

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2009

July 1, 2008 - June 30, 2009
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2009
July 1, 2008 - June 30, 2009

Montgomery County, Maryland
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2009
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FINANCIAL SECTION

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2009 and the budgetary comparison for the general fund for the year ended June 30, 2009 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 an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery Community College, Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc. which represent 100% of the assets, net assets and revenues of the nonmajor 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 the above mentioned component units, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of 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 the County as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2009 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, the schedule of funding progress, and the budgetary comparison for the housing initiative and revenue stabilization funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section; combining and individual fund financial statements and supplementary schedules listed as supplementary data; and statistical section, 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 combining and individual fund financial statements and supplementary schedules, listed as supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
December 24, 2009

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

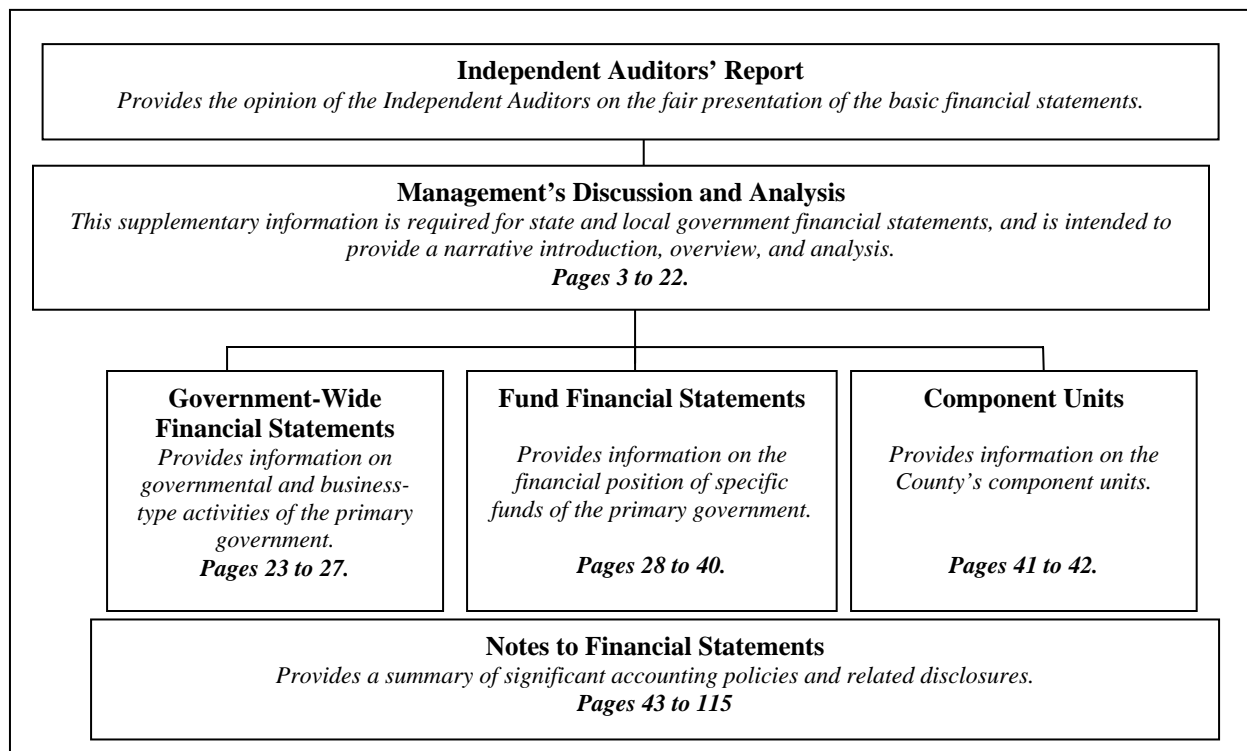
- The government-wide assets of the County exceeded its liabilities at the close of FY09 by \$1,555.7 million. That amount is net of a \$984.5 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$1,123 million at June 30, 2009. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$138.5 million.
- The County's total government-wide net assets decreased by \$356.5 million.
- As of the close of FY09, the County's governmental funds reported combined ending fund balances of \$423.7 million, a decrease of \$158.9 million over the prior year's ending fund balances. Of the total ending fund balances, \$189.7 million is available for spending at the County's discretion.
- At the end of FY09, unreserved fund balance for the General Fund was \$99.5 million, or 3.9 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$227.6 million during FY09. The key factors in this increase are:
 - The issuance of \$250 million in general obligation (GO) bonds, used to retire bond anticipation notes (BANS), and the issuance of an additional \$250 million in BANS
 - Net increase in Other Postemployment Benefits obligation of \$54.9 million; and
 - The retirement of \$120.2 million in GO bonds.
 - Revenue bonds were issued in the amount of 14.6 million for CIP projects.
 - Note in the amount of \$10 million was issued to the Washington Suburban Sanitary Commission.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds – Most of the County’s basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has five major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, and Capital Projects – and 15 nonmajor funds (15 special revenue funds).

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

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

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

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

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2009 and 2008:

Summary of Net Assets *						
June 30, 2009 and 2008						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets	\$ 1,146,293,058	\$ 1,383,926,199	\$ 154,304,120	\$ 175,201,707	\$ 1,300,597,178	\$ 1,559,127,906
Capital assets, net	2,823,763,425	2,716,099,259	258,246,679	221,507,629	3,082,010,104	2,937,606,888
Total Assets	3,970,056,483	4,100,025,458	412,550,799	396,709,336	4,382,607,282	4,496,734,794
Liabilities:						
Long-term liabilities outstanding	2,290,268,265	2,087,553,294	108,023,280	83,092,973	\$ 2,398,291,545	2,170,646,267
Other liabilities	392,859,692	379,263,571	\$ 35,774,474	34,637,625	428,634,166	413,901,196
Total Liabilities	2,683,127,957	2,466,816,865	143,797,754	117,730,598	2,826,925,711	2,584,547,463
Net assets:						
Invested in capital assets,						
net of related debt	1,937,493,317	1,875,327,937	177,697,087	166,059,652	\$ 2,080,125,833	2,003,119,670
Restricted	393,404,279	410,457,623	66,606,205	76,590,751	460,010,484	487,048,374
Unrestricted (deficit)	(1,043,969,070)	(652,576,967)	24,449,753	36,328,335	(984,454,746)	(577,980,713)
Total Net Assets	\$ 1,286,928,526	\$ 1,633,208,593	\$ 268,753,045	\$ 278,978,738	\$ 1,555,681,571	\$ 1,912,187,331
* Primary Government						

The County's current and other assets decreased by \$258.5 million or 16.6 percent from FY08. The County's assets exceeded its liabilities at the close of FY09 by \$1,555.7 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 \$35.1 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$1,123 million at June 30, 2009. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$138.5 million. An additional portion of the County's net assets (\$460 million or 29.6

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 decreased by \$356.5 million for FY09 or 18.6 percent over FY08. This decline largely reflects flat total revenues and increased total expenses.

Statement of Activities

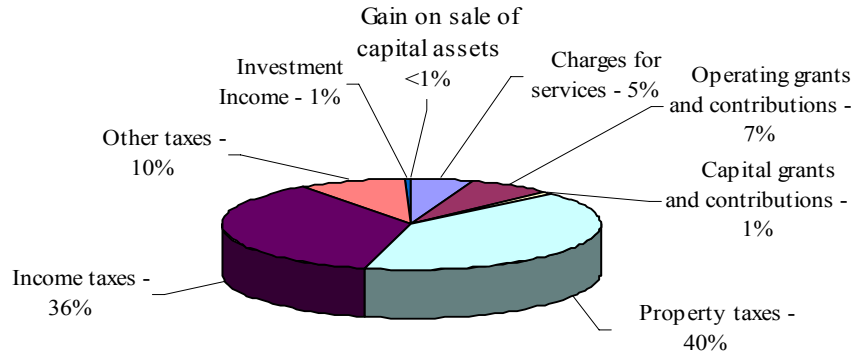
The following table summarizes the County's change in net assets for the years ended June 30, 2009 and 2008:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2009 and 2008						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program Revenues:						
Charges for services**	\$ 166,581,628	\$ 147,895,246	\$ 379,812,860	\$ 378,413,979	\$ 546,394,488	\$ 526,309,225
Operating grants and contributions	228,958,679	216,393,101	8,700	10,000	228,967,379	216,403,101
Capital grants and contributions	34,528,889	33,306,804	-	-	34,528,889	33,306,804
General revenues:						
Property taxes	1,296,974,051	1,146,965,583	11,854,882	11,266,747	1,308,828,933	1,158,232,330
Income taxes	1,169,568,981	1,246,939,067	-	-	1,169,568,981	1,246,939,067
Other taxes	292,977,015	313,132,911	-	-	292,977,015	313,132,911
Investment income	14,173,076	42,586,707	2,599,459	7,330,179	16,772,535	49,916,886
Gain on sale of capital assets	1,604,285	13,309,573	-	-	1,604,285	13,309,573
Total Revenues	<u>3,205,366,604</u>	<u>3,160,528,992</u>	<u>394,275,901</u>	<u>397,020,905</u>	<u>3,599,642,505</u>	<u>3,557,549,897</u>
EXPENSES						
Governmental Activities:						
General government	337,557,085	304,526,806	-	-	337,557,085	304,526,806
Public safety	626,855,553	601,156,598	-	-	626,855,553	601,156,598
Public works and transportation	257,041,963	233,193,597	-	-	257,041,963	233,193,597
Health and human services	288,519,635	286,907,329	-	-	288,519,635	286,907,329
Culture and recreation	116,186,268	118,017,417	-	-	116,186,268	118,017,417
Community development and housing	21,365,597	19,134,520	-	-	21,365,597	19,134,520
Environment	13,618,312	14,967,339	-	-	13,618,312	14,967,339
Education	1,842,962,933	1,783,953,133	-	-	1,842,962,933	1,783,953,133
Interest on long-term debt	92,511,000	95,931,334	-	-	92,511,000	95,931,334
Business-type Activities:						
Liquor control	-	-	197,044,956	190,742,139	197,044,956	190,742,139
Solid waste activities	-	-	96,857,869	98,166,937	96,857,869	98,166,937
Parking lot districts	-	-	29,003,485	27,854,499	29,003,485	27,854,499
Permitting services	-	-	27,878,868	26,977,767	27,878,868	26,977,767
Community use of public facilities	-	-	8,744,741	8,456,433	8,744,741	8,456,433
Total Expenses	<u>3,596,618,346</u>	<u>3,457,788,073</u>	<u>359,529,919</u>	<u>352,197,775</u>	<u>3,956,148,265</u>	<u>3,809,985,848</u>
Increase in Net Assets Before Transfers	(391,251,742)	(297,259,081)	34,745,982	44,823,130	(356,505,760)	(252,435,951)
Transfers	44,971,675	32,444,171	(44,971,675)	(32,444,171)	-	-
Increase in Net Assets	(346,280,067)	(264,814,910)	(10,225,693)	12,378,959	(356,505,760)	(252,435,951)
Net Assets, beginning of year	1,633,208,593	1,898,023,503	278,978,738	266,599,779	1,912,187,331	2,164,623,282
Net Assets, end of year	<u>\$ 1,286,928,526</u>	<u>\$ 1,633,208,593</u>	<u>\$ 268,753,045</u>	<u>\$ 278,978,738</u>	<u>\$ 1,555,681,571</u>	<u>\$ 1,912,187,331</u>
* Primary Government						

Governmental Activities

Revenues for the County's governmental activities were \$3,205.4 million for FY09. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2009**

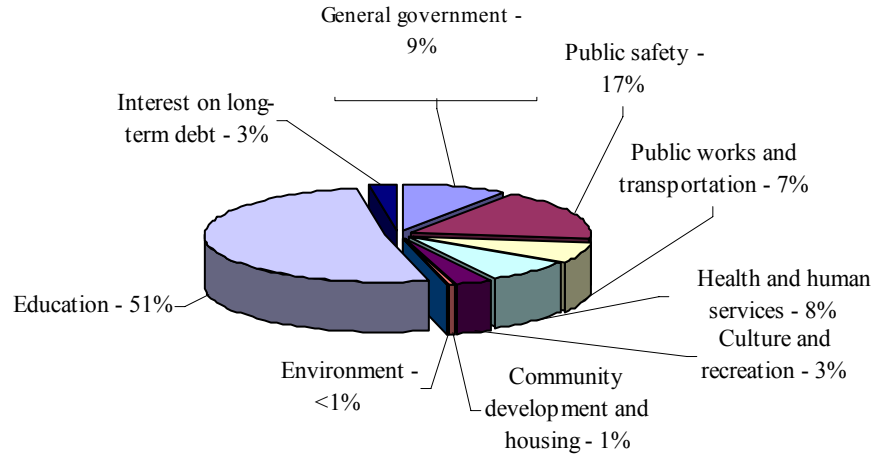


- Taxes constitute the largest source of County revenues, amounting to \$2,759.5 million for FY09. Property and local income tax combined comprise 77 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2009 and 2008. 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 (\$109.6 million or 47.9 percent), public works and transportation (\$71.5 million or 31.2 percent) and public safety (\$30.1 million or 13.2 percent).

A more detailed discussion of the County's revenue results for FY09 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 FY09 was \$3.597 billion. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.8 billion. Public safety expenses totaled \$626.9 million, general government services totaled \$337.6 million, and health and human services, the fourth largest expense for the County, totaled \$288.5 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2009**



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

Net Cost of County's Governmental Activities For the Fiscal Years Ended June 30, 2009 and 2008						
	Expenses		Revenues		Net Cost of Services	
	2009	2008	2009	2008	2009	2008
Education	\$ 1,842,962,933	\$ 1,783,953,133	\$ -	\$ -	\$ 1,842,962,933	\$ 1,783,953,133
Public safety	626,855,553	601,156,598	79,610,411	64,907,226	547,245,142	536,249,372
General government	337,557,085	304,526,806	63,864,253	62,807,609	273,692,832	241,719,197
Health and human services	288,519,635	286,907,329	115,177,823	109,198,818	173,341,812	177,708,511
Public works and transportation	257,041,963	233,193,597	107,411,399	105,746,506	149,630,564	127,447,091
Culture and recreation	116,186,268	118,017,417	42,604,734	36,008,463	73,581,534	82,008,954
Other	127,494,909	130,033,193	21,400,576	18,926,529	106,094,333	111,106,664
Total	\$ 3,596,618,346	\$ 3,457,788,073	\$ 430,069,196	\$ 397,595,151	\$ 3,166,549,150	\$ 3,060,192,922

Of the total cost of governmental activities of \$3,597 million, \$430.1 million was paid by those who directly benefited from the programs (\$166.6 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$263.5 million). Of the \$3,166.5 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,759.5 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 million increase in expenses for the Presidential General Election and two unplanned special County Council elections;
 - \$9.2 million increase in expenses for snow removal operations and wind and rain storm clean-up; and

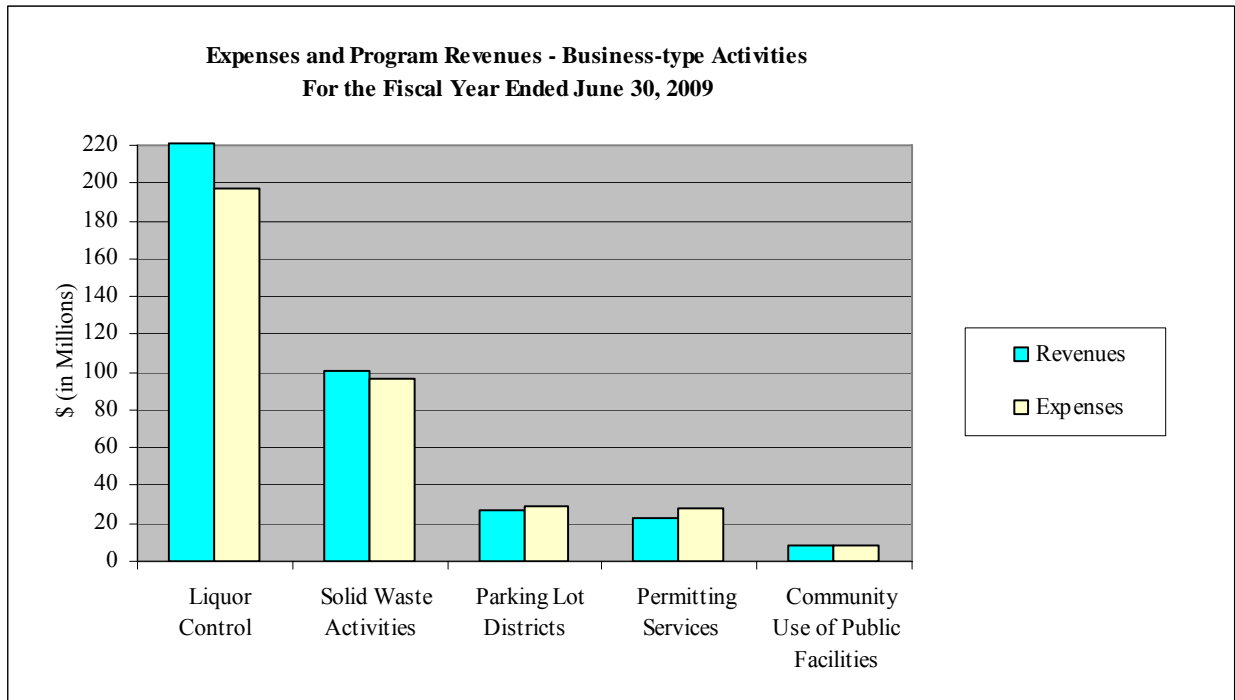
- Decrease in revenue for permitting services of 20% or about \$5.4 million primarily due to the downturn in the construction industry.
- Public Safety includes:
 - \$3 million increase in grants from the U.S. Department of Homeland Security to buy equipment to better evaluate criminal histories of suspects;
 - \$1.4 million increase in interest expense for the Consolidated Fire District due to the financing of over \$30 million in new fire trucks and other emergency equipment ; and
 - \$3.8 million decrease in expenses for Police supplies and uniforms as part of an overall savings plan for the department
- Public Works and Transportation includes:
 - Additional \$3 million in federal grants for transit buses; and
 - Mass Transit revenues decreased by \$22 million due to the delay in the receipt of an annual State of Maryland payment for special bus services while expenses decreased by \$6.3 million from FY 08 as FY08 had several large one-time expense items
- Culture and Recreation includes:
 - \$1.1 million increase in revenues received by the Department of Recreation due to the addition of two new fun centers and the expansion of certain programs for school age children while the Department's expenses decreased by 4% compared to FY08

Business-type Activities

Highlights of the County's business-type activities for FY09 are as follows:

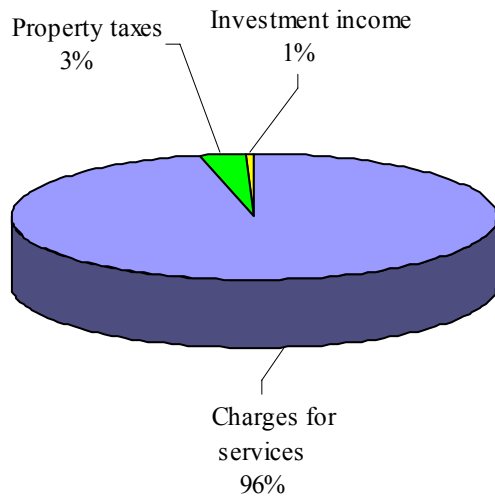
- Business-type activities experienced a decrease in net assets of \$10.2 million for FY09. However, this amount is reported after total net transfers out of \$45 million. The most significant components of this amount include:
 - \$9.8 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
 - \$30.4 million in FY09 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.
- Charges for services to users comprise 96.3 percent of revenues, with \$220.8 million (58.1 percent of charges for services revenue) attributable to liquor control operations and \$100.1 million (26.4 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$11.9 million is the second largest source of revenue at only 3.1 percent.
- Investment income of \$2.6 million reflects a decrease of \$4.7 million or 64.5 percent over FY08, primarily because of the decreases in interest rates and pooled cash and investments during the year.

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



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

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2009**



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 FY09, the County's governmental funds reported combined ending fund balances of \$423.7 million, a decrease of \$158.9 million from the end of FY08. Of the total ending fund balances, \$189.7 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$234 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 FY09, unreserved and undesignated fund balance of the General Fund was \$28.9 million, while total fund balance was \$108.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 1 percent of the total General Fund expenditures and transfers out, while total fund balance represents 3.8 percent of the same amount.

The fund balance of the County's General Fund decreased by \$64.7 million during FY09, primarily due to reduced income and real property transfer and recordation tax revenues.

The Capital Projects Fund has a total fund balance of \$-46.3 million, a decrease of \$82.4 million from the end of FY08. The decrease was primarily due to a timing difference between capital expenditures and the debt to be issued in FY10 to pay for those expenditures.

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

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 FY09 amounted to \$27.4 million, and operating income was \$25.9 million. After a subsidy transfer to the General Fund of \$30.4 million, the fund ended FY09 with a decrease in net assets of \$4.9 million.

The Solid Waste Activities Fund total net assets amounted to \$68.1 million, of which the unrestricted net assets were \$5.2 million. Restricted net assets of \$32.7 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to \$.1 million in FY09, resulting in total ending net assets of \$169.7 million. Of this amount, \$141.1 million (83.1 percent) is invested in capital net of related debt; \$7.8 million (4.6 percent) is restricted for debt service on revenue bonds; and \$20.9 million (12.3 percent) is unrestricted.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$10.2 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:

- \$4.1 million for Board of Elections to pay for Presidential General Election, two unplanned County Council elections and to move the Board to new facilities;
- \$1 million increase in personnel costs related to certain public safety activities;
- \$9.2 million for snow removal operations and wind and rain storm clean up; and
- \$4.4 million decrease for a County program to supplement the income of working families.

Actual revenues were less than budget amounts by \$89.7 million, while actual expenditures and net transfers out were less than final budget by \$26.9 million and \$72.1 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2009, include the following:

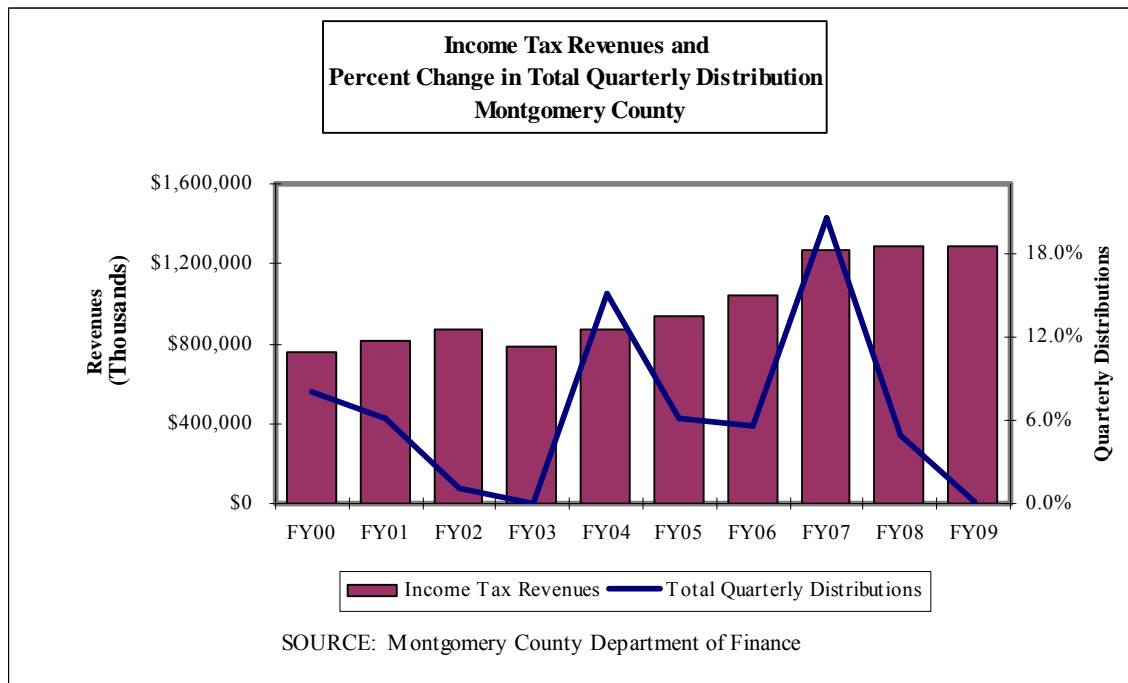
- Actual expenditures of \$933.8 million were \$26.9 million less than the final budget, which represents 2.8 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$49.9 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 \$2,700.9 million and were 3.2 percent below the budget estimate for the fiscal year but 4.5 percent above actual revenues for FY08. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (↓\$33.7 million below the budget estimate), followed by the recordation tax (↓\$25.6 million below the budget), and finally, the real property transfer tax (↓\$16.1 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$179.2 million in FY09. That amount was \$6.5 million or 3.5 percent below the budget estimate. Investment income was approximately \$3.9 million below the budget estimate. Licenses and permits (↑2.2%) and charges for services (↑3.4%) came in above budget estimates. Intergovernmental revenues were 10.4 percent below the budget estimate. Such a decrease was attributed to State reimbursements which came in 13.6 percent below the budget estimate, and other intergovernmental revenue which

were 8.8 percent below the budget estimate. Federal reimbursements, which represent only 20.4 percent of total intergovernmental revenues, came in 4.0 percent above the budget estimate.

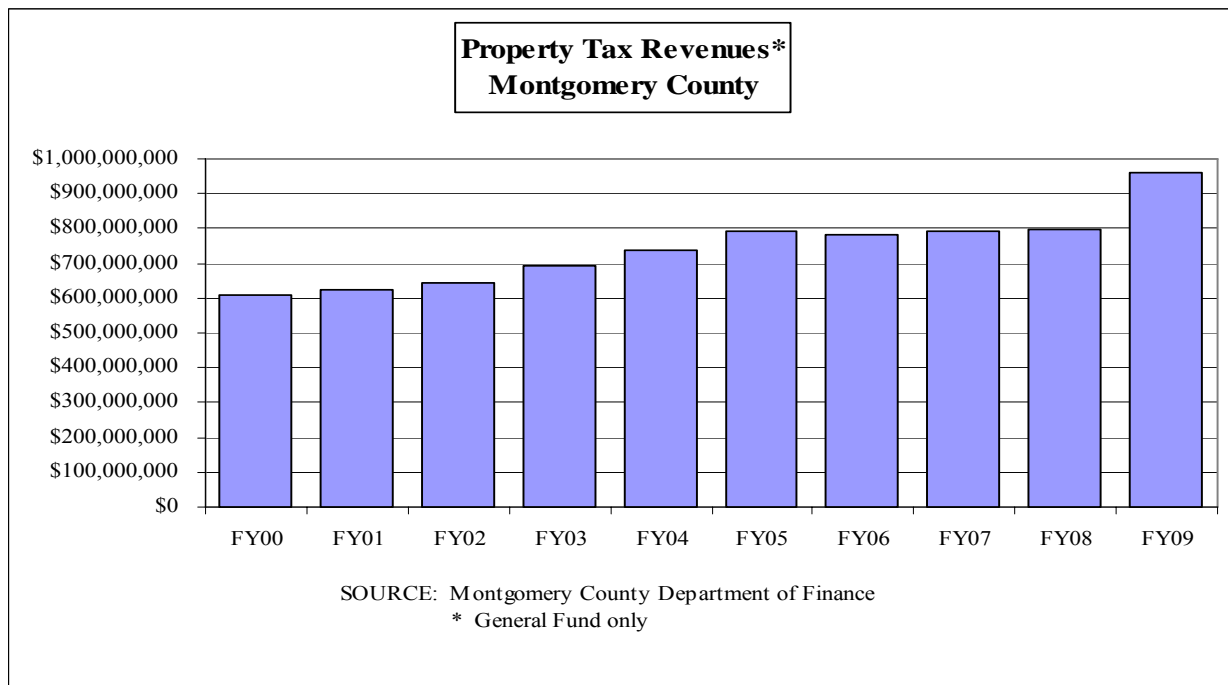
Income Taxes - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,291.7 million and represented 50.8 percent of actual tax revenues and 47.8 percent of total actual revenues in FY09. Income tax receipts became the majority source of tax revenues 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 expansion of the employment base in the County and growth in capital gains. With a Standard & Poor's 500 index decreasing 38.5 percent in calendar year (CY) 2008 after increasing 3.5 percent in calendar year CY2007, 13.6 percent in CY2006, 3.0 percent in CY2005, and 9.0 percent in CY2004 and an average annual growth rate of 1.4 percent in the County's resident employment during the CY2003-CY2006 period, income tax revenues increased 10.4 percent in FY04, 8.2 percent in FY05, 11.0 percent in FY06, 21.1 percent in FY07, and 2.1 percent in FY08. However, with a decline in the growth in resident employment in CY2007 (↓0.1%) and in CY2008 (↓0.4%) coupled with the dramatic decline in the S&P 500 index in CY2008; there was no increase in FY09. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 0.2 percent in FY09, +4.9 percent in FY08, +20.5 percent (FY07), +5.6 percent (FY06), +6.1 percent (FY05), and +15.1 percent (FY04).



Property Taxes - Property tax collections in the General Fund amounted to \$962.3 million in FY09, which were \$2.8 million (↓0.3%) below the budget estimate but 20.8 percent above actual revenues in FY08. Actual property taxes, excluding penalties and interest and other items, were \$960.9 million in FY09 – an increase of 20.9 percent over last year. Collections from penalties and interest were \$1.4 million – a 25.6 percent decrease compared to FY08. The reason for the variance in property tax revenues compared to the budget estimate is attributed to the decline in personal property taxable assessments. The increase in property tax collections for the General Fund was attributed to actions by the County for the FY08 levy which is collected in FY09. Such actions by the County included an income tax offset of \$579 per owner-occupied residence, compared to the \$613 for the prior fiscal year, and an increase in the General Fund tax rate from \$0.627 to \$0.661 per \$100 of assessed value.

The taxable assessments for real property increased 11.1 percent from FY08 to FY09. This was the fourth largest increase in over eighteen years. New construction, which added \$1.4 billion to the base in FY09, was 4.6 percent

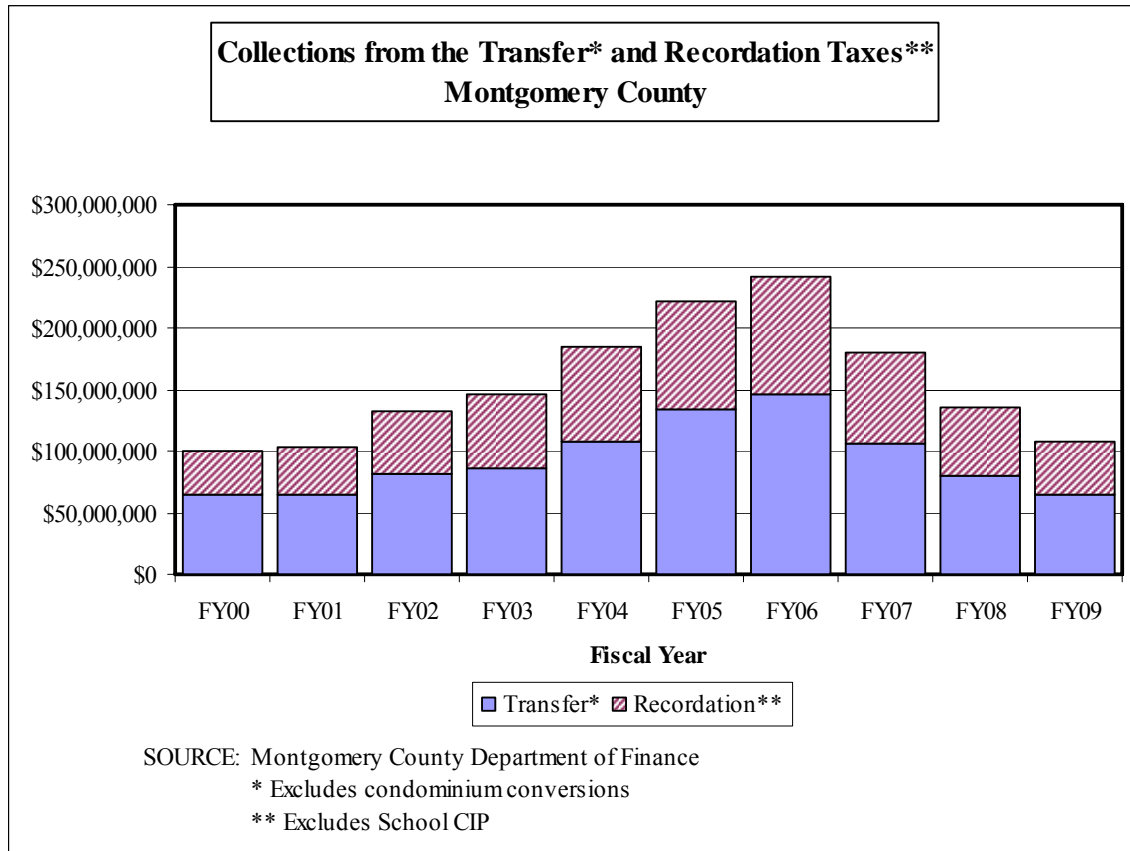
lower than in FY08. The real estate market, particularly the annual double-digit price increases during fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County's real property with the three-year phase in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 43.4 percent for Cycle One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 (↑2.0%) and FY08 (↑0.4%). With the average sales price for an existing home declining 15.8 percent in FY09, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08. However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there were dramatic increases in the reassessment rates, which added over \$16.7 billion to the assessable base in FY09, such increases were potentially offset by the homestead tax credit, which excluded an additional \$2.3 billion from the real property taxable base in FY09.



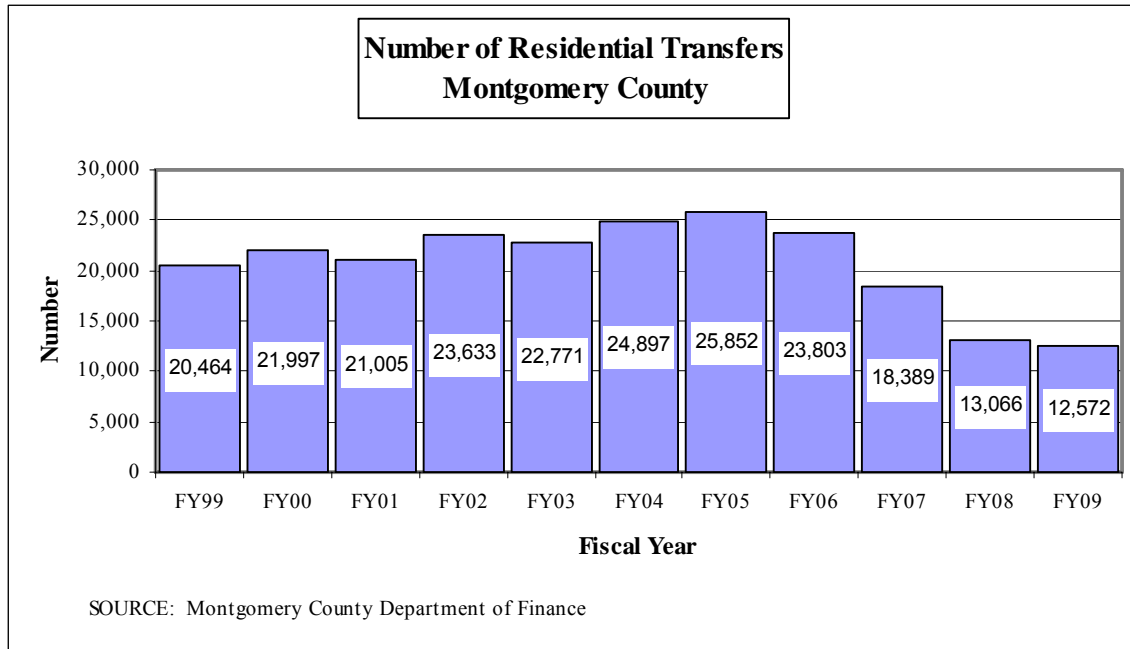
Assessments of personal property increased 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09. For the past four fiscal years (FY06-FY09), taxable assessments for personal property averaged \$3.918 billion ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. Despite the weaker trend in personal property since FY04, the total taxable assessment grew 9.6 percent in FY05, 11.9 percent in FY06, 13.4 percent in FY07, 12.8 percent in FY08, and 10.8 percent in FY09.

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 in FY09 were \$107.2 million (excluding

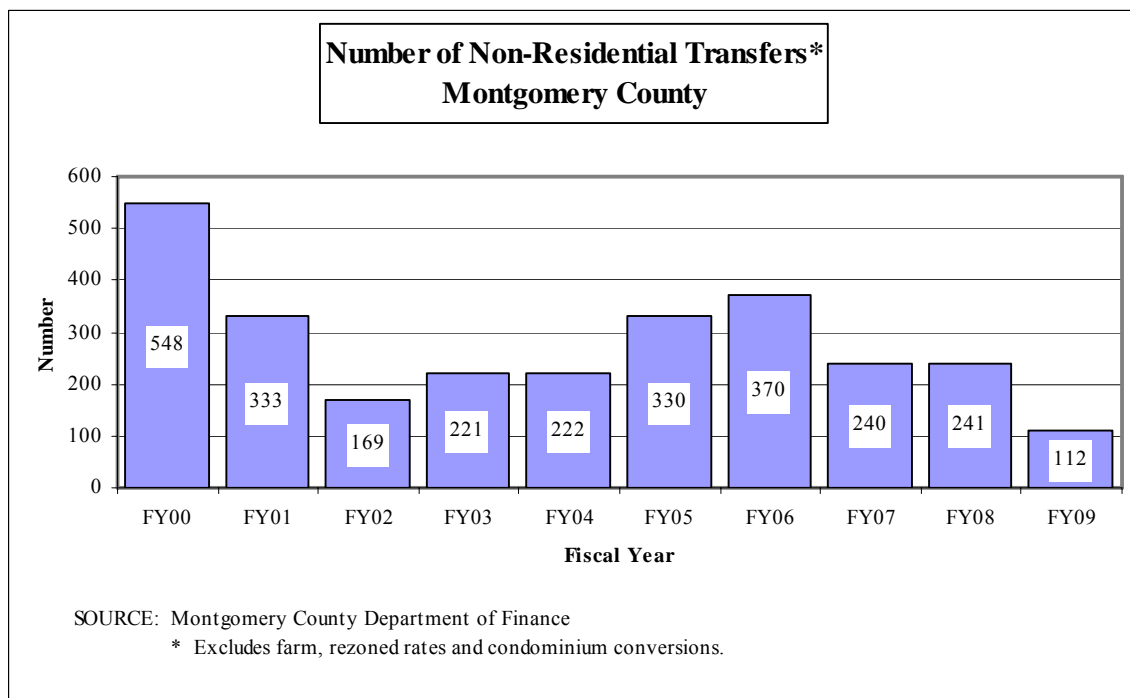
recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 28.0 percent below the budget estimate and 20.6 percent below actual revenues in FY08. The FY09 decline in collections from transfer and recordation taxes was the third consecutive decrease which represented a decline of \$134.5 million over the three-year period. The drop in average sales price for existing homes ($\downarrow 15.8\%$) during F09 was the major factor in the decline. As the accompanying chart illustrates, the total amount collected from these taxes increased from \$99.8 million in FY00 to a peak of \$241.7 million in FY06, before declining to \$107.2 in FY09, the lowest amount since the increase in the recordation tax rate beginning in FY03 (from \$4.40 to \$6.90 per \$1,000 of the value of the contract excluding the first \$50,000 exempted from taxation for residential properties).



General Fund revenues from the transfer tax experienced a decline of 19.4 percent in FY09 compared to a 22.4 percent decline from the recordation tax. Because of the decrease attributed to a dramatic reduction in average sales prices in FY09 ($\downarrow 15.8\%$), revenues from the residential sector were \$56.1 million, a decrease of 18.6 percent over FY08 – the third decrease since FY06. The number of residential transfers declined to approximately 12,600 ($\downarrow 3.8\%$) – the lowest level in over nineteen years and reflecting the drop in housing sales during the first eight months of FY09.



The commercial market was weaker in FY09 compared to the residential sector with revenues decreasing 24.1 percent from \$10.1 million to \$7.5 million. The number of transfers (112) in FY09 was 53.5 percent below the number in FY08 – the lowest number in over nineteen years.



Other Taxes - The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled \$179.2 million and were approximately \$6.5 million, or 3.5 percent, below the budget estimate. Revenues from the telephone tax were 0.2 percent above the budget estimate. That modest increase was attributed to increases in the use of cellular telephones, which represented 66.1 percent of total revenues, and offset the decline in landlines. The remaining consumption/excise taxes were below budget estimates. Revenues from the hotel/motel industry of \$16.8 million in FY09 were 15.3 percent below the budget estimate. The fuel/energy tax was up 9.3 percent compared to FY08 reflecting the higher tax rates on fuel oil, electricity, and natural gas but 2.5 percent below the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from fuel oil (↓10.5%). The decrease in the admissions tax (↓8.1%) from the budget estimate was attributed to the decline in tax receipts from two of the largest sources of revenues which represent nearly 50 percent of total revenues – arcades (↓0.9%), and golf activities (↓20.4%).

Investment Income - In the General Fund, investment income decreased from \$8.9 million in FY08 to \$0.6 million and was 87.1 percent below the budget estimate. The dramatic decrease in FY09 was the result of a significant accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent – a decline of 500-525 basis points. The justification for such a decrease was the significant global credit crisis that began in August 2007. Because of this 500+-basis-point decrease over the fifteen-month period, short-term or money market rates decreased as well, hence the average yield on cash equity for the County decreased from 5.21 percent in FY07 to 1.71 percent in FY09. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$11.9 million or 72.5 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from \$971.4 million in FY08 to \$695.7 million in FY09.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2009, amounted to \$3,082 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation				
June 30, 2009				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY09	FY08
Land	\$ 645,547,868	\$ 59,329,889	704,877,757	\$ 658,648,955
Buildings	466,054,900	150,577,069	616,631,969	615,163,870
Improvements other than buildings	28,081,990	28,951,743	57,033,733	55,074,486
Furniture, fixtures, equipment and machinery	83,971,071	8,447,924	92,418,995	111,332,318
Leasehold improvements	9,080,164	-	9,080,164	9,890,909
Automobiles and trucks	127,426,744	1,644,457	129,071,201	112,941,444
Infrastructure	1,110,992,250	12,773	1,111,005,023	1,113,807,434
Other assets	172,207	-	172,207	380,180
Construction in progress	352,436,230	9,282,824	361,719,054	260,367,292
Total	\$ 2,823,763,424	\$ 258,246,679	\$ 3,082,010,103	\$ 2,937,606,888

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

Changes in the County's capital assets for FY09 are summarized as follows:

Change in Capital Assets				
For the Fiscal Year Ended June 30, 2009				
	Governmental	Business-type	Total	Total
	Activities	Activities	FY09	FY08
Beginning Balance	\$ 2,716,099,259	\$ 221,507,629	\$ 2,937,606,888	\$ 2,851,846,300
Additions*	203,193,490	49,486,289	252,679,779	190,035,492
Retirements, net*	276,419	9,556	285,975	438,769
Depreciation expense	95,252,906	12,737,683	107,990,589	103,836,135
Ending Balance	\$ 2,823,763,424	\$ 258,246,679	\$ 3,082,010,103	\$ 2,937,606,888

* 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 \$2.2 million were transferred to the County by various developers.
- \$6.9 million was spent to replace an existing transit facility with a new 3-story, multi-modal transit center that serves a vital part of the Silver Spring revitalizing initiative.
- \$7.4 million to purchase preservation easements on farmland in agricultural zones and other zones approved by the County Council to preserve farmland not protected by Transferable Development Rights (TDRs) or State agricultural land preservation easements.
- The County incurred \$13.5 million in costs for the acquisition of replacement fire apparatus for various fire stations throughout the County and \$1.3 million for the acquisition of Ride-On buses.

- \$5.4 million was spent to provide for a 30 year maintenance cycle for sidewalks, curbs and gutters in business districts and residential communities throughout the County.
- \$3.5 million was spent on an advanced transportation management system (ATMS) that supports public safety and directly impacts the movement of people and goods throughout the County’s transportation system.
- \$16.9 million was spent in the development of a new information technology system and business process reengineering that will streamline existing business processes and enhance residents’ assistance.

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, 2009:

Long-Term Debt				
June 30, 2009				
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u> <u>FY09</u>	<u>Total</u> <u>FY08</u>
General obligation bonds	\$ 1,496,561,371	\$ -	\$1,496,561,371	\$1,366,758,054
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	300,000,000	-	300,000,000	300,000,000
Revenue bonds	14,463,000	79,567,000	94,030,000	54,685,000
Lease revenue bonds	35,025,000	-	35,025,000	36,670,000
Notes payable *	15,764,265	467,877	16,232,142	10,645,442
Certificates of participation	30,475,000	-	30,475,000	33,580,000
Capital leases	67,929,435	-	67,929,435	74,472,783
Compensated absences	70,023,763	5,275,874	75,299,637	69,933,367
Other post employment benefits	113,534,939	-	113,534,939	58,598,791
Claims and judgements	1,550,000	-	1,550,000	-
Landfill closure costs	-	20,675,923	20,675,923	22,733,923
Total	<u>\$2,245,326,773</u>	<u>\$105,986,674</u>	<u>\$2,351,313,447</u>	<u>\$2,128,077,360</u>

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

At June 30, 2009, the County had outstanding general obligation (GO) bonds of \$1,496.6 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$300 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO “new money” bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs. 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 FY99, 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 \$164.0 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, 2009, Montgomery County is one of only nine '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. Through the end of FY09, the County satisfied its disclosure requirements via electronic filings with the Municipal Advisory Council of Texas at <http://www.disclosureusa.org>. Beginning in FY10, the County will submit disclosure filings to the Electronic Municipal Market Access (EMMA) system. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY09 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for \$250 million in July 2008, 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.
- Liquor Control Revenue Bonds – In May 2009, the County issued \$46.8 million of revenue bonds, secured by Department of Liquor Control revenues. The proceeds will be used to purchase a warehouse facility for the Department, as well as to fund the County's share of an interchange at the intersection of Maryland Route 355 (Rockville Pike) and Montrose Parkway West.
- Bond Anticipation Notes (BANs) – The County issued \$150 million in BANs in September 2008, and \$100 million in February 2009.

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 FY10 budget:

- The County's economic projections in the FY10 budget assume weak economic activity in FY10 with the County experiencing high unemployment and a decrease (↓0.4% in calendar year 2009) in total payroll employment.
- On a calendar year basis (CY), total payroll employment decreased 0.2 percent in CY08, the latest year for which data are available. That rate followed an average annual increase of slightly more than 1.4 percent between CY98 and CY07. Following a decline in payroll employment during CY08, the County anticipates a decline in payroll employment in CY09 of 0.4 percent and an increase of 0.3 percent in CY10.
- The projection in the FY10 budget assumes that personal income will increase 2.8 percent in CY09 and 3.6 percent in CY10. Those rates are well below the estimated ten-year annual average growth rate of 6.3 percent between CY98-CY07.

- On a calendar year basis, employment in Montgomery County, based on the labor force series as opposed to payroll employment, is expected to decrease 3.0 percent in CY09 and increase 0.8 percent in CY10. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 0.8 percent between CY10 and CY15. That estimate is consistent with the estimated growth in County population of 1.2 percent per year through CY15.
- The estimated decline in employment in CY09 and a modest increase in personal income reflects the estimated slowdown in the County's and region's economy and the national recession. That recession is reflected in the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to cut the targeted interest for federal funds from 5.25 percent during the summer of 2007 to its current range of 0.00-0.25 percent.
- Inflation, as measured by the Consumer Price Index, is expected to increase 3.2 percent in FY10. Because of the interest rates cuts by the FOMC of the Federal Reserve during FY08 and FY09, the County's economic projections include a decrease in the yield on its investments from 4.40 percent in FY08 to 1.10 percent by FY10.

OTHER SIGNIFICANT MATTERS

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2009

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	\$ 388,408,646	\$ 75,527,637	\$ 463,936,283	\$ 96,427,073
Cash with fiscal agents	27,777,991	1,529,914	29,307,905	23,465,331
Cash	392,503	235,549	628,052	18,251,895
Investments-cash equivalents	-	-	-	106,554,595
Investments	-	-	-	33,150,132
Receivables (net of allowances for uncollectibles):				
Income taxes	270,812,051	-	270,812,051	-
Property taxes	25,259,214	1,447,216	26,706,430	-
Capital leases	35,025,000	-	35,025,000	31,490,178
Accounts	49,555,385	4,191,470	53,746,855	18,759,672
Special assessments	344	-	344	-
Notes	6,836,025	-	6,836,025	48,315,000
Parking violations	522,208	2,282,575	2,804,783	-
Mortgages receivable	168,536,975	-	168,536,975	346,127,799
Interest	-	-	-	4,795,648
Other	456,905	-	456,905	5,456,251
Internal balances	2,367,858	(2,367,858)	-	-
Due from primary government	-	-	-	80,845,351
Due from component units	68,466,217	432,585	68,898,802	-
Due from other governments	83,078,312	139,456	83,217,768	25,345,112
Inventory of supplies	10,933,503	28,155,649	39,089,152	9,955,589
Prepays	2,237,438	1,008,765	3,246,203	4,891,786
Deferred charges	5,425,534	1,033,962	6,459,496	529,017
Other assets	-	193,843	193,843	63,445,597
Restricted Assets:				
Equity in pooled cash and investments	-	34,896,446	34,896,446	15,423,589
Cash with fiscal agents	-	-	-	5,876,474
Cash	-	-	-	624,213
Cash non pooled	200,949	-	200,949	-
Investments - cash equivalents	-	-	-	121,024,022
Investments	-	5,596,911	5,596,911	115,088,826
Capital Assets:				
Nondepreciable assets	997,984,098	68,612,713	1,066,596,811	397,768,740
Depreciable assets, net	1,825,779,327	189,633,966	2,015,413,293	2,410,212,234
Total Assets	<u>\$ 3,970,056,483</u>	<u>\$ 412,550,799</u>	<u>\$ 4,382,607,282</u>	<u>\$ 3,983,824,124</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
 STATEMENT OF NET ASSETS, CONCLUDED
 JUNE 30, 2009

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	\$ 64,366,086	\$ 17,114,020	\$ 81,480,106	\$ 83,248,439
Interest payable	30,012,530	381,622	30,394,152	20,417,907
Retainage payable	6,215,758	426,850	6,642,608	14,966,690
Accrued liabilities	61,269,606	13,046,760	74,316,366	100,232,622
Claims payable	95,033,747	-	95,033,747	18,501,490
Deposits	246,682	426,457	673,139	10,796,415
Due to primary government	-	-	-	69,059,644
Due to component units	80,176,603	668,748	80,845,351	-
Due to other governments	10,062,103	1,075,557	11,137,660	-
Unearned revenue	45,476,577	2,011,600	47,488,177	29,173,419
Other liabilities	-	622,860	622,860	12,741,088
Noncurrent Liabilities:				
Due within one year	503,711,749	12,787,497	516,499,246	102,639,915
Due in more than one year	1,786,556,516	95,235,783	1,881,792,299	1,244,949,042
Total Liabilities	<u>2,683,127,957</u>	<u>143,797,754</u>	<u>2,826,925,711</u>	<u>1,706,726,671</u>
NET ASSETS				
Invested in capital, net of related debt	1,937,493,317	177,697,087	2,080,125,833	2,225,858,583
Restricted for:				
Capital projects	20,814,842	-	20,814,842	255,894
General government	130,422,777	-	130,422,777	-
Public safety	24,527,646	-	24,527,646	-
Public works and transportation	10,562	66,606,205	66,616,767	-
Recreation	13,309,262	-	13,309,262	-
Community development and housing	195,721,033	-	195,721,033	-
Environment	5,253,117	-	5,253,117	-
Debt service	3,345,040	-	3,345,040	42,896,631
Other purposes	-	-	-	34,539,425
Unrestricted (deficit)	(1,043,969,070)	24,449,753	(984,454,746)	(26,453,080)
Total Net Assets	<u>\$ 1,286,928,526</u>	<u>\$ 268,753,045</u>	<u>\$ 1,555,681,571</u>	<u>\$ 2,277,097,453</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, 2009
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
General government	\$ 337,557,085	\$ 55,124,011	\$ 6,720,731	\$ 2,019,511
Public safety	626,855,553	44,359,719	30,138,410	5,112,282
Public works and transportation	257,041,963	18,997,028	71,494,515	16,919,856
Health and human services	288,519,635	5,604,372	109,573,451	-
Culture and recreation	116,186,268	29,964,898	4,729,985	7,909,851
Community development and housing	21,365,597	3,937,188	6,300,663	2,567,389
Environment	13,618,312	8,594,412	924	-
Education	1,842,962,933	-	-	-
Interest on long-term debt	92,511,000	-	-	-
Total Governmental Activities	<u>3,596,618,346</u>	<u>166,581,628</u>	<u>228,958,679</u>	<u>34,528,889</u>
Business-type Activities:				
Liquor control	197,044,956	220,795,524	-	-
Solid waste disposal and collection	96,857,869	100,139,024	8,700	-
Parking lot districts	29,003,485	27,303,666	-	-
Permitting services	27,878,868	22,998,323	-	-
Community use of public facilities	8,744,741	8,576,323	-	-
Total Business-type Activities	<u>359,529,919</u>	<u>379,812,860</u>	<u>8,700</u>	<u>-</u>
Total Primary Government	<u>\$ 3,956,148,265</u>	<u>\$ 546,394,488</u>	<u>\$ 228,967,379</u>	<u>\$ 34,528,889</u>
Component Units:				
General government (BUPI)	\$ 4,689,374	\$ 4,410,146	\$ 232,949	\$ -
Culture and recreation (MCRA)	20,738,255	17,210,744	-	147,771
Community development and housing (HOC)	211,000,336	108,757,842	94,688,518	5,697,302
Education:				
Elementary and secondary education (MCPS)	2,357,261,020	33,074,282	100,503,742	49,264,320
Higher education (MCC)	265,994,842	76,324,928	29,930,300	780,845
Total Component Units	<u>\$ 2,859,683,827</u>	<u>\$ 239,777,942</u>	<u>\$ 225,355,509</u>	<u>\$ 55,890,238</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	
\$ (273,692,832)	\$ -	\$ (273,692,832)	\$ -	-
(547,245,142)	-	(547,245,142)	-	-
(149,630,564)	-	(149,630,564)	-	-
(173,341,812)	-	(173,341,812)	-	-
(73,581,534)	-	(73,581,534)	-	-
(8,560,357)	-	(8,560,357)	-	-
(5,022,976)	-	(5,022,976)	-	-
(1,842,962,933)	-	(1,842,962,933)	-	-
(92,511,000)	-	(92,511,000)	-	-
<u>(3,166,549,150)</u>	<u>-</u>	<u>(3,166,549,150)</u>	<u>-</u>	<u>-</u>
-	23,750,568	23,750,568	-	-
-	3,289,855	3,289,855	-	-
-	(1,699,819)	(1,699,819)	-	-
-	(4,880,545)	(4,880,545)	-	-
-	(168,418)	(168,418)	-	-
-	<u>20,291,641</u>	<u>20,291,641</u>	-	-
<u>(3,166,549,150)</u>	<u>20,291,641</u>	<u>(3,146,257,509)</u>	<u>-</u>	<u>-</u>
-	-	-	(46,279)	-
-	-	-	(3,379,740)	-
-	-	-	(1,856,674)	-
-	-	-	(2,174,418,676)	-
-	-	-	(158,958,769)	-
-	-	-	<u>(2,338,660,138)</u>	-
1,296,974,051	11,854,882	1,308,828,933	-	-
1,169,568,981	-	1,169,568,981	-	-
64,771,739	-	64,771,739	-	-
42,437,216	-	42,437,216	-	-
129,328,307	-	129,328,307	-	-
16,829,254	-	16,829,254	-	-
30,906,025	-	30,906,025	-	-
8,704,474	-	8,704,474	-	-
-	-	-	2,458,871,781	-
14,173,076	2,599,459	16,772,535	6,799,476	-
1,604,285	-	1,604,285	-	-
44,971,675	(44,971,675)	-	-	-
<u>2,820,269,083</u>	<u>(30,517,334)</u>	<u>2,789,751,749</u>	<u>2,465,671,257</u>	-
<u>(346,280,067)</u>	<u>(10,225,693)</u>	<u>(356,505,760)</u>	<u>127,011,119</u>	-
<u>1,633,208,593</u>	<u>278,978,738</u>	<u>1,912,187,331</u>	<u>2,150,086,334</u>	-
<u>\$ 1,286,928,526</u>	<u>\$ 268,753,045</u>	<u>\$ 1,555,681,571</u>	<u>\$ 2,277,097,453</u>	-

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
Exhibit A-3

	General	Revenue Stabilization	Housing Initiative	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS							
Equity in pooled cash and investments	\$ 17,037,504	\$ 119,647,603	\$ 16,238,822	\$ 73,070	\$ 41,895,502	\$ 60,437,102	\$ 255,329,603
Cash with fiscal agents	1,940,112	-	-	15,397,468	10,440,411	-	27,777,991
Cash	146,953	-	212,450	-	-	32,800	392,203
Cash restricted non pooled	200,949	-	-	-	-	-	200,949
Receivables (net of allowances for uncollectibles):							
Income taxes	270,812,051	-	-	-	-	-	270,812,051
Property taxes	20,570,727	-	-	-	-	4,688,487	25,259,214
Capital leases	-	-	-	35,025,000	-	-	35,025,000
Accounts	42,524,573	-	-	-	515,685	4,584,480	47,624,738
Special assessments	-	-	-	344	-	-	344
Notes	-	-	-	-	12,068	6,823,957	6,836,025
Parking violations	522,208	-	-	-	-	-	522,208
Mortgages receivable	168,002	-	134,235,816	-	300,000	33,833,157	168,536,975
Other	-	-	-	-	4,114	451,577	455,691
Due from other funds	44,683,677	-	-	-	-	5,422,208	50,105,885
Due from component units	936,642	-	41,459,181	-	16,393,449	9,151,315	67,940,587
Due from other governments	19,631,585	-	-	-	23,694,573	39,597,607	82,923,765
Inventory of supplies	5,379,506	-	-	-	1,796,522	-	7,176,028
Prepays	544,113	-	781	-	1,130,485	264,580	1,939,959
Total Assets	<u>\$ 425,098,602</u>	<u>\$ 119,647,603</u>	<u>\$ 192,147,050</u>	<u>\$ 50,495,882</u>	<u>\$ 96,182,809</u>	<u>\$ 165,287,270</u>	<u>\$ 1,048,859,216</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 25,148,188	\$ -	\$ 627,927	\$ 87,684	\$ 20,931,356	\$ 9,171,230	\$ 55,966,385
Retainage payable	20,383	-	-	-	6,190,070	5,305	6,215,758
Accrued liabilities	32,716,149	-	62,383	-	1,336,159	15,453,357	49,568,048
Deposits	-	-	-	-	80,000	166,682	246,682
Due to other funds	11,045,017	-	15,934	12,035,000	30,592,502	12,034,094	65,722,547
Due to component units	10,663,083	-	309,632	-	68,153,552	999,154	80,125,421
Due to other governments	3,070,669	-	235,000	-	2,468,760	4,285,639	10,060,068
Deferred revenue	234,329,051	-	2,213,399	35,028,158	12,742,734	72,913,512	357,226,854
Total Liabilities	<u>316,992,540</u>	<u>-</u>	<u>3,464,275</u>	<u>47,150,842</u>	<u>142,495,133</u>	<u>115,028,973</u>	<u>625,131,763</u>
Fund Balances:							
Reserved for:							
Legal debt restrictions	-	-	-	3,345,040	10,440,411	-	13,785,451
Long-term receivables	-	-	173,481,598	-	16,393,449	5,313,168	195,188,215
Inventory	5,379,505	-	-	-	1,796,522	-	7,176,027
Prepays	544,113	-	781	-	1,130,485	261,603	1,936,982
Fire-Rescue Grant	-	-	-	-	-	1,339,856	1,339,856
Donor-specified purposes	-	-	-	-	-	1,502,623	1,502,623
Other purposes	2,698,310	-	-	-	10,374,431	-	13,072,741
Total Reserved	<u>8,621,928</u>	<u>-</u>	<u>173,482,379</u>	<u>3,345,040</u>	<u>40,135,298</u>	<u>8,417,250</u>	<u>234,001,895</u>
Unreserved, designated for, reported in:							
Encumbrances - Major Funds	18,630,308	-	5,934,438	-	-	8,130,070	32,694,816
General Fund	51,999,830	-	-	-	-	-	51,999,830
Special Revenue Funds	-	-	9,265,958	-	-	25,841,599	35,107,557
Designated for transfers to Capital Projects Fund	-	-	-	-	-	55,173	55,173
Unreserved, undesignated (deficit), reported in:							
General Fund	28,853,996	-	-	-	-	-	28,853,996
Capital Projects Fund	-	-	-	-	(86,447,622)	-	(86,447,622)
Special Revenue Funds	-	119,647,603	-	-	-	7,814,205	127,461,808
Total Unreserved (Deficit)	<u>99,484,134</u>	<u>119,647,603</u>	<u>15,200,396</u>	<u>-</u>	<u>(86,447,622)</u>	<u>41,841,047</u>	<u>189,725,558</u>
Total Fund Balances	<u>108,106,062</u>	<u>119,647,603</u>	<u>188,682,775</u>	<u>3,345,040</u>	<u>(46,312,324)</u>	<u>50,258,297</u>	<u>423,727,453</u>
Total Liabilities and Fund Balances	<u>\$ 425,098,602</u>	<u>\$ 119,647,603</u>	<u>\$ 192,147,050</u>	<u>\$ 50,495,882</u>	<u>\$ 96,182,809</u>	<u>\$ 165,287,270</u>	<u>\$ 1,048,859,216</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, 2009
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$ 423,727,453
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	\$ 645,525,362	
Construction in progress	352,436,230	
Depreciable capital assets:		
Buildings	750,744,300	
Improvements other than buildings	46,164,482	
Furniture, fixtures, equipment and machinery	245,182,186	
Automobiles and trucks	168,643,698	
Infrastructure	1,589,425,226	
Other capital assets	<u>2,079,731</u>	
Total capital assets	3,800,201,215	
Less accumulated depreciation	<u>(1,010,386,285)</u>	2,789,814,930
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	(1,496,561,371)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(300,000,000)	
Lease revenue bonds payable	(35,025,000)	
Accrued interest payable	(30,008,882)	
Capital leases payable	(67,929,435)	
Certificates of participation	(30,475,000)	
Notes payable	(15,389,394)	
Revenue bonds	(14,463,000)	
Other postemployment benefits	(113,534,939)	
Claims and judgements	(1,550,000)	
Compensated absences	<u>(68,084,486)</u>	(2,273,021,507)
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	(64,307,030)	
Deferred amount on refunding	19,365,538	
Deferred issuance costs	<u>5,425,535</u>	(39,515,957)
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	147,050,904	
Capital assets	79,440,514	
Less accumulated depreciation	(45,492,021)	
Liabilities	(110,492,278)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>-</u>	70,507,119
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	198,151,500	
Property taxes	24,802,939	
Intergovernmental revenue	46,625,398	
Other revenue	<u>45,836,651</u>	<u>315,416,488</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 1,286,928,526</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, 2009
Exhibit A-5

	General	Revenue Stabilization	Housing Initiative	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 2,540,477,984	\$ -	\$ 6,022,355	\$ -	\$ 31,185,481	\$ 294,833,610	\$ 2,872,519,430
Licenses and permits	9,319,612	-	-	-	-	2,225,888	11,545,500
Intergovernmental	90,521,958	-	-	-	23,453,529	112,504,437	226,479,924
Charges for services	32,195,778	-	-	-	88,636	56,942,331	89,226,745
Fines and forfeitures	27,604,483	-	-	-	-	819,292	28,423,775
Investment income	872,126	2,005,903	765,252	6,226,352	213,023	2,032,260	12,114,916
Miscellaneous	12,188,055	-	1,999,827	600	305,582	3,362,559	17,856,623
Total Revenues	<u>2,713,179,996</u>	<u>2,005,903</u>	<u>8,787,434</u>	<u>6,226,952</u>	<u>55,246,251</u>	<u>472,720,377</u>	<u>3,258,166,913</u>
EXPENDITURES							
Current:							
General government	262,977,455	-	-	-	-	14,029,761	277,007,216
Public safety	351,136,405	-	15,549,276	-	-	202,473,073	569,158,754
Public works and transportation	56,035,338	-	-	-	-	120,379,035	176,414,373
Health and human services	200,410,294	-	-	-	-	76,421,532	276,831,826
Culture and recreation	49,876,611	-	-	-	-	43,739,567	93,616,178
Community development and housing	12,734,105	-	-	-	-	6,474,784	19,208,889
Environment	4,220,318	-	-	-	-	6,098,638	10,318,956
Education	1,643,643,553	-	-	-	-	-	1,643,643,553
Debt Service:							
Principal retirement:							
General obligation bonds	-	-	-	120,196,683	-	-	120,196,683
Bond anticipation notes	-	-	-	250,000,000	-	-	250,000,000
Other notes	-	-	-	2,817,609	-	-	2,817,609
Interest:							
General obligation bonds	-	-	-	81,534,678	-	-	81,534,678
Variable rate demand obligations	-	-	-	1,282,778	-	-	1,282,778
Bond anticipation notes	-	-	-	4,121,080	-	-	4,121,080
Other notes	-	-	-	254,366	-	-	254,366
Leases and other obligations	-	-	-	19,857,064	-	-	19,857,064
Issuing costs	-	-	-	2,087,524	-	-	2,087,524
Capital projects	-	-	-	-	447,794,002	-	447,794,002
Total Expenditures	<u>2,581,034,079</u>	<u>-</u>	<u>15,549,276</u>	<u>482,151,782</u>	<u>447,794,002</u>	<u>469,616,390</u>	<u>3,996,145,529</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>132,145,917</u>	<u>2,005,903</u>	<u>(6,761,842)</u>	<u>(475,924,830)</u>	<u>(392,547,751)</u>	<u>3,103,987</u>	<u>(737,978,616)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	54,225,415	-	27,253,837	226,765,510	45,375,483	14,098,369	367,718,614
Transfers (out)	(251,674,728)	(2,005,903)	(1,659,480)	(2,005,903)	(17,471,347)	(49,442,384)	(324,259,745)
Sale of property	-	-	1,629,312	-	-	-	1,629,312
Debt Issued:							
General obligation bonds	-	-	-	250,000,000	-	-	250,000,000
Premium on general obligation bonds	-	-	-	1,018,750	7,001,875	-	8,020,625
Bond anticipation notes	-	-	-	-	250,000,000	-	250,000,000
Lease revenue bonds	596,652	-	-	-	14,463,000	-	15,059,652
Premium on revenue bonds	-	-	-	142,088	754,298	-	896,386
Notes	-	-	-	-	10,000,000	-	10,000,000
Total Other Financing Sources (Uses)	<u>(196,852,661)</u>	<u>(2,005,903)</u>	<u>27,223,669</u>	<u>475,920,445</u>	<u>310,123,309</u>	<u>(35,344,015)</u>	<u>579,064,844</u>
Net Change in Fund Balances	(64,706,744)	-	20,461,827	(4,385)	(82,424,442)	(32,240,028)	(158,913,772)
Fund Balances - Beginning of Year	172,812,806	119,647,603	168,220,948	3,349,425	36,112,118	82,498,325	582,641,225
Fund Balances - End of Year	<u>\$ 108,106,062</u>	<u>\$ 119,647,603</u>	<u>\$ 188,682,775</u>	<u>\$ 3,345,040</u>	<u>\$ (46,312,324)</u>	<u>\$ 50,258,297</u>	<u>\$ 423,727,453</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, 2009

Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5) \$ (158,913,772)

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	\$ 193,133,863	
Depreciation expense	<u>(87,715,481)</u>	105,418,382

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. (25,027)

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. 2,239,071

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	(122,147,954)	
Property taxes	8,731,316	
Intergovernmental revenues	34,462,991	
Other revenues	<u>(1,301,394)</u>	(80,255,040)

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	(258,917,011)	
Bond anticipation notes	(250,000,000)	
Promissory note	(10,000,000)	
Capital lease financing	-	
Lease revenue bonds	(15,059,652)	
Certificates of participation	-	
Less issuance costs	2,087,523	
Principal repayments:		
General obligation bonds	120,196,683	
Bond anticipation notes	250,000,000	
Leases payable	2,843,651	
Capital leases	7,140,000	
Certificates of participation	3,105,000	
Notes payable	<u>2,957,731</u>	(145,646,075)

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

Accrued interest payable	1,469,009	
Compensated absences	(4,809,569)	
Other postemployment benefits	(54,936,148)	
Amortization	<u>6,074,288</u>	(52,202,420)

The current year loss for certain activities of internal service funds is reported with governmental activities. (16,895,186)

Change in net assets of governmental activities (see Exhibit A-2) \$ (346,280,067)

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 (NON-GAAP BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 963,618,115	\$ 963,618,115	\$ -	\$ 963,618,115	\$ 960,942,376	\$ (2,675,739)
Property - penalty and interest	-	1,480,608	1,480,608	-	1,480,608	1,370,122	(110,486)
Other	-	-	-	-	-	6,809	6,809
Total Property Tax	-	965,098,723	965,098,723	-	965,098,723	962,319,307	(2,779,416)
County Income Tax	-	1,325,440,000	1,325,440,000	-	1,325,440,000	1,291,716,935	(33,723,065)
Other Local Taxes:							
Real property transfer	-	80,900,000	80,900,000	-	80,900,000	64,771,739	(16,128,261)
Recordation	-	68,084,500	68,084,500	-	68,084,500	42,437,216	(25,647,284)
Fuel energy	-	132,700,000	132,700,000	-	132,700,000	129,328,307	(3,371,693)
Hotel - motel	-	19,870,000	19,870,000	-	19,870,000	16,829,254	(3,040,746)
Telephone	-	30,850,000	30,850,000	-	30,850,000	30,906,025	56,025
Other	-	2,360,000	2,360,000	-	2,360,000	2,169,201	(190,799)
Total Other Local Taxes	-	334,764,500	334,764,500	-	334,764,500	286,441,742	(48,322,758)
Total Taxes	-	2,625,303,223	2,625,303,223	-	2,625,303,223	2,540,477,984	(84,825,239)
Licenses and Permits:							
Business	-	4,360,400	4,360,400	13,000	4,373,400	4,269,845	(103,555)
Non business	-	4,745,000	4,745,000	-	4,745,000	5,049,767	304,767
Total Licenses and Permits	-	9,105,400	9,105,400	13,000	9,118,400	9,319,612	201,212
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement	-	6,788,990	6,788,990	-	6,788,990	7,157,597	368,607
Highway user revenue	-	39,672,000	39,672,000	-	39,672,000	32,011,346	(7,660,654)
Police protection	-	13,487,000	13,487,000	-	13,487,000	13,440,729	(46,271)
Health and human services programs	-	7,103,007	7,103,007	-	7,103,007	7,535,663	432,656
Public libraries	-	5,275,970	5,275,970	-	5,275,970	4,523,994	(751,976)
911 Emergency	-	7,508,000	7,508,000	-	7,508,000	4,551,916	(2,956,084)
Other	-	1,901,641	1,901,641	-	1,901,641	1,419,812	(481,829)
Total State Aid and Reimbursements	-	81,736,608	81,736,608	-	81,736,608	70,641,057	(11,095,551)
Federal Reimbursements:							
Federal financial participation	-	15,598,910	15,598,910	-	15,598,910	16,272,209	673,299
Other	-	2,256,290	2,256,290	-	2,256,290	2,295,860	39,570
Total Federal Reimbursements	-	17,855,200	17,855,200	-	17,855,200	18,568,069	712,869
Other Intergovernmental	-	1,389,630	1,389,630	50,000	1,439,630	1,312,832	(126,798)
Total Intergovernmental Revenue	-	100,981,438	100,981,438	50,000	101,031,438	90,521,958	(10,509,480)
Charges for Services:							
General government	-	1,406,330	1,406,330	(11,990)	1,394,340	1,296,806	(97,534)
Public safety	-	10,222,230	10,222,230	-	10,222,230	11,561,116	1,338,886
Health and human services	-	1,814,020	1,814,020	-	1,814,020	1,547,937	(266,083)
Culture and recreation	-	600	600	-	600	3,634	3,034
Environment	-	649,160	649,160	-	649,160	139,789	(509,371)
Public works and transportation	-	65,000	65,000	-	65,000	82,342	17,342
Total Charges for Services	-	14,157,340	14,157,340	(11,990)	14,145,350	14,631,624	486,274
Fines and forfeitures	-	25,560,760	25,560,760	18,990	25,579,750	27,604,483	2,024,733
Investment Income:							
Pooled investment income	-	4,426,030	4,426,030	-	4,426,030	540,590	(3,885,440)
Other interest income	-	-	-	-	-	28,195	28,195
Total Investment Income	-	4,426,030	4,426,030	-	4,426,030	568,785	(3,857,245)
Miscellaneous Revenue:							
Property rentals	-	5,393,600	5,393,600	-	5,393,600	5,163,376	(230,224)
Sundry	-	5,702,200	5,702,200	(67,110)	5,635,090	12,637,827	7,002,737
Total Miscellaneous Revenue	-	11,095,800	11,095,800	(67,110)	11,028,690	17,801,203	6,772,513
Total Revenues	-	2,790,629,991	2,790,629,991	2,890	2,790,632,881	2,700,925,649	(89,707,232)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	8,619,554	8,619,554	(172,090)	8,447,464	8,126,863	320,601
Operating	65,839	961,150	1,026,989	-	1,026,989	879,733	147,256
Totals	65,839	9,580,704	9,646,543	(172,090)	9,474,453	9,006,596	467,857
Board of Appeals:							
Personnel	-	544,550	544,550	1,380	545,930	545,920	10
Operating	-	74,750	74,750	(2,890)	71,860	65,990	5,870
Totals	-	619,300	619,300	(1,510)	617,790	611,910	5,880
Legislative Oversight:							
Personnel	-	1,291,550	1,291,550	(20,710)	1,270,840	1,254,448	16,392
Operating	-	78,750	78,750	-	78,750	23,323	55,427
Totals	-	1,370,300	1,370,300	(20,710)	1,349,590	1,277,771	71,819
Merit System Protection Board:							
Personnel	-	137,760	137,760	80	137,840	137,839	1
Operating	-	17,700	17,700	(1,740)	15,960	10,925	5,035
Totals	-	155,460	155,460	(1,660)	153,800	148,764	5,036
Zoning and Administrative Hearings:							
Personnel	-	456,472	456,472	(10,390)	446,082	440,811	5,271
Operating	-	95,440	95,440	(6,000)	89,440	43,943	45,497
Totals	-	551,912	551,912	(16,390)	535,522	484,754	50,768

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Inspector General:							
Personnel	\$ -	\$ 558,772	\$ 558,772	\$ (68,540)	\$ 490,232	\$ 419,386	\$ 70,846
Operating	5,775	137,950	143,725	60,749	204,474	198,352	6,122
Capital outlay	2,352	4,000	6,352	-	6,352	-	6,352
Totals	8,127	700,722	708,849	(7,791)	701,058	617,738	83,320
People's Counsel:							
Personnel	-	235,780	235,780	-	235,780	232,615	3,165
Operating	-	14,390	14,390	-	14,390	6,732	7,658
Totals	-	250,170	250,170	-	250,170	239,347	10,823
Circuit Court:							
Personnel	-	8,227,401	8,227,401	(119,760)	8,107,641	7,654,326	453,315
Operating	440,889	2,520,230	2,961,119	(82,053)	2,879,066	2,833,281	45,785
Capital outlay	-	-	-	139,804	139,804	139,804	-
Totals	440,889	10,747,631	11,188,520	(62,009)	11,126,511	10,627,411	499,100
State's Attorney:							
Personnel	-	12,053,403	12,053,403	(30,550)	12,022,853	12,022,849	4
Operating	539	542,550	543,089	118,757	661,846	661,844	2
Totals	539	12,595,953	12,596,492	88,207	12,684,699	12,684,693	6
County Executive:							
Personnel	-	6,317,221	6,317,221	(185,049)	6,132,172	5,868,370	263,802
Operating	58,857	662,220	721,077	334,247	1,055,324	1,012,600	42,724
Totals	58,857	6,979,441	7,038,298	149,198	7,187,496	6,880,970	306,526
Commission for Women:							
Personnel	-	1,138,851	1,138,851	(8,080)	1,130,771	1,105,841	24,930
Operating	20,452	178,580	199,032	(18,150)	180,882	169,922	10,960
Totals	20,452	1,317,431	1,337,883	(26,230)	1,311,653	1,275,763	35,890
Regional Service Centers:							
Personnel	-	3,426,341	3,426,341	(139,260)	3,287,081	3,154,424	132,657
Operating	99,492	1,067,761	1,167,253	(5,670)	1,161,583	1,084,499	77,084
Totals	99,492	4,494,102	4,593,594	(144,930)	4,448,664	4,238,923	209,741
Ethics Commission:							
Personnel	-	260,841	260,841	10,060	270,901	270,898	3
Operating	-	3,470	3,470	4,890	8,360	8,359	1
Totals	-	264,311	264,311	14,950	279,261	279,257	4
Intergovernmental Relations:							
Personnel	-	726,760	726,760	38,770	765,530	765,521	9
Operating	332	156,010	156,342	(15,600)	140,742	94,807	45,935
Totals	332	882,770	883,102	23,170	906,272	860,328	45,944
Public Information:							
Personnel	-	1,130,651	1,130,651	15,620	1,146,271	1,146,267	4
Operating	45,026	178,070	223,096	(17,907)	205,189	205,179	10
Totals	45,026	1,308,721	1,353,747	(2,287)	1,351,460	1,351,446	14
Board of Elections:							
Personnel	-	2,835,441	2,835,441	1,149,050	3,984,491	3,984,489	2
Operating	300	4,118,700	4,119,000	2,999,730	7,118,730	5,932,347	1,186,383
Totals	300	6,954,141	6,954,441	4,148,780	11,103,221	9,916,836	1,186,385
County Attorney:							
Personnel	-	5,195,778	5,195,778	(88,670)	5,107,108	5,107,103	5
Operating	58,198	485,080	543,278	203,506	746,784	746,782	2
Totals	58,198	5,680,858	5,739,056	114,836	5,853,892	5,853,885	7
Management and Budget:							
Personnel	-	3,876,831	3,876,831	(81,240)	3,795,591	3,643,332	152,259
Operating	26,233	190,810	217,043	(10,274)	206,769	199,152	7,617
Totals	26,233	4,067,641	4,093,874	(91,514)	4,002,360	3,842,484	159,876
Finance:							
Personnel	-	9,279,514	9,279,514	(294,710)	8,984,804	8,354,324	630,480
Operating	1,580,267	1,447,780	3,028,047	(766,279)	2,261,768	2,050,651	211,117
Totals	1,580,267	10,727,294	12,307,561	(1,060,989)	11,246,572	10,404,975	841,597
Human Resources:							
Personnel	-	5,726,901	5,726,901	(354,180)	5,372,721	4,793,902	578,819
Operating	540,565	3,796,070	4,336,635	68,619	4,405,254	4,405,252	2
Totals	540,565	9,522,971	10,063,536	(285,561)	9,777,975	9,199,154	578,821
Technology Services:							
Personnel	-	18,572,887	18,572,887	(467,390)	18,105,497	17,601,513	503,984
Operating	5,153,347	15,017,870	20,171,217	(1,029,943)	19,141,274	18,794,399	346,875
Capital outlay	-	120,300	120,300	-	120,300	117,487	2,813
Totals	5,153,347	33,711,057	38,864,404	(1,497,333)	37,367,071	36,513,399	853,672
General Services:							
Personnel	-	14,885,448	14,885,448	107,630	14,993,078	14,993,078	-
Operating	-	13,435,830	13,435,830	4,845,923	18,281,753	18,281,746	7
Capital outlay	-	-	-	48,500	48,500	48,492	8
Totals	-	28,321,278	28,321,278	5,002,053	33,323,331	33,323,316	15
Consumer Protection:							
Personnel	-	2,564,211	2,564,211	(65,220)	2,498,991	2,492,287	6,704
Operating	2,023	144,280	146,303	(580)	145,723	76,783	68,940
Totals	2,023	2,708,491	2,710,514	(65,800)	2,644,714	2,569,070	75,644
Corrections and Rehabilitation:							
Personnel	-	58,087,094	58,087,094	550,330	58,637,424	58,637,424	-
Operating	30,530	7,515,720	7,546,250	486,465	8,032,715	8,032,714	1
Totals	30,530	65,602,814	65,633,344	1,036,795	66,670,139	66,670,138	1

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Human Relations Commission:							
Personnel	\$ -	\$ 2,311,273	\$ 2,311,273	\$ (178,140)	\$ 2,133,133	\$ 2,112,794	\$ 20,339
Operating	660	190,230	190,890	(2,590)	188,300	188,294	6
Totals	<u>660</u>	<u>2,501,503</u>	<u>2,502,163</u>	<u>(180,730)</u>	<u>2,321,433</u>	<u>2,301,088</u>	<u>20,345</u>
Police:							
Personnel	-	200,918,479	200,918,479	(1,256,960)	199,661,519	197,984,086	1,677,433
Operating	1,396,857	39,394,570	40,791,427	1,689,208	42,480,635	38,601,903	3,878,732
Capital outlay	-	-	-	307,710	307,710	307,704	6
Totals	<u>1,396,857</u>	<u>240,313,049</u>	<u>241,709,906</u>	<u>739,958</u>	<u>242,449,864</u>	<u>236,893,693</u>	<u>5,556,171</u>
Sheriff:							
Personnel	-	18,293,850	18,293,850	(135,522)	18,158,328	18,158,324	4
Operating	197,049	2,239,670	2,436,719	(210,660)	2,226,059	2,226,055	4
Totals	<u>197,049</u>	<u>20,533,520</u>	<u>20,730,569</u>	<u>(346,182)</u>	<u>20,384,387</u>	<u>20,384,379</u>	<u>8</u>
Homeland Security:							
Personnel	-	1,182,287	1,182,287	(77,270)	1,105,017	761,288	343,729
Operating	425,241	471,400	896,641	(280,158)	616,483	616,478	5
Totals	<u>425,241</u>	<u>1,653,687</u>	<u>2,078,928</u>	<u>(357,428)</u>	<u>1,721,500</u>	<u>1,377,766</u>	<u>343,734</u>
Transportation:							
Personnel	-	26,468,761	26,468,761	182,190	26,650,951	26,329,944	321,007
Operating	4,092,899	22,278,270	26,371,169	2,430,843	28,802,012	27,958,806	843,206
Totals	<u>4,092,899</u>	<u>48,747,031</u>	<u>52,839,930</u>	<u>2,613,033</u>	<u>55,452,963</u>	<u>54,288,750</u>	<u>1,164,213</u>
Health and Human Services:							
Personnel	-	109,935,233	109,935,233	(2,958,530)	106,976,703	103,361,909	3,614,794
Operating	2,515,651	91,320,900	93,836,551	(582,166)	93,254,385	88,659,949	4,594,436
Capital outlay	-	-	-	275,850	275,850	275,840	10
Totals	<u>2,515,651</u>	<u>201,256,133</u>	<u>203,771,784</u>	<u>(3,264,846)</u>	<u>200,506,938</u>	<u>192,297,698</u>	<u>8,209,240</u>
Libraries:							
Personnel	-	32,140,814	32,140,814	(1,445,850)	30,694,964	30,554,189	140,775
Operating	1,910,921	8,114,720	10,025,641	(494,090)	9,531,551	8,615,276	916,275
Capital outlay	75,960	-	75,960	-	75,960	75,960	-
Totals	<u>1,986,881</u>	<u>40,255,534</u>	<u>42,242,415</u>	<u>(1,939,940)</u>	<u>40,302,475</u>	<u>39,245,425</u>	<u>1,057,050</u>
Housing and Community Affairs:							
Personnel	-	4,917,767	4,917,767	(140,490)	4,777,277	4,624,056	153,221
Operating	217,194	716,610	933,804	131,412	1,065,216	849,827	215,389
Totals	<u>217,194</u>	<u>5,634,377</u>	<u>5,851,571</u>	<u>(9,078)</u>	<u>5,842,493</u>	<u>5,473,883</u>	<u>368,610</u>
Economic Development:							
Personnel	-	5,077,994	5,077,994	(331,880)	4,746,114	4,746,103	11
Operating	286,982	2,970,590	3,257,572	680,456	3,938,028	3,938,021	7
Totals	<u>286,982</u>	<u>8,048,584</u>	<u>8,335,566</u>	<u>348,576</u>	<u>8,684,142</u>	<u>8,684,124</u>	<u>18</u>
Environmental Protection:							
Personnel	-	3,617,701	3,617,701	(132,290)	3,485,411	3,370,265	115,146
Operating	451,790	783,839	1,235,629	(127,229)	1,108,400	966,523	141,877
Totals	<u>451,790</u>	<u>4,401,540</u>	<u>4,853,330</u>	<u>(259,519)</u>	<u>4,593,811</u>	<u>4,336,788</u>	<u>257,023</u>
Total Departments	<u>19,702,220</u>	<u>792,460,431</u>	<u>812,162,651</u>	<u>4,465,029</u>	<u>816,627,680</u>	<u>794,162,522</u>	<u>22,465,158</u>
Nondepartmental:							
State retirement contribution - operating	-	934,920	934,920	-	934,920	934,919	1
Retirees group insurance - operating	-	26,039,330	26,039,330	-	26,039,330	26,039,330	-
State positions supplement - personnel	-	144,951	144,951	-	144,951	114,954	29,997
Judges special pension contribution - personnel	-	3,740	3,740	10	3,750	3,749	1
Compensation adjustment - personnel	-	2,428,223	2,428,223	(1,639,480)	788,743	166,443	622,300
Compensation adjustment - operating	1,728	642,370	644,098	185,782	829,880	829,878	2
OPEB trust contributions - operating	-	16,391,930	16,391,930	-	16,391,930	16,391,930	-
Productivity Enhancement - personnel	-	(13,000,000)	(13,000,000)	13,000,000	-	-	-
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,479,836	8,404
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	705,570	705,570	11,020	716,590	716,590	-
Rebate - Takoma Park library - operating	-	112,630	112,630	-	112,630	112,352	278
Homeowners' association roadways - operating	-	337,700	337,700	-	337,700	337,549	151
Contribution to risk management - operating	-	9,809,740	9,809,740	-	9,809,740	9,397,551	412,189
Historical activities - operating	-	355,340	355,340	-	355,340	355,340	-
Conference and Visitors Bureau - operating	65,605	695,450	761,055	-	761,055	761,055	-
Arts Council - operating	98,319	5,315,480	5,413,799	(638)	5,413,161	5,404,463	8,698
Community grants - operating	3,005,213	5,783,460	8,788,673	(1,290,309)	7,498,364	7,351,795	146,569
Conference Center - personnel	-	112,790	112,790	-	112,790	73,173	39,617
Conference Center - operating	18,200	454,300	472,500	(714)	471,786	356,277	115,509
English Literacy - operating	-	745,000	745,000	-	745,000	745,000	-
County associations - operating	-	70,450	70,450	-	70,450	69,953	497
Metropolitan Washington C O G - operating	-	742,720	742,720	650	743,370	743,366	4
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	20,000	7,500
Independent audit - operating	-	394,000	394,000	-	394,000	290,805	103,195
Prisoner medical services - operating	-	10,000	10,000	17,320	27,320	27,313	7
Boards, committees and commissions - operating	-	20,000	20,000	2,960	22,960	22,959	1
Charter Review Commission - operating	-	150	150	-	150	135	15
Closing costs assistance - operating	-	33,790	33,790	-	33,790	33,790	-
Working families income supplement - operating	-	13,667,700	13,667,700	(4,360,060)	9,307,640	9,016,267	291,373
Interagency tech. policy & coord comm - operating	233	30,000	30,233	-	30,233	6,788	23,445
County Leases - personnel	-	-	-	55,290	55,290	55,290	-
County Leases - operating	488,376	18,455,210	18,943,586	(636,170)	18,307,416	16,634,447	1,672,969
County Leases - capital outlay	-	-	-	544,920	544,920	544,912	8
Rockville parking district - operating	-	377,500	377,500	107,610	485,110	485,109	1
Climate Change - operating	-	1,561,000	1,561,000	-	1,561,000	1,262,801	298,199
Desktop computer modernization - operating	680,727	7,136,360	7,817,087	(202,481)	7,614,606	7,326,529	288,077

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Utilities - operating	\$ 97,499	\$ 25,866,880	\$ 25,964,379	\$ (91,519)	\$ 25,872,860	\$ 25,527,000	\$ 345,860
Total - Nondepartmental	4,455,900	133,922,444	138,378,344	5,704,191	144,082,535	139,667,660	4,414,875
Total Expenditures	24,158,120	926,382,875	950,540,995	10,169,220	960,710,215	933,830,182	26,880,033
Excess of Revenues over (under) Expenditures	(24,158,120)	1,864,247,116	1,840,088,996	(10,166,330)	1,829,922,666	1,767,095,467	(62,827,199)
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	-	120,750	120,750	-
Recreation	-	4,938,000	4,938,000	-	4,938,000	4,938,000	-
Mass Transit	-	7,744,000	7,744,000	-	7,744,000	7,744,000	-
Water Quality Protection	-	259,620	259,620	-	259,620	259,620	-
Urban Districts	-	390,970	390,970	-	390,970	390,970	-
Housing Activities	-	178,100	178,100	-	178,100	178,100	-
Grants	-	-	-	632,695	632,695	632,695	-
Cable TV	-	3,435,010	3,435,010	-	3,435,010	3,435,010	-
Total Special Revenue Funds	-	17,066,450	17,066,450	632,695	17,699,145	17,699,145	-
Enterprise Funds:							
Liquor	-	30,410,060	30,410,060	-	30,410,060	30,410,060	-
Parking Lot Districts	-	1,850,890	1,850,890	-	1,850,890	1,850,890	-
Solid Waste Activities	-	2,251,490	2,251,490	-	2,251,490	2,251,490	-
Community Use of Public Facilities	-	370,740	370,740	-	370,740	370,740	-
Permitting Services	-	3,718,570	3,718,570	-	3,718,570	3,718,570	-
Total Enterprise Funds	-	38,601,750	38,601,750	-	38,601,750	38,601,750	-
Total Transfers In	-	55,668,200	55,668,200	632,695	56,300,895	56,300,895	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,416	(4)
Montgomery College	-	-	-	-	-	262,668	262,668
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	591,084	262,664
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,375,320)	(1,375,320)	-	(1,375,320)	(1,375,320)	-
Urban Districts	-	(751,600)	(751,600)	-	(751,600)	(751,600)	-
Mass Transit	-	(531,310)	(531,310)	-	(531,310)	(531,310)	-
Housing Activities	-	(9,782,490)	(9,782,490)	-	(9,782,490)	(9,782,490)	-
Economic Development	-	(556,160)	(556,160)	-	(556,160)	(556,160)	-
Grants	-	-	-	(543,742)	(543,742)	(440,431)	103,311
Total Special Revenue Funds	-	(12,996,880)	(12,996,880)	(543,742)	(13,540,622)	(13,437,311)	103,311
Internal Service Funds:							
Motor Pool	-	(1,332,650)	(1,332,650)	(48,180)	(1,380,830)	(1,214,928)	165,902
Total Internal Service Funds	-	(1,332,650)	(1,332,650)	(48,180)	(1,380,830)	(1,214,928)	165,902
Enterprise Funds:							
Community Use of Public Facilities	-	(151,860)	(151,860)	-	(151,860)	(151,860)	-
Parking Lot Districts	(87,657)	-	(87,657)	-	(87,657)	(7,317)	80,340
Solid Waste Activities	-	(1,675,670)	(1,675,670)	-	(1,675,670)	(1,675,670)	-
Permitting Services	-	(1,153,770)	(1,153,770)	-	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(87,657)	(2,981,300)	(3,068,957)	-	(3,068,957)	(2,988,617)	80,340
Debt Service Fund	-	(226,016,610)	(226,016,610)	(122,626)	(226,139,236)	(204,596,878)	21,542,358
Capital Projects Fund	(35,058,941)	(21,993,249)	(57,052,190)	214,996	(56,837,194)	(28,736,385)	28,100,809
Total Transfers (Out)	(35,146,598)	(265,320,689)	(300,467,287)	(499,552)	(300,966,839)	(250,974,119)	49,992,720
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,515,137,977)	(1,515,137,977)	-	(1,515,137,977)	(1,515,137,973)	4
Montgomery County Public Schools - capital	(7,706,141)	(18,283,000)	(25,989,141)	(3,125,000)	(29,114,141)	(12,365,746)	16,748,395
Total Montgomery County Public Schools	(7,706,141)	(1,533,420,977)	(1,541,127,118)	(3,125,000)	(1,544,252,118)	(1,527,503,719)	16,748,399
Montgomery College - operating	-	(106,776,153)	(106,776,153)	-	(106,776,153)	(106,776,153)	-
Montgomery College - capital	(8,966,773)	(4,067,000)	(13,033,773)	(988,774)	(14,022,547)	(9,363,681)	4,658,866
Total Montgomery College	(8,966,773)	(110,843,153)	(119,809,926)	(988,774)	(120,798,700)	(116,139,834)	4,658,866
Housing Opportunity Commission - operating	-	(6,140,640)	(6,140,640)	-	(6,140,640)	(5,987,120)	153,520
Housing Opportunity Commission - capital	-	(1,505,126)	(1,505,126)	-	(1,505,126)	(1,284,392)	220,734
Total Housing Opportunity Commission	-	(7,645,766)	(7,645,766)	-	(7,645,766)	(7,271,512)	374,254
M-NCPPC - operating	-	(92,500)	(92,500)	(19,920)	(112,420)	(79,295)	33,125
Total Transfers (Out) - Component Units and JV	(16,672,914)	(1,652,002,396)	(1,668,675,310)	(4,133,694)	(1,672,809,004)	(1,650,994,360)	21,814,644
Total Other Financing Sources (Uses)	(51,819,512)	(1,861,326,465)	(1,913,145,977)	(4,000,551)	(1,917,146,528)	(1,845,076,500)	72,070,028
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(75,977,632)	2,920,651	(73,056,981)	(14,166,881)	(87,223,862)	(77,981,033)	9,242,829
Fund Balance - Beginning of Year	75,977,632	95,113,308	171,090,940	(6,204,232)	164,886,708	164,886,708	-
Fund Balance - End of Year	\$ -	\$ 98,033,959	\$ 98,033,959	\$ (20,371,113)	\$ 77,662,846	\$ 86,905,675	\$ 9,242,829

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009
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	\$ 8,757,286	\$ 33,422,372	\$ 20,276,040	\$ 13,071,939	\$ 75,527,637	\$ 133,079,043
Cash with fiscal agents	1,529,914	-	-	-	1,529,914	-
Cash	35,825	3,000	196,724	-	235,549	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,447,216	-	1,447,216	-
Accounts	2,284,019	1,899,918	5,143	2,390	4,191,470	1,930,647
Parking violations	-	-	2,282,575	-	2,282,575	-
Due from other funds	-	6,339	-	-	6,339	7,305,783
Due from component units	-	55,853	376,732	-	432,585	525,630
Due from other governments	-	139,456	-	-	139,456	154,547
Inventory of supplies	28,155,649	-	-	-	28,155,649	3,757,475
Prepays	1,003,260	928	3,829	748	1,008,765	297,479
Other assets	193,843	-	-	-	193,843	-
Total Current Assets	<u>41,959,796</u>	<u>35,527,866</u>	<u>24,588,259</u>	<u>13,075,077</u>	<u>115,150,998</u>	<u>147,050,904</u>
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	28,664,452	6,231,994	-	34,896,446	-
Investments	-	4,064,057	1,532,854	-	5,596,911	-
Restricted Assets	-	<u>32,728,509</u>	<u>7,764,848</u>	-	<u>40,493,357</u>	-
Unamortized debt costs	315,360	228,999	489,603	-	1,033,962	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	34,461,478	-	59,329,889	22,506
Improvements other than buildings	-	72,849,884	59,966,123	-	132,816,007	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	30,728,728	181,656,717	-	245,982,702	-
Furniture, fixtures, equipment, and machinery	6,495,540	13,265,524	1,060,733	2,064,127	22,885,924	4,104,664
Automobiles and trucks	3,679,373	411,042	131,445	275,258	4,497,118	75,044,779
Construction in progress	-	7,676,117	1,606,707	-	9,282,824	-
Subtotal	50,805,826	142,780,401	278,883,203	2,339,385	474,808,815	79,440,514
Less: Accumulated depreciation	12,005,242	99,344,659	103,428,441	1,783,794	216,562,136	45,492,021
Total Capital Assets (net of accumulated depreciation)	<u>38,800,584</u>	<u>43,435,742</u>	<u>175,454,762</u>	<u>555,591</u>	<u>258,246,679</u>	<u>33,948,493</u>
Total Noncurrent Assets	<u>39,115,944</u>	<u>76,393,250</u>	<u>183,709,213</u>	<u>555,591</u>	<u>299,773,998</u>	<u>33,948,493</u>
Total Assets	<u>81,075,740</u>	<u>111,921,116</u>	<u>208,297,472</u>	<u>13,630,668</u>	<u>414,924,996</u>	<u>180,999,397</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	7,265,866	7,601,355	2,099,438	147,361	17,114,020	8,399,701
Interest payable	-	49,083	332,226	313	381,622	3,648
Retainage payable	-	-	426,850	-	426,850	-
Deposits	426,457	-	-	-	426,457	-
Claims payable	-	-	-	-	-	95,033,747
Accrued liabilities	2,609,140	1,353,317	542,072	11,365,437	15,869,966	3,439,799
Due to other funds	395,215	173,110	54,696	1,638,574	2,261,595	1,846,879
Due to component units	-	-	-	668,748	668,748	51,182
Due to other governments	641,079	406,596	27,882	-	1,075,557	2,035
Equipment notes payable	-	-	152,786	62,481	215,267	145,628
Unearned revenue	-	-	-	2,011,600	2,011,600	855,597
Revenue bonds payable	1,205,324	3,420,000	1,840,000	-	6,465,324	-
Landfill closure costs	-	2,150,000	-	-	2,150,000	-
Other liabilities	-	-	622,860	-	622,860	-
Total Current Liabilities	<u>12,543,081</u>	<u>15,153,461</u>	<u>6,098,810</u>	<u>15,894,514</u>	<u>49,689,866</u>	<u>109,778,216</u>
Noncurrent Liabilities:						
Equipment notes payable	-	-	240,640	11,969	252,609	229,243
Revenue bonds payable	33,077,696	9,900,660	32,159,927	-	75,138,283	-
Landfill closure costs	-	18,525,923	-	-	18,525,923	-
Compensated absences	482,625	251,772	104,699	479,872	1,318,968	484,819
Total Noncurrent Liabilities	<u>33,560,321</u>	<u>28,678,355</u>	<u>32,505,266</u>	<u>491,841</u>	<u>95,235,783</u>	<u>714,062</u>
Total Liabilities	<u>46,103,402</u>	<u>43,831,816</u>	<u>38,604,076</u>	<u>16,386,355</u>	<u>144,925,649</u>	<u>110,492,278</u>
NET ASSETS						
Invested in capital, net of related debt	6,039,455	30,115,082	141,061,409	481,141	177,697,087	33,573,622
Restricted for debt service	1,529,914	32,728,509	7,764,848	-	42,023,271	-
Unrestricted	27,402,969	5,245,709	20,867,139	(3,236,828)	50,278,989	36,933,497
Total Net Assets	<u>\$ 34,972,338</u>	<u>\$ 68,089,300</u>	<u>\$ 169,693,396</u>	<u>(\$ 2,755,687)</u>	<u>269,999,347</u>	<u>\$ 70,507,119</u>
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,246,302)	
Net assets of business-type activities					<u>\$ 268,753,045</u>	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
Exhibit A-9

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	\$ 218,787,448	\$ -	\$ -	\$ -	\$ 218,787,448	\$ -
Charges for services	17,010	99,943,176	18,383,673	10,571,545	128,915,404	208,748,892
Licenses and permits	1,583,108	11,005	-	20,778,300	22,372,413	-
Fines and penalties	349,084	86,015	8,314,778	102,020	8,851,897	-
Claim recoveries	-	-	-	-	-	1,949,014
Total Operating Revenues	<u>220,736,650</u>	<u>100,040,196</u>	<u>26,698,451</u>	<u>31,451,865</u>	<u>378,927,162</u>	<u>210,697,906</u>
OPERATING EXPENSES						
Cost of goods sold	156,456,172	-	-	-	156,456,172	-
Personnel costs	23,913,109	12,759,468	4,156,140	24,182,466	65,011,183	25,215,717
Other postemployment contributions	2,209,175	573,525	276,175	1,706,425	4,765,300	1,329,550
Postage	67,460	151,301	8,974	29,986	257,721	1,670,682
Self-insurance incurred and estimated claims	-	-	-	-	-	122,771,134
Insurance	532,380	732,767	14,400	57,630	1,337,177	20,841,935
Supplies and materials	534,966	1,104,658	552,737	366,803	2,559,164	27,548,229
Contractual services	1,719,804	73,263,832	5,722,221	4,536,926	85,242,783	11,689,615
Communications	458,097	217,825	177,304	314,213	1,167,439	633,395
Transportation	695,743	1,772,592	240,708	627,129	3,336,172	565,233
Public utility services	902,335	163,631	3,029,519	1,808,970	5,904,455	1,062,540
Rentals	5,371,530	35,068	1,483,661	2,233,605	9,123,864	379,065
Maintenance	492,434	439,533	2,336,232	404,680	3,672,879	11,376,899
Depreciation	955,637	2,329,449	9,287,998	164,599	12,737,683	7,537,426
Landfill closure expense	-	2,077,000	-	-	2,077,000	-
Other	478,282	520,347	11,379	87,526	1,097,534	97,788
Total Operating Expenses	<u>194,787,124</u>	<u>96,140,996</u>	<u>27,297,448</u>	<u>36,520,958</u>	<u>354,746,526</u>	<u>232,719,208</u>
Operating Income (Loss)	<u>25,949,526</u>	<u>3,899,200</u>	<u>(598,997)</u>	<u>(5,069,093)</u>	<u>24,180,636</u>	<u>(22,021,302)</u>
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	11,854,882	-	11,854,882	-
Intergovernmental	-	8,700	-	-	8,700	-
Gain (loss) on disposal of capital assets	(1,496,903)	179,653	-	-	(1,317,250)	175,862
Investment income	78,116	1,641,495	609,760	270,088	2,599,459	2,199,902
Interest expense	(398,110)	(812,506)	(1,665,589)	(5,913)	(2,882,118)	(17,331)
Other revenue	5,333	62,266	638,295	141,923	847,817	1,942,137
Insurance recoveries	-	36,562	-	1,223	37,785	224,286
Total Nonoperating Revenues (Expenses)	<u>(1,811,564)</u>	<u>1,116,170</u>	<u>11,437,348</u>	<u>407,321</u>	<u>11,149,275</u>	<u>4,524,856</u>
Income (Loss) Before Capital Contributions and Transfers	<u>24,137,962</u>	<u>5,015,370</u>	<u>10,838,351</u>	<u>(4,661,772)</u>	<u>35,329,911</u>	<u>(17,496,446)</u>
Capital Contributions	-	-	596,652	-	596,652	-
Transfers In (Out):						
Transfers in	1,325,505	344,115	173,022	1,048,855	2,891,497	2,109,458
Transfers out	(30,410,060)	(2,251,490)	(11,708,964)	(4,089,310)	(48,459,824)	-
Total Transfers In (Out)	<u>(29,084,555)</u>	<u>(1,907,375)</u>	<u>(11,535,942)</u>	<u>(3,040,455)</u>	<u>(45,568,327)</u>	<u>2,109,458</u>
Change in Net Assets	(4,946,593)	3,107,995	(100,939)	(7,702,227)	(9,641,764)	(15,386,988)
Total Net Assets - Beginning of Year	<u>39,918,931</u>	<u>64,981,305</u>	<u>169,794,335</u>	<u>4,946,540</u>		<u>85,894,107</u>
Total Net Assets - End of Year	<u>\$ 34,972,338</u>	<u>\$ 68,089,300</u>	<u>\$ 169,693,396</u>	<u>\$ (2,755,687)</u>		<u>\$ 70,507,119</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(583,929)	
Change in net assets of business-type activities					<u>\$ (10,225,693)</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, 2009
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	\$ 226,180,636	\$ 97,813,568	\$ 26,111,311	\$ 30,446,010	\$ 380,551,525	\$ 210,305,722
Payments to suppliers	(178,024,420)	(80,773,335)	(12,625,532)	(12,059,076)	(283,482,363)	(79,890,331)
Payments to employees	(23,686,373)	(12,787,324)	(4,092,115)	(23,974,319)	(64,540,131)	(25,301,286)
Internal activity - operating payments from other funds	-	2,948,090	-	1,153,770	4,101,860	-
Other operating receipts	-	-	-	3,046,164	3,046,164	513,560
Other operating payments	-	-	-	(3,652,496)	(3,652,496)	-
Claims paid	-	-	-	-	-	(114,852,822)
Other revenue	5,333	98,828	638,295	143,146	885,602	1,942,137
Net Cash Provided (Used) by Operating Activities	<u>24,475,176</u>	<u>7,299,827</u>	<u>10,031,959</u>	<u>(4,896,801)</u>	<u>36,910,161</u>	<u>(7,283,020)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	11,854,882	-	11,854,882	-
Operating subsidies, transfers and receipts from other funds	1,325,505	344,115	173,022	2,248,855	4,091,497	64,215
Operating subsidies, transfers and payments to other funds	(30,410,060)	(2,251,490)	(11,708,964)	(4,089,310)	(48,459,824)	-
Intergovernmental revenue	-	8,700	-	-	8,700	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(29,084,555)</u>	<u>(1,898,675)</u>	<u>318,940</u>	<u>(1,840,455)</u>	<u>(32,504,745)</u>	<u>64,215</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	33,967,660	-	-	-	33,967,660	-
Proceeds from sale of capital assets	-	179,653	-	-	179,653	651,540
Purchases of capital assets	(33,833,267)	(8,902,208)	(7,560,651)	(80,860)	(50,376,986)	(8,832,007)
Principal paid on capital debt	-	(3,255,000)	(4,311,945)	(109,974)	(7,676,919)	(140,121)
Interest paid on capital debt	(398,110)	(751,750)	(1,617,361)	(6,100)	(2,773,321)	(18,694)
Internal activity - payments from other funds	-	-	-	-	-	2,045,243
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(263,717)</u>	<u>(12,729,305)</u>	<u>(13,489,957)</u>	<u>(196,934)</u>	<u>(26,679,913)</u>	<u>(6,294,039)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	78,116	1,279,696	509,975	270,088	2,137,875	2,196,209
Investment income from nonpooled investments	-	12,868	-	-	12,868	3,693
Net Cash Provided (Used) by Investing Activities	<u>78,116</u>	<u>1,292,564</u>	<u>509,975</u>	<u>270,088</u>	<u>2,150,743</u>	<u>2,199,902</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(4,794,980)</u>	<u>(6,035,589)</u>	<u>(2,629,083)</u>	<u>(6,664,102)</u>	<u>(20,123,754)</u>	<u>(11,312,942)</u>
Balances - Beginning of Year	15,118,005	68,125,413	29,333,841	19,736,041	132,313,300	144,392,285
Balances - End of Year	<u>\$ 10,323,025</u>	<u>\$ 62,089,824</u>	<u>\$ 26,704,758</u>	<u>\$ 13,071,939</u>	<u>\$ 112,189,546</u>	<u>\$ 133,079,343</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 25,949,526	\$ 3,899,200	\$ (598,997)	\$ (5,069,093)	\$ 24,180,636	\$ (22,021,302)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	955,637	2,329,449	9,287,998	164,599	12,737,683	7,537,426
Other revenue	5,333	98,828	638,295	143,146	885,602	1,942,137
Changes in assets and liabilities:						
Receivables, net	682,445	692,234	(588,900)	8,772	794,551	121,375
Inventories, prepaids and other assets	(442,993)	471	1,761	-	(440,761)	(239,921)
Accounts payable and other liabilities	(2,941,030)	222,880	1,231,201	253,961	(1,232,988)	5,380,045
Accrued expenses	266,258	56,765	60,601	(398,186)	(14,562)	(2,780)
Net Cash Provided (Used) by Operating Activities	<u>\$ 24,475,176</u>	<u>\$ 7,299,827</u>	<u>\$ 10,031,959</u>	<u>\$ (4,896,801)</u>	<u>\$ 36,910,161</u>	<u>\$ (7,283,020)</u>
Noncash investing, capital and financing activities:						
Capital asset disposals	\$ 1,587,320	\$ 1,104,513	\$ -	\$ 7,708	\$ 2,699,541	\$ -
Assets acquired through transfers from governmental activities	-	-	596,652	-	596,652	-
Change in fair value of investments that are not cash equivalents	-	196,921	99,785	-	296,706	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	\$ 1,098,366	\$ 45,809,029	\$ 224,619	\$ 42,016,416
Cash	-	-	-	190,281
Investments:				
U.S. Government and agency obligations	316,739,428	-	-	-
Asset-backed securities	12,163,832	-	-	-
Corporate bonds	322,886,763	-	-	-
Collateralized mortgage obligations	9,104,627	-	-	-
Commercial mortgage-backed securities	15,131,578	-	-	-
Common and preferred stock	995,018,436	-	-	-
Mutual and commingled funds	432,851,218	-	-	-
Short-term investments	195,559,877	-	-	-
Cash collateral received under securities lending agreements	138,201,569	-	-	-
Real estate	72,158,654	-	-	-
Private equity	139,209,558	-	-	-
Total investments	<u>2,649,025,540</u>	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	11,080,736	-	-	-
Property taxes	-	-	-	6,297,134
Accounts	98,097	-	25,000	178,114
Due from other funds	12,415,315	-	-	-
Due from component units	160,842	-	-	-
Due from other governments	2,552,469	-	-	-
Total Current Assets	<u>2,676,431,365</u>	<u>45,809,029</u>	<u>249,619</u>	<u>48,681,945</u>
Total Assets	<u>2,676,431,365</u>	<u>45,809,029</u>	<u>249,619</u>	<u>\$ 48,681,945</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	163,094,086	-	-	17,917
Accrued liabilities	241,914	-	-	-
Deposits	-	-	-	463,011
Claims payable	3,978,471	-	-	-
Due to other funds	2,301	-	-	-
Due to other governments	-	-	-	5,394,106
Uncollected property taxes due to governments	-	-	-	5,970,697
Undistributed taxes and refunds	-	-	-	13,183,260
Unearned revenue	83,660	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,602,118
Other liabilities	-	-	-	21,050,836
Total Current Liabilities	<u>167,400,432</u>	-	-	<u>48,681,945</u>
Noncurrent Liabilities:				
Compensated absences	49,112	-	-	-
Total Liabilities	<u>167,449,544</u>	-	-	<u>\$ 48,681,945</u>
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	<u>\$ 2,508,981,821</u>	<u>\$ 45,809,029</u>	<u>\$ 249,619</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, 2009
Exhibit A-12

	Pension and Other Employee Benefit	Investment	Private- Purpose
ADDITIONS			
Contributions:			
Employers	\$ 187,097,727	\$ -	\$ -
Members	60,873,265	-	24,993
Federal government - Medicare Part D	1,297,204	-	-
Share purchases	-	31,292,283	-
Total Contributions	<u>249,268,196</u>	<u>31,292,283</u>	<u>24,993</u>
Investment income (loss)	(486,868,516)	648,556	2,748
Less: Investment expenses	15,208,750	-	-
Net Investment Income (Loss)	<u>(502,077,266)</u>	<u>648,556</u>	<u>2,748</u>
Other income - forfeitures	<u>371,852</u>	-	-
Total Additions, net	<u>(252,437,218)</u>	<u>31,940,839</u>	<u>27,741</u>
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	123,560,071	-	-
Survivors	7,333,268	-	-
Disability	37,724,912	-	-
Claims	48,389,690	-	-
Total Benefits	<u>217,007,941</u>	-	-
Share redemptions	-	24,420,000	-
Member refunds	17,728,063	-	-
Program expenses	-	-	1,270
Administrative expenses	<u>6,945,424</u>	-	-
Total Deductions	<u>241,681,428</u>	<u>24,420,000</u>	<u>1,270</u>
Net Increase (Decrease)	(494,118,646)	7,520,839	26,471
Net Assets - Beginning of Year	<u>3,003,100,467</u>	<u>38,288,190</u>	<u>223,148</u>
Net Assets - End of Year	<u>\$ 2,508,981,821</u>	<u>\$ 45,809,029</u>	<u>\$ 249,619</u>

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2009
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 71,300,827	\$ 8,158,997	\$ 16,967,249	\$ 96,427,073
Cash with fiscal agents	-	20,349,325	3,116,006	23,465,331
Cash	13,597,637	17,698	4,636,560	18,251,895
Investments-cash equivalents	34,797,610	42,185,919	29,571,066	106,554,595
Investments	5,572,786	-	27,577,346	33,150,132
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	31,490,178	31,490,178
Accounts	12,169,437	2,432,992	4,157,243	18,759,672
Notes	-	-	48,315,000	48,315,000
Mortgages receivable	-	346,127,799	-	346,127,799
Interest	-	4,795,648	-	4,795,648
Other	480,205	4,156,662	819,384	5,456,251
Due from primary government	60,755,697	3,164,839	16,924,815	80,845,351
Due from other governments	16,265,945	1,158,806	7,920,361	25,345,112
Inventory of supplies	7,598,665	271,752	2,085,172	9,955,589
Prepays	346,766	2,753,000	1,792,020	4,891,786
Deferred charges	-	-	529,017	529,017
Other assets	-	43,077,438	20,368,159	63,445,597
Restricted Assets:				
Equity in pooled cash and investments	-	234,372	15,189,217	15,423,589
Cash with fiscal agents	-	5,876,474	-	5,876,474
Cash	-	-	624,213	624,213
Investments - cash equivalents	-	117,340,185	3,683,837	121,024,022
Investments	-	115,088,826	-	115,088,826
Capital Assets:				
Nondepreciable assets	245,371,691	90,792,843	61,604,206	397,768,740
Depreciable assets, net	1,685,357,615	409,913,074	314,941,545	2,410,212,234
Total Assets	<u>2,153,614,881</u>	<u>1,217,896,649</u>	<u>612,312,594</u>	<u>3,983,824,124</u>
LIABILITIES				
Accounts payable	45,364,834	10,288,276	27,595,329	83,248,439
Interest payable	-	19,472,403	945,504	20,417,907
Retainage payable	12,287,657	-	2,679,033	14,966,690
Accrued liabilities	90,981,809	8,318,169	932,644	100,232,622
Claims payable	18,501,490	-	-	18,501,490
Deposits	-	10,764,847	31,568	10,796,415
Due to primary government	101,307	67,937,246	1,021,091	69,059,644
Unearned revenue	3,927,863	20,020,263	5,225,293	29,173,419
Other liabilities	-	12,741,088	-	12,741,088
Noncurrent Liabilities:				
Due within one year	24,901,795	71,809,952	5,928,168	102,639,915
Due in more than one year	256,377,723	803,438,540	185,132,779	1,244,949,042
Total Liabilities	<u>452,444,478</u>	<u>1,024,790,784</u>	<u>229,491,409</u>	<u>1,706,726,671</u>
NET ASSETS				
Invested in capital, net of related debt	1,905,292,815	37,261,363	283,304,405	2,225,858,583
Restricted for:				
Capital projects	-	-	255,894	255,894
Debt service	-	38,960,018	3,936,613	42,896,631
Other purposes	1,094,713	11,013,299	22,431,413	34,539,425
Unrestricted (deficit)	(205,217,125)	105,871,185	72,892,860	(26,453,080)
Total Net Assets	<u>\$ 1,701,170,403</u>	<u>\$ 193,105,865</u>	<u>\$ 382,821,185</u>	<u>\$ 2,277,097,453</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, 2009
Exhibit A-14

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component units:								
General government	\$ 4,689,374	\$ 4,410,146	\$ 232,949	\$ -	\$ -	\$ -	\$ (46,279)	\$ (46,279)
Culture and recreation	20,738,255	17,210,744	-	147,771	-	-	(3,379,740)	(3,379,740)
Community development and housing	211,000,336	108,757,842	94,688,518	5,697,302	-	(1,856,674)	-	(1,856,674)
Education:								
Secondary education	2,357,261,020	33,074,282	100,503,742	49,264,320	(2,174,418,676)	-	-	(2,174,418,676)
Higher education	265,994,842	76,324,928	29,930,300	780,845	-	-	(158,958,769)	(158,958,769)
Total component units	<u>\$ 2,859,683,827</u>	<u>\$ 239,777,942</u>	<u>\$ 225,355,509</u>	<u>\$ 55,890,238</u>	<u>(2,174,418,676)</u>	<u>(1,856,674)</u>	<u>(162,384,788)</u>	<u>(2,338,660,138)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,256,121,693	-	202,750,088	2,458,871,781
Investment income					845,745	1,528,681	4,425,050	6,799,476
Total general revenues					<u>2,256,967,438</u>	<u>1,528,681</u>	<u>207,175,138</u>	<u>2,465,671,257</u>
Change in net assets					82,548,762	(327,993)	44,790,350	127,011,119
Net assets - beginning					1,618,621,641	193,433,858	338,030,835	2,150,086,334
Net assets - ending					<u>\$ 1,701,170,403</u>	<u>\$ 193,105,865</u>	<u>\$ 382,821,185</u>	<u>\$ 2,277,097,453</u>

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

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

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

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, 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 College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4 th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

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

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

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

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

B) Government-Wide and Fund Financial Statements

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

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

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

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

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

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities.

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

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

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

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

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

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

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

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

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

The County reports the following major enterprise funds:

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

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements.

The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

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

Additionally, the County reports the following fund types:

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

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

The County reports the following fiduciary fund types:

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

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

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

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

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

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

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a primary government fund) matured during the year. In accordance with agreements between HOC and the County, proceeds from the matured investments, which represented the net assets of the Fund, were transferred to the Housing Initiative Special Revenue Fund.

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 plus accrued interest.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2009. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on

securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, “cash equivalents” are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less 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/Net Assets

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2009, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$1,122,854,267. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$78,885,197.

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 \$50,560,997 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$35,064,571 at June 30, 2009, 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. In the General Fund, the net revenue streams from the Landlord-Tenant Mediation program and Commission on Common Ownership Communities represent reserved for other purposes. These amounts are legally restricted by Montgomery County Code.

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 FY09. 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 2008 (i.e., FY09), 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 Statements No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Neither statement has an impact on the County's financial statements for the current fiscal year.

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.

For FY07 through FY09, as a pilot program, 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:

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Administration, Outreach and Support Services:			
Personnel	\$ 2,237,788	\$ 2,235,119	\$ 2,669
Operating	1,729,713	1,556,008	173,705
Totals	<u>3,967,501</u>	<u>3,791,127</u>	<u>176,374</u>
Library Services to the Public:			
Personnel	25,627,815	25,489,713	138,102
Operating	321,040	271,114	49,926
Capital Outlay	75,960	75,960	-
Totals	<u>26,024,815</u>	<u>25,836,787</u>	<u>188,028</u>
Collection Management:			
Personnel	2,829,361	2,829,357	4
Operating	7,480,798	6,788,154	692,644
Totals	<u>10,310,159</u>	<u>9,617,511</u>	<u>692,648</u>
Total Personnel	30,694,964	30,554,189	140,775
Total Operating	9,531,551	8,615,276	916,275
Total Capital Outlay	75,960	75,960	-
Grand Total	<u>\$ 40,302,475</u>	<u>\$ 39,245,425</u>	<u>\$ 1,057,050</u>

For FY10, the appropriation of the Department of Public Libraries is by the same major categories referenced in the next section.

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 FY09, the County Council increased the operating budget through supplemental and special appropriations by \$50.4 million. In addition, supplemental appropriations increased the CIP budget by \$80.2 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
<u>General Fund:</u>				
As reported - budgetary basis	\$ 2,700,925,649	\$ 933,830,182	\$ (1,845,076,500)	\$ (77,981,033)
Reconciling items:				
Cancellation of prior year encumbrances	(6,204,232)	-	-	(6,204,232)
Elimination of encumbrances outstanding	-	(18,630,308)	-	18,630,308
Unrealized gains (losses)	303,341	-	-	303,341
Financing under capital lease	-	596,652	596,652	-
Other postemployment contributions	-	(3,656,910)	(3,656,910)	-
Conference Center activity	15,488,674	14,943,804	-	544,870
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,075,480	-	(2,075,480)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid waste tipping fees	-	1,675,670	1,675,670	-
Community use of public facilities for elections	-	126,860	126,860	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	591,084	-	(591,084)	-
Component Units - Transfer out	-	1,650,994,360	1,650,994,360	-
As reported - GAAP basis	<u>\$ 2,713,179,996</u>	<u>\$ 2,581,034,079</u>	<u>\$ (196,852,661)</u>	<u>\$ (64,706,744)</u>

B) Deficit Fund Equity

Capital Projects – The \$46,312,324 deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets and the planned FY10 issuance of debt to fund that construction.

Mass Transit Facilities – The \$8,019,271 unreserved deficit in the Mass Transit Facilities Special Revenue Fund is caused by a delay in receiving FY09 state aid amounting to \$22.1 million for the County's Ride-on program. This amount, which is reflected as a receivable and deferred revenue in the accompanying financial statements, was received in October 2009.

Permitting Services – The \$4,778,897 unrestricted deficit in the Permitting Services Fund is caused by a sharp reduction in permit revenue primarily in the second half of FY09 due to the severe economic downturn in the construction industry. The deficit will be recovered by reducing personnel and operating costs in FY10 and FY11. Costs will be kept at a minimum until revenue improves to cover this deficit.

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, 2009, totaled \$3,808,816,947 of which \$3,272,930,797 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

	Primary Government	Component Units	Total Reporting Entity
<u>Statement of Net Asset Amounts:</u>			
Equity in pooled cash and investments	\$ 553,084,713	\$ 96,427,073	\$ 649,511,786
Cash with fiscal agents	29,307,905	23,465,331	52,773,236
Cash	818,333	18,251,895	19,070,228
Investments - cash equivalents	-	106,554,595	106,554,595
Investments	2,649,025,540	33,150,132	2,682,175,672
Restricted equity in pooled cash and investments	34,896,446	15,423,589	50,320,035
Restricted cash with fiscal agents	-	5,876,474	5,876,474
Restricted cash	200,949	624,213	825,162
Restricted investments - cash equivalents	-	121,024,022	121,024,022
Restricted investments	5,596,911	115,088,826	120,685,737
Total	<u>\$ 3,272,930,797</u>	<u>\$ 535,886,150</u>	<u>\$ 3,808,816,947</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 179,371,374	\$ 43,027,420	\$ 222,398,794
Investments	3,063,433,185	338,561,531	3,401,994,716
Cash on hand, fiscal agents, safe deposit escrow	30,126,238	154,297,199	184,423,437
Total	<u>\$ 3,272,930,797</u>	<u>\$ 535,886,150</u>	<u>\$ 3,808,816,947</u>

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

Government-wide	\$ 534,566,546
Fiduciary funds	<u>2,738,364,251</u>
Total	<u>\$ 3,272,930,797</u>

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

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

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

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

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

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

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 553,084,713	\$ 14,195,365	\$ 567,280,078
Restricted equity in pooled cash and investments	34,896,446	-	34,896,446
Total	<u>\$ 587,981,159</u>	<u>\$ 14,195,365</u>	<u>\$ 602,176,524</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 179,170,425	\$ -	\$ 179,170,425
Investments, including accrued interest	408,810,734	14,195,365	423,006,099
Total	<u>\$ 587,981,159</u>	<u>\$ 14,195,365</u>	<u>\$ 602,176,524</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 Range</u>
U. S. Government securities	\$ 202,677,694	\$ 202,670,212	July 09 - August 09	0.01 - 0.44 %
Bankers' acceptances	24,138,843	24,099,479	August 09	1.48
Money market mutual funds	98,977,485	98,977,485	n/a	0.15 - 0.26
State pool	97,047,956	97,047,956	n/a	0.38
Total	<u>\$ 422,841,978</u>	<u>\$ 422,795,132</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, 2009, the County’s investment maturities are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-2</u>
U. S. Government securities	\$ 202,677,694	\$ 202,677,694	-
Bankers' acceptances	24,138,843	24,138,843	-
Money market mutual funds	98,977,485	98,977,485	-
State pool	97,047,956	97,047,956	-
Total	<u>\$ 422,841,978</u>	<u>\$ 422,841,978</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, 2009, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Ratings</u>		
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Repurchase agreements ¹	N/R	N/R	N/R
U.S. Government securities ² :			
Agency discounts	A-1+	F1+	P-1
Other U.S. Government securities	AAA	AAA	Aaa
Bankers' acceptances ³	N/R	N/R	N/R
Certificates of deposit 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** While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.
- 4** While the certificates of deposit are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2009, 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, 2009, 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	\$ 24,138,843
BB&T	50,000,000
Federal Agricultural Mortgage Corp.	69,989,253
Federal Home Loan Bank	56,465,700
Federal Home Loan Mortgage Corp.	76,222,741
JPMorgan Funds	97,676,091
MD Locat Govt. Investment Pool	97,047,956

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2009, are as follows:

Statement of Net Assets
June 30, 2009

Assets:	
Investment in securities, at fair value	\$ 422,841,978
Cash	179,170,425
Accrued interest receivable	164,121
Total assets and net assets	<u>\$ 602,176,524</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 556,367,495
External participants' units outstanding (\$1.00 par)	45,809,029
Net assets	<u>\$ 602,176,524</u>
Participants net asset value, offering price and redemption price per share (\$602,176,524 / 602,507,889 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Investment Income *	\$ 12,161,107
Distributions to participants:	
Distributions paid and payable	(12,161,107)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 3,617,458,243
Redemption of units	<u>(3,809,153,512)</u>
Net decrease in net assets and shares resulting from share transactions	<u>(191,695,269)</u>
Total decrease in net assets	(191,695,269)
Net assets, July 1, 2008	<u>793,871,793</u>
Net assets, June 30, 2009	<u>\$ 602,176,524</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 \$15,397,468 includes \$12,035,000 which is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds. The remaining balance of \$3,347,854 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities. These funds, originally held in the Capital Projects Fund, were transferred to the Debt Service Fund during FY09.

Capital Projects Fund - Cash with fiscal agents of \$10,440,411 is held in money market mutual funds and U.S. Government securities.

Liquor – Cash with fiscal agents of \$1,529,914 at the end of FY09 was held in money market funds for the purpose of disbursement of design and planning costs for a warehouse.

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

4) **Fiduciary Funds**

Employees' Retirement System:

Investment Overview

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

Credit Risk/Concentration of Credit Risk

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

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2009, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 181,736,282	22.08 %
	A	4,480,518	0.54
Foreign Government Obligations	AAA	106,081,252	12.89
	A	21,048,518	2.56
	BBB	3,086,308	0.37
	BB	306,550	0.04
Asset-Backed Securities	AAA	8,632,740	1.05
	A	103,938	0.01
	BBB	2,826,489	0.34
	B	112,631	0.01
	CCC	277,116	0.03
	CC	53,208	0.01
	Unrated	157,710	0.02
Commercial Mortgage-Backed Securities	AAA	13,579,593	1.65
	AA	259,040	0.03
	Unrated	1,292,945	0.16
Collateralized Mortgage Obligations	AAA	4,901,184	0.60
	BBB	677,848	0.08
	BB	116,888	0.01
	B	1,433,422	0.17
	CCC	1,809,435	0.22
	Unrated	165,850	0.02
	Corporate Bonds	AAA	5,125,516
	AA	13,895,216	1.69
	A	54,728,478	6.65
	BBB	42,775,814	5.20
	BB	52,873,906	6.42
	B	57,606,155	7.00
	CCC	27,721,842	3.37
	CC	2,799,458	0.34
	C	874,244	0.11
	D	2,377,000	0.29
	Unrated	2,893,627	0.35
Fixed Income Pooled Funds	Unrated	59,215,507	7.19
Short-term Investments and Other	N/A	147,195,584	17.88
Total Fixed Income Securities		\$ 823,221,812	100.00 %

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

Interest Rate Risk

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

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

As of June 30, 2009, 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	4.95	\$ 186,216,800	22.62 %
Foreign Government Obligations	7.14	130,522,628	15.85
Asset-Backed Securities	2.10	12,163,832	1.48
Commercial Mortgage-Backed Securities	3.09	15,131,578	1.84
Collateralized Mortgage Obligations	0.51	9,104,627	1.11
Corporate Bonds	4.99	263,671,256	32.03
Fixed Income Pooled Funds	N/A	59,215,507	7.19
Short-term Investments and Other	N/A	147,195,584	17.88
Total Fixed Income Securities		\$ 823,221,812	100.00 %

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Japanese Yen	\$ 94,751,685	\$ -	\$ 5,513,828	\$ 100,265,513
European Currency Unit	91,772,005	65,680,067	(78,224,119)	79,227,953
Australian Dollar	3,391,425	-	20,863,608	24,255,033
New Zealand Dollar	304,966	294,016	20,436,997	21,035,979
British Pound Sterling	41,303,329	33,196,684	(54,258,615)	20,241,398
Hong Kong Dollar	15,556,860	-	6,510	15,563,370
Swedish Krona	8,071,891	11,170,334	(11,628,062)	7,614,163
Danish Krone	6,761,798	-	-	6,761,798
Swiss Franc	19,540,446	-	(15,160,313)	4,380,133
Indonesian Rupiah	1,398,608	1,277,425	-	2,676,033
Other Currencies	14,678,071	22,338,424	(25,794,546)	11,221,949
Total International Securities	\$297,531,084	\$133,956,950	\$(138,244,712)	\$ 293,243,322

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY09, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. 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 \$10,683,141 are held for investment purposes and included within the financial statements at June 30, 2009. Gains and losses on futures and options are determined based upon fair 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, 2009, the System had approximately \$107,860,000 net exposure in foreign currency exchange and interest rate swaps and \$111,823,210 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. On November 21, 2008, the Board began restricting the amount of loans the lending agent could make on its behalf. This restriction remained in place as of June 30, 2009. 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. On September 15, 2008, Lehman Brothers International Europe (LBIE) and on September 18, 2008, Lehman Brothers Inc (LBI) were called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. The System was compensated for any security that was not returned from loan in accordance with the contractual obligations. There were no other such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2009, the fair value of securities on loan was \$136,504,992. Cash received as collateral and the related liability of \$138,201,569 as of June 30, 2009, 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 \$4,295,939 and \$2,490,951, 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, 2009:

<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	\$ 46,081,308	\$ -	\$ 47,123,316
Corporate Bonds	22,149,159	-	22,724,237
Equities	65,813,462	-	68,354,016
Lent for Non-Cash Collateral:			
U.S. Government Obligations	2,158,598	2,218,642	-
Corporate Bonds	1	1	-
Equities	302,464	317,230	-
Total	<u>\$136,504,992</u>	<u>\$ 2,535,873</u>	<u>\$ 138,201,569</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, 2009, 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, 2009, the fair value of the mutual and commingled investment funds was \$127,577,002. The fair value of the investments in international mutual funds was \$15,002,729.

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, 2009, the fair value of the mutual and commingled investment funds was \$201,253,401. The fair value of the investments in international mutual funds included in the County Plan was \$25,168,150.

Retiree Health Benefits Trust:

Section 33-163 of the Code authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit

risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Section 33-162 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

As of June 30, 2009, the fair value of the mutual and commingled investment funds was \$30,965,128. The fair value of the investments in international mutual funds was \$9,545,587.

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, 2009, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC and its discretely presented component units investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years).

The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

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

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

Custodial Risk

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

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2009 was P-1.

At June 30, 2009, HOC had the following cash, cash equivalents, investments and maturities:

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Rating</u>
<u>Cash Equivalents:</u>		
General Fund:		
Money Market Accounts	9,172,287	N/A
Opportunity Housing Fund:		
Investment in County External Investment Pool	8,158,997	N/A
Investment in MLGIP	393,053	AAA
Money Market Accounts	12,496,718	N/A
Public Fund:		
Investment in MLGIP	5,230,653	AAA
Money Market Accounts	15,915,796	N/A
Multi-Family Fund		
Money Market Accounts	45,911,058	N/A
Certificate of Deposit	240,000	N/A
Single Family Fund - Money Market Accounts	69,172,913	AAA
Total	<u>\$ 166,691,475</u>	
<u>Short-term Investments:</u>		
Multi-Family Fund:		
US Treasuries	1,226,621	AAA
Total	<u>\$ 1,226,621</u>	

<u>Long-Term Investments</u>	<u>Fair Value</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>Greater than 10 years</u>	<u>Rating</u>
<u>Long-term Investments:</u>					
Multi-Family Fund:					
U. S. Treasuries	\$ 1,467,998	\$ -	\$ -	\$ 1,467,998	AAA
Fannie Mae	3,856,662	-	-	3,856,662	AAA
Freddie Mac	3,739,901	2,267,808	-	1,472,093	AAA
GNMA Pool	73,603,088	-	-	73,603,088	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Single Family Fund:					
Federal Farm Credit Banks	5,636,054	-	-	5,636,054	AAA
Federal Home Loan Banks	8,853,895	156,102	-	8,697,793	AAA
U. S. Treasuries	8,543,549	-	2,812,453	5,731,096	AAA
Fannie Mae	923,095	-	-	923,095	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	-	AAA
Tennessee Valley Authority	5,768,635	-	2,462,453	3,306,182	AAA
Total long-term investments	<u>115,330,202</u>	<u>2,423,910</u>	<u>7,620,706</u>	<u>105,285,586</u>	
Cash balances	<u>26,003,499</u>				
Total Cash, Cash Equivalents and Investments	<u>\$ 309,251,797</u>				

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2009, reported in the enterprise funds, amounted to:

Liquor	\$ 431,382
Solid Waste Activities	12,064
Parking Lot Districts	2,459,793
	<u>\$ 2,903,239</u>

2) Due from/to Component Units

The balances at June 30, 2009, were:

Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ -	\$ 900,000	\$ -	\$ 36,642	\$ -	\$ 936,642
Major Governmental				41,459,181		41,459,181
Capital Projects	-	-	-	16,393,449	-	16,393,449
Solid Waste Activities Enterprise	51,649	684	-	426	3,094	55,853
Nonmajor Governmental	-	-	-	9,151,315	-	9,151,315
Major Enterprise	-	-	-	376,732	-	376,732
Internal Service	49,658	6,862	66,648	387,434	15,028	525,630
Fiduciary	-	-	28,775	132,067	-	160,842
Total Due to Primary Government	<u>\$ 101,307</u>	<u>\$ 907,546</u>	<u>\$ 95,423</u>	<u>\$ 67,937,246</u>	<u>\$ 18,122</u>	<u>\$ 69,059,644</u>

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 8,260,864	\$ -	\$ -	\$ 2,402,219	\$ -	\$ 10,663,083
Major Governmental				309,632		309,632
Capital Projects	50,932,758	16,847,522	-	373,272	-	68,153,552
Nonmajor Governmental	842,145	57,140	-	79,716	20,153	999,154
Nonmajor Enterprise	668,748	-	-	-	-	668,748
Internal Service	51,182	-	-	-	-	51,182
Total Due from Primary Government	<u>\$ 60,755,697</u>	<u>\$ 16,904,662</u>	<u>\$ -</u>	<u>\$ 3,164,839</u>	<u>\$ 20,153</u>	<u>\$ 80,845,351</u>

In the major governmental funds, \$41,459,181 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

The total amount due from other governments at June 30, 2009, 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	\$ -	\$ 2,151,476	\$ -	\$ 10,929,253	\$ -	\$ 2,516,851	\$ 15,597,580
State of Maryland	19,631,585	20,869,886	4,084	27,898,667	42,904	27,156	68,474,282
Other	-	673,211	135,372	769,687	111,643	8,462	1,698,375
Total	<u>\$ 19,631,585</u>	<u>\$ 23,694,573</u>	<u>\$ 139,456</u>	<u>\$ 39,597,607</u>	<u>\$ 154,547</u>	<u>\$ 2,552,469</u>	<u>\$ 85,770,237</u>

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance		Balance	
	July 1, 2008	Increases	Decreases	June 30, 2009
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 605,871,292	\$ 39,676,576	\$ -	\$ 645,547,868
Construction in progress	257,837,176	129,531,702	34,932,648	352,436,230
Total Nondepreciable Capital Assets	863,708,468	169,208,278	34,932,648	997,984,098
Depreciable Capital Assets:				
Buildings	749,736,077	1,008,223	-	750,744,300
Improvements other than buildings	45,984,295	448,751	-	46,433,046
Furniture, fixtures, equipment and machinery	232,836,007	3,977,849	304,907	236,508,949
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	219,180,350	34,644,645	10,136,520	243,688,476
Infrastructure	1,560,586,835	28,838,392	-	1,589,425,227
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,823,181,197	68,917,860	10,441,426	2,881,657,631
Less Accumulated Depreciation for:				
Buildings	265,392,804	19,296,596	-	284,689,400
Improvements other than buildings	17,010,344	1,340,713	-	18,351,057
Furniture, fixtures, equipment and machinery	129,223,744	23,607,234	293,100	152,537,878
Leasehold improvements	2,886,993	810,745	-	3,697,738
Automobiles and trucks	107,784,222	18,349,417	9,871,907	116,261,732
Infrastructure	446,792,748	31,640,228	-	478,432,976
Other assets	1,699,551	207,973	-	1,907,524
Total Accumulated Depreciation	970,790,406	95,252,906	10,165,007	1,055,878,305
Total Depreciable Assets, net	1,852,390,791	(26,335,046)	276,419	1,825,779,326
Governmental Activities Capital Assets, net	\$ 2,716,099,259	\$ 142,873,232	\$ 35,209,068	\$ 2,823,763,424
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 52,777,663	\$ 6,552,226	\$ -	\$ 59,329,889
Construction in progress	2,530,116	14,642,501	7,889,793	9,282,824
Total Nondepreciable Capital Assets	55,307,779	21,194,727	7,889,793	68,612,713
Depreciable Capital Assets:				
Buildings	218,911,392	27,071,310	-	245,982,702
Improvements other than buildings	126,516,890	6,299,117	-	132,816,007
Furniture, fixtures, equipment and machinery	21,622,708	2,427,240	1,164,024	22,885,924
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,161,599	383,688	48,169	4,497,118
Total Capital Assets being Depreciated	371,226,940	36,181,355	1,212,193	406,196,102
Less Accumulated Depreciation for:				
Buildings	88,090,795	7,314,838	-	95,405,633
Improvements other than buildings	100,416,355	3,447,909	-	103,864,264
Furniture, fixtures, equipment and machinery	13,902,653	1,689,815	1,154,468	14,438,000
Infrastructure	1,004	574	-	1,578
Automobiles and trucks	2,616,283	284,547	48,169	2,852,661
Total Accumulated Depreciation	205,027,090	12,737,683	1,202,637	216,562,136
Total Depreciable Assets, net	166,199,850	23,443,673	9,556	189,633,966
Business-Type Activities Capital Assets, net	\$ 221,507,629	\$ 44,638,400	\$ 7,899,349	\$ 258,246,679

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

Governmental activities:

General government	\$ 10,617,196
Public safety	29,226,926
Public works and transportation	44,665,263
Health and human services	8,208,527
Culture and recreation	1,347,798
Community development and housing	986,818
Environment	200,378
Total depreciation expense-governmental activities	<u>\$ 95,252,906</u>

Business-type activities:

Liquor	\$ 955,637
Solid waste activities	2,329,449
Parking lot districts	9,287,998
Permitting services	157,882
Community use of public facilities	6,717
Total depreciation expense-business-type activities	<u>\$ 12,737,683</u>

Construction commitments as of June 30, 2009, are as follows:

	<u>Construction Commitments</u>
General Government	46,713,046
Public Safety	17,910,195
Public Works and Transportaion	132,095,915
Health and Human Services	19,279
Culture & Recreation	10,825,078
Community Development & Housing	20,875,724
Environment	2,340,124
Total	<u>230,779,361</u>

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,930,729,306 at June 30, 2009, are significant in relation to the total component unit capital assets.

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental Activities				
Nondepreciable capital assets:				
Land	\$ 68,861,249	\$ -	\$ 3,930	\$ 68,857,319
Construction in progress	155,190,542	186,537,930	165,214,100	176,514,372
Total nondepreciable capital assets	<u>224,051,791</u>	<u>186,537,930</u>	<u>165,218,030</u>	<u>245,371,691</u>
Depreciable capital assets:				
Buildings and improvements	2,016,306,229	145,533,363	3,589,308	2,158,250,284
Site improvements	167,468,261	22,991,838	-	190,460,099
Vehicles and equipment	147,329,742	8,848,339	11,082,246	145,095,835
Total depreciable capital assets	<u>2,331,104,232</u>	<u>177,373,540</u>	<u>14,671,554</u>	<u>2,493,806,218</u>
Less accumulated depreciation for:				
Buildings and improvements	643,415,471	48,137,636	3,213,341	688,339,766
Site improvements	34,584,151	3,804,167	-	38,388,318
Vehicles and equipment	82,673,299	12,925,647	9,494,870	86,104,076
Total accumulated depreciation	<u>760,672,921</u>	<u>64,867,450</u>	<u>12,708,211</u>	<u>812,832,160</u>
Total depreciable capital assets, net	<u>1,570,431,311</u>	<u>112,506,090</u>	<u>1,963,343</u>	<u>1,680,974,058</u>
Government activities capital assets, net	<u>\$1,794,483,102</u>	<u>\$299,044,020</u>	<u>\$167,181,373</u>	<u>1,926,345,749</u>
Business-Type Activities				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Vehicles and equipment	18,743,228	412,869	2,561,849	16,594,248
Total depreciable capital assets	<u>18,761,059</u>	<u>412,869</u>	<u>2,561,849</u>	<u>16,612,079</u>
Less accumulated depreciation for:				
Buildings	15,156	1,783	-	16,939
Vehicles and equipment	13,392,607	1,086,332	2,267,356	12,211,583
Total accumulated depreciation	<u>13,407,763</u>	<u>1,088,115</u>	<u>2,267,356</u>	<u>12,228,522</u>
Business-type activities capital assets, net	<u>\$ 5,353,296</u>	<u>\$ (675,246)</u>	<u>\$ 294,493</u>	<u>4,383,557</u>
Total MCPS government-wide capital assets				<u>\$ 1,930,729,306</u>

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

Governmental activities:	
Regular instruction	\$ 53,798,111
Special education	264,390
School administration	54,882
Student personnel services	5,468
Student transportation	8,662,515
Operation of plant	162,065
Maintenance of plant	861,349
Administration	1,058,670
Total depreciation expense-governmental activities	<u>\$ 64,867,450</u>
Business-type activities:	
Food services	\$ 1,067,931
Entrepreneurial	17,660
Real estate management	2,524
Total depreciation expense-business type activities	<u>\$ 1,088,115</u>

Commitments for ongoing construction in progress at June 30, 2009, were \$87,563,310.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2009, is as follows:

	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
<u>Due To Fund</u>						
General	\$ -	\$ 1,609	\$ -	\$ 4,331,576	\$ 6,711,832	\$ 11,045,017
Montgomery Housing Initiative	-	-	-	7,065	8,869	15,934
Debt Service	11,553,103	-	481,897	-	-	12,035,000
Capital Projects	25,368,987	-	4,940,311	128,050	155,154	30,592,502
Liquor	-	1,869	-	210,629	182,717	395,215
Solid Waste Activities	-	-	-	75,871	97,239	173,110
Parking Lot Districts	-	2,766	-	23,701	28,229	54,696
Nonmajor Governmental	6,561,587	95	-	2,146,858	3,325,554	12,034,094
Nonmajor Enterprise	1,200,000	-	-	179,666	258,908	1,638,574
Internal Service	-	-	-	201,153	1,645,726	1,846,879
Fiduciary	-	-	-	1,214	1,087	2,301
Total	<u>\$ 44,683,677</u>	<u>\$ 6,339</u>	<u>\$ 5,422,208</u>	<u>\$ 7,305,783</u>	<u>\$ 12,415,315</u>	<u>\$ 69,833,322</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY10:

- \$25.4 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
- \$12.0 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, 2009, consisted of the following:

	Transfers In Fund								Subtotal Major
	General	Revenue Stabilization	Housing Initiative	Debt Service	Capital Projects	Liquor	Solid Waste	Parking Lot Districts	
Transfers Out Fund									
General	\$ -	\$ -	\$ 9,782,490	\$ 204,596,877	\$ 28,736,385	\$ 1,325,505	\$ 344,115	\$ 173,022	\$ 244,958,394
Revenue Stabilization	-	-	-	2,005,903	-	-	-	-	2,005,903
Housing Initiative	178,100	-	-	76,862	1,404,518	-	-	-	1,659,480
Debt Service	-	-	-	-	2,005,903	-	-	-	2,005,903
Capital Projects	-	-	17,471,347	-	-	-	-	-	17,471,347
Liquor	30,410,060	-	-	-	-	-	-	-	30,410,060
Solid Waste Activities	2,251,490	-	-	-	-	-	-	-	2,251,490
Parking Lot Districts	1,850,890	-	-	-	23,079	-	-	-	1,873,969
Nonmajor Governmental	15,445,565	-	-	20,085,868	13,205,598	-	-	-	48,737,031
Nonmajor Enterprise	4,089,310	-	-	-	-	-	-	-	4,089,310
Internal Service Funds	-	-	-	-	-	-	-	-	-
Total	\$ 54,225,415	\$ -	\$ 27,253,837	\$ 226,765,510	\$ 45,375,483	\$ 1,325,505	\$ 344,115	\$ 173,022	\$ 355,462,887

	Transfers In Fund				Total
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major	
Transfers Out Fund					
General	\$ 3,654,821	\$ 1,048,855	\$ 2,012,658	\$ 244,958,394	\$ 251,674,728
Revenue Stabilization	-	-	-	2,005,903	2,005,903
Housing Initiative	-	-	-	1,659,480	1,659,480
Debt Service	-	-	-	2,005,903	2,005,903
Capital Projects	-	-	-	17,471,347	17,471,347
Liquor	-	-	-	30,410,060	30,410,060
Solid Waste Activities	-	-	-	2,251,490	2,251,490
Parking Lot Districts	9,834,995	-	-	1,873,969	11,708,964
Nonmajor Governmental	608,553	-	96,800	48,737,031	49,442,384
Nonmajor Enterprise	-	-	-	4,089,310	4,089,310
Internal Service Funds	-	-	-	-	-
Total	\$ 14,098,369	\$ 1,048,855	\$ 2,109,458	\$ 355,462,887	\$ 372,719,569

Primary activities include:

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

Transfers at the government-wide financial statement level include \$596,652 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 \$16,004,000 for FY09. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2010	\$ 21,678,000
2011	17,757,000
2012	16,155,000
2013	12,235,000
2014	10,355,000
2015 - 2019	36,046,000
2020 - 2024	17,717,000
2025 - 2027	62,000
Total	<u>\$ 132,005,000</u>

2) **Capital Lease Receivable**

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

The composition of the capital lease receivable is as follows:

	<u>Shady Grove</u>	<u>Grosvenor</u>	<u>Total</u>
Minimum lease payments receivable	\$ 24,965,828	\$24,546,810	\$ 49,512,638
Unearned lease income	<u>(7,300,605)</u>	<u>(7,187,033)</u>	<u>(14,487,638)</u>
Net investment in direct financing leases	<u>\$ 17,665,223</u>	<u>\$17,359,777</u>	<u>\$ 35,025,000</u>

At June 30, 2009, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2010	\$ 3,294,214
2011	3,292,009
2012	3,296,303
2013	3,300,252
2014	3,300,640
2015-2019	16,580,305
2020-2024	16,448,915
Total minimum lease payments	<u>\$ 49,512,638</u>

3) Capital Lease Obligations

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

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

Land	\$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	<u>69,065,126</u>
Less accumulated depreciation	<u>(21,666,486)</u>
Total asset value under capital leases	<u>\$ 47,398,640</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	
2010	\$ 5,203,801
2011	4,859,933
2012	4,862,605
2013	3,955,329
2014	3,465,929
2015-2019	16,073,222
2020-2023	3,982,500
Total minimum lease payments	<u>42,403,319</u>
Less: amount representing interest	<u>(9,983,319)</u>
Present value of minimum lease payments	<u>\$ 32,420,000</u>

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

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

The assets acquired through this capital lease are as follows:

	<u>Town Square</u>	<u>Wayne Avenue</u>	<u>Total</u>
Buildings	\$30,485,144	\$ 29,685,533	\$60,170,677
Less accumulated depreciation	<u>(4,733,517)</u>	<u>(4,876,163)</u>	<u>(9,609,680)</u>
Total asset value under capital leases	<u><u>\$25,751,627</u></u>	<u><u>\$ 24,809,370</u></u>	<u><u>\$50,560,997</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	<u>Town Square</u>	<u>Wayne Ave</u>	<u>Total</u>
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	2,461,668	3,113,219	5,574,887
2014	2,451,011	3,110,394	5,561,405
2015-2017	<u>7,337,867</u>	<u>9,300,362</u>	<u>16,638,229</u>
Total minimum lease payments	19,667,690	24,795,650	44,463,340
Less: amount representing interest	<u>(3,142,690)</u>	<u>(4,430,650)</u>	<u>(7,573,340)</u>
Present value of minimum lease payments	<u><u>\$ 16,525,000</u></u>	<u><u>\$ 20,365,000</u></u>	<u><u>\$ 36,890,000</u></u>

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

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

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

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 effected 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, 2009, \$45,500,000, and \$6,500,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2009, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2009	Unamortized Premium **	Unamortized		Carrying Value June 30, 2009
						Deferred Difference		
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 5,541,371	\$ -	\$ -	\$ 5,541,371	
04/01/99	2000-19	4.0 - 5.0	120,000,000	6,000,000	-	-	6,000,000	
01/01/00	2001-20	5.0 - 6.0	130,000,000	13,000,000	-	-	13,000,000	
02/01/01	2002-21	4.0 - 5.0	140,000,000	28,000,000	-	-	28,000,000	
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	120,470,000	3,254,022	(4,168,533)	119,555,489	
02/01/02	2003-22	3.0 - 5.0	160,000,000	48,000,000	717,940	-	48,717,940	
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	55,145,000	1,827,115	(1,381,259)	55,590,856	
05/01/03	2004-23	1.5 - 4.0	155,000,000	108,500,000	688,584	-	109,188,584	
05/01/03*	2004-11	2.0 - 5.0	49,505,000	16,955,000	302,167	(136,393)	17,120,774	
03/15/04	2005-24	3.0 - 5.0	154,600,000	115,950,000	5,943,791	-	121,893,791	
08/15/04*	2008-17	3.0 - 5.25	97,690,000	93,285,000	3,601,317	(4,409,002)	92,477,315	
05/15/05	2006-25	4.0 - 5.0	200,000,000	160,000,000	9,340,971	-	169,340,971	
06/01/05*	2005-16	3.781	120,355,000	120,355,000	9,762,231	(8,013,829)	122,103,402	
05/01/06	2006-17	3.871	100,000,000	70,000,000	2,662,233	-	72,662,233	
05/01/07	2007-27	4.082	250,000,000	225,000,000	15,071,514	-	240,071,514	
3/12/08*	2009-15	2.750 - 5.0	70,295,000	60,360,000	2,861,589	(1,256,522)	61,965,067	
07/15/08	2009-29	3.0 - 5.0	250,000,000	250,000,000	7,288,877	-	257,288,877	
Total			<u>\$ 2,510,453,054</u>	<u>\$ 1,496,561,371</u>	<u>\$ 63,322,351</u>	<u>\$ (19,365,538)</u>	<u>\$ 1,540,518,184</u>	

* Issue represents refunding bonds.

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

Changes in general obligation bonds during FY09 are as follows:

	Balance July 1, 2009	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2009
Governmental Activities:					
General County	\$ 222,939,148	\$ 16,500,000	\$ 18,344,504	\$ -	\$ 221,094,644
Roads and Storm Drainage	318,763,809	73,000,000	28,424,144	-	363,339,665
Parks	49,724,507	7,000,000	4,212,236	-	52,512,271
Public Schools	684,003,495	127,000,000	61,329,010	-	749,674,485
Community College	58,293,032	18,000,000	4,625,521	-	71,667,511
Consolidated Fire Tax District	23,637,217	6,000,000	1,956,994	-	27,680,223
Mass Transit	9,280,718	2,500,000	1,238,019	-	10,542,699
Public Housing	116,128	-	66,255	-	49,873
	<u>\$ 1,366,758,054</u>	<u>\$ 250,000,000</u>	<u>\$ 120,196,683</u>	<u>\$ -</u>	<u>\$ 1,496,561,371</u>

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

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2010	\$ 133,287,086	\$ 77,536,602	\$ 210,823,688
2011	130,139,285	66,241,352	196,380,637
2012	125,430,000	57,408,906	182,838,906
2013	122,330,000	51,576,425	173,906,425
2014	116,215,000	45,463,256	161,678,256
2015-2019	470,325,000	149,605,280	619,930,280
2020-2024	288,835,000	60,705,502	349,540,502
2025-2029	110,000,000	11,637,500	121,637,500
Total	<u>\$ 1,496,561,371</u>	<u>\$ 520,174,823</u>	<u>\$2,016,736,194</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, 2009 is \$8,179,473,770.

General obligation bonds authorized and unissued as of June 30, 2009, are as follows:

Purpose	Authority			Amount Unissued
	Chapter	Act	Amount	
General County, Parks, and Consolidated Fire Tax District	17	2003	\$ 63,600,000	\$ 3,090,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
			<u>350,400,000</u>	<u>289,890,000</u>
Roads and Storm Drainage	19	2005	53,500,000	19,940,000
	43	2006	66,700,000	66,700,000
	12	2007	45,800,000	45,800,000
	36	2008	36,000,000	36,000,000
			<u>202,000,000</u>	<u>168,440,000</u>
Public Schools and Community College	43	2005	157,100,000	83,368,000
	12	2006	118,900,000	118,900,000
	36	2008	222,500,000	222,500,000
			<u>498,500,000</u>	<u>424,768,000</u>
Mass Transit	17	2001	6,700,000	2,705,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
	12	2007	2,400,000	2,400,000
	36	2008	800,000	800,000
			<u>12,400,000</u>	<u>8,405,000</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>\$1,082,245,000</u>	<u>\$ 905,203,000</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, 2009, are as follows:

<u>Dated</u> <u>Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally</u> <u>Issued</u>	<u>Balance</u> <u>June 30, 2009</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 FY09 are as follows:

	Balance July 1, 2008	VRDOs Issued	VRDOs Retired	Balance June 30, 2009
Governmental Activities:				
General County	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	\$ 100,000,000	-	\$ -	\$ 100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2010	\$ -	\$ 315,000	\$ 315,000
2011	-	315,000	315,000
2012	-	315,000	315,000
2013	-	315,000	315,000
2014	-	315,000	315,000
2015-2019	30,000,000	1,386,000	31,386,000
2020-2024	50,000,000	630,000	50,630,000
2025-2026	20,000,000	31,500	20,031,500
Total	\$ 100,000,000	\$ 3,622,500	\$ 103,622,500

* Includes interest on VRDOs at estimated rates of .450 percent for Series A and .180 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

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

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

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

	<u>Terms of Commitment</u>	<u>Approximate amount of Pledge</u>
Bethesda Parking Lot District	17	\$ 45,763,214
Solid Waste Disposal Fund	4	14,847,750
Liquor Control	20	73,155,232
Total		<u>\$ 133,766,196</u>

The pledged net revenues recognized during FY09 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	<u>Net Available Revenue for Debt Service</u>	<u>Debt Service</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Parking Lot District:				
Bethesda Parking Lot District	\$ 14,128,734	\$ 3,340,000	\$ 1,566,585	\$ 4,906,585
Silver Spring Parking Lot District	6,945,175	825,000	30,938	855,938
Solid Waste Disposal Fund:	7,794,551	3,255,000	751,750	4,006,750

Revenue bond issues outstanding as of June 30, 2009, are as follows:

	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2009</u>	<u>Unamortized Premium/ (Discount)</u>	<u>Unamortized Deferred Difference</u>	<u>Carrying Value June 30, 2009</u>
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	\$ 26,000,000	\$ 18,615,000	\$ (12,233)	\$ -	\$ 18,602,767
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	13,345,000	256,781	(281,121)	13,320,660
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	15,305,000	92,160	-	15,397,160
Liquor Control Revenue 2009:								
Liquor Control & Transportation	05/12/09	2010-29	3.00 - 5.00	46,765,000	46,765,000	2,868,008	-	49,633,008
Total				<u>\$ 120,335,000</u>	<u>\$ 94,030,000</u>	<u>\$ 3,204,716</u>	<u>\$ (281,121)</u>	<u>\$ 96,953,595</u>

Changes in revenue bond principal during FY09 are as follows:

	<u>Balance July 1, 2008</u>	<u>Bonds Issued</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2009</u>
Bethesda Parking Lot District	\$ 37,260,000	\$ -	\$ 3,340,000	\$ 33,920,000
Silver Spring Parking Lot District	825,000	-	825,000	-
Solid Waste Disposal	16,600,000	-	3,255,000	13,345,000
Liquor Control	-	46,765,000	-	46,765,000
Total	<u>\$ 54,685,000</u>	<u>\$ 46,765,000</u>	<u>\$ 7,420,000</u>	<u>\$ 94,030,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Liquor Control	
	Principal	Interest	Principal	Interest
2010	\$ 1,840,000	\$ 1,429,335	\$ 1,745,000	\$ 1,914,532
2011	1,915,000	1,355,235	1,550,000	2,108,250
2012	1,995,000	1,278,135	1,605,000	2,051,750
2013	2,085,000	1,194,010	1,670,000	1,987,550
2014	2,180,000	1,105,025	1,735,000	1,920,750
2015-2019	12,450,000	4,058,512	10,060,000	8,234,550
2020-2024	9,065,000	1,321,971	12,560,000	5,728,350
2025-2029	2,390,000	100,991	15,840,000	2,444,500
Total	\$33,920,000	\$ 11,843,214	\$ 46,765,000	\$ 26,390,232

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2010	\$ 3,420,000	\$ 589,000	\$ 7,005,000	\$ 3,932,867	\$ 10,937,867
2011	3,550,000	460,750	7,015,000	3,924,235	10,939,235
2012	3,690,000	318,750	7,290,000	3,648,635	10,938,635
2013	2,685,000	134,250	6,440,000	3,315,810	9,755,810
2014	-	-	3,915,000	3,025,775	6,940,775
2015-2019	-	-	22,510,000	12,293,062	34,803,062
2020-2024	-	-	21,625,000	7,050,321	28,675,321
2025-2029	-	-	18,230,000	2,545,491	20,775,491
Total	\$13,345,000	\$ 1,502,750	\$ 94,030,000	\$ 39,736,196	\$ 133,766,196

Revenue bonds authorized and unissued as of June 30, 2009, are as follows:

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

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

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,267,081	\$ 1,691,402	\$ -
Debt Service Account - Used to pay debt service on bonds	273,511	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,532,854	-	4,064,057
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	4,441,989
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,928,263
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	1,294,200
Total	\$ 4,573,446	\$ 3,191,402	\$ 32,728,509

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 FY09 are as follows:

	Balance July 1, 2008	BANs Issued	BANs Retired	Balance June 30, 2009
BAN Series 2002-K	\$ 150,000,000	\$ -	\$ 150,000,000	\$ -
BAN Series 2002-L	150,000,000	-	100,000,000	50,000,000
BAN Series 2002-M	-	150,000,000	-	150,000,000
BAN Series 2002-N	-	100,000,000	-	100,000,000
Total	\$ 300,000,000	\$ 250,000,000	\$ 250,000,000	\$ 300,000,000

The interest rate changes based on market conditions; during FY09, the rate of interest varied from .35 to 6.0 percent. Interest earned on BAN proceeds totaled \$1,416,608 during FY09, which was accounted for in the Debt Service Fund.

BANs totaling \$250 million were issued during FY09 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005, November 30, 2006, September 18, 2007, and October 28, 2008 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 FY10, 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.

During FY09, the County passed Resolution No. 16-763 dated October 28, 2008 to increase the County's authority to issue BANS by \$327.5 million. Cumulative BANS authorized and unissued as of June 30, 2009, including amounts authorized and unissued from prior years, is \$594,803,000.

5) Certificates of Participation

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

The certificates were issued at interest rates ranging from 4.0 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2010	\$ 3,220,000	\$ 1,322,000	\$ 4,542,000
2011	3,335,000	1,174,225	4,509,225
2012	3,455,000	1,004,475	4,459,475
2013	3,590,000	828,350	4,418,350
2014	3,120,000	660,600	3,780,600
2015 - 2018	13,755,000	1,143,500	14,898,500
Total	<u>\$ 30,475,000</u>	<u>\$ 6,133,150</u>	<u>\$ 36,608,150</u>

6) **Master Lease/Equipment Notes**

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2009:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2010	\$ 2,939,165	\$ 162,321	\$ 3,101,486
2011	1,905,237	62,943	1,968,180
2012	264,863	5,041	269,904
Total	<u>\$ 5,109,265</u>	<u>\$ 230,305</u>	<u>\$ 5,339,570</u>

7) **WSSC Promissory Note**

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

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

The following is a schedule by fiscal year for the debt service requirement at 06/30/2009:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2010	\$ 400,000	\$ -	\$ 400,000
2011	(25,280)	425,280	400,000
2012	(26,400)	426,400	400,000
2013	(27,569)	427,569	400,000
2014	(28,791)	428,791	400,000
2015 - 2019	(164,254)	2,164,254	2,000,000
2020 - 2024	(204,006)	2,204,006	2,000,000
2025	10,076,300	223,189	10,299,489
Total	<u>\$10,000,000</u>	<u>\$ 6,299,489</u>	<u>\$16,299,489</u>

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$49,512,638. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of \$3,345,040, 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 FY09, pledged revenue of \$3,295,276 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2009, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2009	Unamortized Premium	Carrying Value June 30, 2009
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 31,180,000	\$ 81,885	\$ 31,261,885
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	3,845,000	15,806	3,860,806
Total				\$ 42,625,000	\$ 35,025,000	\$ 97,691	\$ 35,122,691

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
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	1,925,000	1,375,252	3,300,252
2014	2,005,000	1,295,640	3,300,640
2015-2019	11,475,000	5,105,305	16,580,305
2020-2024	14,300,000	2,148,915	16,448,915
Total	\$ 35,025,000	\$14,487,638	\$49,512,638

9) 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. In January 2009 the loans were paid in full.

10) HUD Loan

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of \$870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of \$870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2009, for this loan is \$655,000.

11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Governmental Activities					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,366,758,054	\$ 250,000,000	\$ (120,196,683)	\$ 1,496,561,371	\$ 133,287,086
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	300,000,000	250,000,000	(250,000,000)	300,000,000	300,000,000
Lease revenue bonds	36,670,000	-	(1,645,000)	35,025,000	1,705,000
Equipment notes	8,066,996	-	(2,957,731)	5,109,265	2,939,165
Taxable term loans	1,155,651	-	(1,155,651)	-	-
HUD loan	698,000	-	(43,000)	655,000	43,000
WSSC Promissory Note	-	10,000,000	-	10,000,000	400,000
Revenue Bonds	-	14,463,000	-	14,463,000	539,676
Subtotal	1,813,348,701	524,463,000	(375,998,065)	1,961,813,636	438,913,927
Add remaining original issue premium	65,845,455	8,917,011	(10,455,436)	64,307,030	-
Less deferred amount on refundings	(23,314,730)	-	3,949,192	(19,365,538)	-
Total Bonds and Notes Payable	1,855,879,426	533,380,011	(382,504,309)	2,006,755,128	438,913,927
Other Liabilities:					
Certificates of participation	33,580,000	-	(3,105,000)	30,475,000	3,220,000
Compensated absences	65,022,294	53,424,377	(48,422,908)	70,023,763	52,517,822
Other postemployment benefits	58,598,791	54,936,148	-	113,534,939	-
Capital leases	74,472,783	596,652	(7,140,000)	67,929,435	7,510,000
Claims and judgments	-	1,550,000	-	1,550,000	1,550,000
Total Other Liabilities	231,673,868	110,507,177	(58,667,908)	283,513,137	64,797,822
Governmental Activities Long-Term Liabilities	\$ 2,087,553,294	\$ 643,887,188	\$ (441,172,217)	\$ 2,290,268,265	\$ 503,711,749
Business-Type Activities					
Revenue Bonds:					
Liquor Control	-	32,302,000	-	32,302,000	1,205,324
Parking revenue bonds	38,085,000	-	(4,165,000)	33,920,000	1,840,000
Solid waste disposal revenue refunding bonds	16,600,000	-	(3,255,000)	13,345,000	3,420,000
Subtotal	54,685,000	32,302,000	(7,420,000)	79,567,000	6,465,324
Add remaining original issue premium	512,742	2,002,009	(184,790)	2,329,961	-
Less remaining original issue discount	(14,090)	-	1,857	(12,233)	-
Less deferred amount on refundings	(460,470)	-	179,349	(281,121)	-
Total General Obligation and Revenue Bonds	54,723,182	34,304,009	(7,423,584)	81,603,607	6,465,324
Other Liabilities:					
Compensated absences	4,911,073	371,875	(7,074)	5,275,874	3,956,906
Equipment notes	724,795	-	(256,918)	467,877	215,267
Landfill closure costs	22,733,923	2,077,000	(4,135,000)	20,675,923	2,150,000
Total Other Liabilities	28,369,791	2,448,875	(4,398,992)	26,419,674	6,322,173
Business-Type Activities Long-Term Liabilities	\$ 83,092,973	\$ 36,752,884	\$ (11,822,576)	\$ 108,023,281	\$ 12,787,497

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, \$1,939,277 (\$1,454,458 due within one year and \$484,819 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

12) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County 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, 2009, there were 34 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 16 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2009, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$175,875,000. The principal amount payable at June 30, 2009, for bonds issued after July 1, 1996, totaled \$318,785,202.

13) Special Taxing Districts

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

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

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

COMPONENT UNITS

At June 30, 2009, HOC’s noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 51,440,530	\$617,826,562	\$ 669,267,092
Capital leases payable	240,812	20,253,242	20,494,054
Notes payable	20,128,610	165,358,736	185,487,346
Total	<u>\$ 71,809,952</u>	<u>\$803,438,540</u>	<u>\$ 875,248,492</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	\$ 399,106,060
Single Family Mortgage Purchase Program Fund	270,161,032
Total	<u>\$ 669,267,092</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 4.45 to 9.15 percent and 0.875 to 8.5 percent, respectively, as of June 30, 2009.

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 Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2010	\$33,375,000	\$ 1,208,219	\$ 34,583,219
2011	340,000	496,022	836,022
2012	355,000	480,555	835,555
2013	370,000	464,057	834,057
2014	385,000	446,500	831,500
2015-2019	405,000	2,100,694	2,505,694
2020-2024	2,880,000	1,587,075	4,467,075
2025-2029	5,430,000	1,233,968	6,663,968
Total	<u>\$43,540,000</u>	<u>\$ 8,017,090</u>	<u>\$ 51,557,090</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
2010	\$ 51,440,530	\$ 26,511,138	\$ 77,951,668
2011	16,556,741	25,320,879	41,877,620
2012	17,678,104	24,764,218	42,442,322
2013	17,634,619	24,188,794	41,823,413
2014	18,111,304	23,602,089	41,713,393
2015-2019	81,314,601	109,691,711	191,006,312
2020-2024	74,923,081	97,067,207	171,990,288
2025-2029	103,691,018	81,392,816	185,083,834
2030-2034	141,213,157	39,347,631	180,560,788
2035-2039	87,245,000	17,984,897	105,229,897
2040-2044	49,650,000	6,417,885	56,067,885
2044-2049	10,165,000	557,707	10,722,707
Unamortized Bond Discount	(600,717)	-	(600,717)
Total	<u>\$ 669,022,438</u>	<u>\$ 476,846,972</u>	<u>\$ 1,145,869,410</u>

Changes in the HOC revenue bonds during FY09 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2008	Issued*	Retired	June 30, 2009
Multi-Family Mortgage Purchase Program Fund	\$ 410,272,322	\$ 33,178,737	\$ 44,345,000	\$ 399,106,059
Single Family Mortgage Purchase Program Fund	331,896,799	36,552,986	98,288,752	270,161,033
Total	<u>\$ 742,169,121</u>	<u>\$ 69,731,723</u>	<u>\$ 142,633,752</u>	<u>\$ 669,267,092</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, 2008	\$ 337,798,905
Issuances during the year	6,600,000
Redemptions during the year	<u>(74,320,239)</u>
Bonds outstanding, June 30, 2009	<u>\$ 270,078,666</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, 2009, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	\$ 33,279,336	\$ 6,533,263	\$ 16,692,964
Due from component units	55,853	-	376,732
Other assets	32,957,508	3,191,402	5,063,049
Capital assets	43,422,491	87,979,893	81,129,273
Total Assets	<u>109,715,188</u>	<u>97,704,558</u>	<u>103,262,018</u>
LIABILITIES			
Current liabilities	14,375,820	1,547,680	4,346,939
Due to other funds	160,686	22,416	29,258
Long-term liabilities	28,639,751	257,768	32,241,619
Total Liabilities	<u>43,176,257</u>	<u>1,827,864</u>	<u>36,617,816</u>
NET ASSETS			
Invested in capital assets, net of related debt	30,101,831	87,586,467	47,129,346
Restricted for debt service	32,728,509	3,191,402	4,573,446
Unrestricted	3,708,591	5,098,825	14,941,410
Total Net Assets	<u>\$ 66,538,931</u>	<u>\$ 95,876,694</u>	<u>\$ 66,644,202</u>

* Includes Solid Waste Leafing

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

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	\$ 93,338,281	\$ 8,498,701	\$ 9,011,929
Licenses and permits	11,005	-	-
Fines and penalties	86,015	2,303,774	5,490,665
Total Operating Revenues (pledged against bonds)	<u>93,435,301</u>	<u>10,802,475</u>	<u>14,502,594</u>
Depreciation	(2,327,462)	4,485,808	4,386,805
Other operating expenses	92,181,238	9,386,842	7,409,414
Operating Income (Loss)	<u>3,581,525</u>	<u>(3,070,175)</u>	<u>2,706,375</u>
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	5,181,271	6,152,777
Intergovernmental	8,700	-	-
Gain (loss) on disposal of capital assets	179,653	-	-
Investment income	1,598,383	149,833	443,920
Interest expense	(812,506)	(66,414)	(1,599,175)
Other revenue	98,828	198,438	438,857
Capital contributions	-	596,652	-
Transfers in	305,880	75,297	84,975
Transfers out	(2,074,400)	(4,086,870)	(6,538,065)
Change in Net Assets	<u>2,886,063</u>	<u>(1,021,968)</u>	<u>1,689,664</u>
Beginning Net Assets	63,652,868	96,898,662	64,954,538
Ending Net Assets	<u>\$ 66,538,931</u>	<u>\$ 95,876,694</u>	<u>\$ 66,644,202</u>

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 7,006,243	\$ 1,588,540	\$ 8,229,742
Noncapital financing activities	(1,759,820)	1,169,698	(300,313)
Capital and related financing activities	(12,729,305)	(4,053,589)	(9,359,369)
Investing activities	1,249,452	149,833	344,135
Net Increase (Decrease)	<u>(6,233,430)</u>	<u>(1,145,518)</u>	<u>(1,085,805)</u>
Beginning Cash and Cash Equivalents	66,139,133	8,699,033	19,526,023
Ending Cash and Cash Equivalents	<u>\$ 59,905,703</u>	<u>\$ 7,553,515</u>	<u>\$ 18,440,218</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, 2009:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$ 2,183,370	\$ 23,811,039	\$ 25,994,409
Designated for transfers to Capital Projects Fund	49,816,460	11,296,518	61,112,978
Total	<u>\$ 51,999,830</u>	<u>\$ 35,107,557</u>	<u>\$ 87,107,387</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 *	\$ 490,913	\$ 230,779,361	\$ 7,824,873	\$239,095,147
Next year's budget	-	-	4,788,705	4,788,705
Transfers to Capital Projects Fund	-	-	3,682,426	3,682,426
Total	<u>\$ 490,913</u>	<u>\$ 230,779,361</u>	<u>\$16,296,004</u>	<u>\$247,566,278</u>

* Encumbrances relating to special revenue funds include \$6,490,079 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	\$ 378,115,377
Business-type activities	<u>26,112,848</u>
Total	<u>\$ 404,228,225</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, 2009:

	<u>General Fund</u>			<u>Capital Projects</u>	<u>Total</u>
	<u>Operating</u>	<u>Capital *</u>	<u>Total</u>		
MCPS	\$1,515,137,973	\$ 12,365,746	\$1,527,503,719	\$ 170,338,983	\$1,697,842,702
MCC	106,776,153	9,363,681	116,139,834	28,980,398	145,120,232
HOC	5,987,120	1,284,392	7,271,512	-	7,271,512
Total	<u>\$1,627,901,246</u>	<u>\$ 23,013,819</u>	<u>\$1,650,915,065</u>	<u>\$ 199,319,381</u>	<u>\$1,850,234,446</u>

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

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

2) Other Transactions

BUPI charges for services revenue includes \$4,132,936 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 FY09 and FY08 are as follows:

	<u>Liability and Property Coverage</u>	<u>Employee Health Benefits</u>
Balance July 1, 2007	\$75,499,000	\$ 10,573,292
Claims and changes in estimates	31,229,416	74,483,466
Claim payments ¹	<u>(25,897,416)</u>	<u>(78,869,861)</u>
Balance June 30, 2008	80,831,000	6,186,897
Claims and changes in estimates	36,547,713	86,223,421
Claim payments ¹	<u>(29,242,713)</u>	<u>(85,610,110)</u>
Balance June 30, 2009 ^{2,3}	<u><u>\$88,136,000</u></u>	<u><u>\$ 6,800,208</u></u>

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of \$46,446,000 and \$6,897,747 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

3 Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The Life Insurance IBNR of \$97,539 is not included in the schedule. Claims payable including Life IBNR is \$6,897,747.

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 \$61,997,000, which has been fully accrued through June 30, 2009. Of the total amount accrued, \$37,186,077 in actual costs has been paid out in prior years, and \$4,135,000 was paid in FY09, resulting in a net liability of \$20,675,923 at June 30, 2009. The current and non-current portions of the adjusted liability at year-end are estimated at \$2,150,000 and \$18,525,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Pollution Remediation

As discussed in Note 1E "Accounting Changes", the County has adopted GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires that the County disclose in the notes of the financial statements any contingent liability related to a pollution remediation event. The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation, therefore no reasonable estimable costs can be reported for FY09 and may not be until the latter part of FY10. In light of this determination, GASB 49 dictates that the potential financial liability be disclosed only in the footnote section and not the financial statements.

3) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$1,550,000. 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 are determined to be probable.

4) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2009, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2009, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 789,491	\$ -	\$ 3,227,285	\$ 4,016,776
Solid Waste Activities:				
Disposal operations	7,411,097	3,814,093	-	11,225,190
Collection operations	-	-	-	-
Parking Lot Districts:				
Silver Spring	247,794	2,573,061	-	2,820,855
Bethesda	221,563	2,109,695	-	2,331,258
Wheaton	41,770	316,042	-	357,812
Montgomery Hills	2,792	-	-	2,792
Subtotal	<u>8,714,507</u>	<u>8,812,891</u>	<u>3,227,285</u>	<u>20,754,683</u>
Nonmajor Funds:				
Permitting Services	341,488	-	-	341,488
Community Use of Public Facilities	-	-	-	-
Subtotal	<u>341,488</u>	<u>-</u>	<u>-</u>	<u>341,488</u>
Total Enterprise Funds	<u>9,055,995</u>	<u>8,812,891</u>	<u>3,227,285</u>	<u>21,096,171</u>
<u>Internal Service Funds:</u>				
Motor Pool	675,208	-	21,774,229	22,449,437
Central Duplicating	218,548	-	-	218,548
Liability and Property Coverage Self-Insurance	61,115	-	-	61,115
Employee Health Benefits Self-Insurance	596,630	-	-	596,630
Total Internal Service Funds	<u>1,551,501</u>	<u>-</u>	<u>21,774,229</u>	<u>23,325,730</u>
Total Proprietary Funds	<u>\$ 10,607,496</u>	<u>\$ 8,812,891</u>	<u>\$ 25,001,514</u>	<u>\$ 44,421,901</u>

As of June 30, 2009, the County has \$600,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

Subsequent Events

On July 31, 2009, the County issued two master lease agreements totaling \$1,350,446 to purchase fire and rescue equipment. On August 25, 2009, the County issued commercial paper bond anticipation notes (BANS) totaling \$200,000,000. On September 15, 2009, the County Council approved legislation to increase the level of authorized general obligation bond principal by \$453,900,000. On November 17, 2009, the County issued General Obligation Bonds in the amount of \$78,000,000; Build America Bonds totaling \$232,000,000; and General Obligation Refunding Bonds amounting to \$161,755,000. On December 2, 2009, the County retired BANS totaling \$315,000,000; \$50,000,000 for 2002 series L, \$33,000,000 for 2002 series M, \$32,000,000 for 2002 series N, and \$200,000,000 for 2009 series A.

C) 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, 2009, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$129,463,651, of which \$4,522,821 was self-supporting. Of the total amount payable, \$16,504,721 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, 2009, is \$37,630,367, 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, 2009, WSSC had outstanding notes payable and bonds payable in the amount of \$1,351,717,000, of which \$1,350,972,000 was self-supporting. Of the total amount payable, \$340,581,000 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, 2009, 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 \$90,408 to WSTC during FY09. The FY09 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 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY09, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 49,405,915
Rail operating subsidy	25,161,943
Americans with Disabilities Act service	15,863,582
Other operating subsidy	2,142,744
MetroMatters program	30,445,000
Project Development	506,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	<u>22,089,042</u>
Total	<u>\$150,481,726</u>

At June 30, 2009, WMATA had outstanding bonds payable of \$418,760,000, of which \$41,689,755 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

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

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, 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, 2009, NEMWDA had outstanding bonds payable in the amount of \$180,685,000 of which \$19,955,000 represented debt due within one year. Of these amounts, \$171,080,000 related to the Project, \$18,055,000 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 FY09 amounted to \$31,109,395.

D) 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 FY09, the County and its employees contributed \$73,142,895 and \$25,388,682, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$671,459, \$3,417,533, and \$58,905 for these component units, respectively, for FY09.

E) **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. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

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

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

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

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY09 were based on an actuarial valuation as of June 30, 2007, 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 FY09 were as follows:

Fiscal Year	APC	Percentage of	
		APC Contributed	NPO
2007	\$109,436,001	100 %	\$ -
2008	117,686,375	100	-
2009	109,567,014	100	-

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

2) **Defined Contribution Plan**

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

Under Section 33-116 of the Code, the Plan requires employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Section 33-117 of the Code requires the County to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY09 were \$20,625,065 and \$11,262,814, respectively.

3) **Other**

The County contributed \$934,919 during FY09 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) **Length of Service Award Program (LOSAP)**

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,137,186 in FY09 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 470 recipients comprising former volunteers and their beneficiaries at the end of FY09. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

F) Other Postemployment Benefits (OPEB)

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

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

Plan membership at June 30, 2008 consisted of the following:

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

Condensed FY09 financial statements for the Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Assets		Condensed Statement of Changes in Fiduciary Net Assets	
ASSETS		ADDITIONS	
Cash and investments	\$ 31,017,862	Contributions	\$ 71,510,737
Other assets	<u>3,978,472</u>	Net investment income (loss)	<u>(1,980,135)</u>
Total Assets	<u>34,996,334</u>	Total Additions, net	<u>69,530,602</u>
LIABILITIES		DEDUCTIONS	
Claims payable	3,978,471	Benefits	48,389,690
Other liabilities	<u>9,411</u>	Administrative	<u>3,842,017</u>
Total Liabilities	<u>3,987,882</u>	Total Deductions	<u>52,231,707</u>
NET ASSETS:		Change in Net Assets	17,298,895
Held in trust for other		Beginning Net Assets	<u>13,709,557</u>
postemployment benefits	<u>\$ 31,008,452</u>	Ending Net Assets	<u>\$ 31,008,452</u>

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY09, plan members and beneficiaries receiving benefits contributed \$13,307,885 (approximately 26 percent of current contributions). The County and other contributing entities contributed \$58,202,852, including \$38,622,982 (approximately 74 percent of current contributions) for current premiums, claims and administrative expenses, and \$19,579,870 toward prefunding future benefits.

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

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

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

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY09 was based on an actuarial valuation as of June 30, 2007, the latest valuation available on the date the County Council was required to approve the FY09 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2009 were as follows:

Annual required contribution (ARC)	\$ 111,677,000
Interest on net OPEB obligation	4,687,903
Adjustment to ARC	<u>(3,225,903)</u>
Annual OPEB cost	113,139,000
Contributions made	<u>58,202,852</u>
Increase in net OPEB obligation	54,936,148
Net OPEB obligation - beginning of year	<u>58,598,791</u>
Net OPEB obligation - end of year	<u><u>\$ 113,534,939</u></u>

The percentage of AOC contributed in FY09 was 51.4 percent.

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

Actuarial assumptions used in the actuarial valuation were:

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



REQUIRED SUPPLEMENTARY INFORMATION



REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH BENEFITS TRUST

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

SCHEDULE OF FUNDING PROGRESS

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

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

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed		Net OPEB Obligation
		Employers	Other Contributing Entities	
2008	\$ 102,320,000	38.6 %	4.1 %	\$ 58,598,791
2009	\$ 113,139,000	50.3 %	1.1 %	\$ 113,534,939

MONTGOMERY COUNTY, MARYLAND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 REVENUE STABILIZATION SPECIAL REVENUE FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
RSI-1

	Budget			Actual	Variance Positive (Negative)
	Prior Year Encumbrances	Current Year	Total		
Revenues - Investment income	\$ -	\$ 2,005,903	\$ 2,005,903	\$ 2,005,903	\$ -
Expenditures	-	-	-	-	-
Excess of Revenues over (under) Expenditures	-	2,005,903	2,005,903	2,005,903	-
Other Financing Sources (Uses):					
Transfers In (Out):					
To Debt Service Fund	-	(2,005,903)	(2,005,903)	(2,005,903)	-
Total Other Financing Sources (Uses)	-	(2,005,903)	(2,005,903)	(2,005,903)	-
Fund Balance - Beginning of Year	-	119,647,603	119,647,603	119,647,603	-
Fund Balance - End of Year	\$ -	\$ 119,647,603	\$ 119,647,603	\$ 119,647,603	\$ -

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
RSI-2

	Budget			Actual	Variance Positive (Negative)
	Prior Year Encumbrances	Current Year	Total		
Revenues:					
Taxes - transfer	\$ -	\$ 5,615,500	\$ 5,615,500	\$ 6,022,355	\$ 406,855
Charges for services	-	50,000	50,000	-	(50,000)
Investment income:					
Pooled	-	210,000	210,000	303,086	93,086
Nonpooled	-	-	-	462,166	462,166
Total Investment Income	-	210,000	210,000	765,252	555,252
Miscellaneous:					
Property rentals, MPDU and other contributions	-	25,000,000	25,000,000	2,169,698	(22,830,302)
Total Miscellaneous	-	25,000,000	25,000,000	2,169,698	(22,830,302)
Total Revenues	-	30,875,500	30,875,500	8,957,305	(21,918,195)
Expenditures:					
Personnel costs	-	1,273,910	1,273,910	1,273,906	4
Operating	6,332,549	37,570,636	43,903,185	26,829,745	17,073,440
Total Expenditures	6,332,549	38,844,546	45,177,095	28,103,651	17,073,444
Excess of Revenues over (under) Expenditures	(6,332,549)	(7,969,046)	(14,301,595)	(19,146,346)	(4,844,751)
Other Financing Sources (Uses):					
Transfers In (Out):					
From General Fund	-	9,782,490	9,782,490	9,782,490	-
To General Fund	-	(178,100)	(178,100)	(178,100)	-
To Debt Service Fund	-	(1,926,862)	(1,926,862)	(76,862)	1,850,000
To Capital Projects Fund	-	(1,404,518)	(1,404,518)	(1,404,518)	-
Mortgage repayment	-	5,500,000	5,500,000	712,929	(4,787,071)
Disposition of property	-	3,000,000	3,000,000	1,629,312	(1,370,688)
Total Other Financing Sources (Uses)	-	14,773,010	14,773,010	10,465,251	(4,307,759)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(6,332,549)	6,803,964	471,415	(8,681,095)	(9,152,510)
Fund Balance - Beginning of Year	6,332,549	10,117,904	16,450,453	16,450,453	-
Fund Balance - End of Year	\$ -	\$ 16,921,868	\$ 16,921,868	\$ 7,769,358	\$ (9,152,510)

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

Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	Total
	\$ (8,681,095)
Reconciling items:	
Cancellation of prior year encumbrances	(169,870)
Elimination of encumbrances outstanding	5,934,438
Reconciling item - Change in notes receivable	23,378,354
GAAP - Net Change in Fund Balance	<u>\$ 20,461,827</u>



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* POEB = Pension and Other Employee Benefits

