220	1,477,112	(15,246)	1,461,866	1,447,084	14,782
Totals	171,892	6,070,863	6,242,755	(7,016)	6,235,739	5,882,463	353,276
Public Works and Transportation:							
Personnel	-	34,268,229	34,268,229	1,974,590	36,242,819	36,242,801	18
Operating	3,520,733	31,869,930	35,390,663	10,501,929	45,892,592	45,892,592	-
Totals	3,520,733	66,138,159	69,658,892	12,476,519	82,135,411	82,135,393	18
Health and Human Services:							
Personnel	-	113,118,220	113,118,220	494,360	113,612,580	113,308,572	304,008
Operating	2,642,107	91,686,170	94,328,277	(514,655)	93,813,622	84,526,900	9,286,722
Capital outlay	-	-	-	396,400	396,400	396,399	1
Totals	2,642,107	204,804,390	207,446,497	376,105	207,822,602	198,231,871	9,590,731
Libraries:							
Personnel	-	30,257,915	30,257,915	(2,002,865)	28,255,050	28,254,818	232
Operating	1,403,089	7,957,820	9,360,909	193,082	9,553,991	9,553,721	270
Capital outlay	-	-	-	76,250	76,250	75,960	290
Totals	1,403,089	38,215,735	39,618,824	(1,733,533)	37,885,291	37,884,499	792
Housing and Community Affairs:							
Personnel	-	4,873,418	4,873,418	26,500	4,899,918	4,528,005	371,913
Operating	148,927	646,960	795,887	(1,107)	794,780	758,684	36,096
Totals	148,927	5,520,378	5,669,305	25,393	5,694,698	5,286,689	408,009
Economic Development:							
Personnel	-	4,280,679	4,280,679	(4,530)	4,276,149	4,276,145	4
Operating	165,966	2,852,850	3,018,816	180,452	3,199,268	3,199,259	9
Totals	165,966	7,133,529	7,299,495	175,922	7,475,417	7,475,404	13
Environmental Protection:							
Personnel	-	3,392,480	3,392,480	(413,490)	2,978,990	2,978,531	459
Operating	246,185	1,209,649	1,455,834	(295,750)	1,160,084	1,159,746	338
Totals	246,185	4,602,129	4,848,314	(709,240)	4,139,074	4,138,277	797
Total Departments	14,989,785	734,187,324	749,177,109	10,467,552	759,644,661	747,298,618	12,346,043
Nondepartmental:							
State retirement contribution - operating	-	848,350	848,350	250	848,600	848,591	9
Retirees group insurance - operating	-	23,924,080	23,924,080	-	23,924,080	23,924,080	-
State positions supplement - personnel	-	173,469	173,469	-	173,469	120,901	52,568
Judges special pension contribution - personnel	-	3,740	3,740	770	4,510	4,508	2
Compensation adjustment - personnel	-	2,515,660	2,515,660	(1,248,410)	1,267,250	1,267,247	3
Compensation adjustment - operating	98,000	576,600	674,600	(57,660)	616,940	606,357	10,583
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,488,235	5
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	564,670	564,670	65,740	630,410	630,408	2
Rebate - Takoma Park library - operating	-	103,620	103,620	6,880	110,500	110,492	8
Homeowners' association roadways - operating	-	392,510	392,510	-	392,510	369,360	23,150
Contribution to risk management - operating	-	8,938,480	8,938,480	(99,460)	8,839,020	8,654,964	184,056
Historical activities - operating	-	337,530	337,530	-	337,530	337,530	-
Conference and Visitors Bureau - operating	9,430	592,900	602,330	126,800	729,130	729,129	1
Arts Council - operating	-	5,966,490	5,966,490	215,000	6,181,490	6,181,490	-
Community grants - operating	2,840,624	9,240,790	12,081,414	(77,401)	12,004,013	11,932,473	71,540
Conference Center - personnel	-	94,852	94,852	-	94,852	83,412	11,440
Conference Center - operating	94,559	500,000	594,559	-	594,559	181,849	412,710
County associations - operating	-	64,290	64,290	770	65,060	65,059	1
Metropolitan Washington C O G - operating	-	734,500	734,500	-	734,500	734,500	-
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	20,000	7,500
Independent audit - operating	-	326,190	326,190	-	326,190	313,000	13,190
Prisoner medical services - operating	-	10,000	10,000	37,240	47,240	47,234	6
Boards, committees and commissions - operating	-	15,000	15,000	7,150	22,150	22,144	6
Charter Review Commission - operating	-	100	100	-	100	-	100
Closing costs assistance - operating	-	144,080	144,080	-	144,080	144,080	-
Working families income supplement - operating	-	10,123,800	10,123,800	1,079,080	11,202,880	9,986,203	1,216,677
Interagency tech, policy & coord comm - operating	-	30,000	30,000	-	30,000	4,549	25,451
County Leases - personnel	-	-	-	3,450	3,450	3,442	8
County Leases - operating	5,096	14,202,430	14,207,526	(1,053,546)	13,153,980	13,153,288	692
Rockville parking district - operating	260,000	130,000	390,000	202,630	592,630	570,000	22,630
Inauguration & Transition - personnel	-	-	-	8,620	8,620	8,613	7

(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, 2007
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Inauguration & Transition - operating	\$ -	\$ 100,000	\$ 100,000	\$ (8,620)	\$ 91,380	\$ 91,061	\$ 319
Desktop computer modernization - operating	854,804	6,470,880	7,325,684	(2,746)	7,322,938	6,347,026	975,912
Utilities - operating	31,831	23,640,870	23,672,701	(25,293)	23,647,408	23,625,625	21,783
Total - Nondepartmental	4,194,344	118,309,641	122,503,985	(818,756)	121,685,229	118,634,862	3,050,367
Total Expenditures	19,184,129	852,496,965	871,681,094	9,648,796	881,329,890	865,933,480	15,396,410
Excess of Revenues over (under) Expenditures	(19,184,129)	1,604,051,274	1,584,867,145	(8,090,414)	1,576,776,731	1,732,554,991	155,778,260
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	-	120,750	120,750	-
Recreation	-	4,822,490	4,822,490	-	4,822,490	4,822,490	-
Mass Transit	-	5,581,210	5,581,210	-	5,581,210	5,581,210	-
Water Quality Protection	-	150,900	150,900	-	150,900	150,900	-
Urban Districts	-	338,990	338,990	-	338,990	338,990	-
Housing Activities	-	93,040	93,040	-	93,040	257,474	164,434
Cable TV	-	2,643,910	2,643,910	-	2,643,910	2,643,910	-
Total Special Revenue Funds	-	13,751,290	13,751,290	-	13,751,290	13,915,724	164,434
Enterprise Funds:							
Liquor	-	22,149,060	22,149,060	-	22,149,060	22,149,060	-
Parking Lot Districts	-	451,520	451,520	-	451,520	451,520	-
Solid Waste Activities	-	1,735,420	1,735,420	-	1,735,420	1,735,420	-
Community Use of Public Facilities	-	266,840	266,840	-	266,840	266,840	-
Permitting Services	-	2,982,940	2,982,940	-	2,982,940	2,982,940	-
Total Enterprise Funds	-	27,585,780	27,585,780	-	27,585,780	27,585,780	-
Total Transfers In	-	41,337,070	41,337,070	-	41,337,070	41,501,504	164,434
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery Community College	-	-	-	-	-	277,763	277,763
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	606,183	277,763
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,294,400)	(1,294,400)	-	(1,294,400)	(1,294,400)	-
Urban Districts	-	(1,046,720)	(1,046,720)	-	(1,046,720)	(1,046,720)	-
Mass Transit	-	(515,580)	(515,580)	(973,440)	(1,489,020)	(1,489,020)	-
Revenue Stabilization	-	-	-	-	-	(11,860,987)	(11,860,987)
Fire Tax District	-	-	-	(550,370)	(550,370)	(550,370)	-
Housing Activities	-	(7,811,920)	(7,811,920)	-	(7,811,920)	(7,811,920)	-
Economic Development	-	(3,071,030)	(3,071,030)	-	(3,071,030)	(3,071,030)	-
Grants	-	-	-	(644,985)	(644,985)	(489,732)	155,253
Total Special Revenue Funds	-	(13,739,650)	(13,739,650)	(2,168,795)	(15,908,445)	(27,614,179)	(11,705,734)
Internal Service Funds:							
Motor Pool	-	(1,119,700)	(1,119,700)	(373,191)	(1,492,891)	(1,171,249)	321,642
Total Internal Service Funds	-	(1,119,700)	(1,119,700)	(373,191)	(1,492,891)	(1,171,249)	321,642
Enterprise Funds:							
Community Use of Public Facilities	-	(254,770)	(254,770)	-	(254,770)	(254,770)	-
Parking Lot Districts	(96,712)	-	(96,712)	(1,198,000)	(1,294,712)	(1,207,055)	87,657
Solid Waste Activities	-	(1,704,140)	(1,704,140)	-	(1,704,140)	(1,704,140)	-
Permitting Services	-	(1,104,990)	(1,104,990)	-	(1,104,990)	(1,104,990)	-
Total Enterprise Funds	(96,712)	(3,063,900)	(3,160,612)	(1,198,000)	(4,358,612)	(4,270,955)	87,657
Debt Service Fund	-	(201,553,900)	(201,553,900)	(1,830,407)	(203,384,307)	(203,384,307)	-
Capital Projects Fund	(25,137,925)	(18,519,000)	(43,656,925)	(22,984,165)	(66,641,090)	(36,435,691)	30,205,399
Total Transfers (Out)	(25,234,637)	(237,996,150)	(263,230,787)	(28,554,558)	(291,785,345)	(272,876,381)	18,908,964
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,382,153,860)	(1,382,153,860)	(400,000)	(1,382,553,860)	(1,382,553,860)	-
Montgomery County Public Schools - capital	(13,608,609)	-	(13,608,609)	(3,572,000)	(17,180,609)	(13,295,252)	3,885,357
Total Montgomery County Public Schools	(13,608,609)	(1,382,153,860)	(1,395,762,469)	(3,972,000)	(1,399,734,469)	(1,395,849,112)	3,885,357
Montgomery Community College - operating	-	(92,247,640)	(92,247,640)	-	(92,247,640)	(92,247,640)	-
Montgomery Community College - capital	(2,912,963)	(7,208,000)	(10,120,963)	(4,057,680)	(14,178,643)	(2,582,736)	11,595,907
Total Montgomery Community College	(2,912,963)	(99,455,640)	(102,368,603)	(4,057,680)	(106,426,283)	(94,830,376)	11,595,907
Housing Opportunity Commission - operating	-	(6,118,170)	(6,118,170)	-	(6,118,170)	(6,118,168)	2
Housing Opportunity Commission - capital	-	(2,005,598)	(2,005,598)	-	(2,005,598)	(582,963)	1,422,635
Total Housing Opportunity Commission	-	(8,123,768)	(8,123,768)	-	(8,123,768)	(6,701,131)	1,422,637
M-NCPPC - operating	-	-	-	(269,934)	(269,934)	(235,185)	34,749
Total Transfers (Out) - Component Units and JV	(16,521,572)	(1,489,733,268)	(1,506,254,840)	(8,299,614)	(1,514,554,454)	(1,497,615,804)	16,938,650
Total Other Financing Sources (Uses)	(41,756,209)	(1,686,063,928)	(1,727,820,137)	(36,854,172)	(1,764,674,309)	(1,728,384,498)	36,289,811
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(60,940,338)	(82,012,654)	(142,952,992)	(44,944,586)	(187,897,578)	4,170,493	192,068,071
Fund Balance - Beginning of Year	60,940,338	231,577,485	292,517,823	(902,723)	291,615,100	291,615,100	-
Fund Balance - End of Year	\$ -	\$ 149,564,831	\$ 149,564,831	\$ (45,847,309)	\$ 103,717,522	\$ 295,785,593	\$ 192,068,071

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007
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	\$ 9,748,742	\$ 45,107,765	\$ 21,029,097	\$ 18,731,807	\$ 94,617,411	\$ 136,177,944
Cash	36,450	3,000	158,445	50	197,945	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,464,862	-	1,464,862	-
Accounts	3,165,485	2,095,002	5,003	9,096	5,274,586	1,083,125
Notes	-	-	-	-	-	11,428
Parking violations	-	-	2,193,115	-	2,193,115	-
Due from other funds	-	3,970	-	-	3,970	6,059,308
Due from component units	-	59,816	627,154	-	686,970	557,006
Due from other governments	-	135,747	-	-	135,747	348,026
Inventory of supplies	30,352,675	-	-	-	30,352,675	3,235,312
Prepays	642,650	1,399	5,589	748	650,386	382,017
Other assets	135,058	-	-	-	135,058	-
Total Current Assets	<u>44,081,060</u>	<u>47,406,699</u>	<u>25,483,265</u>	<u>18,741,701</u>	<u>135,712,725</u>	<u>147,854,466</u>
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	28,667,668	6,096,448	-	34,764,116	-
Cash with fiscal agents	10,569,308	-	76,346	-	10,645,654	99,751
Investments	-	3,475,968	1,254,790	-	4,730,758	-
Restricted Assets	<u>10,569,308</u>	<u>32,143,636</u>	<u>7,427,584</u>	<u>-</u>	<u>50,140,528</u>	<u>99,751</u>
Unamortized debt costs	<u>9,647</u>	<u>351,131</u>	<u>633,405</u>	<u>-</u>	<u>994,183</u>	<u>-</u>
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,672,595	50,292,321	-	122,964,916	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	7,388,354	23,595,649	180,268,603	-	211,252,606	315,732
Furniture, fixtures, equipment, and machinery	5,575,224	10,323,678	984,902	2,390,493	19,274,297	4,477,940
Automobiles and trucks	3,645,686	447,140	91,763	195,622	4,380,211	71,204,524
Construction in progress	2,202,597	5,299,649	255,414	-	7,757,660	-
Subtotal	<u>19,293,291</u>	<u>130,187,817</u>	<u>266,354,481</u>	<u>2,586,115</u>	<u>418,421,704</u>	<u>76,289,267</u>
Less: Accumulated depreciation	<u>11,321,337</u>	<u>96,015,631</u>	<u>85,056,588</u>	<u>1,936,230</u>	<u>194,329,786</u>	<u>44,484,739</u>
Total Capital Assets (net of accumulated depreciation)	<u>7,971,954</u>	<u>34,172,186</u>	<u>181,297,893</u>	<u>649,885</u>	<u>224,091,918</u>	<u>31,804,528</u>
Total Noncurrent Assets	<u>18,550,909</u>	<u>66,666,953</u>	<u>189,358,882</u>	<u>649,885</u>	<u>275,226,629</u>	<u>31,904,279</u>
Total Assets	<u>62,631,969</u>	<u>114,073,652</u>	<u>214,842,147</u>	<u>19,391,586</u>	<u>410,939,354</u>	<u>179,758,745</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	12,095,512	9,119,972	2,625,081	193,111	24,033,676	6,958,097
Interest payable	-	71,292	384,340	-	455,632	6,323
Retainage payable	-	373,706	837,759	-	1,211,465	-
Deposits	410,756	-	-	-	410,756	-
Claims payable	-	-	-	-	-	86,072,292
Accrued liabilities	2,208,105	1,069,368	398,323	11,160,405	14,836,201	2,551,144
Due to other funds	319,168	137,832	41,026	372,062	870,088	278,527
Due to component units	-	-	-	596,740	596,740	77,621
Due to other governments	529,278	445,701	8,857	-	983,836	13,322
Capital lease payable	1,186,449	-	-	-	1,186,449	-
Equipment notes payable	-	-	141,327	94,912	236,239	134,823
Unearned revenue	499	-	-	1,038,281	1,038,780	881,334
General obligation bonds payable	-	2,447	-	-	2,447	-
Revenue bonds payable	-	3,160,000	3,955,000	-	7,115,000	-
Landfill closure costs	-	5,009,000	-	-	5,009,000	-
Other liabilities	-	-	595,836	-	595,836	-
Total Current Liabilities	<u>16,749,767</u>	<u>19,389,318</u>	<u>8,987,549</u>	<u>13,455,511</u>	<u>58,582,145</u>	<u>96,973,483</u>
Noncurrent Liabilities:						
Capital lease payable	8,846,723	-	-	-	8,846,723	-
Equipment notes payable	-	-	540,370	149,659	690,029	514,993
Revenue bonds payable	-	16,546,482	38,143,966	-	54,690,448	-
Landfill closure costs	-	19,688,923	-	-	19,688,923	-
Compensated absences	422,848	192,553	75,897	439,516	1,130,814	363,656
Total Noncurrent Liabilities	<u>9,269,571</u>	<u>36,427,958</u>	<u>38,760,233</u>	<u>589,175</u>	<u>85,046,937</u>	<u>878,649</u>
Total Liabilities	<u>26,019,338</u>	<u>55,817,276</u>	<u>47,747,782</u>	<u>14,044,686</u>	<u>143,629,082</u>	<u>97,852,132</u>
NET ASSETS						
Invested in capital, net of related debt	7,421,523	14,463,257	138,517,230	405,314	160,807,324	31,254,463
Restricted for debt service	10,569,308	32,143,636	7,351,238	-	50,064,182	-
Restricted for other purposes	-	-	76,346	-	76,346	99,751
Unrestricted	18,621,800	11,649,483	21,149,551	4,941,586	56,362,420	50,552,399
Total Net Assets	<u>\$ 36,612,631</u>	<u>\$ 58,256,376</u>	<u>\$ 167,094,365</u>	<u>\$ 5,346,900</u>	<u>267,310,272</u>	<u>\$ 81,906,613</u>
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(710,493)	
Net assets of business-type activities					\$ 266,599,779	

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, 2007
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	\$ 201,721,589	\$ -	\$ -	\$ -	\$ 201,721,589	\$ -
Charges for services	15,000	99,844,705	16,854,453	10,139,292	126,853,450	232,908,398
Licenses and permits	-	11,360	-	23,132,643	23,144,003	-
Fines and penalties	-	83,050	7,486,963	121,522	7,691,535	-
Claim recoveries	-	-	-	-	-	1,427,598
Total Operating Revenues	<u>201,736,589</u>	<u>99,939,115</u>	<u>24,341,416</u>	<u>33,393,457</u>	<u>359,410,577</u>	<u>234,335,996</u>
OPERATING EXPENSES						
Cost of goods sold	145,266,678	-	-	-	145,266,678	-
Personnel costs	20,441,669	11,151,543	3,214,887	22,034,421	56,842,520	19,828,890
Postage	56,947	31,759	1,792	42,856	133,354	1,644,817
Self-insurance incurred and estimated claims	-	-	-	27,752	27,752	132,440,267
Insurance	590,630	773,847	30,630	10,940	1,406,047	20,165,677
Supplies and materials	423,589	566,707	444,586	406,580	1,841,462	22,810,683
Contractual services	5,571,456	79,634,153	5,477,577	3,973,212	94,656,398	11,489,371
Communications	424,732	198,261	161,218	365,478	1,149,689	355,670
Transportation	572,379	1,846,296	209,953	577,610	3,206,238	201,954
Public utility services	834,909	138,793	2,829,371	1,564,850	5,367,923	782,335
Rentals	4,163,359	28,265	1,510,519	1,802,580	7,504,723	707,581
Maintenance	618,317	1,059,282	1,958,115	241,073	3,876,787	8,149,330
Depreciation	774,830	2,108,867	8,624,035	130,447	11,638,179	6,823,513
Landfill closure expense	-	4,196,000	-	-	4,196,000	-
Other	449,967	742,156	51,462	134,611	1,378,196	197,274
Total Operating Expenses	<u>180,189,462</u>	<u>102,475,929</u>	<u>24,514,145</u>	<u>31,312,410</u>	<u>338,491,946</u>	<u>225,597,362</u>
Operating Income (Loss)	<u>21,547,127</u>	<u>(2,536,814)</u>	<u>(172,729)</u>	<u>2,081,047</u>	<u>20,918,631</u>	<u>8,738,634</u>
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,562,592	-	9,562,592	-
Intergovernmental	-	11,135	-	-	11,135	1,130,813
Gain (loss) on disposal of capital assets	(22,479)	57,116	-	-	34,637	81,267
Investment income	548,546	5,013,053	1,845,898	931,601	8,339,098	7,863,411
Interest expense	(265,485)	(1,071,902)	(2,132,825)	(5,950)	(3,476,162)	(20,546)
Other revenue	7,969	51,817	965,219	-	1,025,005	6,779
Insurance recoveries	-	-	-	-	-	148,549
Total Nonoperating Revenues (Expenses)	<u>268,551</u>	<u>4,061,219</u>	<u>10,240,884</u>	<u>925,651</u>	<u>15,496,305</u>	<u>9,210,273</u>
Income (Loss) Before Capital Contributions and Transfers	<u>21,815,678</u>	<u>1,524,405</u>	<u>10,068,155</u>	<u>3,006,698</u>	<u>36,414,936</u>	<u>17,948,907</u>
Capital Contributions	-	-	835,614	-	835,614	-
Transfers In (Out):						
Transfers in	-	-	1,207,055	50,000	1,257,055	1,453,162
Transfers out	(22,149,060)	(1,735,420)	(9,031,975)	(3,249,780)	(36,166,235)	-
Total Transfers In (Out)	<u>(22,149,060)</u>	<u>(1,735,420)</u>	<u>(7,824,920)</u>	<u>(3,199,780)</u>	<u>(34,909,180)</u>	<u>1,453,162</u>
Change in Net Assets	(333,382)	(211,015)	3,078,849	(193,082)	2,341,370	19,402,069
Total Net Assets - Beginning 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>
Total Net Assets - End of Year	<u>\$ 36,612,631</u>	<u>\$ 58,256,376</u>	<u>\$ 167,094,365</u>	<u>\$ 5,346,900</u>		<u>\$ 81,906,613</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					525,539	
Change in net assets of business-type activities					<u>\$ 2,866,909</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, 2007
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	\$ 205,508,941	\$ 98,155,374	\$ 23,869,835	\$ 32,266,853	\$ 359,801,003	\$ 234,856,367
Payments to suppliers	(163,526,480)	(84,889,443)	(11,435,631)	(9,230,323)	(269,081,877)	(69,204,786)
Payments to employees	(20,103,664)	(11,129,310)	(3,173,583)	(21,839,262)	(56,245,819)	(19,628,878)
Internal activity - operating payments from other funds	-	2,519,330	-	1,104,990	3,624,320	-
Other operating receipts	-	-	-	4,714,185	4,714,185	426,152
Other operating payments	-	-	-	(3,848,372)	(3,848,372)	-
Claims paid	-	-	-	(27,752)	(27,752)	(135,392,394)
Other revenue	7,969	51,817	965,219	-	1,025,005	6,779
Net Cash Provided (Used) by Operating Activities	<u>21,886,766</u>	<u>4,707,768</u>	<u>10,225,840</u>	<u>3,140,319</u>	<u>39,960,693</u>	<u>11,063,240</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,763,635	-	9,763,635	-
Operating subsidies and transfers from other funds	-	-	1,207,055	50,000	1,257,055	-
Operating subsidies and transfers to other funds	(22,149,060)	(1,735,420)	(9,031,975)	(3,249,780)	(36,166,235)	-
Intergovernmental revenue	-	11,135	-	-	11,135	1,130,813
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(22,149,060)</u>	<u>(1,724,285)</u>	<u>1,938,715</u>	<u>(3,199,780)</u>	<u>(25,134,410)</u>	<u>1,130,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	10,605,352	-	750,000	290,531	11,645,883	715,000
Proceeds from sale of capital assets	-	57,116	-	-	57,116	343,847
Purchases and disposal of capital assets	986,140	(5,108,772)	(7,683,913)	(354,899)	(12,161,444)	(8,688,415)
Principal paid on capital debt	(581,828)	(3,007,447)	(5,883,303)	(45,960)	(9,518,538)	(65,184)
Interest paid on capital debt	(188,588)	(1,004,964)	(2,036,714)	(5,950)	(3,236,216)	(14,223)
Internal activity - payments from other funds	-	-	-	-	-	1,453,162
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>10,821,076</u>	<u>(9,064,067)</u>	<u>(14,853,930)</u>	<u>(116,278)</u>	<u>(13,213,199)</u>	<u>(6,255,813)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	234,221	4,808,804	1,771,459	931,601	7,746,085	7,837,342
Investment income from nonpooled investments	314,325	18,722	92	-	333,139	26,069
Net Cash Provided (Used) by Investing Activities	<u>548,546</u>	<u>4,827,526</u>	<u>1,771,551</u>	<u>931,601</u>	<u>8,079,224</u>	<u>7,863,411</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,107,328	(1,253,058)	(917,824)	755,862	9,692,308	13,801,651
Balances - Beginning of Year	9,247,172	75,031,491	28,278,160	17,975,995	130,532,818	122,476,344
Balances - End of Year	<u>\$ 20,354,500</u>	<u>\$ 73,778,433</u>	<u>\$ 27,360,336</u>	<u>\$ 18,731,857</u>	<u>\$ 140,225,126</u>	<u>\$ 136,277,995</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 21,547,127	\$ (2,536,814)	\$ (172,729)	\$ 2,081,047	\$ 20,918,631	\$ 8,738,634
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	774,830	2,108,867	8,624,035	130,447	11,638,179	6,823,513
Other revenue	7,969	51,817	965,219	-	1,025,005	6,779
Changes in assets and liabilities:						
Receivables, net	(1,085,496)	735,588	(473,811)	4,497	(819,222)	950,734
Inventories, prepaids and other assets	(1,067,778)	869	2,225	654	(1,064,030)	(170,338)
Accounts payable and other liabilities	1,396,359	4,346,814	1,230,479	(137,299)	6,836,353	(4,271,050)
Accrued expenses	313,755	627	50,422	1,060,973	1,425,777	(1,015,032)
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,886,766</u>	<u>\$ 4,707,768</u>	<u>\$ 10,225,840</u>	<u>\$ 3,140,319</u>	<u>\$ 39,960,693</u>	<u>\$ 11,063,240</u>
Noncash investing, capital and financing activities:						
Capital asset disposals	\$ 22,479	\$ -	\$ -	\$ -	\$ 22,479	\$ 71,775
Change in fair value of investments that are not cash equivalents	-	50,050	74,347	-	124,397	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007
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	\$ 800,295	\$ 31,429,080	\$ 234,765	\$ 59,993,689
Cash	-	-	-	51,035
Investments:				
U.S. Government and agency obligations	301,386,117	-	-	-
Asset-backed securities	57,774,486	-	-	-
Municipal/Provincial bonds	1,174,270	-	-	-
Corporate bonds	295,897,623	-	-	-
Collateralized mortgage obligations	13,898,231	-	-	-
Commercial mortgage-backed securities	64,854,406	-	-	-
Common and preferred stock	1,643,956,241	-	-	-
Mutual and commingled funds	369,057,705	-	-	-
Short-term investments	181,339,966	-	-	-
Cash collateral received under securities lending agreements	384,513,936	-	-	-
Real estate	30,928,663	-	-	-
Private equity	108,944,183	-	-	-
Total investments	<u>3,453,725,827</u>	<u>-</u>	<u>-</u>	<u>-</u>
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	10,001,833	-	-	-
Property taxes	-	-	-	5,288,785
Accounts	84,189	-	-	196,535
Due from other funds	9,086,579	-	-	-
Due from component units	131,778	-	-	-
Due from other governments	35,433	-	-	-
Total Current Assets	<u>3,473,865,934</u>	<u>31,429,080</u>	<u>234,765</u>	<u>65,530,044</u>
Total Assets	<u>3,473,865,934</u>	<u>31,429,080</u>	<u>234,765</u>	<u>\$ 65,530,044</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	388,693,396	-	-	6,162
Accrued liabilities	206,121	-	-	-
Deposits	-	-	-	982,072
Due to other funds	3,733	-	-	-
Due to other governments	-	-	-	2,268,904
Uncollected property taxes due to governments	-	-	-	4,963,716
Undistributed taxes and refunds	-	-	-	19,036,252
Unearned revenue	106,385	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,156,790
Other liabilities	-	-	-	35,116,148
Total Current Liabilities	<u>389,009,635</u>	<u>-</u>	<u>-</u>	<u>65,530,044</u>
Noncurrent Liabilities:				
Compensated absences	44,843	-	-	-
Total Liabilities	<u>389,054,478</u>	<u>-</u>	<u>-</u>	<u>\$ 65,530,044</u>
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	<u>\$ 3,084,811,456</u>	<u>\$ 31,429,080</u>	<u>\$ 234,765</u>	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
ADDITIONS			
Contributions:			
Employers	\$ 120,663,349	\$ -	\$ -
Members	39,809,023	-	52,466
Share purchases	-	22,839,722	-
Total Contributions	<u>160,472,372</u>	<u>22,839,722</u>	<u>52,466</u>
Investment income	499,540,841	1,532,656	10,058
Less: Investment expenses	29,699,860	-	-
Net Investment Income	<u>469,840,981</u>	<u>1,532,656</u>	<u>10,058</u>
Other income - forfeitures	<u>573,691</u>	-	-
Total Additions, net	<u>630,887,044</u>	<u>24,372,378</u>	<u>62,524</u>
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	98,652,678	-	-
Survivors	5,951,967	-	-
Disability	32,228,463	-	-
Total Benefits	<u>136,833,108</u>	-	-
Share redemptions	-	19,935,000	-
Member refunds	17,657,260	-	-
Program expenses	-	-	1,388,025
Administrative expenses	<u>2,724,645</u>	-	-
Total Deductions	<u>157,215,013</u>	<u>19,935,000</u>	<u>1,388,025</u>
Net Increase (Decrease)	473,672,031	4,437,378	(1,325,501)
Net Assets - Beginning of Year	<u>2,611,139,425</u>	<u>26,991,702</u>	<u>1,560,266</u>
Net Assets - End of Year	<u>\$ 3,084,811,456</u>	<u>\$ 31,429,080</u>	<u>\$ 234,765</u>

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2007
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 14,371,621	\$ 7,093,577	\$ 39,137,162	\$ 60,602,360
Cash with fiscal agents	-	7,939,925	2,281,660	10,221,585
Cash	5,226,411	14,737	3,720,711	8,961,859
Investments-cash equivalents	36,804,128	62,151,430	15,404,716	114,360,274
Investments	5,119,755	-	36,096,459	41,216,214
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	38,658,715	38,658,715
Accounts	13,938,042	3,945,851	9,980,551	27,864,444
Notes	-	-	33,400,000	33,400,000
Mortgages receivable	-	341,083,260	-	341,083,260
Interest	-	5,674,914	-	5,674,914
Other	1,130,960	32,215,307	1,902,780	35,249,047
Due from primary government	61,210,915	2,301,898	7,921,056	71,433,869
Due from other governments	25,876,885	2,993,239	2,734,836	31,604,960
Inventory of supplies	7,863,860	417,639	1,750,098	10,031,597
Prepays	776,203	1,253,212	834,777	2,864,192
Deferred charges	-	-	665,364	665,364
Other assets	-	37,108,309	1,642,095	38,750,404
Restricted Assets:				
Cash with fiscal agents	-	1,205,761	8,526,285	9,732,046
Cash	-	-	457,996	457,996
Investments - cash equivalents	-	95,630,530	5,737,332	101,367,862
Investments	-	172,225,048	-	172,225,048
Capital Assets:				
Nondepreciable assets	244,748,456	85,508,603	61,683,343	391,940,402
Depreciable assets, net	1,422,416,840	303,280,919	214,051,257	1,939,749,016
Total Assets	<u>1,839,484,076</u>	<u>1,162,044,159</u>	<u>486,587,193</u>	<u>3,488,115,428</u>
LIABILITIES				
Accounts payable	30,666,951	26,650,691	23,832,923	81,150,565
Interest payable	16,635	16,679,759	951,261	17,647,655
Retainage payable	11,903,420	-	228,355	12,131,775
Accrued liabilities	71,442,043	5,720,938	759,938	77,922,919
Claims payable	24,815,807	-	-	24,815,807
Deposits	-	8,367,294	10,000	8,377,294
Due to primary government	748,569	55,775,961	1,541,122	58,065,652
Unearned revenue	4,364,847	18,953,846	4,960,078	28,278,771
Other liabilities	-	11,777,455	-	11,777,455
Noncurrent Liabilities:				
Due within one year	27,123,162	52,421,491	6,488,974	86,033,627
Due in more than one year	112,629,916	782,476,120	156,359,655	1,051,465,691
Total Liabilities	<u>283,711,350</u>	<u>978,823,555</u>	<u>195,132,306</u>	<u>1,457,667,211</u>
NET ASSETS				
Invested in capital, net of related debt	1,640,303,491	30,707,613	214,634,001	1,885,645,105
Restricted for:				
Capital projects	-	-	2,577,289	2,577,289
Debt service	-	31,886,160	4,556,085	36,442,245
Other purposes	1,569,402	3,639,351	24,908,552	30,117,305
Unrestricted (deficit)	(86,100,167)	116,987,480	44,778,960	75,666,273
Total Net Assets	<u>\$ 1,555,772,726</u>	<u>\$ 183,220,604</u>	<u>\$ 291,454,887</u>	<u>\$ 2,030,448,217</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, 2007
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	\$ 4,076,287	\$ 3,838,061	\$ 295,772	\$ -	\$ -	\$ -	\$ 57,546	\$ 57,546
Culture and recreation	19,973,068	18,406,512	-	358,171	-	-	(1,208,385)	(1,208,385)
Community development and housing	185,196,037	100,990,296	86,969,258	5,126,988	-	7,890,505	-	7,890,505
Education:								
Secondary education	2,031,589,998	32,863,673	103,624,408	52,928,959	(1,842,172,958)	-	-	(1,842,172,958)
Higher education	237,155,429	67,911,834	28,745,322	629,325	-	-	(139,868,948)	(139,868,948)
Total component units	<u>\$ 2,477,990,819</u>	<u>\$ 224,010,376</u>	<u>\$ 219,634,760</u>	<u>\$ 59,043,443</u>	<u>(1,842,172,958)</u>	<u>7,890,505</u>	<u>(141,019,787)</u>	<u>(1,975,302,240)</u>
General revenues:								
Grants and contributions not restricted to specific programs					1,976,591,896	-	148,757,888	2,125,349,784
Investment income					1,925,324	2,778,897	8,247,893	12,952,114
Gain (loss) on sale of capital assets					-	-	24,224	24,224
Total general revenues					<u>1,978,517,220</u>	<u>2,778,897</u>	<u>157,030,005</u>	<u>2,138,326,122</u>
Change in net assets					136,344,262	10,669,402	16,010,218	163,023,882
Net assets - beginning					1,419,428,464	172,551,202	275,444,669	1,867,424,335
Net assets - ending					<u>\$ 1,555,772,726</u>	<u>\$ 183,220,604</u>	<u>\$ 291,454,887</u>	<u>\$ 2,030,448,217</u>

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002	Northeast Maryland Waste Disposal Authority 100 South Charles St, Tower II-Suite 402 Baltimore, MD 21201-2705

B) Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, 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.

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 and the Parking Lot District enterprise funds investment in U.S. Government securities are 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 FY07, investments in derivatives included asset-backed securities, collateralized mortgage obligations, exchanged-traded future contracts, forward currency contracts, 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, 2007, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$1,109,741,009. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$761,358,257.

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 \$53,553,520 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$41,558,699 at June 30, 2007, 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 FY07. 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 2006 (i.e., FY07), 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. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, 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 (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

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

Starting in FY07, the Department of Public Libraries is appropriated by program; the three programs within the Department of Public Libraries' budget to actual expenditures are as follows:

	Budget	Actual	Variance Positive (Negative)
Administration, Outreach and Support Services:			
Personnel	\$ 1,868,117	\$ 1,868,117	\$ -
Operating	1,745,081	1,745,077	4
Capital Outlay	290	-	290
Totals	<u>3,613,488</u>	<u>3,613,194</u>	<u>294</u>
Library Services to the Public:			
Personnel	24,413,661	24,413,661	-
Operating	561,329	561,329	-
Capital Outlay	75,960	75,960	-
Totals	<u>25,050,950</u>	<u>25,050,950</u>	<u>-</u>
Collection Management:			
Personnel	1,973,272	1,973,040	232
Operating	7,247,581	7,247,315	266
Totals	<u>9,220,853</u>	<u>9,220,355</u>	<u>498</u>
Total Personnel	28,255,050	28,254,818	232
Total Operating	9,553,991	9,553,721	270
Total Capital Outlay	76,250	75,960	290
Grand Total	<u>\$ 37,885,291</u>	<u>\$ 37,884,499</u>	<u>\$ 792</u>

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 FY07, the County Council increased the operating budget through supplemental and special appropriations by \$73.1 million. In addition, supplemental appropriations increased the CIP budget by \$35 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	\$ 2,598,488,471	\$ 865,933,480	\$ (1,728,384,498)	\$ 4,170,493
Reconciling items:				
Cancellation of prior year encumbrances	(902,723)	-	-	(902,723)
Elimination of encumbrances outstanding	-	(24,603,431)	-	24,603,431
Unrealized gains (losses)	(684,968)	-	-	(684,968)
Financing under capital lease	-	835,614	835,614	-
Financing under notes payable	-	150,640	150,640	-
Conference Center activity	17,215,135	16,436,175	-	778,960
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,322,840	-	(2,322,840)	-
Public agency permits	-	1,104,989	1,104,989	-
Solid waste tipping fees	-	1,704,140	1,704,140	-
Community use of public facilities for elections	-	204,770	204,770	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	606,183	-	(606,183)	-
Component Units - Transfer out	-	1,497,615,804	1,497,615,804	-
As reported - GAAP basis	<u>\$ 2,617,044,938</u>	<u>\$ 2,359,382,181</u>	<u>\$ (229,697,564)</u>	<u>\$ 27,965,193</u>

B) Deficit Fund Equity

Central Duplicating - The \$160,288 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 in FY05 to \$238,827 in FY06 and to \$160,288 in FY07. 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, 2007, totaled \$5,041,242,297 of which \$4,522,097,053 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:

<u>Statement of Net Asset Amounts:</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
Equity in pooled cash and investments	\$ 980,121,341	\$ 60,602,360	\$ 1,040,723,701
Cash with fiscal agents	32,855,104	10,221,585	43,076,689
Cash	431,159	8,961,859	9,393,018
Investments - cash equivalents	-	114,360,274	114,360,274
Investments	3,458,449,170	41,216,214	3,499,665,384
Restricted equity in pooled cash and investments	34,764,116	-	34,764,116
Restricted cash with fiscal agents	10,745,405	9,732,046	20,477,451
Restricted cash	-	457,996	457,996
Restricted investments - cash equivalents	-	101,367,862	101,367,862
Restricted investments	4,730,758	172,225,048	176,955,806
Total	<u>\$ 4,522,097,053</u>	<u>\$ 519,145,244</u>	<u>\$ 5,041,242,297</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 132,339,453	\$ (1,148,863)	\$ 131,190,590
Investments	4,345,725,932	363,664,823	4,709,390,755
Cash on hand, fiscal agents, safe deposit escrow	44,031,668	156,629,284	200,660,952
Total	<u>\$ 4,522,097,053</u>	<u>\$ 519,145,244</u>	<u>\$ 5,041,242,297</u>

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

Government-wide	\$ 975,862,362
Fiduciary funds	<u>3,546,234,691</u>
Total	<u>\$ 4,522,097,053</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	\$ 980,121,341	\$ 13,110,010	\$ 993,231,351
Restricted equity in pooled cash and investments	34,764,116	-	34,764,116
Total	<u>\$ 1,014,885,457</u>	<u>\$ 13,110,010</u>	<u>\$ 1,027,995,467</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 132,339,453	\$ -	\$ 132,339,453
Investments	882,546,004	13,110,010	895,656,014
Total	<u>\$ 1,014,885,457</u>	<u>\$ 13,110,010</u>	<u>\$ 1,027,995,467</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	\$ 284,557,677	\$ 285,000,000	July - August 07	5.26 - 5.38 %
U. S. Government securities	326,134,816	324,976,840	July 07 - June 08	5.00 - 5.56
Commercial paper	44,553,222	44,435,164	July - December 07	5.39 - 5.44
Bankers' acceptances	132,852,311	131,781,086	July - December 07	5.27 - 5.37
Money market mutual funds	107,557,988	107,557,988	n/a	5.25 - 5.31
Total	<u>\$ 895,656,014</u>	<u>\$ 893,751,078</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, 2007, 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	\$ 284,557,677	\$ 284,557,677	\$ -
U. S. Government securities	326,134,816	326,134,816	-
Commercial paper	44,553,222	44,553,222	-
Bankers' acceptances	132,852,311	132,852,311	-
Money market mutual funds	107,557,988	107,557,988	-
Total	<u>\$ 895,656,014</u>	<u>\$ 895,656,014</u>	<u>\$ -</u>

Credit Risk

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

As of June 30, 2007, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &</u>		
	<u>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, 2007, 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, 2007, 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	\$ 72,449,119
Federal Home Loan Bank	151,410,397
Federal Home Loan Mortgage Corp	59,709,739
Federal National Mortgage Association	85,033,780
Morgan Stanley	195,326,727
RBC Dain Rauscher	149,956,027
Wachovia	39,560,100

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2007, are as follows:

Statement of Net Assets
June 30, 2007

Assets:	
Investment in securities, at fair value	\$ 895,656,014
Cash	132,339,453
Total assets and net assets	<u>\$ 1,027,995,467</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 996,566,387
External participants' units outstanding (\$1.00 par)	31,429,080
Net assets	<u>\$ 1,027,995,467</u>
Participants net asset value, offering price and redemption price per share (\$1,027,995,467 / 1,033,435,338 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Investment Income *	\$ 47,731,815
Distributions to participants:	
Distributions paid and payable	(47,731,815)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 9,600,628,228
Redemption of units	<u>(9,422,939,800)</u>
Net increase in net assets and shares resulting from share transactions	<u>177,688,428</u>
Total increase in net assets	177,688,428
Net assets, July 1, 2006	<u>850,307,039</u>
Net assets, June 30, 2007	<u>\$ 1,027,995,467</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 \$27,826,160 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 \$3,789,729 is held in money market mutual funds and U.S Government securities.

Liquor – Cash with fiscal agents of \$10,569,308 is held in money market for the purpose of disbursement of construction cost for a temperature control warehouse.

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

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

Section 33-61C of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County. 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, 2007, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 153,343,540	16.73 %
	AA	1,526,456	0.17
Foreign Government Obligations	AAA	124,112,720	13.54
	A	14,801,884	1.62
	BBB	2,011,624	0.22
	BB	4,659,748	0.51
	B	400,428	0.04
	Unrated	529,717	0.06
Asset-Backed Securities	AAA	54,919,248	5.99
	AA	355,508	0.04
	A	679,593	0.07
	B	140,437	0.02
	Unrated	1,679,700	0.18
Commercial Mortgage-Backed Securities	AAA	29,209,946	3.19
Collateralized Mortgage Obligations	AAA	13,898,231	1.52
Municipal/Provincial Bonds	AA	881,698	0.10
	Unrated	292,572	0.03
	Corporate Bonds	AAA	13,356,025
	AA	19,083,811	2.08
	A	23,340,781	2.55
	BBB	31,873,292	3.48
	BB	37,755,073	4.12
	B	71,239,004	7.77
	CCC	23,618,993	2.58
	CC	279,000	0.03
	D	4,291	0.00
	Unrated	13,572,801	1.48
	Fixed Income Pooled Funds	AA	99,719,669
Unrated		43,164,604	4.71
Short-term Investments and Other	NA	135,874,705	14.83
Total Fixed Income Securities		\$ 916,325,099	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, 2007, 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	1.06	\$ 154,869,996	16.90 %
Foreign Government Obligations	7.41	146,516,121	15.99
Asset-Backed Securities	0.73	57,774,486	6.30
Commercial Mortgage-Backed Securities	4.08	29,209,946	3.19
Collateralized Mortgage Obligations	1.50	13,898,231	1.52
Municipal /Provincial Bonds	7.41	1,174,270	0.13
Corporate Bonds	3.80	234,123,071	25.55
Fixed Income Pooled Funds	2.13	142,884,273	15.59
Short-term Investments and Other	N/A	135,874,705	14.83
Total Fixed Income Securities		<u>\$ 916,325,099</u>	<u>100.00 %</u>

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$ 158,480,677	\$ 46,055,264	\$ (42,284,391)	\$ 162,251,550
Japanese Yen	104,323,018	-	27,260,744	131,583,762
British Pound Sterling	69,046,942	40,510,225	(26,847,735)	82,709,432
Hong Kong Dollar	25,165,837	-	5,511	25,171,348
New Zealand Dollar	687,925	1,075,204	20,545,897	22,309,026
Philippine Peso	7,029,724	-	-	7,029,724
Malaysian Ringgit	4,464,726	1,175,526	-	5,640,252
South African Rand	5,469,135	-	567	5,469,702
Danish Krone	5,380,322	-	(48,928)	5,331,394
Australian Dollar	4,337,145	-	585,067	4,922,212
Other Currencies	51,411,157	58,999,041	(106,365,610)	4,044,588
Total International Securities	<u>\$ 435,796,608</u>	<u>\$ 147,815,260</u>	<u>\$ (127,148,878)</u>	<u>\$ 456,462,990</u>

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY07, 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 prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. 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 \$15,445,000 are held for investment purposes and included within the financial statements at June 30, 2007. Gains and losses on futures and options are determined based upon fair market values and recorded in the Statement of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange swaps, and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2007, the System had approximately \$109,974,000 net exposure in foreign currency exchange and interest rate swaps and \$144,450,000 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, 2007, the fair value of securities on loan was \$394,768,927. Cash received as collateral and the related liability of \$384,513,936 as of June 30, 2007, 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 \$18,460,425 and \$17,654,765, 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, 2007:

<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	\$ 62,759,833	\$ -	\$ 63,977,115
Foreign Government Obligations	17,355,965	-	17,784,537
Corporate Bonds	66,555,379	-	68,045,636
Equities	227,554,706	-	234,706,648
Lent for Non-Cash Collateral:			
U.S. Government Obligations	8,654,384	8,838,198	-
Corporate Bonds	5,785,026	5,888,478	-
Equities	6,103,634	6,254,322	-
Total	<u>\$ 394,768,927</u>	<u>\$ 20,980,998</u>	<u>\$ 384,513,936</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, 2007, 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, 2007, the fair value of the mutual and commingled investment funds was \$119,063,075. The fair value of the investments in international mutual funds was \$4,903,686.

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, 2007, the fair value of the mutual and commingled investment funds was \$248,948,643. The fair value of the investments in international mutual funds included in the County Plan was \$22,233,050.

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, 2007, 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, 2007, 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	\$ 5,584,869	\$	5,584,869	
Money Market Accounts	6,108,098		6,108,098	
U. S. Treasury Bills	7,806,243		7,806,243	
Opportunity Housing Fund:				
Investment in County Local Investment Pool	7,093,577		7,093,577	
Investment in MLGIP	509,108		509,108	
Money Market Accounts	22,916,302		22,916,302	
Public Fund:				
Investment in MLGIP	5,242,905		5,242,905	
Money Market Accounts	7,689,912		7,689,912	
Multi-Family Fund - Money Market Accounts	55,456,719		55,456,719	
Single Family Fund - Money Market Accounts	45,193,100		45,193,100	
Total	<u>\$ 163,600,833</u>	<u>\$</u>	<u>163,600,833</u>	
<u>Short-term Investments:</u>				
Multi-Family Fund				
Freddie Mac	\$ 470,645	\$	470,645	
GNMA Pool	889,271		889,271	
US Treasuries	246,140		246,140	
Single Family Fund:				
Federal Home Loan Banks	29,184,328		29,184,328	
Society General Repurchase Agreement	18,291,033		18,291,033	
Total	<u>\$ 49,081,417</u>	<u>\$</u>	<u>49,081,417</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
Fannie Mae	3,646,856	-	3,646,856	AAA
Freddie Mac	3,568,047	2,147,342	1,420,705	AAA
GNMA Pool	73,326,438	-	73,326,438	AAA
JP Morgan Chase Repurchase Agreement	2,602,247	-	2,602,247	AAA
U. S. Treasury Bond	4,452,801	-	4,452,801	AAA
Single Family Fund:				
Federal Farm Credit Banks	5,510,343	-	5,510,343	AAA
Federal Home Loan Banks	2,109,584	768,377	1,341,207	AAA
Fannie Mae	849,394	-	849,394	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	AA1
Trinity Plus Investment Agreement	12,979,585	12,979,585	-	AAA
Tennessee Valley Authority	3,256,608	-	3,256,608.00	AAA
U. S. Treasury Bond	7,904,403	-	7,904,403	AAA
Total	<u>123,143,631</u>	<u>15,895,304</u>	<u>107,248,327</u>	
Cash balances	<u>1,685,240</u>			
Total Cash, Cash Equivalents and Investments	<u>\$ 337,511,121</u>			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2007, reported in the enterprise funds, amounted to:

Liquor	\$ 682,159
Solid Waste Activities	12,064
Parking Lot Districts	<u>2,037,252</u>
	<u>\$ 2,731,475</u>

2) Due from/to Component Units

The balances at June 30, 2007, were:

Due from Component Units /

Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ 657,222	\$ 1,350,000	\$ -	\$ 1,378,741	\$ -	\$ 3,385,963
Capital Projects	-	-	-	14,268,153	-	14,268,153
Solid Waste Activities Enterprise	56,251	389	-	586	2,590	59,816
Nonmajor governmental	-	-	-	39,035,782	-	39,035,782
Major Enterprise	-	-	-	627,154	-	627,154
Internal Service	35,096	(111)	143,797	363,448	14,776	557,006
Fiduciary	-	-	29,681	102,097	-	131,778
Total Due to Primary Government	<u>\$ 748,569</u>	<u>\$ 1,350,278</u>	<u>\$ 173,478</u>	<u>\$55,775,961</u>	<u>\$ 17,366</u>	<u>\$ 58,065,652</u>

Due to Component Units /

Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$51,860,234	\$ 99,577	\$ -	\$ 1,591,555	\$ -	\$ 53,551,366
Capital Projects	7,053,427	7,755,510	-	334,613	-	15,143,550
Nonmajor governmental	1,622,893	29,426	-	375,730	36,543	2,064,592
Nonmajor Enterprise	596,740	-	-	-	-	596,740
Internal Service	77,621	-	-	-	-	77,621
Total Due from Primary Government	<u>\$61,210,915</u>	<u>\$ 7,884,513</u>	<u>\$ -</u>	<u>\$ 2,301,898</u>	<u>\$ 36,543</u>	<u>\$ 71,433,869</u>

In the nonmajor governmental funds, \$30,277,244 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 FY07, approximately \$401,100 in loans to HOC was forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2007, 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	\$ -	\$ 312,638	\$ 846	\$ 15,060,052	\$ 291,030	\$ -	\$ 15,664,566
State of Maryland	21,396,431	12,427,749	6,784	8,756,763	20,372	25,884	42,633,983
Other	109,676	1,002,302	128,117	553,857	36,624	9,549	1,840,125
Total	<u>\$ 21,506,107</u>	<u>\$ 13,742,689</u>	<u>\$ 135,747</u>	<u>\$ 24,370,672</u>	<u>\$ 348,026</u>	<u>\$ 35,433</u>	<u>\$ 60,138,674</u>

C) **Capital Assets**

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2007, was as follows:

	July 1, 2006	Increases	Decreases	June 30, 2007
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 544,279,988	\$ 25,814,950	\$ -	\$ 570,094,938
Construction in progress	146,347,682	98,571,202	69,831,103	175,087,781
Total Nondepreciable Capital Assets	<u>690,627,670</u>	<u>124,386,152</u>	<u>69,831,103</u>	<u>745,182,719</u>
Depreciable Capital Assets:				
Buildings	708,412,348	39,764,224	-	748,176,572
Improvements other than buildings	44,349,270	1,275,930	-	45,625,200
Furniture, fixtures, equipment and machinery	215,798,805	16,660,243	5,773,959	226,685,089
Leasehold improvements	12,072,573	705,329	-	12,777,902
Automobiles and trucks	182,308,625	25,342,700	3,937,816	203,713,509
Infrastructure	1,497,802,708	34,696,220	-	1,532,498,928
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	<u>2,662,824,060</u>	<u>118,444,646</u>	<u>9,711,775</u>	<u>2,771,556,931</u>
Less Accumulated Depreciation for:				
Buildings	226,076,895	19,881,789	-	245,958,684
Improvements other than buildings	14,393,258	1,294,136	-	15,687,394
Furniture, fixtures, equipment and machinery	92,652,447	21,989,101	5,811,713	108,829,835
Leasehold improvements	1,306,791	769,457	-	2,076,248
Automobiles and trucks	88,764,145	13,795,170	3,455,106	99,104,209
Infrastructure	385,532,585	30,304,735	-	415,837,320
Other assets	1,283,605	207,973	-	1,491,578
Total Accumulated Depreciation	<u>810,009,726</u>	<u>88,242,361</u>	<u>9,266,819</u>	<u>888,985,268</u>
Total Depreciable Assets, net	<u>1,852,814,334</u>	<u>30,202,285</u>	<u>444,956</u>	<u>1,882,571,663</u>
Governmental Activities Capital Assets, net	<u>\$ 2,543,442,004</u>	<u>\$ 154,588,437</u>	<u>\$ 70,276,059</u>	<u>\$2,627,754,382</u>
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 52,777,663	\$ -	\$ -	\$ 52,777,663
Construction in progress	4,539,914	12,650,001	9,432,255	7,757,660
Total Nondepreciable Capital Assets	<u>57,317,577</u>	<u>12,650,001</u>	<u>9,432,255</u>	<u>60,535,323</u>
Depreciable Capital Assets:				
Buildings	209,542,534	1,710,072	-	211,252,606
Improvements other than buildings	116,965,469	5,999,447	-	122,964,916
Furniture, fixtures, equipment and machinery	18,833,445	1,499,198	1,058,346	19,274,297
Infrastructure	-	14,351	-	14,351
Automobiles and trucks	3,907,274	488,993	16,056	4,380,211
Total Capital Assets being Depreciated	<u>349,248,722</u>	<u>9,712,061</u>	<u>1,074,402</u>	<u>357,886,381</u>
Less Accumulated Depreciation for:				
Buildings	73,834,969	7,065,503	-	80,900,472
Improvements other than buildings	94,176,755	2,936,524	-	97,113,279
Furniture, fixtures, equipment and machinery	12,831,936	1,409,884	1,035,869	13,205,951
Infrastructure	-	430	-	430
Automobiles and trucks	2,899,872	225,838	16,056	3,109,654
Total Accumulated Depreciation	<u>183,743,532</u>	<u>11,638,179</u>	<u>1,051,925</u>	<u>194,329,786</u>
Total Depreciable Assets, net	<u>165,505,190</u>	<u>(1,926,118)</u>	<u>22,477</u>	<u>163,556,595</u>
Business-Type Activities Capital Assets, net	<u>\$ 222,822,767</u>	<u>\$ 10,723,883</u>	<u>\$ 9,454,732</u>	<u>\$ 224,091,918</u>

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

Governmental activities:

General government	\$ 10,749,522
Public safety	25,403,595
Public works and transportation	41,675,538
Health and human services	1,625,892
Culture and recreation	7,532,492
Community development and housing	1,056,574
Environment	198,748
Total depreciation expense-governmental activities	<u>\$ 88,242,361</u>

Business-type activities:

Liquor	\$ 774,830
Solid waste activities	2,108,867
Parking lot districts	8,624,035
Permitting services	128,102
Community use of public facilities	2,345
Total depreciation expense-business-type activities	<u>\$ 11,638,179</u>

Construction commitments as of June 30, 2007, are as follows:

General Government	\$ 10,852,038
Public Safety	25,019,510
Public Works and Transportaion	59,262,569
Culture & Recreation	2,265,352
Community Development & Housing	5,227,039
Environment	3,523,393
Total	<u>\$ 106,149,901</u>

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,667,165,296 at June 30, 2007, are significant in relation to the total component unit capital assets.

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 67,966,869	\$ 177,432	\$ 3,677	\$ 68,140,624
Construction in progress	219,314,700	165,933,213	208,640,081	176,607,832
Total nondepreciable capital assets	<u>287,281,569</u>	<u>166,110,645</u>	<u>208,643,758</u>	<u>244,748,456</u>
Depreciable capital assets:				
Buildings and improvements	1,659,903,532	186,720,894	13,180,543	1,833,443,883
Land improvements	131,397,637	22,397,482	-	153,795,119
Machinery and equipment	135,633,758	16,552,030	15,422,009	136,763,779
Total depreciable capital assets	<u>1,926,934,927</u>	<u>225,670,406</u>	<u>28,602,552</u>	<u>2,124,002,781</u>
Less accumulated depreciation for:				
Buildings and improvements	575,568,134	40,877,579	13,023,162	603,422,551
Land improvements	27,882,185	3,214,683	-	31,096,868
Machinery and equipment	76,695,383	11,343,192	15,282,375	72,756,200
Total accumulated depreciation	<u>680,145,702</u>	<u>55,435,454</u>	<u>28,305,537</u>	<u>707,275,619</u>
Total depreciable capital assets, net	<u>1,246,789,225</u>	<u>170,234,952</u>	<u>297,015</u>	<u>1,416,727,162</u>
Government activities capital assets, net	<u>\$ 1,534,070,794</u>	<u>\$ 336,345,597</u>	<u>\$ 208,940,773</u>	<u>1,661,475,618</u>
Business-Type Activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Machinery and equipment	19,218,495	1,229,771	879,357	19,568,909
Total depreciable capital assets	<u>19,236,326</u>	<u>1,229,771</u>	<u>879,357</u>	<u>19,586,740</u>
Less accumulated depreciation for:				
Buildings	11,590	1,783	-	13,373
Machinery and equipment	13,578,212	1,102,134	796,657	13,883,689
Total accumulated depreciation	<u>13,589,802</u>	<u>1,103,917</u>	<u>796,657</u>	<u>13,897,062</u>
Business-type activities capital assets, net	<u>\$ 5,646,524</u>	<u>\$ 125,854</u>	<u>\$ 82,700</u>	<u>5,689,678</u>
Total MCPS government-wide capital assets				<u>\$ 1,667,165,296</u>

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

Governmental activities:	
Regular instruction	\$ 45,597,956
Special education	282,706
School administration	47,288
Student personnel services	5,468
Student transportation	7,318,363
Operation of plant	138,179
Maintenance of plant	857,806
Administration	1,187,688
Total depreciation expense-governmental activities	<u>\$ 55,435,454</u>
Business-type activities:	
Food services	\$ 1,084,473
Adult education and summer entrepreneurial	17,660
Real estate management	1,784
Total depreciation expense-business type activities	<u>\$ 1,103,917</u>

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2007, is as follows:

Due To Fund	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
General	\$ -	\$ 1,267	\$ -	\$ 3,836,725	\$ 5,685,984	\$ 9,523,976
Debt Service	26,710,046	-	1,114,114	-	-	27,824,160
Capital Projects	47,533,077	-	5,694,840	79,759	81,807	53,389,483
Liquor	-	589	-	175,031	143,548	319,168
Solid Waste Activities	-	-	-	65,331	72,501	137,832
Parking Lot Districts	-	2,064	-	19,897	19,065	41,026
Nonmajor Governmental	5,869,125	50	-	1,573,752	2,738,165	10,181,092
Nonmajor Enterprise	-	-	-	155,530	216,532	372,062
Internal Service	-	-	-	150,254	128,273	278,527
Fiduciary	-	-	-	3,029	704	3,733
Total	<u>\$ 80,112,248</u>	<u>\$ 3,970</u>	<u>\$ 6,808,954</u>	<u>\$ 6,059,308</u>	<u>\$ 9,086,579</u>	<u>\$ 102,071,059</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY08:

- \$22.4 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
- \$27.8 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, 2007, 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	\$ -	\$ 203,384,307	\$ 36,435,692	\$ 2,042,669	\$ 27,614,179	\$ 50,000	\$ 1,171,249	\$ 270,698,096
Debt Service	-	-	6,175,154	-	-	-	-	6,175,154
Liquor	22,149,060	-	-	-	-	-	-	22,149,060
Solid Waste Activities	1,735,420	-	-	-	-	-	-	1,735,420
Parking Lot Districts	451,520	-	201,730	-	8,378,725	-	-	9,031,975
Nonmajor Governmental	11,592,884	22,854,321	5,363,161	-	302,136	-	281,913	40,394,415
Nonmajor Enterprise	3,249,780	-	-	-	-	-	-	3,249,780
Total	\$ 39,178,664	\$ 226,238,628	\$ 48,175,737	\$ 2,042,669	\$ 36,295,040	\$ 50,000	\$ 1,453,162	\$ 353,433,900

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 \$7,811,920 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 \$835,614 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 buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$13,069,000 for FY07. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2008	\$ 15,311,000
2009	13,764,000
2010	11,891,000
2011	9,359,000
2012	8,528,000
2013 - 2017	10,115,000
2018 - 2022	198,000
2023 - 2026	138,000
Total	<u>\$ 69,304,000</u>

2) **Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. 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	\$ 28,286,899	\$ 27,813,354	\$ 56,100,253
Unearned lease income	(8,992,769)	(8,852,484)	(17,845,253)
Net investment in direct financing leases	<u>\$ 19,294,130</u>	<u>\$ 18,960,870</u>	<u>\$ 38,255,000</u>

At June 30, 2007, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2008	\$ 3,292,339
2009	3,295,276
2010	3,294,214
2011	3,292,009
2012	3,296,303
2013-2017	16,533,297
2018-2022	16,662,895
2023-2024	6,433,920
Total minimum lease payments	<u>\$ 56,100,253</u>

3) Capital Lease Obligations

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

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

Land	\$ 13,449,033
Land improvements	1,661,214
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	<u>159,291</u>
Subtotal	69,052,719
Less accumulated depreciation	<u>(18,161,893)</u>
Total asset value under capital leases	<u><u>\$ 50,890,826</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	
2008	\$ 5,577,713
2009	5,194,455
2010	5,203,801
2011	4,859,933
2012	4,862,605
2013-2017	17,834,900
2018-2022	8,645,680
2023-2024	<u>996,400</u>
Total minimum lease payments	53,175,487
Less: amount representing interest	<u>(13,850,487)</u>
Present value of minimum lease payments	<u><u>\$ 39,325,000</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:

	Town Square	Wayne Avenue	Total
Buildings	\$ 29,573,442	\$ 29,601,352	\$ 59,174,794
Less accumulated depreciation	(2,729,741)	(2,891,533)	(5,621,274)
Total asset value under capital leases	<u>\$ 26,843,701</u>	<u>\$ 26,709,819</u>	<u>\$ 53,553,520</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

Fiscal Year			
Ending June 30	Town Square	Wayne Ave	Total
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	2,469,739	3,084,425	5,554,164
2013-2017	<u>12,250,546</u>	<u>15,523,974</u>	<u>27,774,520</u>
Total minimum lease payments	24,627,527	30,980,337	55,607,864
Less: amount representing interest	<u>(4,602,527)</u>	<u>(6,600,337)</u>	<u>(11,202,864)</u>
Present value of minimum lease payments	<u>\$ 20,025,000</u>	<u>\$ 24,380,000</u>	<u>\$ 44,405,000</u>

The County has entered into a capital lease agreement with Banc of America Public Capital Corporation, to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date of the lease. The obligations of the County under this financing agreement are payable from the Department of Liquor Control revenues. The ownership of the warehouse will transfer to the County at the end of the lease agreement. Costs incurred at year-end totaling \$715,249 are recorded as construction in progress.

The future minimum lease obligation and net present value of these minimum lease payments as of June 30, 2007, are as follows:

Fiscal Year	
Ending June 30	
2008	\$ 1,540,373
2009	1,540,373
2010	1,540,373
2011	1,540,373
2012	1,540,373
2013-2015	<u>3,850,932</u>
Total minimum lease payments	11,552,797
Less: amount representing interest	<u>(1,519,625)</u>
Present value of minimum lease payments	<u>\$ 10,033,172</u>

Other Restricted Assets:

Restricted assets related to business activities, classified as “Cash with Fiscal Agents” for statement of net asset purposes, including the following:

<u>Purpose</u>	<u>Silver Spring Parking Lot District</u>	<u>Liquor Control</u>	<u>Central Duplicating</u>
Liquor Control Account - Available for construction of temperature control warehouse	\$ -	\$ 10,569,308	\$ -
Central Duplicating Account - Available for equipment purchase	-	-	99,751
Silver Spring Parking lot Account - Available for meters purchase	76,346	-	-
Total	<u>\$ 76,346</u>	<u>\$ 10,569,308</u>	<u>\$ 99,751</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, 2007, \$45,500,000, and \$24,000,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2007, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2007	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2007
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 39,943,054	\$ -	\$ -	\$ 39,943,054
04/15/97	1998-17	5.0 - 5.375	115,000,000	5,750,000	-	-	5,750,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	67,295,000	-	-	67,295,000
04/01/98	1999-18	4.875	115,000,000	11,500,000	-	-	11,500,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	24,000,000	-	-	24,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	26,000,000	-	-	26,000,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	42,000,000	-	-	42,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	126,840,000	4,649,748	(5,956,514)	125,533,234
02/01/02	2003-22	3.0 - 5.0	160,000,000	64,000,000	1,267,861	-	65,267,861
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	81,165,000	3,724,210	(2,815,421)	82,073,789
05/01/03	2004-23	1.5 - 4.0	155,000,000	124,000,000	894,247	-	124,894,247
05/01/03*	2004-11	2.0 - 5.0	49,505,000	30,730,000	1,199,094	(542,536)	31,386,558
03/15/04	2005-24	3.0 - 5.0	154,600,000	131,410,000	7,605,970	-	139,015,970
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	4,966,540	(6,080,410)	96,576,130
05/15/05	2006-25	4.0 - 5.0	200,000,000	180,000,000	11,763,958	-	191,763,958
06/01/05*	2005-16	3.781	120,355,000	120,355,000	11,955,083	(9,813,945)	122,496,138
05/01/06	2006-17	3.871	100,000,000	90,000,000	4,315,886	-	94,315,886
05/01/07	2007-27	4.082	250,000,000	250,000,000	18,540,088	-	268,540,088
Total			<u>\$ 2,489,668,054</u>	<u>\$ 1,512,678,054</u>	<u>\$ 70,882,685</u>	<u>\$ (25,208,826)</u>	<u>\$ 1,558,351,913</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 FY07 are as follows:

	Balance July 1, 2006	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2007
Governmental Activities:					
General County	\$ 232,393,326	\$ 32,500,000	\$ 20,235,034	\$ -	\$ 244,658,292
Roads and Storm Drainage	343,996,799	47,000,000	35,121,209	-	355,875,590
Parks	52,638,864	6,000,000	4,268,398	-	54,370,466
Public Schools	671,262,014	149,600,000	63,198,718	-	757,663,296
Community College	56,348,182	10,400,000	4,040,935	-	62,707,247
Consolidated Fire Tax District	23,660,326	4,500,000	2,219,778	-	25,940,548
Mass Transit	12,979,316	-	1,878,636	-	11,100,680
Public Housing	604,333	-	244,845	-	359,488
	<u>1,393,883,160</u>	<u>250,000,000</u>	<u>131,207,553</u>	<u>-</u>	<u>1,512,675,607</u>
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	4,894	-	2,447	-	2,447
	<u>4,894</u>	<u>-</u>	<u>2,447</u>	<u>-</u>	<u>2,447</u>
Total	<u>\$ 1,393,888,054</u>	<u>\$ 250,000,000</u>	<u>\$ 131,210,000</u>	<u>\$ -</u>	<u>\$ 1,512,678,054</u>

For the general obligation bonds carried in the enterprise funds, \$2,447 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
2008	\$ 143,440,000	\$ 70,663,590	\$ 214,103,590
2009	122,286,683	76,373,882	198,660,565
2010	120,887,086	66,534,454	187,421,540
2011	117,744,285	55,734,204	173,478,489
2012	113,025,000	47,286,509	160,311,509
2013-2017	494,000,000	158,719,879	652,719,879
2018-2022	295,585,000	64,436,589	360,021,589
2023-2027	<u>105,710,000</u>	<u>13,689,900</u>	<u>119,399,900</u>
Total	<u>\$ 1,512,678,054</u>	<u>\$ 553,439,007</u>	<u>\$ 2,066,117,061</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, 2007, is \$6,372,313,393.

General obligation bonds authorized and unissued as of June 30, 2007, are as follows:

Purpose	Authority		Amount	Amount Unissued
	Chapter	Act		
General County, Parks, and Consolidated Fire Tax District	17	2003	\$ 63,600,000	\$ 32,590,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
	43	2006	92,000,000	92,000,000
			<u>230,900,000</u>	<u>199,890,000</u>
Roads and Storm Drainage	18	2004	97,500,000	39,440,000
	19	2005	53,500,000	53,500,000
	43	2006	66,700,000	66,700,000
			<u>217,700,000</u>	<u>159,640,000</u>
Public Schools and Community College	19	2005	131,100,000	71,268,000
	43	2006	157,100,000	157,100,000
			<u>288,200,000</u>	<u>228,368,000</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>\$ 764,945,000</u>	<u>\$ 609,303,000</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, 2007, are as follows:

<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2007</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 FY07 are as follows:

	Balance July 1, 2006	VRDOs Issued	VRDOs Retired	Balance June 30, 2007
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	<u>\$ 100,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000,000</u>

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2008	\$ -	\$ 3,885,000	\$ 3,885,000
2009	-	3,885,000	3,885,000
2010	-	3,885,000	3,885,000
2011	-	3,885,000	3,885,000
2012	-	3,885,000	3,885,000
2013-2017	-	19,425,000	19,425,000
2018-2022	50,000,000	13,597,500	63,597,500
2023-2026	50,000,000	3,885,000	53,885,000
Total	<u>\$ 100,000,000</u>	<u>\$ 56,332,500</u>	<u>\$ 156,332,500</u>

* Includes interest on VRDOs at estimated rates of 3.87 percent for Series A and 3.90 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

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

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

	<u>Terms of Commitment</u>	<u>Approximate amount of Pledge</u>
Parking Lot Districts:		
Bethesda Parking Lot District	19	\$ 55,554,234
Silver Spring Parking Lot District	2	1,696,125
Solid Waste Disposal Fund:	6	<u>22,868,950</u>
Total		<u>\$ 80,119,309</u>

The pledge net revenues recognized during FY07 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Parking Lot District:				
Bethesda Parking Lot District	\$ 13,468,254	\$3,550,000	\$ 1,848,185	\$ 5,398,185
Silver Spring Parking Lot District	6,611,627	2,265,000	173,438	2,438,438
Solid Waste Disposal Fund:	4,315,354	3,005,000	1,004,700	4,009,700

Revenue bond issues outstanding as of June 30, 2007, are as follows:

	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2007</u>	<u>Unamortized Premium/ (Discount)</u>	<u>Unamortized Deferred Difference</u>	<u>Carrying Value June 30, 2007</u>
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	\$ 14,560,000	\$ 3,060,000	\$ 24,671	\$ (51,084)	\$ 3,033,587
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	1,605,000	17,105	(28,692)	1,593,413
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	20,880,000	(16,052)	-	20,863,948
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	19,760,000	564,597	(618,115)	19,706,482
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	16,495,000	113,019	-	16,608,019
Total				<u>\$ 100,260,000</u>	<u>\$ 61,800,000</u>	<u>\$ 703,340</u>	<u>\$ (697,891)</u>	<u>\$ 61,805,449</u>

Changes in revenue bond principal during FY07 are as follows:

	Balance July 1, 2006	Bonds Issued	Bonds Retired	Balance June 30, 2007
Bethesda Parking Lot District	\$ 43,985,000	\$ -	\$ 3,550,000	\$ 40,435,000
Silver Spring Parking Lot District	3,870,000	-	2,265,000	1,605,000
Solid Waste Disposal	22,765,000	-	3,005,000	19,760,000
Total	\$ 70,620,000	\$ -	\$ 8,820,000	\$ 61,800,000

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
2008	\$ 3,175,000	\$ 1,709,435	\$ 780,000	\$ 60,187
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	1,995,000	1,278,135	-	-
2013-2017	11,400,000	5,049,355	-	-
2018-2022	12,175,000	2,339,408	-	-
2023-2026	4,595,000	391,746	-	-
Total	\$ 40,435,000	\$ 15,119,234	\$ 1,605,000	\$ 91,125

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2008	\$ 3,160,000	\$ 854,450	\$ 7,115,000	\$ 2,624,072	\$ 9,739,072
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	3,690,000	318,750	5,685,000	1,596,885	7,281,885
2013-2017	2,685,000	134,250	14,085,000	5,183,605	19,268,605
2018-2022	-	-	12,175,000	2,339,408	14,514,408
2023-2026	-	-	4,595,000	391,746	4,986,746
Total	\$ 19,760,000	\$ 3,108,950	\$ 61,800,000	\$ 18,319,309	\$ 80,119,309

Revenue bonds authorized and unissued as of June 30, 2007, 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	\$ 1,163,678	\$ 1,454,509	\$ -
Debt Service Account - Used to pay debt service on bonds	408,245	70,016	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,254,790	-	3,475,968
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,463,985
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,120,103
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	3,083,580
Total	\$ 4,326,713	\$ 3,024,525	\$ 32,143,636

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 FY07 are as follows:

	Balance July 1, 2006	BANs Issued	BANs Retired	Balance June 30, 2007
BAN Series 2002-I	\$ 100,000,000	\$ -	\$ 100,000,000	\$ -
BAN Series 2002-J	-	150,000,000	150,000,000	-
BAN Series 2002-K	-	150,000,000	-	150,000,000
Total	\$ 100,000,000	\$ 300,000,000	\$ 250,000,000	\$ 150,000,000

BAN Notes, Series 2002-I and Series 2002-J totaling \$250,000,000 were retired with proceeds from general obligation bonds dated May 1, 2007.

The interest rate changes based on market conditions; during FY07, the rate of interest varied from 3.60 to 3.78 percent. Interest earned on BAN proceeds totaled \$2,209,468 during FY07, which was accounted for in the Debt Service Fund.

BANs totaling \$300 million were issued during FY07 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005 and November 30, 2006, 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 FY08, 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, Resolution No. 15-1124 dated July 26, 2005 and Resolution 15-1729 dated November 30, 2006 the amount of BANs authorized and unissued as of June 30, 2007, is \$448,903,000.

5) **Lease Revenue Bonds**

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$56,100,253. 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 \$3,358,689, 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. In FY07, the pledged revenue of \$3,294,214 equals the principal and interest on the lease revenue bonds.

Lease Revenue Bonds outstanding as of June 30, 2007, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2007	Unamortized Premium	Carrying Value June 30, 2007
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 34,025,000	\$ 101,882	\$ 34,126,882
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,230,000	19,942	4,249,942
Total				<u>\$ 42,625,000</u>	<u>\$ 38,255,000</u>	<u>\$ 121,824</u>	<u>\$ 38,376,824</u>

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
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	1,522,009	3,292,009
2012	1,845,000	1,451,303	3,296,303
2013-2017	10,500,000	6,033,297	16,533,297
2018-2022	13,210,000	3,452,895	16,662,895
2023-2024	5,995,000	438,920	6,433,920
Total	<u>\$ 38,255,000</u>	<u>\$ 17,845,253</u>	<u>\$ 56,100,253</u>

6) Taxable Term Loans

During FY04, the County entered into two taxable term loan agreements with U.S. 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, 2007, under the taxable term loans is \$2,275,328.

7) 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, 2007, for this loan is \$741,000.

8) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Balance			Balance	
	July 1, 2006	Additions	Reductions	June 30, 2007	Due within one year
Governmental Activities					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,393,883,160	\$ 250,000,000	\$ (131,207,553)	\$ 1,512,675,607	\$ 143,437,553
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	100,000,000	300,000,000	(250,000,000)	150,000,000	150,000,000
Lease revenue bonds	39,790,000	-	(1,535,000)	38,255,000	1,585,000
Equipment notes	9,825,735	3,974,280	(2,841,050)	10,958,965	3,007,700
Taxable term loans	3,370,684	-	(1,095,356)	2,275,328	1,119,677
HUD loan	784,000	-	(43,000)	741,000	43,000
Subtotal	1,647,653,579	553,974,280	(386,721,959)	1,814,905,900	299,192,930
Add remaining original issue premium	60,555,745	18,839,000	(8,390,236)	71,004,509	-
Less deferred amount on refundings	(29,130,221)	-	3,921,395	(25,208,826)	-
Total Bonds and Notes Payable	1,679,079,103	572,813,280	(391,190,800)	1,860,701,583	299,192,930
Other Liabilities:					
Compensated absences	55,274,147	44,426,643	(40,784,409)	58,916,381	44,187,286
Capital leases	87,086,843	1,499,313	(7,270,000)	81,316,156	7,280,000
Total Other Liabilities	142,360,990	45,925,956	(48,054,409)	140,232,537	51,467,286
Governmental Activities Long-Term Liabilities	\$ 1,821,440,093	\$ 618,739,236	\$ (439,245,209)	\$ 2,000,934,120	\$ 350,660,216
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	\$ 4,894	\$ -	\$ (2,447)	\$ 2,447	\$ 2,447
Revenue Bonds:					
Parking revenue bonds	47,855,000	-	(5,815,000)	42,040,000	3,955,000
Solid waste disposal revenue refunding bonds	22,765,000	-	(3,005,000)	19,760,000	3,160,000
Subtotal	70,624,894	-	(8,822,447)	61,802,447	7,117,447
Add remaining original issue premium	991,018	-	(271,626)	719,392	-
Less remaining original issue discount	(18,116)	-	2,064	(16,052)	-
Less deferred amount on refundings	(1,019,483)	-	321,592	(697,891)	-
Total General Obligation and Revenue Bonds	70,578,313	-	(8,770,417)	61,807,896	7,117,447
Other Liabilities:					
Compensated absences	4,055,496	469,925	(2,163)	4,523,258	3,392,444
Capital leases	-	10,615,000	(581,828)	10,033,172	1,186,449
Equipment notes	-	1,040,531	(114,263)	926,268	236,239
Landfill closure costs	22,150,923	4,196,000	(1,649,000)	24,697,923	5,009,000
Claims and judgments	-	1,200,000	-	1,200,000	1,200,000
Total Other Liabilities	26,206,419	17,521,456	(2,347,254)	41,380,621	11,024,132
Business-Type Activities Long-Term Liabilities	\$ 96,784,732	\$ 17,521,456	\$ (11,117,671)	\$ 103,188,517	\$ 18,141,579

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, \$1,454,626 (\$1,090,970 due within one year and \$363,656 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.

9) 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, 2007, there were 38 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, 2007, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$182,675,000. The principal amount payable at June 30, 2007, for bonds issued after July 1, 1996, totaled \$398,242,302

10) 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.

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.

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 Aurora Hills). These districts are in the evaluation phase.

COMPONENT UNITS

At June 30, 2007, HOC’s noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 43,539,581	\$ 604,112,190	\$ 647,651,771
Capital leases payable	221,010	20,724,750	20,945,760
Notes payable	8,660,900	157,639,180	166,300,080
Total	<u>\$ 52,421,491</u>	<u>\$ 782,476,120</u>	<u>\$ 834,897,611</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	\$ 403,739,568
Single Family Mortgage Purchase Program Fund	243,912,203
Total	<u>\$ 647,651,771</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.45 to 11.25 percent and 1.65 to 8.5 percent, respectively, as of June 30, 2007.

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>
2008	\$ 310,000	\$ 2,437,753	\$ 2,747,753
2009	36,675,000	1,949,816	38,624,816
2010	340,000	510,490	850,490
2011	355,000	496,023	851,023
2012	370,000	480,555	850,555
2013-2017	790,000	2,174,822	2,964,822
2018-2022	2,880,000	1,875,075	4,755,075
2023-2027	-	1,371,075	1,371,075
2028-2032	5,430,000	411,322	5,841,322
Total	<u>\$ 47,150,000</u>	<u>\$ 11,706,931</u>	<u>\$ 58,856,931</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
2008	\$ 43,539,581	\$ 24,341,269	\$ 67,880,850
2009	49,984,436	23,393,676	73,378,112
2010	14,030,530	21,594,681	35,625,211
2011	27,392,591	21,212,355	48,604,946
2012	15,138,104	20,782,775	35,920,879
2013-2017	73,882,067	96,280,145	170,162,212
2018-2022	68,244,144	88,197,051	156,441,195
2023-2027	68,761,763	80,841,140	149,602,903
2028-2032	126,297,457	49,558,799	175,856,256
2033-2037	111,264,020	20,859,597	132,123,617
2038-2042	25,100,000	8,655,726	33,755,726
2043-2047	25,505,000	2,123,480	27,628,480
Unamortized Bond Discount	(1,487,922)	-	(1,487,922)
Total	<u>\$ 647,651,771</u>	<u>\$ 457,840,694</u>	<u>\$ 1,105,492,465</u>

Changes in the HOC revenue bonds during FY07 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2006	Issued*	Retired	June 30, 2007
Multi-Family Mortgage Purchase Program Fund	\$ 354,377,125	\$ 55,532,443	\$ 6,170,000	\$ 403,739,568
Single Family Mortgage Purchase Program Fund	239,287,036	129,235,475	124,610,308	243,912,203
Total	<u>\$ 593,664,161</u>	<u>\$ 184,767,918</u>	<u>\$ 130,780,308</u>	<u>\$ 647,651,771</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, 2006	\$ 331,669,000
Issuances during the year	7,600,000
Redemptions during the year	(831,848)
Bonds outstanding, June 30, 2007	<u>\$ 338,437,152</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, 2007, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	\$ 45,137,620	\$ 4,749,767	\$ 17,831,747
Due from component units	59,816	-	627,154
Other assets	32,494,767	3,135,013	4,925,976
Capital assets	34,154,959	91,345,906	83,151,551
Total Assets	<u>111,847,162</u>	<u>99,230,686</u>	<u>106,536,428</u>
LIABILITIES			
Current liabilities	18,758,868	2,639,265	6,047,238
Due to other funds	126,813	16,558	21,803
Long-term liabilities	36,401,707	1,390,783	37,363,346
Total Liabilities	<u>55,287,388</u>	<u>4,046,606</u>	<u>43,432,387</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,446,031	89,070,796	42,645,998
Restricted for debt service	32,143,636	3,024,525	4,326,713
Restricted for other purposes	-	76,346	-
Unrestricted	9,970,107	3,012,413	16,131,330
Total Net Assets	<u>\$ 56,559,774</u>	<u>\$ 95,184,080</u>	<u>\$ 63,104,041</u>

* Includes Solid Waste Leafing

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

	<u>Solid Waste Disposal *</u>	<u>Silver Spring PLD</u>	<u>Bethesda PLD</u>
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	\$ 94,057,267	\$ 7,294,472	\$ 8,823,169
Licenses and permits	11,360	-	-
Fines and penalties	83,050	2,431,353	4,583,750
Total Operating Revenues (pledged against bonds)	<u>94,151,677</u>	<u>9,725,825</u>	<u>13,406,919</u>
Depreciation	2,106,879	4,224,061	4,009,665
Other operating expenses	94,818,949	8,240,788	6,587,481
Operating Income (Loss)	<u>(2,774,151)</u>	<u>(2,739,024)</u>	<u>2,809,773</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	4,582,703	4,534,680
Gain (loss) on disposal of capital assets	57,116	-	-
Investment income	4,862,558	333,847	1,358,957
Interest expense	(1,071,902)	(224,423)	(1,908,402)
Other revenue	62,952	210,040	755,179
Capital contributions	-	835,614	-
Transfers in	-	1,207,055	-
Transfers out	(1,610,460)	(1,660,800)	(6,085,051)
Change in Net Assets	<u>(473,887)</u>	<u>2,545,012</u>	<u>1,465,136</u>
Beginning Net Assets	<u>57,033,661</u>	<u>92,639,068</u>	<u>61,638,905</u>
Ending Net Assets	<u>\$ 56,559,774</u>	<u>\$ 95,184,080</u>	<u>\$ 63,104,041</u>

Condensed Statements of Cash Flows

	<u>Solid Waste Disposal *</u>	<u>Silver Spring PLD</u>	<u>Bethesda PLD</u>
Net Cash Provided (Used) By:			
Operating activities	\$ 4,463,102	\$ 1,577,813	\$ 8,326,699
Noncapital financing activities	(1,599,325)	4,174,129	(1,386,404)
Capital and related financing activities	(9,064,067)	(4,959,220)	(9,426,450)
Investing activities	4,677,031	333,847	1,284,610
Net Increase (Decrease)	<u>(1,523,259)</u>	<u>1,126,569</u>	<u>(1,201,545)</u>
Beginning Cash and Cash Equivalents	<u>73,102,052</u>	<u>4,509,022</u>	<u>20,948,712</u>
Ending Cash and Cash Equivalents	<u>\$ 71,578,793</u>	<u>\$ 5,635,591</u>	<u>\$ 19,747,167</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, 2007:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$ 96,526,558	\$ 9,498,823	\$106,025,381
Designated for transfers to Capital Projects Fund	47,196,955	16,357,253	63,554,208
Total	<u>\$143,723,513</u>	<u>\$ 25,856,076</u>	<u>\$169,579,589</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 *	\$ 380,381	\$ 106,149,901	\$ -	\$ 106,530,282
Transfers to Capital Projects Fund	-	-	5,935,716	5,935,716
Total	<u>\$ 380,381</u>	<u>\$ 106,149,901</u>	<u>\$ 5,935,716</u>	<u>\$ 112,465,998</u>

* Encumbrances relating to special revenue funds include \$2,039,373 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

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

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

Governmental activities	\$ 353,621,503
Business-type activities	<u>32,799,034</u>
Total	<u>\$ 386,420,537</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, 2007:

* Represents current receipt and pay-go funding transferred from the General Fund for component

	General Fund			Capital	Total
	Operating	Capital *	Total	Projects	
MCPS	\$ 1,382,553,860	\$ 13,295,252	\$ 1,395,849,112	\$ 162,235,621	\$ 1,558,084,733
MCC	92,247,640	2,582,736	94,830,376	16,766,012	111,596,388
HOC	6,118,168	582,963	6,701,131	-	6,701,131
Total	<u>\$ 1,480,919,668</u>	<u>\$ 16,460,951</u>	<u>\$ 1,497,380,619</u>	<u>\$ 179,001,633</u>	<u>\$ 1,676,382,252</u>

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 \$3,580,020 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 FY07 and FY06 are as follows:

	<u>Liability and Property Coverage</u>	<u>Employee Health Benefits</u>
Balance July 1, 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	79,710,000	9,267,285
Claims and changes in estimates	22,623,168	111,123,106
Claim payments *	<u>(26,834,168)</u>	<u>(109,817,099)</u>
Balance June 30, 2007 **	<u>\$ 75,499,000</u>	<u>\$ 10,573,292</u>

* Includes non-monetary settlements.

** Includes incurred but not reported claims of \$48,192,000 and \$10,573,292 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 \$59,313,000, which has been fully accrued through June 30, 2007. Of the total amount accrued, \$32,966,077 in actual costs has been paid out in prior years, and \$1,649,000 was paid in FY07, resulting in a net liability of \$24,697,923 at June 30, 2007. The current and non-current portions of the adjusted liability at year-end are estimated at \$5,009,000 and \$19,688,923 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 \$6,500,000. 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, 2007, 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, 2007, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 4,453,671	\$ -	\$ 5,311,604	\$ 9,765,275
Solid Waste Activities:				
Disposal operations	7,345,931	1,823,920	-	9,169,851
Collection operations	62,497	-	-	62,497
Leafing operations	6,373	-	-	6,373
Parking Lot Districts:				
Silver Spring	402,031	2,231,014	-	2,633,045
Bethesda	529,767	2,593,122	-	3,122,889
Wheaton	86,508	300,169	-	386,677
Montgomery Hills	11,852	-	-	11,852
Subtotal	<u>12,898,630</u>	<u>6,948,225</u>	<u>5,311,604</u>	<u>25,158,459</u>
Nonmajor Funds:				
Permitting Services	78,143	-	-	78,143
Community Use of Public Facilities	1,044	-	-	1,044
Subtotal	<u>79,187</u>	<u>-</u>	<u>-</u>	<u>79,187</u>
Total Enterprise Funds	<u>12,977,817</u>	<u>6,948,225</u>	<u>5,311,604</u>	<u>25,237,646</u>
<u>Internal Service Funds:</u>				
Motor Pool	4,359,955	-	4,065,537	8,425,492
Central Duplicating	326,089	-	-	326,089
Liability and Property Coverage Self-Insurance	251,931	-	-	251,931
Employee Health Benefits Self-Insurance	324,007	-	-	324,007
Total Internal Service Funds	<u>5,261,982</u>	<u>-</u>	<u>4,065,537</u>	<u>9,327,519</u>
Total Proprietary Funds	<u>\$18,239,799</u>	<u>\$ 6,948,225</u>	<u>\$ 9,377,141</u>	<u>\$ 34,565,165</u>

As of June 30, 2007, the County has \$692,311 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 18, 2007, the County Council approved legislation to increase the level of authorized general obligation bond principal by additional \$218,400,000. On October 17, 2007, the County sold \$33,580,000 of Certificates of Participation (COPs) for acquisition of fire and rescue apparatus.

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, 2007, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$149,970,660, of which \$6,742,880 was self-supporting. Of the total amount payable, \$16,294,860 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, 2007, is \$41,574,496, 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, 2007, WSSC had outstanding notes payable and bonds payable in the amount of \$1,347,171,000, of which \$1,345,116,000 was self-supporting. Of the total amount payable, \$232,308,000 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, 2007, 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 \$92,192 to WSTC during FY07. The FY07 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 FY07, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 42,765,100
Rail operating subsidy	23,683,400
Americans with Disabilities Act service	15,188,400
Metrobus and Metrorail capital replacement	33,657,834
Debt service on WMATA revenue bonds	4,867,500
Local bus program	24,829,042
Total	<u>\$ 144,991,276</u>

At June 30, 2007, WMATA had outstanding bonds payable of \$178,902,000, of which \$25,776,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY07 membership dues and fees for services amounting to \$734,500.

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, 2007, NEMWDA had outstanding bonds payable in the amount of \$238,460,000 of which \$23,595,000 represented debt due within one year. Of these amounts, \$220,345,000 related to the Project, \$17,425,000 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 FY07 amounted to \$38,056,645.

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 FY07, the County and its employees contributed \$77,021,248 and \$20,902,474, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$437,897, \$3,025,807, and \$49,637 for these component units, respectively, for FY07.

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, 4,790 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 \$23,924,080 for FY07; retired employee contributions were \$11,660,119.

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 \$1,251,844 in FY07 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 461 recipients comprising former volunteers and their beneficiaries at the end of FY07. GASB27 requires disclosure of the amount that should be contributed to fund the LOSAP Plan; however, it does not require actual contributions. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

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, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement

membership classes 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 FY07 were based on an actuarial valuation as of June 30, 2005, 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 FY07 were as follows:

Fiscal Year	Percentage of APC		
	APC	Contributed	NPO
2005	\$ 74,655,371	100	% \$ -
2006	88,184,159	100	-
2007	109,436,001	100	-

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

2) **Defined Contribution Plan**

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

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY07 were \$11,697,348 and \$6,797,447, respectively. In accordance with IRS 457 regulations and the County Code, \$470,000 in accumulated revenue was used to reduce employer contributions to \$11,227,348 for FY07.

3) **Other**

The County contributed \$848,348 during FY07 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

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	<u>Statements/Schedules</u>			
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* POEB = Pension and Other Employee Benefits