Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

April 13, 2012

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Isiah Leggett

COUNTY COUNCIL

Roger Berliner	*President*
Nancy Navarro	*Vice President*
Phil Andrews	
Marc Elrich	
Valerie Ervin	
Nancy Floreen	
George L. Leventhal	
Craig Rice	
Hans Riemer	

The County Executive and all County Council members were inaugurated on December 7, 2010 for a four year term.

APPOINTED OFFICIALS

Timothy L. Firestine	*Chief Administrative Officer*
Joseph F. Beach	*Director, Department of Finance*
Jennifer A. Hughes	*Director, Office of Management and Budget*
Marc P. Hansen	*County Attorney*
Linda M. Lauer	*Clerk of the Council*

BOND COUNSEL

McKennon Shelton & Henn LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

CliftonLarsonAllen, LLP
Baltimore, Maryland

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

Department of Finance
101 Monroe Street
Rockville, MD 20850
240/777-8860
240/777-8857 (Fax)
http://bonds.montgomerycountymd.gov

ANNUAL INFORMATION STATEMENT
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement ("the AIS"), dated April 13, 2012, is prepared by Montgomery County, Maryland ("the County"), to provide, as of its date, certain general information concerning the County and its operations. Included is information on the County 1) government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2007-2011, 5) retirement system, 6) revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

The information presented in this AIS is as of the date indicated above, and is based upon the best available information as of that date. This information was obtained from the County and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and the publication of this Statement shall not, under any circumstances, create any implication that there is no change in the affairs of the County or in any other information contained herein, since the date hereof. The distribution of this AIS by the County does not in any way imply that the County has obligated itself to update the information herein.

The presentation of information is intended to show recent historical information, and is not intended to indicate future or continuing trends in the financial position or operations of the County. No representation is made that past experiences, as might be shown by such financial and other information, will necessarily continue or be repeated in the future. Any statements in this document involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized.

Questions regarding information in the AIS should be directed to Joseph F. Beach, Director of Finance, Montgomery County, Maryland, 101 Monroe Street, EOB 15th Floor, Rockville, Maryland 20850. Telephone: 240-777-8860; fax: 240-777-8857. E-mail: bondquestions@montgomerycountymd.gov.

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STATISTICAL HIGHLIGHTS

Debt

General Obligation Bonds and Notes Outstanding	$1,955,600,000
Total Assessed Value	$171,646,984,481
Direct Debt (incl. Revenue Bonds)	$2,569,250,000
Ratio of Direct Debt to Assessed Value	1.50%
Net Direct Debt	$2,455,600,000
Ratio of Net Direct Debt to Assessed Value	1.43%

Budgets

Approved FY12 Operating Budget	$4.4 billion
Approved FY12 General Fund Undesignated Surplus	$133.3 million
FY11 General Fund Unreserved Undesignated Balance	$69 million
FY11 Revenue Stabilization Fund Balance	$94.5 million
FY12-17 Approved Capital Budget	$4.1 billion

FY11 Major Revenues

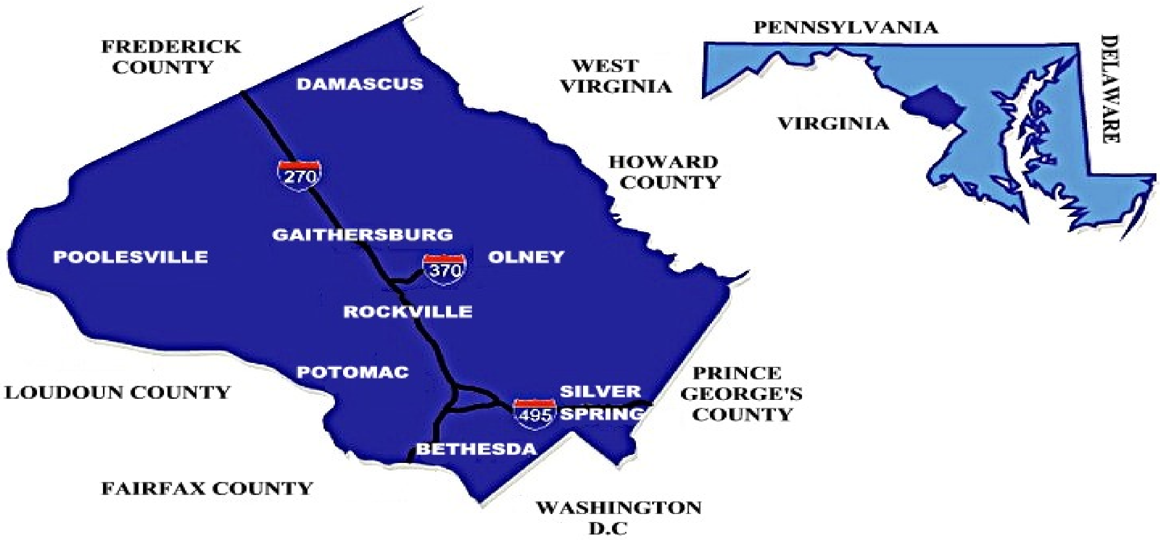
Income Tax	$1,039.2 million
Property Tax (General Fund)	$1,061.6 million
Transfer and Recordation Tax	$129.5 million
Other Taxes	$304 million

Demographics

Population 2010	971,777
Households 2010	357,086
Median Age 2010	38.5 years

Employment

Private Sector 2010	358,172
Public Sector 2010	83,411
Unemployment Rate (Average monthly rates)	5.2%
Personal Income 2011 (est.)	$67.7 billion
Per Capita Income 2011 (est.)	$ 70,190
Average Household Income 2010 (est.)	$187,710
MCPS K-12 Projected FY12 Enrollment	146,709
MCPS Per Pupil Operating Expenditures (FY12)	$13,607
Montgomery College Enrollment (Fall 2011)	26,996



MONTGOMERY COUNTY - HISTORY AND GOVERNMENT

Location

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 496 square miles of land area. The topography is rolling with small hills. Elevations range from 52 feet above sea level at the junction of the Potomac River and the District Line, to 850 feet in the northern portion of the County near Damascus. Bordering the County are Howard County to the northeast, Prince George's County to the southeast, Frederick County to the northwest, the District of Columbia to the south, and Virginia to the southwest.

History

Montgomery County was established by the State Convention in 1776, and from its establishment until 1948, the Montgomery County Government functioned under the County Commission system. In 1948, the voters adopted a charter giving the County home rule and a council-manager form of government. In 1968, the voters approved a new charter providing for separate legislative and executive branches of government, with the legislative power vested in an elected County Council and executive power in an elected County Executive. The new charter became fully implemented with the election of the County Executive and the County Council in November 1970.

Government

The County Council is comprised of nine members, four of whom are elected by the qualified voters of the entire County. Each of the five other members of the Council must, at the time of their election, reside in a different one of five Councilmanic districts of the County and each of these five members shall be nominated and elected by the qualified voters in their respective districts. Populations of the Councilmanic districts are substantially equal.

The County Executive, who must be a qualified voter of the County for the five years preceding his or her election and who may not be less than thirty years of age, is elected by the qualified voters of the entire County at the same time as the Council. Both the County Executive and the County Council members serve a four-year term.

County Officials

County Executive – Isiah Leggett

Isiah Leggett was elected Montgomery County's sixth County Executive on November 7, 2006, and sworn in on December 4, 2006. In November 2010, he was reelected to another four year term by County voters. Mr. Leggett served as an infantry captain in the United States Army in Vietnam, earning the Bronze Star, Vietnam Service, and Vietnam Campaign medals. He worked as a legislative assistant on small business issues for Congressman Parren Mitchell of Baltimore and as a staff attorney for the Department of the Navy. In 1977, Mr. Leggett was selected as a White House Fellow in the Carter Administration. He worked as a member of the Montgomery County Human Rights Commission from 1979 to 1986 and was its chair from 1983 to 1986.

Mr. Leggett served as an at-large member of the Montgomery County Council for 16 years beginning in 1986. He won four terms and was elected Council President three times by his colleagues. He chaired the Council's Transportation and Environment Committee and served on the Education Committee. After leaving the Council in 2002, Mr. Leggett chaired the Maryland State Democratic Party for two years and continued his work as a Professor of Law at Howard University, where he taught from 1975 to 2006. He served as the law school's assistant dean from 1979 to 1986.

President, County Council – Roger Berliner

Roger Berliner was first elected to the County Council in November 2006 as a District Representative for the Bethesda, Chevy Chase and Potomac areas. Mr. Berliner chairs the Transportation, Infrastructure, Energy, Environment committee and is a member of the public safety committee. He currently serves as the Council's representative to the County's Sustainability Working Group and Green Economic Task Force. He is also on the Council of Governments where he is an active member of the Climate, Energy and Environment Policy Committee.

Councilmember Berliner was the Legislative Director for a U.S. Senator, a Policy Advisor to a U.S. Congressman, a Senior Policy Advisor to the California State Legislature, and the Director of Congressional Liaison for a Federal agency. Mr. Berliner is the president of Berliner Law PLLC.

Chief Administrative Officer - Timothy L. Firestine

Timothy L. Firestine was appointed Chief Administrative Officer on November 30, 2006 and confirmed on December 12, 2006. Prior to his appointment as CAO, Mr. Firestine was the County's Director of Finance for 15 years. He previously served in various management positions in the County's Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine is currently a member of the Executive Board of the National Government Finance Officers Association and, in the past, served as Vice Chair of its Committee on Debt Management. He is also a member of the District of Columbia Water and Sewer Authority, where he currently serves as Chair of the Budget and Finance Committee. In the past, Mr. Firestine also served as President of the Maryland Government Finance Officers Association, President of the Board of Trustees for Suburban Hospital Health Care System, Inc., in Bethesda, Maryland, and President of the Board of Investment Trustees for the Employee Retirement System for Montgomery County. Mr. Firestine was an adjunct professor at the University of Maryland, Graduate School of Public Policy, where he taught Public Finance.

Director of Finance – Joseph F. Beach

Joseph F. Beach was appointed Director of Finance in July 2011. Prior to his appointment, he served in a variety of senior level positions with Montgomery County Government including, Director of the Office of Management and Budget, Assistant Chief Administrative Officer, Operating Budget Coordinator, and Senior Budget Analyst. Mr. Beach's service for the County included extensive work in the areas of collective bargaining, criminal justice policy, multi-year budgeting, and contract review.

Mr. Beach was admitted to the State Bar of Maryland in December 1995. He serves as an ex officio member of the County's Board of Investment Trustees, as the Chair of the Conference Center Management Committee, and also serves on the Board of Directors for the Strathmore Hall Arts Foundation.

Director, Office of Management and Budget – Jennifer A. Hughes

Jennifer A. Hughes was appointed Director of the Office of Management and Budget in August 2011. Prior to her appointment as Director of Office of Management and Budget, she served in a variety of senior level positions with Montgomery County Government including Acting Director for the Department of Permitting Services, Assistant Chief Administrative Officer, and as an appointed legislative analyst for the County Council in 1985 focusing on education, criminal justice and environmental issues.

Ms. Hughes first moved to the Washington D.C. area to serve as a Presidential Management Intern in the U.S. Office of Management and Budget. In addition to serving on the Board of Investment Trustees as an ex-officio member, Ms. Hughes also serves on the Board of Advisors for the Universities at Shady Grove.

County Attorney – Marc P. Hansen

Marc P. Hansen was appointed to the position of County Attorney in December 2010. In that capacity, he provides leadership to the county attorneys in litigation, transactional and general counsel services. Prior to his appointment, he served in various positions in the Office of the County Attorney. His areas of concentration are government operations, procurement, legislation, and ethics.

Mr. Hansen is a former mayor of Washington Grove, Maryland (1987-90), and Chair, Board of Zoning Appeals of Washington Grove. He is Vice-chair of the General Government Section, International Municipal Lawyer's Association. He was previously in private practice (1975-1984). He is admitted to the Maryland Bar (1975), and is also admitted to practice in the U.S. District Court for Maryland (1976), the Fourth Circuit Court of Appeals (1977), and the U.S. Supreme Court (1980). Mr. Hansen is a member of the Maryland and Montgomery County Bar Associations.

DEBT SUMMARY

Overview

The County Government, four of its agencies, and municipalities are authorized by State law and/or County Charter to issue debt to finance capital projects. Consistent with County fiscal policy, the County issues debt to finance a major portion of the construction of long-lived additions or improvements to the County's publicly-owned infrastructure. The County's budget and fiscal plan for these improvements is known as the Capital Improvements Program (CIP). Bonds are repaid to bondholders with a series of principal and interest payments over a period of years, known as debt service. In this manner, the initial high cost of capital improvements is absorbed over time and assigned to current and future citizens benefiting from the facilities. Due to various Federal, State, and local tax policies, interest rates are lower than in the private sector.

In addition to the issuance of general obligation or revenue bonds, the County initially finances the cost of long-term capital assets with short-term paper known as Bond Anticipation Notes (BANs)/Commercial Paper, which the County intends to retire with the proceeds of long-term bonds. Additionally, the County from time to time enters into other long-term obligations, such as long-term loans, which are classified as long-term notes payable.

The various components of the County's debt described above are categorized as either direct or overlapping. Direct debt is the total bonded debt of the County, and constitutes the direct obligations of the County that impact its taxpayers. Components of Montgomery County direct debt are its general obligation bonds, BANs/commercial paper, long-term notes payable, and revenue bonds issued by the County.

Overlapping debt includes all borrowings of other County agencies, incorporated municipalities, and special taxing or development districts, which may impact those County tax- or rate-payers who are residents of those municipalities or special districts. More broadly, overlapping debt can help reveal the degree to which the total economy is being asked to support long-term fixed commitments for governmental facilities.

Certain direct and overlapping debt is additionally classified as Self-Supporting Debt. Such obligations are issued for projects that produce sufficient revenues to retire the debt. The bonds are not supported by the taxing power of the governmental entity issuing them.

The County's Net Direct and Overlapping Debt is derived by subtracting Direct Self-Supporting Debt from the Total Direct and Overlapping Debt.

A summary statement of direct and overlapping debt for Montgomery County is provided in Table 1 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

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Table 1
Statement of Direct and Overlapping Debt
As of June 30, 2011

Direct Debt:		
General Obligation Bonds Outstanding	$1,855,600,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	500,000,000	
Revenue Bonds Outstanding	114,370,000	
Total Direct Debt		$2,569,970,000
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	900,276,946	
Housing Opportunities Commission	780,566,003	
Montgomery County Revenue Authority	90,005,640	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	97,757,611	
Kingsview Village Center Development District	1,905,000	
West Germantown Development District	14,545,000	
Towns, Cities and Villages within Montgomery County	61,381,415	
Total Overlapping Debt		1,946,437,615
Total Direct and Overlapping Debt		4,516,407,615
Less Self-Supporting Debt:		
County Government Revenue Bonds	114,370,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	900,276,946	
Housing Opportunities Commission	780,566,003	
Montgomery County Revenue Authority	90,005,640	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	2,240,614	
Total Self-Supporting Debt		(1,887,459,203)
Net Direct and Overlapping Debt		$2,628,948,412
Ratio of Debt to June 30, 2011 Assessed Valuation of (100% Assessment):		$171,646,984,481
Direct Debt		1.50%
Net Direct Debt *		1.43%
Direct and Overlapping Debt		2.63%
Net Direct and Overlapping Debt		1.53%
Ratio of Debt to June 30, 2011 Market Value of:		$193,664,780,786
Direct Debt		1.33%
Net Direct Debt *		1.27%
Direct and Overlapping Debt		2.33%
Net Direct and Overlapping Debt		1.36%

*Net Direct Debt of $2,455,600,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Debt Affordability

Once committed, debt service represents a major continuing claim on County resources that must be kept to affordable levels within the annual operating requirements of the County in order to avoid excessive pressures on operating budgets. To assure such affordable levels, the County's general obligation debt is subject to the following tests: 1) the self-imposed, but Charter-required, spending affordability guidelines and 2) the State Law-mandated Legal Debt Limit.

The County Council annually adopts spending affordability guidelines for the capital budget. The guidelines provide for the total amount of general obligation debt issued by the County and by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the subsequent two fiscal years and for the six-year Capital Improvements Program. Consideration of the guidelines is based on a number of economic and financial factors or criteria for debt affordability. These criteria are described in the County's Fiscal Policy and provide a foundation for judgments about the County's capacity to issue debt and its ability to retire the debt over time.

The Annotated Code of Maryland, Article 25A, Section 5(P), authorizes borrowing of funds and issuance of bonds up to a maximum of the sum of six percent of the assessed valuation of all real property and 15 percent of the assessed valuation of all personal property within the County. Article 25A, Section 5(P) provides that obligations having a maturity not in excess of 12 months shall not be subject to, or be included in, computing the County's legal debt limitation. However, the County includes its BANs/commercial paper in such calculation because it intends to repay such notes with the proceeds of long-term debt to be issued in the near future. The results of the County's legal debt limit computation are displayed in Table 2 below.

Table 2
Statement of Legal Debt Margin
As of June 30, 2011

June 30, 2011 Assessed Valuation – Real Property		$167,790,792,529
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 10,067,447,552
June 30, 2011 Assessed Valuation – Personal Property		$3,856,191,952
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 578,428,793
Total Assessed Valuation – Real and Personal Property		$171,646,984,481
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$10,645,876,345
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,855,600,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper	500,000,000	
Net Direct Debt		2,455,600,000
Legal Debt Margin		$8,190,276,345
Net Direct Debt as a Percentage of Assessed Valuation		1.43%

Direct Debt

General Obligation Bonds

County general obligation bonds are secured by the full faith, credit and taxing powers of the County. Bonds are normally issued in serial maturities from one to 20 years, with five percent of the principal retired each year. This practice produces equal annual payments of principal over the life of the bond issue and declining annual payments of interest on the outstanding bonds. The Charter limits the term of any bond to 30 years.

The General Obligation Bonded Debt Ratios displayed below measure the burden of the County's net direct debt, which consists primarily of general obligation bonds and outstanding BANs/commercial paper, and debt service payments on such. As with the calculation of the Legal Debt Limit, the County includes its BANs/commercial paper in these ratio calculations because it intends to repay such notes with the proceeds of general obligation debt to be issued in the near future. The ratios are as follows: 1) net direct debt as a percentage of full (market) value of taxable property; 2) debt service on outstanding general obligation bonds as a percentage of General Fund expenditures and transfers out; 3) net direct debt per capita; 4) net direct debt per capita as a percentage of per capita income; and 5) rate of replacement of general obligation bond principal (payout ratio) in ten years. The results of these indicators are displayed in Table 3 below.

Table 3
General Obligation Bonded Debt Ratios
2002 – 2011

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt Service to General Fund Expenditures	Net Direct Debt Per Capita*	Net Direct Debt Per Capita to Per Capita Income*	GO Bond Payout Ratio
2002	1.55	8.32	1,508	3.03	71.32
2003	1.45	8.47	1,543	2.90	71.10
2004	1.45	7.98	1,608	2.88	70.94
2005	1.30	7.74	1,527	2.61	70.20
2006	1.30	7.77	1,701	2.71	69.75
2007	1.30	7.83	1,861	2.81	68.92
2008	1.18	7.95	1,848	2.70	71.39
2009	1.13	7.31	1,997	2.83	70.63
2010	1.22	7.92	2,277	3.24	69.37
2011	1.27	8.58	2,507	3.55	68.65

* Amounts restated due to restatement of population data.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2011.

Table 4
General Obligation Debt of the County
As of June 30, 2011

Issue	Dated Date	Original Issue Size	Original Coupon Rates	TIC*	Maturity	Principal Outstanding June 30, 2011
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	102,010,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	16,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	33,580,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	77,500,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	3,515,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	77,300,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	87,070,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	100,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	50,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	150,000,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	32,115,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	225,000,000
GO Bonds***	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	232,000,000
GO Refunding Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	161,755,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	62,400,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	195,000,000
GO Bonds****	07/08/10	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000
Total						$1,955,600,000

* True Interest Cost
** Variable Rate Demand Obligations
*** Federally Taxable – Build America Bonds – Direct Pay
**** Federally Taxable – Build America Bonds $106.3 million – Direct Pay
**** Recovery Zone Economic Development Bonds $23.7 million – Direct Pay

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Table 5
Summary of General Obligation Bonds
Debt Service Requirements by Fiscal Year
As of June 30, 2011

General Obligation Bonds and Notes			
Fiscal Year	Principal	Interest*	Total
2012	157,265,000	86,255,698	243,520,698
2013	154,035,000	79,312,291	233,347,291
2014	148,080,000	71,442,173	219,522,173
2015	143,415,000	63,897,929	207,312,929
2016	138,220,000	56,966,241	195,186,241
2017	132,275,000	50,356,274	182,631,274
2018	126,505,000	44,612,306	171,117,306
2019	120,430,000	39,487,172	159,917,172
2020	114,535,000	34,250,538	148,785,538
2021	107,740,000	29,609,884	137,349,884
2022	99,895,000	25,977,703	125,872,703
2023	92,195,000	22,189,356	114,384,356
2024	84,445,000	18,526,000	102,971,600
2025	76,715,000	14,961,100	91,676,100
2026	66,720,000	11,683,681	78,403,681
2027	56,720,000	8,864,300	65,584,300
2028	44,220,000	6,006,206	50,226,206
2029	44,220,000	3,734,400	47,954,400
2030	31,720,000	1,733,550	33,453,550
2031	16,250,000	438,750	16,688,750
Total	$1,955,600,000	$670,306,152	$2,625,906,152

* For budget and bond authority purposes, variable rate demand obligations are reported with general obligation bonds. Future interest payments for the variable rate demand obligations are not included on this schedule. The interest rate is re-set daily and the rate is established by the marketing agents.

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Table 6
General Obligation Bonds Authorized – Unissued
As of June 30, 2011

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	43	2006	$ 92,000,000	$ 10,390,000
Consolidated Fire Tax District	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
			611,800,000	530,190,000
Road & Storm Drainage	12	2007	45,800,000	20,940,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
	54	2010	192,000,000	192,000,000
			338,400,000	313,540,000
Public Schools and	36	2008	222,500,000	95,768,000
Community College	22	2009	272,500,000	272,500,000
	54	2010	108,700,000	108,700,000
			603,700,000	476,968,000
Mass Transit	22	2009	57,100,000	31,005,000
	54	2010	32,600,000	32,600,000
			89,700,000	63,605,000
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
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,970,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$1,709,945,000	$1,445,403,000

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

Current Revenue Substitution for General Obligation Bonds (PAYGO)

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This "pay-as-you-go" approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County's debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past 15 years, and planned for substitution over the five years beginning FY12, are displayed below.

Table 7
PAYGO Substitutions
(Actual FY97-11, Budgeted FY12-16

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1997	$ 3,925,000	2007	27,500,000
1998	13,000,000	2008	27,500,000
1999	13,400,000	2009	5,406,000
2000	24,600,000	2010	1,316,000
2001	40,705,000	2011	--
2002	40,155,000	2012	31,000,000
2003	17,374,000	2013	32,500,000
2004	6,240,000	2014	32,500,000
2005	7,275,000	2015	32,500,000
2006	11,737,000	2016	32,500,000

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days, under a note program that matures on June 30, 2022. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2010 through June 30, 2011 are presented in Table 8 below.

Table 8
Bond Anticipation Notes Outstanding
As of June 30, 2011

Issue	Balance July 1, 2010	BANs Issued	BANs Retired	Balance June 30, 2011
BAN Series 2009-B	$ 125,000,000	--	125,000,000	--
BAN Series 2010-A	300,000,000	--	200,000,000	100,000,000
BAN Series 2009-C		75,000,000	--	75,000,000
BAN Series 2010-B	--	125,000,000	--	125,000,000
BAN Series 2009-D	--	125,000,000	--	125,000,000
BAN Series 2010-C	--	75,000,000	--	75,000,000
Total	$425,000,000	$400,000,000	$325,000,000	$500,000,000

Revenue Bonds

County revenue bonds are authorized by the County to finance specific projects such as parking garages and solid waste facilities, with debt service to be paid from pledged revenues received in connection with the projects. Proceeds from revenue bonds may be applied only to the costs of projects for which they are authorized. They are considered separate from general obligation debt and do not constitute a pledge of the full faith and credit or unlimited taxing power of the County.

County revenue bonds are used in the Bethesda Parking District, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. During FY11, revenue bonds were issued for liquor control facilities and transportation projects, supported by revenues generated by the Department of Liquor Control. County revenue bond indebtedness by issue is presented in Table 9. Annual debt service payments for the County's revenue bond debt are displayed in Table 10. Table 11 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2011.

Table 9
Revenue Bond Debt of the County
As of June 30, 2011

Issue	Dated Date	Original Issue Size	Original Coupon Rates	TIC*	Maturity	Principal Outstanding June 30, 2011
Parking Revenue Bonds (Bethesda PLD)	06/01/02	$ 26,000,000	3.00%-4.75%	4.4231%	2003-21	$ 16,165,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	6,375,000
Parking Revenue Bonds (Bethesda PLD)	08/01/05	16,495,000	3.625%-5.00%	4.0471%	2007-25	14,000,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1196%	2010-29	43,470,000
Liquor Control Revenue Bonds	4/28/11	34,360,000	2.00% - 5.00%	4.2826%	2012-31	34,360,000
Total						114,370,000

* True Interest Cost.

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Table 10
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2011

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2012	8,510,000	5,127,340	$13,637,340
2013	7,560,000	4,890,010	12,450,010
2014	5,095,000.	4,543,975	9,638,975
2015	5,330,000	4,308,863	9,638,863
2016	5,590,000	4,060,453	9,650,453
2017	5,830,000	3,829,604	9,659,604
2018	6,105,000	3,555,841	9,660,841
2019	6,385,000	3,290,551	9,675,551
2020	6,665,000	3,007,251	9,672,251
2021	6,970,000	2,710,376	9,680,376
2022	5,220,000	2,375,989	7,595,989
2023	5,475,000	2,123,899	7,598,899
2024	5,730,000	1,876,506	7,606,506
2025	5,975,000	1,626,521	7,601,521
2026	6,260,000	1,336,520	7,596,520
2027	5,285,000	1,069,050	6,354,050
2028	5,545,000	807,550	6,352,550
2029	5,825,000	530,300	6,355,300
2030	2,445,000	250,750	2,695,750
2031	2,570,000	125,500	2,695,500
Total	$ 114,370,000	51,446,849	$ 165,816,849

Table 11
Revenue Bonds Authorized – Unissued
As of June 30, 2011

Purpose	Resolution No.	Year	Amount	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 25,593,000
	14-921	2001	35,000,000	9,000,000
			86,163,000	34,593,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008*	50,000,000	50,000,000
Liquor Control & Transit	16-863	2009*	60,000,000	56,875,000
Total Revenue Bonds			$259,098,000	$147,723,000

* Resolution was originally passed in July 2008 and more authority was added in February 2009.

Conduit Debt of the County

Montgomery County's conduit issuers issue bonds on the County's behalf and loan the proceeds to the County. This results in lease payments from the County to the conduit issuers, which in turn pays the debt service on the bonds. Table 12 below displays the principal amounts owed to these conduit issuers as of June 30, 2011

Table 12
Conduit Debt of the County
As of June 30, 2011

Purpose	Issuer	Principal Outstanding June 30, 2011
Parking Garages	Maryland Economic Development Corp.	$ 29,675,000
Conference Center	Montgomery County Revenue Authority	8,440,000
Human Services Headquarters	Montgomery County Revenue Authority	3,255,000
Swim Centers	Montgomery County Revenue Authority	15,235,000
Solid Waste Disposal System	Northeast Maryland Waste Disposal Authority	134,140,000
TOTAL		$ 190,745,000

Overlapping Debt

In addition to the direct debt described above; certain portions of the debt of other governmental entities in the County are payable in whole or in part by the taxpayers of the County. The debt includes general obligation bonds, revenue bonds, mortgages payable, notes payable, BANs/commercial paper, certificates of participation, and bank loans.

Washington Suburban Sanitary Commission

The Washington Suburban Sanitary Commission (WSSC) issues general construction bonds to finance construction of small diameter water distribution and sewage collection lines, and required support facilities in Montgomery and Prince George's Counties. Generally, these are considered general obligation bonds because they are payable from unlimited ad valorem taxes upon all the assessable property in the WSSC district. They are actually paid through assessments on properties being provided service and are considered to be overlapping debt rather than direct debt of the County. WSSC Water Supply and Sewage Disposal Bonds, which finance major system improvements, including large diameter water distribution and sewage collection lines, are paid from non-tax sources including user charges collected through water and sewer rates, which also cover all system operating costs. They are backed by unlimited ad valorem taxes upon all the assessable property within the WSSC district in addition to mandated rates, fees, and charges sufficient to cover debt service. Pursuant to Section 22-104 of the Public Utilities Article of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 22-104. WSSC has waived such guarantee requirement with respect to each outstanding bond issue.

Housing Opportunities Commission

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to the Housing and Community Article, Title 16-201 to 204 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. Title 16-205 of the Housing and Community Article in the Code provides the method by which the County implemented the guarantee.

Montgomery County Revenue Authority

The Montgomery County Revenue Authority (MCRA) has authority to issue revenue bonds and to otherwise finance projects through notes and mortgages with land and improvements serving as collateral. These are paid through revenues of MCRA's several enterprises, which include golf courses and the Montgomery County Airpark. The County also uses MCRA as a conduit for alternative capital project funding arrangements. These include financing for several County aquatic facilities and the Montgomery County Conference Center. For these projects, the MCRA issues the bonds and the debt service is paid through revenues from long-term lease agreements with the County. See "County Facility Lease Obligations" below.

Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission (M-NCPPC) issues general obligation debt for the acquisition and development of local parks and certain special parks and advance land acquisition, with debt limited to that supportable within mandatory tax rates. The Commission also issues revenue bonds funded by its enterprise operations. Pursuant to Section 6-101 of Article 28 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on the debt of M-NCPPC that is not self-supporting.

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.

The County Council terminated the Clarksburg Town Center development district in October 2010, therefore, no bonds were issued and no special taxes or assessments were levied for the Clarksburg Town Center Development District.

In March 2010, the County adopted a new sector plan for the White Flint area of north Bethesda. This smart-growth master plan attempts to transform the area into a pedestrian-friendly, transit-oriented, urban setting that is expected to be a leading economic engine for the County. To successfully implement the sector plan, the County adopted legislation (Bill 50-10, December 2010) to create a new special taxing district in the White Flint area, along with an implementation strategy and a list of the infrastructure necessary to successfully implement that strategy (Resolution No 16-1570, December 2010).

Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy resolution by facilitating repayment of bonds authorized by the legislation.

The County is contemplating the enactment of a Development District for the County Service Park within the Shady Grove Vicinity in 2013.

Towns and Cities

The towns of Brookeville, Poolesville, and Garrett Park, and the cities of Rockville and Takoma Park are located wholly within Montgomery County and issued long-term obligations to fund various public amenities such as road and sewer improvements.

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County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $20,418,000 for FY11. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY12:

Payee	Location	Use	Total Rent For FY11
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	$5,127,286
GXS, Inc.	100 Edison Park Drive, Gaithersburg	Public Safety Headquarters	3,716,943
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	3,093,769
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,486,598
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	2,325,820
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,901,650
F.S. Peoples Realty Co.	14935 Southlawn Lane, Rockville	Fire & Rescue/Liquor Control	1,580,220
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,460,826
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	1,059,171
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public facilities/Family Justice Center	1,033,114
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	910,420
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	719,717
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	689,882
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	670,916
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	665,638
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	632,480
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	566,234
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	552,669
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	519,792
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	498,086
Investment Properties, Inc.	11 North Washington St. 4th Floor Rockville	HHS Community Support Network	447,394
C-W Gaither, LLC	9121-25 Gaither Road, Rockville	Police/S.O.D.	445,891
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Police-6th District	431,226
PS Business Parks, Inc.	9210 Corporate Boulevard, Rockville	Police/S.I.D.	326,769
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	300,042
Halcyon Associates	8300-8434 Helgerman Court, Gaithersbg.	Police	267,088
Halcyon Associates	8663-73 Grovemont Circle, Gaithersbg.	Fire & Rescue	240,240

Other Operating Payment Agreements

Lease Revenue Bonds – Metrorail Garage Projects

The County entered into a Trust Agreement dated June 1, 2002 with Wachovia Bank, N.A. related to the issuance of $37,880,000 in Lease Revenue Bonds to finance the costs of parking structures and related facilities at the Shady Grove Metrorail Station and the Grosvenor Metrorail Station in Montgomery County. The County leased the garages to the Washington Metropolitan Area Transit Authority ("WMATA"), an interstate compact agency and instrumentality of the District of Columbia, the State of Maryland and the Commonwealth of Virginia.

Pursuant to the Trust Agreement, and a First Supplemental Trust Agreement dated September 1, 2004, additional bonds in the amount of $4,745,000 were issued by the County on September 28, 2004 to complete construction of the Shady Grove and Grosvenor parking structures and related facilities. The final maturity of the Series 2002 and Series 2004 bonds is in 2024.

The Bonds are limited obligations of the County payable solely from and secured by a pledge of (1) the revenues and receipts to be derived from the lease of the garages to WMATA and (2) certain funds and accounts established pursuant to the Trust Agreement, including a debt service reserve. The County covenanted to budget, appropriate and pay to the Trustee for deposit in the debt service reserve, at any time in any fiscal year when the amount to the credit thereof is less than required by the Trust Agreement, an amount equal to the deficiency; however, the obligation of the County to make any such payment in any fiscal year is contingent upon the appropriation for such fiscal year by the Montgomery County Council of funds from which such payment can be made. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

Certificates of Participation (COPs) and Taxable Limited Obligation Certificates

The County entered into a conditional purchase agreement (COPs) dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing $33.6 million to acquire equipment for use in the County's fire and rescue program. The COPs mature in 10 years. In April 2010, the County entered into a conditional purchase agreement with U.S. Bank, for the purpose of borrowing $23 million to acquire buses. That issuance of COPs matures in seven years.

Also in April 2010, the County issued $30.4 million of Taxable Limited Obligation Certificates. The proceeds of this sale are being used to fund, in part, the County's Facility and Residential Development Projects (primarily projects associated with affordable housing). The Certificates fully amortize over 20 years.

The County's obligation to make payment under these agreements in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate money to make such payments, the County is required to return the financed asset to the trustee without any additional financial liability. The obligation of the County under the agreements does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

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GENERAL FINANCIAL POLICIES

Financial Reporting Standard

Montgomery County seeks to continually maintain best practices in its financial reporting operation. The County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) more times than any other county in the nation. Since 1951, the County received the award 41 times and in 39 consecutive years since 1972. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the FY11 CAFR continues to meet the Certificate of Achievement Program's requirements and submitted it to the GFOA to determine its eligibility for another certificate.

Reporting Entity

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2011).

Basis of Accounting

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. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The basis of accounting for both types of statements is presented below.

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

Governmental fund (i.e., General, Debt Service, Capital Projects, Special Revenue, and Permanent) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are 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.

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 non-major 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 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.

Basis of Budgeting

At the direction of the County Executive, the Office of Management and Budget, with the CountyStat Office and County operating departments is transitioning the County's budget process to a focus on results. Results-Based Budgeting ensures that resource allocation is based on County priority objectives to make government more responsive, that programs and initiatives are operating effectively and efficiently, and that tax dollars are spent wisely through the use of performance data as a primary basis for review and analysis of budgetary requests.

When fully implemented, Results-Based Budgeting will (1) rely on historical and projected performance data and other reliable and relevant evidentiary data to justify budget allocations through the demonstration of performance results, (2) document the "return on investment" expected from budget expenditures by assessing the impact of those expenditures on the customers of County services ("customer results"), the quality of life in Montgomery County, and the Montgomery County Results; (3) enhance opportunities for cross departmental/agency coordination and resource allocation decisions, since the corresponding impact of resource changes on performance can be evaluated in a timely and objective manner, (4) use data systematically and transparently to drive the decision-making processes by which finite resources are allocated to achieve both customer results and the Montgomery County Results, (5) provide a better basis for decision making and administration of annual budgets, including additional investments or budgetary reductions, since these decisions would be based on alignment with priority objectives and performance data. This includes changes of the use of base funding if such changes will improve results, as opposed to limiting such decisions to only new or incremental funding; (6) routinely seek improvements to productivity and no-cost or low-cost solutions to problems; and (7) be used for the annual budget development and review process, as well as any mid-year decisions.

The Montgomery County Results

The Montgomery County Results refer to qualities of life that matter most to County residents and as such have become Montgomery County priority objectives. These qualities are: A Responsive and Accountable County Government, Affordable Housing in an Inclusive Community, An Effective and Efficient Transportation Network, A Strong and Vibrant Economy, Children Prepared to Live and Learn, Healthy and Sustainable Communities, Safe Streets and Secure Neighborhoods, and Vital Living for All of Our Residents.

County Stat

County Stat is a component of the County's results-based accountability system, and a mechanism for performance management in Montgomery County government. Its goal is to improve government performance through greater accountability, better transparency into County challenges and successes, ultimately moving forward towards a culture of "managing results", and a more effective and efficient County government. CountyStat is guided by four simple principles: require data driven performance; promote strategic governance; increase government transparency; and foster a culture of accountability. CountyStat meetings, led by the County Executive and the Chief Administrative Officer, are held on a routine basis as a tool with which to examine the results of its activities.

Legal Framework for Budgeting

As required by the County Charter, the County Executive submits to the County Council, not later than January 15, a comprehensive six-year Capital Improvements Program (CIP) in each even numbered year, and a Capital Budget each year. In addition, the County Executive, not later than March 15 of each year, submit its annual Operating Budget, a six-year Public Services Program (PSP), and Fiscal Policy.

The Capital Improvements Program includes a statement of the objectives of capital programs and the relationships of capital programs to the County's long-range development plans; recommends capital projects and a construction schedule; and provides an estimate of costs, a statement of anticipated revenue sources, and an estimate of the impact of the program on County revenues and the operating budget. The Capital Improvements Program, to the extent authorized by law, includes all capital projects and programs of all agencies for which the County sets tax rates or approves budgets or programs.

The fiscal program shows projections of revenues and expenditures for all functions, recommends revenue and expenditure policies for the program, and analyzes the impact of tax and expenditure patterns on public programs and the economy of the County.

As part of the six-year CIP and PSP programs, the County Executive includes the proposed capital and operating budgets containing recommended levels of expenditures and sources of revenue for the ensuing fiscal year. In addition, a summary is submitted containing an analysis of the fiscal implications for the County of all available budgets of all agencies for which the County Council sets tax rates, makes levies, and approves programs or budgets. These other agencies include the Montgomery County Public Schools, Montgomery College, the Maryland-National Capital Park and Planning Commission, the Housing Opportunities Commission of Montgomery County, the Montgomery County Revenue Authority, the Washington Suburban Sanitary Commission (a bi-county agency), the Washington Suburban Transit Commission (a bi-county agency), and the 19 independent Fire and Rescue Corporations.

The County Council must hold public hearings on the proposed budgets and six-year programs commencing not earlier than 21 days following their receipt. The County Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council also approves the budget, as amended, and appropriates the funds not later than June 1 of the year in which it is submitted. By June 30 of each year the County Council makes the tax levies deemed necessary to finance the budgets for the ensuing fiscal year beginning July 1. Pursuant to a Charter amendment adopted in the November 2008 general election, the County Council may not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals an increase in the Consumer Price Index unless approved by the affirmative vote of all nine Council members. This limit does not apply to revenue from 1) newly constructed property, 2) newly rezoned property, 3) property that, because of a change in State law, is assessed differently than it was assessed in the previous tax year, 4) property that has undergone a change in use, and 5) any development district tax used to fund capital improvement projects.

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely petition of five percent of the County's registered voters. The cost criterion for projects in the FY12 Capital Budget and the Amended FY11-16 CIP is $12.7 million. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

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ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 26, 2011 the County Council approved the FY12 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $4.367 billion. This budgetary level represents an increase of 2.2 percent over the adopted budget for FY11.

The FY12 operating budget provides the greatest share (51.5 percent) of total tax supported resources to Montgomery County Public Schools. The budget for Montgomery College includes funding to accommodate growth in enrollment. In addition, funding is included to support important affordable housing, public safety and health and human services programs.

The approved FY12 budget provided for an undesignated surplus of $133.3 million in the General Fund and $146.6 million across all tax supported funds. For FY12, the estimated effective real property tax rate for the County is $0.946 per $100 of assessed value.

Capital Budget/Capital Improvements Program

The County Council approved the FY12 Capital Budget and FY11-16 Amended Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating $4.047 billion for FY11-16. The FY11-16 amended program provided for County bond funding aggregating $1.910 billion over the FY11-16 Amended six-year period. The Council approved a Capital Improvements Program for WSSC totaling $1.338 billion for FY12-17. (WSSC is governed by State Law and is the only agency for which the County Council adopts an annual CIP).

SELECTED FINANCIAL INFORMATION

GENERAL FUND AND MAJOR SOURCES OF REVENUE

Status of the General Fund

General Fund Revenues

Actual FY11 revenues for the General Fund totaled $2,462.6 million and were 3.1 percent below the budget estimate for the fiscal year, but 4.8 percent above actual tax revenues for FY10. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the property tax (-$24.7 million), followed by the income tax (-$21.4 million below the budget estimate), and finally Federal reimbursements (-$14.2 million below the budget). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $304.4 million in FY11. That amount was $9.2 million or 3 percent below the budget estimate although the decline was driven by a shortfall in only one revenue – fuel/energy taxes. Investment income was approximately $1 million below the budget estimate. Licenses and permits came in above budget estimates (10.4%), but charges for services came in below budget estimates -12.9%. Intergovernmental revenues were 24.7 percent below the budget estimate. Such a decrease was attributed across the board to State, Federal, and other reimbursements, which came in 5.4 percent, 37.9 percent, and 36.1 percent below budget estimates, respectively.

Major Source of General Fund Revenue

Income Tax

One of the major, and until the past two fiscal years, the largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $1,039.2 million and represented 41 percent of actual tax revenues in FY11 and 39.3 percent of total actual revenues. Until FY10, income tax receipts became the largest source of tax revenues in the General Fund when it surpassed the property tax in size in FY09. The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. With a Standard & Poor's 500 index increasing 12.8 percent in calendar year (CY) 10 following an increase of 23.5 percent in CY09, a decrease of 38.5 percent in CY08 and increases of 3.5 percent in CY07, 13.6 percent in CY06, and 3.0 percent in CY05, and an average annual growth rate of only 0.7 percent in the County's resident employment during the CY05-CY08 period and a decrease of 3.1 percent in CY09 and a decrease of 0.7 percent in CY10, income tax revenues increased 8.2 percent in FY05, 11 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, no increase in FY09, and a 19.3 percent decline in FY10. However, with little change in total resident employment in CY07 and CY08, declines in CY09 and CY10, and modest growth in CY11 coupled with the dramatic decline in the S&P 500 index in CY08 affecting capital gains in FY10 and FY11, total income tax revenues declined 0.3 percent in FY11.

Property Tax

Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the largest in FY11, amounted to $1,061.6 million in FY11, which were $24.7 million or (2.3%) below the budget estimate, but 1.5 percent above actual revenues in FY10. Actual property taxes, excluding penalties and interest and other items, were $1,059.4 million in FY11, an increase of 1.3 percent of the previous fiscal year. Collections from penalties and interest and other items were $2.2 million, a 3.3 percent increase when compared to FY10. The increase in actual property tax collections for the General Fund compared to FY10 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from $0.683 to $0.699 per $100 of assessed value while maintaining total tax-supported revenues at the Charter Limit.

The taxable assessments for real property increased 0.4 percent from FY10 to FY11. This was the smallest increase in over twenty years. New construction, which added $919.9 million to the base in FY11, was 33.4 percent lower than in FY10. 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 percent for Group 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 Group Three reassessments in LY06, but declined from 51.8 percent to 43.4 percent for Group 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 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65 percent for LY05 to 16.2 percent for LY08 and the rate for Group Three declined from 63.3 percent for LY06 to 10.6 percent for LY09. With the dramatic decline in averages sales price in FY09 and FY10, the reassessment rates for Group 1 declined from 43.4 percent to 17 percent for LY10 and from 16.2 to 14.5 percent for Group 2 for LY11. 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 was a dramatic decrease in the reassessment rates for Groups One, Two and Three for the past three levy years, the remaining amount of the credit added over $5.1 billion to the assessable base in FY11.

Assessments of personal property increased 3 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland State Department of Assessments and Taxation (SDAT). 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 rebounding in FY10 (5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 to $3.856 billion and attributed to declines in corporate and utility personal property. For the previous four fiscal years (FY07-FY10), taxable assessments for personal property averaged $3.990 billion ranging from a low of $3.920 billion in FY09 to a high of $4.124 billion in FY10.

Transfer and Recordation Taxes

Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY11 were $129.5 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions). The FY11 increase in actual collections above FY10 from transfer and recordation taxes was the second increase during the past three fiscal years. The total amount collected from these taxes increased from $132.1 million in FY02 to a peak of $241.7 million in FY06, before declining to $107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to $122 million and increased to $129.5 million in FY11.

General Fund revenues from the transfer tax experienced a decrease of 6.9 percent in FY11 compared to a 28.7 percent increase from the recordation tax attributed to the transfer of recordation taxes collected from the tax rate premium and allocated to the General Fund. Because of the decline attributed to a dramatic decrease in home sales in FY11 (17.6%), revenues from the residential sector for both taxes were $80.1 million, a decrease of 16 percent from FY10. The number of residential transfers decreased to approximately 12,800 or 22.3%.

Based on the amount of revenues, the commercial market improved in FY11 with revenues reaching $12.3 million, an increase of 45.9 percent over FY10. That amount of revenues was the highest since FY06. However, the number of commercial transfers (129) in FY11 remained relatively unchanged since FY09 and was the third lowest number in over 20 years.

Other Taxes

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes totaled $304 million and were approximately $9.2 million, or 3 percent, below the budget estimate. Revenues from the telephone tax were 1.5 percent above the budget estimate and 60.5 percent above actual revenues in FY10. That increase was attributed to an increase from $2.00 to $3.50 per month in wireless communication units. Revenues from the hotel/motel industry of $19.3 million in FY11 were 11.2 percent above the budget estimate and 13.1 percent above actual revenues in FY10. The increase was attributed to the 2011 U.S. Open held in June. The admissions tax was 8.3 percent above the budget estimate and 16 percent above actual revenues for FY10. Actual fuel/energy tax revenues were up 48.8 percent compared to FY10 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council for FY11, but 4.9 percent below the budget estimate.

Investment Income

In the General Fund, investment income increased from a deficit of $144,976 in FY10 to $12,206 in FY11, but was significantly below the budget estimate of $1 million. The dramatic decrease in FY11 over the budget estimate was the result of a continued 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 and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10 to 0.10 percent in FY11. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $312,000 or 73.7 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 $530.3 million in FY10 to $322.9.

General Fund Expenditures and Transfers

Expenditure savings in FY11 amount to $11.6 million. Savings occurred predominantly in departmental expenditures ($10.8 million) compared to non-departmental expenditures ($0.8 million). Even though all departmental and non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for Police ($3.9 million), and Public Works and Transportation ($1.3 million).

Effective FY11, the mandatory annual contribution to the Revenue Stabilization Fund must equal the greatest of 50 percent of any excess revenue or an annual amount equal to the lesser of 0.5 percent of the Adjusted Governmental Revenues or the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues. Excess revenue is the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income for the General Fund for the fiscal year exceed the original projections for these amounts. Adjusted Governmental Revenues means tax-supported County Governmental Funds revenues, plus revenues of the County Grants Fund, County Capital Projects Fund, tax-supported funds of the Montgomery County Public Schools, not including the County's local contribution, tax-supported funds of Montgomery College, not including the County's local tax contribution, and tax-supported funds of the Montgomery County portion of the Maryland-National Capital Park and Planning Commission.

In FY11, there was a mandatory contribution of $19,640,592 from the General Fund, which is less than the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues ($228,864,007).

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Table 13
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual(1)				Fiscal Year Budget
	2008	2009	2010	2011	2012
Revenues:					
Taxes:					
Property, including interest & penalty	$ 796,770,740	$ 962,319,307	1,045,604,890	1,061,582,080	$1,061,187,574
Transfer tax and recordation tax	135,038,965	107,208,955	122,041,019	129,534,809	143,538,000
County income tax	1,291,339,613	1,291,716,935	1,042,098,527	1,039,234,850	1,117,243,000
Other taxes	168,735,248	179,232,787	205,594,301	304,004588	325,277,000
Total Taxes	2,391,884,566	2,540,477,984	2,415,338,737	2,534,356,327	2,647,245,574
Licenses and permits	9,279,207	9,319,612	9,542,255	10,372,597	9,769,320
Intergovernmental revenue	132,669,827	90,521,958	50,521,703	51,645,247	42,594,610
Charges for services	12,220,040	14,631,624	9,757,107	9,483,647	9,332,160
Fines and forfeitures	20,335,482	27,604,483	23,107,769	19,249,187	19,508,240
Investment income	8,880,917	568,785	(144,976)	12,206	179,100
Miscellaneous	10,418,813	17,801,203	13,767,949	16,823,983	13,286,710
Total Revenues	2,585,688,852	2,700,925,649	2,521,890,544	2,641,943,194	2,741,915,714
Expenditures (including encumbrances):					
General County:					
General government	241,768,119	257,466,968	222,489,761	224,132,215	282,197,545
Public safety	343,516,856	355,854,194	344,427,956	334,915,498	345,773,660
Transportation and public works	56,432,172	56,329,154	98,647,800	63,657,144	49,188,249
Health and human services	232,979,224	201,771,333	198,470,632	183,462,232	187,582,911
Culture and recreation	55,872,703	51,710,097	46,478,007	34,021,901	33,463,297
Housing and community development	5,606,887	5,473,883	4,448,701	3,860,221	3,394,922
Environment	4,473,884	5,224,553	4,102,641	2,666,513	2,333,930
Total Expenditures	940,649,845	933,830,182	919,065,498	846,715,724	903,934,514
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	15,470,240	17,699,145	95,441,777	24,649,524	25,443,550
Enterprise Funds	27,734,670	38,601,750	39,859,930	37,771,540	30,993,350
Internal Service Funds	--	--	14,779,000	2,500,000	--
Capital Projects Fund	--	--	499,847	--	--
Component Units	598,645	591,084	255,150	247,613	247,610
Total Transfers In	43,803,555	56,891,979	150,835,704	65,168,677	56,684,510
Transfers Out:					
Special Revenue Funds	(26,366,223)	(13,437,311)	(13,137,847)	(33,625,392)	(38,107,464)
Debt Service Fund	(215,900,200)	(204,596,878)	(210,865,864)	(220,150,085)	(254,054,490)
Capital Projects Fund	(43,259,243)	(28,736,385)	(18,625,802)	(21,567,200)	(30,107,918)
Enterprise Funds	(3,121,110)	(2,988,617)	(3,171,570)	(3,420,070)	(3,469,970)
Internal Service Funds	(1,551,516)	(1,214,928)	--	--	(378,714)
Component Units	(1,570,726,627)	(1,650,994,360)	(1,568,829,854)	(1,532,153,074)	(1,500,974,562)
Total Transfers Out	(1,860,924,919)	(1,901,968,479)	(1,814,630,937)	(1,810,915,821)	(1,827,093,118)
Net Transfers In (Out)	(1,817,121,364)	(1,845,076,500)	(1,663,795,233)	(1,745,747,144)	(1,770,408,608)
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	(172,082,357)	(77,981,033)	(60,970,187)	49,480,326	67,572,592
Fund Balances, July 1 as previously stated	295,785,593	146,932,820	86,905,675	39,657,640	93,078,794
Adjustment for previous year encumbrances(2)	23,229,584	17,953,888	13,722,152	3,940,828	11,018,883
Fund Balances, July 1 restated	319,015,177	164,886,708	100,627,827	43,598,468	104,097,677
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	$ 146,932,820	$ 86,905,675	$ 39,657,640	$ 93,078,794	$ 171,670,269

(1) Audited amounts.

(2) Prior year encumbrances are net of write-offs.

Note: Actual and budget amounts are for fiscal years ended June 30.

Table 14
General Fund
Schedule of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above (2)	$146,932,820	$ 86,905,675	$ 39,657,640	$ 93,078,794
Encumbrances outstanding	24,158,117	18,630,308	4,959,728	11,022,956
Cumulative Marriot Conference Center	2,110,444	2,655,314	2,692,824	3,416,052
Unrealized investment gain (loss) (1)	(641,355)	(338,014)	(300,511)	(272,792)
Net differences between beginning fund balances	252,780	252,779	252,775	266,911
GAAP Fund Balance as Reported	$172,812,806	$108,106,062	$ 47,262,456	$ 107,511,921
Elements of GAAP Fund Balance:				
Non-spendable Reservations	$ 8,465,100	$ 8,621,928	$ 7,596,839	$ 4,181,482
Committed for General Fund	56,609,030	51,999,830	34,705,889	23,275,746
Assigned - Designated for Encumbrances	24,158,117	18,630,308	4,959,728	11,022,956
Unassigned / Undesignated	83,580,559	28,853,996	--	69,031,737
	$172,812,806	$108,106,062	$ 47,262,456	$ 107,511,921

Note: All amounts are audited, and are for fiscal years ended June 30.
(1) Amount restated to break out impact of unrealized investment gains (loss)
(2) FY11 Amount is consistent with prior year calculation but does not agree with CAFR.

Revenue Stabilization Fund

The State of Maryland enacted legislation in 1992 authorizing political subdivisions in Maryland to establish "rainy day" or reserve funds to accommodate future funding shortfalls. Pursuant to this State law, Montgomery County, under Section 20-64 of Article XII of the Montgomery County Code, established a Revenue Stabilization Fund (the "Fund") effective July 1, 1994. The Fund supplements the reserve or operating margin the County annually sets aside, and provides a mechanism to level out the revenue stream by adjusting for year-to-year fluctuations beyond a certain baseline level.

Effective FY11, the mandatory annual contribution to the Fund must equal the greater of 50 percent of any excess revenue or an annual amount equal to the lesser of 0.5 percent of the Adjusted Governmental Revenues or the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues. Excess revenue is the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income for the General Fund for the fiscal year exceed the original projections for these amounts. Adjusted Governmental Revenues means tax-supported County Governmental Funds revenues, plus revenues of the County Grants Fund, County Capital Projects Fund, tax-supported funds of the Montgomery County Public Schools, not including the County's local contribution, tax-supported funds of Montgomery College, not including the County's local tax contribution, and tax-supported funds of the Montgomery County portion of the Maryland-National Capital Park and Planning Commission.

In FY11, there was a mandatory contribution of $19,640,592, which is less than the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues ($228,864,007). This resulted in an ending fund balance in the Revenue Stabilization Fund as of June 30, 2011 of $94,537,588.

In FY10, $44.8 million (less than half of the beginning balance) was transferred from the Fund to the General Fund. Therefore, the amount in the Fund was reduced to approximately $74.9 million, while $250,803.97 in interest earned was transferred to debt service. In FY08-FY10, there were no mandatory contributions made to the Fund due to weaker than expected revenue growth from the income tax, transfer and recordation taxes, and investment income. There was a mandatory transfer of $19.6 million made to the Fund at the end of FY11.

Table 15
Revenue Stabilization Fund
Transfers In and Fund Balance

Fiscal Year	Transfers (millions)	Fund Balance (millions)
2011	$19.6	$94.5
2010	($44.8)	$74.9
2009	--	119.6
2008	--	119.6
2007	11.9	119.6
2006	6.6	107.8
2005	5.2	101.2
2004	8.8	95.9
2003	--	87.2
2002	7.7	87.2
2001	8.9	79.5
2000	8.4	70.6
1999	5.5	62.2
1998	21.4	56.8
1997	18.7	29.4

Note: Fund Balances include transfers in and investment income.

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Enterprise Funds

The County has three major enterprise funds, liquor control, solid waste activities, and parking lot districts, which are accounted for and operated in a manner similar to private business enterprises. The results of operations for Fiscal Years 2007 – 2011 are shown in the table below.

Table 16
Enterprise Funds Paying Debt Service
Results of Operations

Funds	Fiscal Year				
	2007	2008	2009	2010	2011
Liquor Control					
Operating Revenues	$ 201,736,589	$ 213,669,534	$ 220,736,650	$ 229,212,948	$ 242,609,273
Operating Expenses	180,189,462	189,496,069	194,787,124	203,062,862	214,184,399
Operating Income (Loss)	$ 21,547,127	$ 24,173,465	$ 25,949,526	$ 26,150,086	$ 28,424,874
Solid Waste Activities					
Operating Revenues	$ 99,939,115	$ 101,920,730	$ 100,040,196	$ 103,254,833	$ 105,997,778
Operating Expenses	102,475,929	97,268,843	96,140,996	100,018,519	100,372.622
Operating Income (Loss)	$ (2,536,814)	$ 4,651,887	$ 3,899,200	$ 3,236,314	$ 5,625,156
Bethesda Parking Lot District					
Operating Revenues	$ 13,406,919	$ 14,117,392	$ 14,502,594	$ 16,104,060	$ 16,257,449
Operating Expenses	10,597,146	11,193,848	11,796,219	12,806,038	12,755,410
Operating Income (Loss)	$ 2,809,773	$ 2,923,544	$ 2,706,375	$ 3,298,022	$ 3,502,039

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Self-Insurance Funds

On July 1, 1978, County Code Section 20-37 was enacted to establish the Montgomery County Self-Insurance Program. The County self-insures such exposures as workers' compensation, commercial general liability, automobile liability, professional/public official liability, certain property, and other selected risks which require mitigation.

An Inter-Agency Insurance Panel comprised of the County and member agencies, and chaired by the County's Finance Director, provides overall direction, formulates insurance policy, reviews claims, and evaluates the effectiveness of the loss control program. Claims against the agencies are handled under a contract with a third party claims administrator. Legal services are provided by the Office of the County Attorney.

The County Finance Department, Division of Risk Management operates the Self-Insurance Program for the County and other participating agencies: MCPS, Montgomery College, M-NCPPC, various independent fire Corporations, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Rockville Housing Enterprises, Town of Somerset, Village of Drummond, Village of Friendship Heights, and the Bethesda Urban Partnership. The City of Gaithersburg participates for workers' compensation coverage only.

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, Fiduciary Liability, Commercial Excess Liability and others.

A summary of FY11 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$51,656
Interest on investments	29
Recovered losses	635
Other income	475
Total Revenues	52,795
Expenses:	
Claims expense	39,612
Claims administration, loss control, external insurance, and other administrative expenses	12,627
Total Expenses	52,239
Net Gain	556
Retained earnings, July 1, 2010	(6,991)
Equity balance, June 30, 2011	$(6,435)

By State law effective July 1, 1987, local government employees are protected by the Local Government Tort Claims Act. Under this legislation, the liability of the employees of local governments for common law torts, such as negligence, is limited to $200,000 for an individual claim, and $500,000 for all claims arising from one occurrence. This act, combined with the law limiting the public school system's liability to $100,000, significantly decreases the exposure of the program to large losses.

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY11 operations for these two elements of the insurance program are not reflected above.

County Employee Retirement Plans

Employees' Retirement System

The Employees' Retirement System (System) is a cost-sharing multiple-employer defined benefit pension plan established in 1965. Nine other agencies and political subdivisions elected to participate, including the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and participants in the Guaranteed Retirement Income Plan (GRIP). All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. The System is a contributory plan with employees contributing a percentage of their base annual salary depending on their group classification which also determines retirement eligibility. The payroll for employees covered by the System for the years ended June 30, 2011 and 2010 was approximately $405.3 million and $431.2 million, respectively. The total payroll for Montgomery County Government in FY11 and FY10 was $679.1 million and $714.7 million, respectively.

Deferred Retirement Option Plans (DROP), established in FY00, allow any employee who is a member of a specified membership group 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 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, and receive the value of the DROP payoff. At June 30, 2011 there were 188 participants in the DROP.

The County Council passed legislation in FY09 enabling the County to establish and maintain the GRIP, a cash balance plan that is part of the System, for employees. During FY10 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employee Retirement Plans. 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 Board has also established a risk budgeting system to evaluate the System's overall risk exposure on an ongoing basis. The System's assets are invested in a diversified portfolio of equities, fixed income, and real assets.

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Table 17
Employees' Retirement System

	Fiscal Year End		
	2009	2010	2011
Net Assets (billions)	$2.146	$2.443	$2.897
Actuarial Value (billions)	$2.736	$2.791	$2.869
Actuarial Liabilities (billions)	$3.489	$3.646	$3.745
Funded Ratio	78.4%	76.6%	76.6%
Participants:			
Active	5,012	5,786*	5,515
Retired	5,831	5,967	6,110

* The increase reflects the employees who transferred from the RSP under the new GRIP to the System.

Retirement Savings Plan

The Retirement Savings Plan (RSP) is a cost-sharing multiple-employer defined contribution plan established in 1994. 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 by the Plan unless they elect to participate in the GRIP. All covered full-time employees of the County and participating agencies must become members as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. As of June 30, 2011, the defined contribution plan had 4,509 participants with net assets totaling $185 million. As of June 30, 2010, the plan had 4,751 participants and assets of $133.5 million.

Deferred Compensation Plan

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (DCP), which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. Under the DCP, contributions are sent to the provider for the different types of investments as selected by participants. Legislation enacted in December 2004 allows the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. At June 30, 2011 there were 3,492 participants in the County's DCP with $273.9 million in net assets.

Additional information on the County's retirement plans is available in the Montgomery County Comprehensive Annual Financial Report for FY11 Appendix A, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations; or the Comprehensive Annual Financial Report prepared by the Board of Investment Trustees for the Montgomery County Employee Retirement Plans for FY11.

Other Post Employment Benefits

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

Recently, the County obtained actuarial valuation information addressing the extent of the County's liability to its retirees for OPEB as of July 1, 2010. The OPEB report is subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County's pension fund liabilities.

Based on the assumptions and qualifications stated therein, the OPEB report concluded that, assuming full prefunding, the FY12 annual required contribution (ARC) for the County and its tax supported agencies is $328 million, and the related actuarial accrued liability (AAL) is $3.6 billion. In May 2008, the County Council passed resolution number 16-555, calling for an eight-year phase-in to the ARC. Consistent with this approach and based on the current economic situation, the County appropriated $61.7 million in its FY12 operating budget for the tax-supported agencies. This is in addition to the $7.3 million, $15.3 million, $40.6 million and $38.6 million appropriated and funded in FY11, FY10, FY09 and FY08, respectively.

Property Tax Information

The County levies real and personal property taxes on all taxable property within its boundaries. Annual payments of taxes are due in full on July 1 and become delinquent on the following October 1. Semi-annual payments are the standard in Maryland for residential property and small business owners only, with the semi-annual payments becoming delinquent after September 30 and December 31. Tax sales to recover delinquent real property taxes are held on the second Monday in June in the fiscal year that taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

Property Tax Assessments

The assessment of all real and tangible personal property for purposes of property taxation by State and local governmental units is the responsibility of the State Department of Assessments and Taxation (SDAT). Assessment rolls are maintained in each county seat and in Baltimore City. Real property is valued at market value (full cash value) and assessed in each year at a percentage of market value. One-third of the real property base is reassessed every three years. An increase in full cash value arising from such reassessment is phased in over the ensuing three tax years in equal annual amounts. A decline in assessed valuation becomes fully effective in the first year.

Because of growth in new construction of less than $1.5 billion per year between FY08 and FY11, and a decline in the valuation of properties, the real property taxable base increased at an average annual growth rate of 7.2 percent over the last four years, measured through FY11 (FY07-FY11), compared to the average annual growth rate of 9.7 percent the previous five years (FY02-FY07). Because of the dramatic decline in the reassessment rates in FY10 and FY11 and the reduction in the available Homestead Tax Credit (HSTC), real property taxable assessments grew 5.7 percent in FY10 and 0.4 percent in FY11. Due to a slight decline in business investment in personal property between FY02 and FY11 attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of only 1.0 percent during ten fiscal years (FY02-FY11).

Table 18
Assessed Value of All Taxable Property by Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2011	$167,790,792,529	$3,856,191,952	$171,646,984,481	0.25%	88.63%
2010	167,096,843,537	4,123,996,612	171,220,840,149	5.66	95.51
2009	158,133,491,472	3,920,171,020	162,053,662,492	10.79	96.48
2008	142,306,435,593	3,970,547,370	146,276,982,963	12.82	98.05
2007	125,710,776,118	3,948,949,550	129,659,725,668	13.38	95.63

Sources: Montgomery County Department of Finance, Comprehensive Annual Financial Reports.

Tax-exempt properties are excluded from the above figures. In FY11, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled $18.4 billion at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 10.6 percent of the total assessable base. The SDAT grants exemptions from property taxes, pursuant to State law. The ratio of total assessed value to total full market value is based on studies conducted by the SDAT.

Table 19
Tax Levies and Revenue

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio Of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2011	$1,104,184,153	$1,088,633,177	98.59%	($25,571,510)	$1,063,061,667	96.28%	$15,259,381	1.38%
2010	1,082,224,889	1,064,870,559	98.40	(16,618,444)	1,048,252,115	96.86	24,752,779	2.29
2009	1,003,679,078	984,378,292	98.08	(20,121,191)	964,257,101	96.07	20,570,727	2.05
2008	848,638,685	822,982,107	96.98	(22,930,874)	800,051,233	94.27	12,156,570	1.43
2007	808,175,965	801,178,612	99.13	(8,146,428)	793,032,184	98.13	14,118,766	1.75

Table 20
Tax Rates and Tax Levies, by Purpose

Fiscal	General County (including Education)		Transit		State		Total	
Year	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2011	$0.699	$1,104,184,153	$0.037	$58,220,069	$0.112	$188,764,480	$0.848	$1,351,168,702
2010	0.683	1,082,224,889	0.037	58,460,427	0.112	187,999,760	0.832	1,328685,076
2009	0.661	1,003,679,078	0.040	60,562,706	0.112	177,929,853	0.813	1,242,171,637
2008	0.627	848,638,685	0.058	78,263,664	0.112	160,027,167	0.797	1,086,929,516
2007	0.624	808,175,965	0.053	68,439,347	0.112	141,503,123	0.789	1,018,118,435
2006	0.679	784,435,018	0.042	50,359,821	0.132	146,071,317	0.853	980,866,156

Note: Rates are per $100 of assessed value. Tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was $1.747 in FY2011, $1.707 in FY2010, $1.652 in FY09, $1.567 in FY08, $1.560 in FY07, $1.698 in FY06, and $1.835 in FY05; the personal property rate for Transit was $0.092 in FY11, $0.092 in FY10, $0.100 in FY09, $0.145 in FY08, $0.133 in FY07, and $0.105 in FY06, (the State does not tax personal property).

Table 21
Ten Highest Commercial Property Taxpayers' Assessable Base
As of June 30, 2011

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co	$ 686,620,820	$ 8,067,700	$ 678,553,120	0.40%
Verizon - Maryland	610,124,340	35,200,000	574,924,340	0.36
Montgomery Mall, LLC	340,730,300	340,048,200	682,100	0.20
Washington Gas Light Co.	260,082,650	--	260,082,650	0.15
Camalier, Anne D et al, Trustee	216,903,628	216,903,628	--	0.13
Chevy Chase Land Co.	214,070,700	214,070,700	--	0.12
7501 Wisconsin Avenue LLC	212,000,000	212,000,000	--	0.12
Federal Realty Investment Trust	201,681,952	199,101,232	2,580,720	0.12
Democracy Associates	171,000,000	171,000,000	--	0.10
Bethesda Arc, LLC	160,293,790	159,999,700	294,090	0.09
Total	$ 3,073,508,180	$1,556,391,160	$1,517,117,020	1.79%
Assessable Base (June 30, 2011)	$171,646,984,481			

Sources: State of Maryland, Department of Assessments and Taxation, and Montgomery County Department of Finance, Division of Treasury.

Impact Tax

Development is occurring throughout Montgomery County, placing great demands on the County to provide for transportation improvements, public schools and other public facilities. Effective March 1, 2004, and pursuant to Articles VII and XII of Chapter 52 of the Montgomery County Code ("Development Impact Tax for Transportation Improvements," and "Development Impact Tax for Public School Improvements," respectively), nearly all new residential development within Montgomery County is required to pay impact taxes. These impact taxes are a means of transferring a share of the costs of additional transportation improvements and additional classrooms in public schools to the new development that is primarily responsible for creating these needs. The tax is imposed prior to the issuance of a building permit.

The original impact tax law was enacted in 1990, and was applied for transportation improvements only, and affected two outlying geographic areas of the County: Germantown, in the northern section of the County, and an eastern section of the County. The law was amended in 2001 to add another northern section of the County (Clarksburg), and again in 2002 to extend the impact tax for transportation improvements to the remainder of the County. Amendments in 2004 added the schools impact tax, and 2007 amendments (effective during FY08) substantially increased tax rates, and required the County to increase rates by the rate of construction inflation (for the two previous years) in every odd year, for a two year period. In December 2010 the law exempted properties within the White Flint Sector Plan area from paying impact taxes.

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The following table illustrates impact tax collections over the last 10 years.

Table 22
Impact Tax Collections

Fiscal Year	Transportation Impact Tax	Schools Impact Tax
2011	$6,191,216	$14,480,846
2010	$3,812,000	$11,473,000
2009	2,398,000	7,925,000
2008	9,744,000	6,767,000
2007	11,501,000	9,563,000
2006	6,252,000	6,960,000
2005	8,471,000	7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--
2002 (3)	1,990,000	--

(1) added Schools Impact tax
(2) added County area
(3) added Clarksburg area

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DEMOGRAPHIC INFORMATION

Population

The population of the County, according to the 2010 Census, was 971,777, an increase of 10.6 percent since the 2000 Census. The Metropolitan Washington Council of Governments' (WMCOG) population estimates of over 1 million by 2015.

Table 23
Households and Population

	Households	Population	Population Percent Change from Prior Census
2015 (est.)	377,000	1,017,000	4.7%
2010 (U.S. Census)	357,086	971,777	10.6
2009	345,301	971,600	10.6
2008	344,418	953,685	8.5
2007	343,540	941,491	7.1
2006	341,438	935,168	6.4
2005	339,628	928,916	5.7
2004	337,838	920,965	4.8
2003	336,613	914,893	4.1
2002	334,500	906,145	3.1
2001	329,000	893,275	1.7
2000 (U.S. Census)	324,565	878,683	15.7
1990 (U.S. Census)	283,400	759,600	31.2
1980 (U.S. Census)	207,195	579,053	--

Note: Data for total population for 2001 to 2009 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data for 2010 from the U.S. Census Bureau, and 2015 from the Metropolitan Washington Council of Governments (MWCOG), Round 8.0 Cooperative Estimates (Final for Round 8.0). Data for households for 2001 and 2002 from *Sales and Marketing Management* issues of "Survey of Buying Power." Data for households in 2003 to 2004 from the American Community Survey, U.S. Census Bureau, and household data for 2005 through 2015 derived from the Demographic Forecast Model from MWCOG (Final for Round 8.0) and Montgomery County Department of Finance.

Table 24
Median Age

	1950	1960	1970	1980	1990	2000	2010
Median Age	29.5	28.1	27.9	32.1	33.9	36.8	38.5

Sources: U.S. Bureau of the Census and M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center.

Employment

The County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 81.1 percent of the total workforce in 2010, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 25
Payroll Employment

	2000	2009	2010
TOTAL PRIVATE SECTOR	365,022	361,284	358,172
PUBLIC SECTOR EMPLOYMENT:			
Federal	39,615	43,158	45,072
State	1,100	1,029	1,199
Local	33,084	37,834	37,140
TOTAL PUBLIC SECTOR	73,799	82,021	83,411
GRAND TOTAL	438,821	443,305	441,583

Notes: The following groups are excluded from the payroll count: Federal military, self-employed, railroad workers, and domestic employees.

Payroll employment represents the total number of jobs covered by the Maryland Unemployment Insurance Program.

Source: State of Maryland, Department of Labor, Licensing and Regulation.

Table 26
Payroll Employment Shares by Industry

.	2000	2009	2010
TOTAL PRIVATE SECTOR	83.2%	81.5%	81.1%
PUBLIC SECTOR EMPLOYMENT:			
Federal	9.0	9.8	10.2
State	0.3	0.2	0.3
Local	7.5	8.5	8.4
TOTAL PUBLIC SECTOR	16.8	18.5	18.9
GRAND TOTAL	100.0%	100.0%	100.0%

Source: State of Maryland, Department of Labor, Licensing and Regulation.

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2009 and 2010 based on the new classification system which shows that, with the exception of federal and state government; trade, transportation, and utilities; natural resources and mining; professional and business services; and education and health services, the other industrial sector in the County lost employment in 2010.

Table 27
Payroll Employment
(NAICS Series)*

	2009	2010	Difference	Percent Change
TOTAL PRIVATE SECTOR	361,284	358,172	(3,112)	-0.9%
GOODS-PRODUCING	38,373	35,443	(2,930)	-7.6%
Natural Resources and Mining	719	796	77	10.7%
Construction	24,223	22,291	(1,932)	-8.0%
Manufacturing	13,431	12,356	(1,075)	-8.0%
SERVICE PROVIDING	322,738	322,729	(9)	0.0%
Trade, Transportation, and Utilities	56,566	57,287	721	1.3%
Information	14,117	12,818	(1,299)	-9.2%
Financial Activities	31,908	30,830	(1,078)	-3.4%
Professional and Business Services	99,577	100,075	498	0.5%
Education and Health Services	61,977	63,188	1,211	2.0%
Leisure and Hospitality	37,133	36,894	(239)	-0.6%
Other Services	21,460	21,637	177	0.8%
UNCLASSIFIED	173	0	(173)	-100.0%
PUBLIC SECTOR EMPLOYMENT	82,021	83,411	1,390	1.7%
Federal Government	43,158	45,072	1,914	4.4%
State Government	1,029	1,199	170	16.5%
Local Government	37,834	37,140	(694)	-1.8%
GRAND TOTAL	443,305	441,583	(1,722)	-0.4%

* North American Industrial Classification System.

During first ten months of 2011 the County's unemployment rate averaged 5.2 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 2000 through 2010, and annualized data based on the first ten months of 2011.

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Table 28
Montgomery County's Resident Labor Force
Employment & Unemployment*

	Labor Force	Employment	Unemployment	Unemployment Rate
2011**	516,714	489,878	26,859	5.2%
2010	513,884	485,050	28,834	5.6%
2009	516,728	488,607	28,121	5.4%
2008	521,326	504,055	17,271	3.3%
2007	517,734	503,663	14,071	2.7%
2006	518,142	503,476	14,666	2.8%
2005	508,251	492,431	15,820	3.1%
2004	497,204	481,248	15,956	3.2%
2003	496,223	479,675	16,548	3.3%
2002	496,101	478,782	17,319	3.5%
2001	490,213	475,049	15,164	3.1%
2000	489,050	476,197	12,853	2.6%

Source: State of Maryland, Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics (BLS).

* Data for 2006 through 2010 were revised by DLLR and BLS to incorporate intercensal population controls for 2000 and 2010.
** Based on the rate of change in the averages of the first ten months of 2010 and 2011.

Federal Government Employment

The County is home to 18 Federal agencies in which nearly 47,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2011.

Department of Health and Human Services	29,700
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	12,690
Naval Medical Command	
Walter Reed Army Medical Center/Institute of Research	
Naval Surface Warfare Center	
Army Laboratory Center	
Other	
Department of Commerce	8,250
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	3,000
Department of Energy	1,800

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2008 data).

Private Sector Employment

There are several thousand private sector employers in Montgomery County. Below is a listing of some of the County's largest employers.

Name of Firm	**Est. No. of Employees**
Adventist Healthcare	6,600
Marriott International, Inc. (Headquarters)	5,025
Lockheed Martin	4,741
Giant Food Corporation	4,377
Verizon	2,895
Holy Cross Hospital	2,890
Government Employees Insurance Company (GEICO)	2,372
Capital One Bank	2,000
Suburban Hospital	1,972
Westat, Inc.	1,905
MedImmune/Astra Zeneca	1,900
International Business Machines (IBM)	1,709
Discovery Communications, Inc.	1,738

Note: The employee numbers listed are best estimates taken during the Spring of 2010 from various sources, including first-hand research by the County's Department of Economic Development, and Dun & Bradstreet's online database.

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Personal Income

Actual personal income of County residents reached $64.4 billion in calendar year 2009 and is estimated to total approximately $69.9 billion in 2010 and $70.5 billion in 2011. The County's total personal income experienced a decline of 0.6 percent in 2009, less than the nation's decline of 4.3 percent, and lower than the State's rate of 1.6 percent. The County's total personal income is estimated to increase a modest 3.4 percent in 2010 then accelerate to 5.4 percent in 2011, which is well below the eight-year (2002-2008) annual average growth rate of 5.4 percent.

The County, expected to account for 23.6 percent of the State's personal income in 2011, a percentage that has been constant to the previous ten-year average.

Table 29
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2011 (est.)	$70,540	$299,228	$13,056,186	23.6%
2010 (est.)	66,940	283,920	12,357,113	23.6
2009	64,439	273,193	11,916,808	23.6
2008	64,809	277,731	12,451,599	23.3
2007	62,643	264,798	11,900,562	23.7
2006	60,372	252,431	11,256,516	23.9
2005	55,846	237,146	10,476,669	23.6
2004	52,239	224,646	9,928,790	23.3
2003	48,650	209,701	9,369,072	23.2
2002	46,951	201,793	9,054,702	23.3

Notes: Data from 2009 from U.S. Department of Commerce, Bureau of Economic Analysis, revised May 2011 (County, State, U.S.).
Estimates for Montgomery County (2010-2011) by Montgomery County Department of Finance, November 2011.
Estimates for Maryland (2011) by State of Maryland, Bureau of Revenue Estimates, and the United States (2011) by the Montgomery Department of Finance based on 2010-2011 annual data.

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Average Household and Per Capita Personal Income

The County's total personal income reached $64.4 billion in calendar year 2009, down from $64.8 billion in 2008, and per capita income is expected to reach $66,323 in 2009, down from $67,957 in 2008. Average household income is expected to increase from $189,620 in 2009 to approximately $192,350 in 2011.

Table 30
Per Capita and Average Household Income, 2009

County	Per Capita Income	County	Average Household Income
Marin, CA	$89,139	Marin, CA	$220,728
Fairfield, CT	74,767	Fairfield, CT	204,654
Arlington, VA	73,187	Westchester, NY	202,267
Westchester. NY	71,728	Fairfax, VA	200,418
San Mateo, CA	69,562	San Mateo, CA	198,905
Somerset, NJ	69,385	Somerset, NJ	197,008
Fairfax, VA	69,241	Nassau, NY	194,231
Morris, NJ	68,251	Morris, NJ	190,125
Montgomery, MD	**66,323**	**Montgomery, MD**	**186,620**
Bergen, NJ	64,388	Douglas, CO	177,354
Montgomery, PA	63,469	Arlington, VA	175,760
Nassau, NY	61,871	Howard, MD	172,578
Howard, MD	61,823	Bergen, NJ	171,274
Norfolk, MA	61,595	Santa Clara, CA	169,531
Collier, FL	60,049	Collier, FL	168,709
Douglas, CO	59,358	Montgomery, PA	165,949
Middlesex, MA	58,744	Rockland, NY	163,905
Palm Beach, FL	57,461	Norfolk, MA	162,042
Chester	57,033	Contra Costa, CA	161,961
Contra Costa, CA	56,703	Lake, IL	159,622

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 200,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2011, for total personal income and per capita data; the Department of Finance used data from the U.S. Department of Commerce, Bureau of the Census, *American Community Survey* for 2009, for the number of households in each county.

ECONOMY

Agriculture

Agriculture in Montgomery County is a diverse industry that occupies about one-quarter of the County land area. The County's agriculture industry contributes over $243 million to the local economy. Over $84 million comes from the County's thriving equine industry, about $126 million from horticulture, and $33 million from traditional agriculture. There are more than 561 farms and 350 horticultural enterprises in the County. The majority of farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents.

Preservation of rural land for agricultural use is a high priority in the County. Farmland preservation efforts consist of a variety of strategic programs offered by the County and State. The County received a total of $19.3 million in Rural Legacy Program grant awards.

Since its creation in 1980, the 93,000 acre Agricultural Reserve controlled farmland development in the County. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Currently, Montgomery County is ranked second nationally in acres of farmland protected through easements (71,789 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

In 1980, sixty (60) percent of the farmland in the Agricultural Reserve was owned by speculators. Through farmland preservation programs, this trend was significantly reduced as more farms are now owned and operated by farmers. Farmers and landowners can choose from seven separate agricultural land preservation programs. Each of these programs places an easement on the property that prevents future commercial, residential or industrial development of the land.

The Department of Economic Development-Agricultural Services Division supports retail and wholesale agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing. The Division also provides programs and technical assistance for farmers; these initiatives include Fuel-Energy Tax Relief, Deer Donation Program, Weed Control Services, Agricultural Product and Farm Logo Program, and many more.

Major capital asset events during the current fiscal year included $625,000 in purchased preservation easements on farmland in agricultural zones to preserve farmland not protected by Transferable Development Rights (TDRs) and an additional $1.7 million dollars in pending FY12 easement settlements in association with the County's new Building Lot Termination (BLT) easement program.

Federal Spending

Federal spending remains an important contributor to the Washington area's economy. According to a George Mason University study, total Federal spending accounts for nearly a third of the metropolitan Washington gross regional product. The success of the region's economy is closely linked to the Federal economy, and the Federal government remains, either directly as an employer or indirectly through Federal spending, the primary source of regional economic growth.

The importance of Federal spending in the Washington metropolitan region, and particularly in Montgomery County, is exhibited in the percent of total Federal spending targeted to the Washington MSA. While total Federal spending in Federal fiscal year (FFY) 2010 amounted to $3,276.4 billion nationwide, the Washington MSA received $169.5 billion, a 5.2 percent share. Montgomery County received $20.7 billion, a 0.6 percent share of the total Federal spending and 12.2 percent of the region's share. While growth in total Federal spending is robust for all categories, by far the strongest growth is in procurement. As the table below shows, this category consistently grew for the nation and the Washington metropolitan area every year since 2001 and eight of the past ten years for

Montgomery County. These data also show that Federal procurement spending in Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole. Approximately $20.7 billion in total Federal spending in Montgomery County is estimated to represent approximately 30.9 percent of total personal income for the County as the Federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County was $9.2 billion in FFY10, a decrease of 6.1 percent over FFY09 but an increase of 15.0 percent over FFY08.

Table 31
Federal Procurement Trends
2001 – 2010*
($ billions)**

Federal Fiscal Year	Montgomery County	Washington MSA	U.S.
2010	$9.2	$81.3	$516.7
2009	9.8	76.0	550.8
2008	8.0	69.3	514.1
2007	6.6	59.5	440.4
2006	7.8	57.8	408.7
2005	7.7	54.9	381.0
2004	7.5	53.0	339.7
2003	5.7	44.3	327.4
2002	5.0	37.5	286.1
2001	3.9	32.4	260.0

* Federal fiscal year (October 1 through September 30).
** Amounts shown in current dollars (not adjusted for inflation).
Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FFY 2000-2010 and Center for Regional Analysis, George Mason University.

New Construction

Between FY10 and FY11, the number of new construction projects increased 3.6 percent. At the same time, the value of new construction added to the real property tax base decreased 33.4 percent. Over the prior nine fiscal years (FY02-FY10), the number of projects, both residential and non-residential decreased from over 4,807 to 833. However, during that same period, the value of new construction averaged $1.5 billion between FY02 and FY10 and ranging from a high of $1.7 billion in FY05 to a low of $1.4 billion in FY10. While each category within the tax base exhibited volatility from year to year, such volatility did not affect the growth in new construction between FY02-FY10. The combined decline in the construction of residential and condominium properties beginning in FY08 and ending in FY11, the combined total non-inflation adjusted value of all new construction during those fiscal years were at their lowest levels since FY02. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined 52.3 percent between the peaks in 2007 and 2011.

Table 32
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Construction Starts	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2011	863	$ 540.2	$ 20.6	$ 56.6	$ 226.9	$ 75.5	$ 919.8
2010	833	599.4	19.7	180.3	354.7	226.6	1,380.7
2009	738	724.1	5.8	455.4	229.5	0.0	1,414.8
2008	952	882.7	25.8	318.5	256.6	0.0	1,483.6
2007	985	1,040.1	22.0	211.4	312.6	19.5	1,605.6
2006	1,580	978.3	41.2	132.9	384.6	4.8	1,541.8
2005	2,077	874.2	82.5	121.2	588.4	1.7	1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
2002	4,807	896.1	19.4	70.8	520.7	1.3	1,508.3
10-Year Summary		$8,451.0	$307.9	$1,856.7	$3,860.0	$333.6	$ 14,809.2
Categories as Percent of Total		57.0%	2.1%	12.5%	26.1%	2.3%	100.0%

Source: Dodge Analytics, McGraw-Hill Construction, and Maryland State Department of Assessments and Taxation.

Development Districts

In 1994, the County Council enacted the Development District Act, which allows the County to create development districts and to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County of high priority for new development or redevelopment. Special assessments and/or special taxes may be levied to fund the issuance of bonds or other obligations created from the construction or acquisition of infrastructure improvements. The proceeds of development district bonds are used to fund certain road, park, and sewer infrastructure improvements supporting development within the districts.

As a result of a petition by property owners and the subsequent review and analysis of the feasibility of the proposed development district, the County Council, in January 1998, created the County's first development district, West Germantown. A second district, Kingsview Village Center, was created on July 28, 1998.

In separate actions in September 2000 and October 2001, the County Council approved resolutions initiating evaluation of three proposed new development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark (currently marketed as Arora Hills). The Clarksburg Town Center development district was created on March 4, 2003. However, in October 2010, the Council adopted Resolution 16-1544 which effectively terminated the Clarksburg Town Center development district.

The County is contemplating the enactment of a Development District for the County Service Park within the Shady Grove Vicinity in 2013.

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Economic Development Initiatives

In an effort to stimulate employment growth and new investment, the County initiates programs and promotes the strengths of each of its local employment centers.

Overview of Montgomery County

The County is divided into two major commercial real estate areas: the core and non-core markets. The core markets include the Bethesda/Chevy Chase and Silver Spring submarkets. These two are characterized by high-density, mass transit-serviced areas. Historically, they are some of the most highly demanded areas in Suburban Maryland.

The non-core markets include all of the remaining submarkets in Montgomery County including the technology based I-270 corridor. Each of the submarkets is outside of the Capital Beltway and generally exhibits more suburban traits with a few pockets of dense development.

Technology Corridors

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 1,000 biotechnology and advanced technology companies, including Human Genome Sciences, Lockheed Martin, MedImmune/Astra-Zeneca, IBM and Hughes Communications. The corridor continues to grow with over 18 million square feet of additional commercial and industrial development in the pipeline.

In October 2011, an Executive Order was signed designating a new Holy Cross Hospital on Montgomery College's Germantown campus as the first Strategic Economic Development Project. The Executive Order directs executive branch agencies to treat designated projects as a priority, giving them immediate attention during the planning, development review and permitting processes.

The proposed 93-bed hospital, related facilities and infrastructure to be built by Holy Cross Hospital and Montgomery College represent an example of a strategic economic development project – with 1,500 new jobs projected.

The Executive Order allows the County Executive to designate a project as a Strategic Economic Development Project based on its ability to create and/or retain jobs in the County, particularly in knowledge-based, high-paying industries; leverage substantial private capital investment; help the County achieve strategic redevelopment objectives; and/or otherwise advance the economic development goals of Montgomery County.

The Montgomery Planning Board approved Alexandria Real Estate Equities, Inc.'s plan to build up to 263,000 square feet more R&D space on its 18-acre Shady Grove Life Sciences Center (SGLSC) site. Ultimately developers will be able to bid on 400,000 square feet of additional commercial space and 2,500 additional housing units in the 900-acre SGLSC, which is designated within the Great Seneca Science Corridor master plan to become an even more prominent national and international bioscience hub with up to 17.5 million square feet of life sciences office and lab space, 9,000 residences and approximately 52,500 jobs. The U.S. General Services Administration selected the Montgomery County campus of Johns Hopkins University as the site for the National Cancer Institute's consolidated headquarters.

The White Flint Sector Plan, approved in March 2010 is on track. The plan targets future growth along Rockville Pike with development clustered around about 430 acres near the White Flint Metro Station. It will allow replacement of aging low-rise commercial properties in the area with mixed-use buildings as tall as 30 stories. The revitalized new urban neighborhood would include residences, offices, service-oriented businesses, restaurants and entertainment venues. Plans for almost six million square feet of new development were submitted for approval in White Flint. Federal Realty Investment Trust (FRIT) proposed 3.44 million square feet of mixed-use development for Mid-Pike Plaza, a retail center located at the corner of Rockville Pike and Old Georgetown Road. FRIT's development plan is comprised of 1.14 million square feet of office space, 1,725 dwelling units, a 125-room hotel and 304,200 square feet of retail. For its part, the JBG Companies submitted plans for the next phase of development at North Bethesda Market. The plans include over 700,000 square feet of new residential and commercial space. A sketch plan for North Bethesda Gateway proposed 1.7 million square feet, half office and half residential, in the southeast quadrant of Rockville Pike and Nicholson Lane.

The redevelopment of the White Flint Mall will be the fourth major project of the White Flint Master Plan, and is by far the largest. The newly unveiled plan is a street-grid town of several million square feet, with multiple office buildings, 2,500 new residences, a hotel and over a million square feet of retail. All but two existing anchors, Lord & Taylor and Bloomingdale's, would be razed. The design includes nearly two dozen buildings, a two acre square, and an elementary school site.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers. The $900 million FDA Headquarters Consolidation project is continuing its long-term buildout, occupying 130 acres of the 660-acre Federal Research Center in White Oak. The new FDA campus will include over 2.1 million square feet of office, lab and support facilities. There are already over 5,500 FDA employees located on the campus, which will house up to 8,889 total employees by project completion in 2014.

Recognizing the economic importance of such a large Federal user like the FDA, the County is planning a new Science and Technology Center on a 115-acre site just northeast of the FDA campus. Joining with Percontee's 200 acre site; LifeSci Village roughly two million square feet of life science and tech uses, including educational and clinical facilities, research labs and regular office space; two million square feet of retail space, hotel rooms and a conference center; and three to four thousand residencies. In addition, Washington Adventist Hospital will be moving and updating this facility to a parcel adjacent to the East County Center for Science and Technology.

Central Business Districts

The County is committed to promoting new investment in its Central Business Districts (CBD). The County's four CBDs are Silver Spring, Wheaton, Bethesda, and Friendship Heights, and are served by the region's longest extensions of the Metrorail system. The CBDs are centers for major business activity and medium- to high-density residential development in close proximity to the Metro stations.

Downtown Silver Spring

Since 1998, the State and Montgomery County invested a total of over $186 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way.

Through a public-private partnership with developer Foulger Pratt, the downtown Silver Spring project has over 800,000 square feet of retail, office, restaurant, hotel, and entertainment space, plus two new parking garages. The first phase was completed in 2000, and features 100,000 square feet of retail space, including Whole Foods Market and Strosniders Hardware. In 2001, the project was expanded to include additional services and retail centers serving the neighborhood.

Since 2004, an array of new restaurants and shops were added as new sections were completed. The Regal Majestic 20 movie theater with its 20 screens (one Imax) and 4,500 seats has, along with the American Film Institute (AFI), made downtown Silver Spring a significant entertainment destination. Each year the AFI Silver Theatre and Discovery Communications co-sponsor the Silverdocs international documentary film festival, which attracts an estimated 20,000 people. Additionally, downtown Silver Spring has over 190 free diverse and multicultural events per year within the development including festivals, concerts, movies and fashion shows.

United Therapeutics, an innovative locally grown biotech company, began construction on the third phase of its headquarters/research/laboratory campus in downtown Silver Spring. The third phase includes an eight-story building with an integrated public use space and stand alone circular retail building. The first level is comprised of retail space and the remaining seven stories consist of office and laboratory space associated with the biotechnology company. United Therapeutics will total 213,000 square feet on both corners of Spring and Cameron streets in downtown Silver Spring when it is completed in 2012. This is a massive outgrowth from its 8,000 square foot dwelling on Spring Street just 11 years ago.

The new Paul S. Sarbanes Silver Spring Transit Center is designed for integrated private transit oriented development. The private transit oriented development, which will be paid for with private funds, is a mixed use project comprised of two residential towers with 450 apartments and condominiums and a 200 room hotel. The private transit oriented development will generate over 4,200 additional daily bus and rail trips for a 7 percent increase in baseline transit ridership at the Transit Center. The $193.6 million Transit Center mixed-use development project, including retail, residential, hotel and restaurants alongside an inter-modal transportation hub linking bus, rail, and other transportation services, is currently under construction. This expanded gateway to downtown Silver Spring is scheduled to be completed in the first half of 2012.

The Fillmore, a concert hall operated by Live Nation opened in September 2011. Live Nation is providing a variety of programming including rock, jazz and blues for the venue, which caters to the culturally diverse community. This much-anticipated music venue is operated as a standing room only venue and can accommodate 2,000 people. The Fillmore project is a unique public-private partnership between Montgomery County, Lee Development Group and Live Nation. The Fillmore project brings revitalization to the north side of Colesville Road generating foot traffic on the street before and after shows. Moreover, the Fillmore also reinforces Silver Spring's growing reputation as a destination for arts and entertainment complementing existing venues including the AFI Silver Theatre, the Round House Theater, the Regal Majestic 20 movie theater, the Maryland Youth Ballet, Pyramid Atlantic, and the Montgomery County Performing Arts Center at the Montgomery College Takoma Park / Silver Spring Campus.

The State of Maryland just redesigned Silver Spring as an Arts & Entertainment District, a designation which will be in effect for another ten years.

Also in the downtown core, the Silver Spring Civic Building and Veterans Plaza opened in July 2010, providing a 42,000 square foot building with six community use rooms and a 5,200 square foot Great Hall. The facility houses the Silver Spring Regional Services Center and the administrative offices of the Round House Theatre Company. In addition, the facility has a large pedestrian plaza (Veterans Plaza), which includes a pavilion. The Plaza is home to the annual Silver Spring Jazz festival, held the second Saturday of each September. In its first full year of operation, there were over 20 other festivals in Silver Spring's new public square. The Plaza also houses three artistic panels dedicated to Veterans, featuring letters to and from home, created by Toby Mendez Studios.

In the southern part of downtown, the 20,000 square foot Silver Spring Innovation Center, the second of five business incubators in the County's Innovation Network, opened in 2004, along with the State's new $18.4 million District Courthouse. A new $13.3 million fire station, which includes a satellite police station and the Silver Spring Urban District office, opened in 2006.

The new 65,000 square foot Silver Spring Library broke ground in August 2010. The seven-story building will be multi-purpose, with the first two floors designed as an art center with a combination of functions such as classes, offices and an art gallery. Pyramid Atlantic will be an anchor arts/non-profit tenant for the activation of the street at ground level. Floors 3, 4, and 5 will hold the library, and the 6th floor is set aside for the Department of Health and Human Services. The top floor will hold meeting rooms for the library. This building is being designed to achieve LEED Silver certification and will have green vegetated roofs. The State of Maryland expressed an interest in incorporating a Purple Line station into this project. Montgomery County selected the developers that have formed a public-private partnership to build housing on a County-owned 120,000 square-foot property abutting the site of the proposed library. The property has the capacity for 120 units of which 30% will be designated as moderately priced housing units, 30 percent as workforce housing and 40 percent as market rate units.

In addition to being a destination for work, entertainment, and shopping, downtown Silver Spring is established as a place where people are attracted to live. More than 5,000 units of rental housing provide a solid residential base for downtown Silver Spring. Ground was broken for the 17-story building on 1150 Ripley Street just off Georgia Avenue on August 30, 2010. This 417,000 square-foot, 286-unit apartment complex is being developed by

Bethesda-based Washington Property Company. It is the first major construction project within the Ripley District in almost 20 years. This apartment building will have an array of studios and one and two bedrooms units and feature 7,000 square feet of service retail on the ground floor. The County's Department of Housing and Community Affairs provided $5 million in short-term financing to Washington Property Company through its Housing Initiative Fund to spur residential development in downtown Silver Spring. The first units are scheduled to be delivered in 18 months with full delivery expected in the summer of 2012.

Construction began for the Galaxy at 8025 13th Street in Silver Spring in August 2010. The building will have 195 rental units with 113 market rate units and 82 subsidized units for occupants making less than 60 percent of the Area Median Income. The project received a $5 million loan from the County's Housing Initiative Fund.

Home Properties proposed developing 9.7 acres of land at the corner of 16th Street and East-West Highway. The proposed development project calls for constructing a multi-building complex totaling some 1,250 rental apartments upon completion. Four separate buildings connected by pedestrian pathways will surround pockets of green space and landscaped courtyards featuring a swimming pool, pond and water fountain. Over 150 units will be designated as moderately priced while at least another 59 will be reserved as workforce housing. Also divided among the four buildings is the proposed 70,000 square feet of retail space, with an anchor space set to become a major grocery store.

Foulger-Pratt Companies broke ground in October on Citron, a low-rise, amenity-rich community in the heart of downtown Silver Spring offering 222 luxurious rental homes, including 31 affordable units. The $30 million, over 217,000 square foot project will begin pre-leasing in Fall 2012.

Wheaton

The limited size of Wheaton's Central Business District (76 acres), combined with the number of small commercial property parcels and multiple property owners presents a challenge in redeveloping Wheaton, given the cost of land aggregation necessary for larger-scale development.

The County recognized that it, and other public entities held enough real estate assets in Wheaton that were capable of accommodating larger development projects. The County determined that some of these assets might be used to stimulate redevelopment in Wheaton.

In January 2010, the County, in association with two other public entities, Washington Metropolitan Area Transit Authority (WMATA) and Maryland-National Capital Park and Planning Commission (M-NCPPC), issued a "Request for Qualifications (RFQ) for Public-Private Partnership for the Design, Construction and Financing of Transit-Oriented Development for the Wheaton Central Business District." The purpose of this RFQ was to select a private real estate development partner with the experience, capability and financial capacity to complete viable, sustainable redevelopment projects in downtown Wheaton. The public partners leveraged ten public properties throughout downtown Wheaton to induce private development, with the expectation that a selected developer would aggregate private property in addition to public sites.

In July 2010, the public partners announced B.F. Saul Companies (Saul) as the developer selected through the RFQ process. Saul will address the development of five of the public properties (7.6 acres) identified in the RFQ and the potential aggregation of additional privately-owned, adjacent properties. It is anticipated that this partnership will result in some one million square feet of redevelopment. Situated in Wheaton's downtown core, these sites are immediately proximate to the Metro Red Line station and bus depot. The first phase of the project, concept development, was completed 2011.

The Wheaton CBD and Vicinity Sector Plan, which was approved by the County Council on November 29, 2011, will promote new transit-oriented, "smart growth" development in downtown Wheaton. Such development will enhance Wheaton's strong retail base, which includes a newly renovated regional shopping mall (Westfield Wheaton), and over 300 locally owned and operated small businesses, including more than 80 restaurants.

Planning for a 2012 opening, Costco will lease approximately 148,000 square feet at Westfield Wheaton Mall, which will enhance the Mall's regional draw. The addition of Costco is expected to bring additional national and regional retail chains to the Mall as well. Capitalizing on Wheaton's retail strength, the County seeks to enhance Wheaton's urban character and improve it further by attracting more arts/entertainment-related entities, and encouraging more mixed-use development. It will continue to use its designations as both an Enterprise Zone and an Arts and Entertainment District to move this type of development forward.

Safeway will demolish its existing 23,000 square foot store on Georgia Avenue and, in partnership with Patriot Realty Co, develop a mixed-use residential/retail project on site. The project will include a new 59,500 square foot Safeway with a 17-story, 486- unit apartment building constructed above it. The project will be built to LEED - Silver standards. The project is situated directly across the street from the Metro Red Line subway entrance.

Washington Property Co. received plan approval for a six-story, 221-unit apartment complex on Georgia Avenue at the site of the First Baptist Church of Wheaton. The Church is relocating to Olney Md. The project will be one block south of the Metro Red Line station.

Alliance Residential Company plans to acquire Avalon Bay Communities' 3.65-acre site, and build 246 residential apartments. The project, located at the corner of Georgia and Blueridge Avenues, will be about an 8-minute walk to the Wheaton Metro.

Centex Homes, now owned by Pulte, continues to build and sell townhouse units at its "Leesborough" project on Georgia Avenue, recently receiving approvals to build another 30 townhomes in addition to the 100 units already on the site. Bozzuto Development Corp. and the Housing Opportunities Commission of Montgomery County completed Metro-Pointe, a mixed-use residential/retail project situated near the existing Wheaton Metro Station Kiss-and-Ride lot. The 173 residential units (30 percent affordable housing) are fully leased. The project also includes retail space totaling 3,500 square feet.

Bethesda

Downtown Bethesda is one of the County's major urban business and entertainment centers, with nearly 200 restaurants along with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving, day and night destination offering residents, visitors and its workforce multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals. In the past several years, Bethesda opened Round House Theatre, Imagination Stage, and Bethesda Row Landmark Theatre as marquee entertainment organizations that highlight classical plays, children's theatre, and independent and foreign films.

Bethesda has a workforce of over 46,000 and includes employees who work for some of the region's most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Development Alternatives and American Capital Strategies. In February 2010, the International Baccalaureate Organization signed a lease for 33,000 square feet of real estate at 7501 Wisconsin Avenue to relocate its American headquarters from New York to Montgomery County. This facility will eventually accommodate 250 relocated and new employees.

The Hilton Garden Inn, Bethesda opened its doors in January 2010. This hotel created 216 additional guestrooms to serve the National Institutes of Health, National Naval Medical Center, and the Bethesda community. The hotel is part of the Air Rights Center, a 700,000 square foot office and retail located on Wisconsin Avenue in the heart of Bethesda. Donohoe Construction plans to construct 80,792 square feet of office space at Battery Lane and Wisconsin Avenue. The company also submitted plans for 150,000 square feet of office space adjacent to the Air Rights Center at 7300 Pearl Street. Bernstein Management proposed a 270,000 square foot office complex as part of a redevelopment of the Bethesda Court Hotel and adjoining properties between Woodmont and Wisconsin Avenues.

Akridge Development is currently renovating 7550 Wisconsin Avenue, a formerly vacant 10-story Federal building, into a 120,000 square foot commercial office building. The project, which is targeting LEED Gold certification, will be the first new commercial office space in Bethesda in 11 years.

Several new planned apartment buildings are expected to add 1,497 new housing units in downtown Bethesda. Bainbridge Companies began construction of the Monty site at 4918 St. Elmo Avenue in October 2011. The Monty is a mixed-used project with 200 dwelling units (including 30 moderately priced dwelling units) and 7,200 square feet of retail space and four levels of underground parking. The entire project plans to seek LEED Silver certification and should be delivered in October 2012. The Christ Evangelical Lutheran Church received approval for its plan to build a 107-unit residential building combined with a six-story church and community center. The complex will feature an indoor athletic field for community use, public green space, and affordable residences for the elderly and transitional housing for the homeless.

The Pentagon plans to set up a $300 million hub in Bethesda for the Federal government's intelligence-gathering agencies on a 40-acre site vacated in September by the National Geospatial-Intelligence Agency.

The Army Corps of Engineers is working with the Defense Intelligence Agency on the large-scale overhaul, which could take about five years to develop and would shift 3,000 workers to the site off MacArthur Boulevard and Sangamore Road.

Friendship Heights

The Friendship Heights CBD is located at the Montgomery County-Washington, D.C. border with the Metrorail station at Wisconsin and Western Avenues at its center. Adjacent to the Friendship Heights CBD are multiple smaller jurisdictions and developments, including the Village of Friendship Heights special taxing district, the Town of Somerset, the Brookdale neighborhood, and the Somerset House complex.

The Friendship Heights area has the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, part of the Chevy Chase Center mixed-used development, is a 112,000 square foot project facing Wisconsin Avenue developed and managed by The Chevy Chase Land Company of Montgomery County, Maryland. The Collection brought retailers such as Christian Dior, Jimmy Choo and Barney's New York Co-Op to this area for the first time. Tiffany & Company, Georgette Klinger and Cartier were in Chevy Chase for many years and moved down the street to join Collection tenants such as Bulgari, Ralph Lauren, Gucci, Max Mara, and Louis Vuitton.

The second component of Chevy Chase Center is 100,000 square feet of neighborhood-oriented retail, anchored by Giant Food and Pharmacy, which was an original tenant of the Center when it was first developed in the 1950s. Other tenants include Clyde's Restaurant, Sushi Ko Restaurant, Lacoste, Potomac Pizza, Giffords Ice Cream, and many other familiar area and national retailers.

The third component of the project is the 200,000 square foot office tower, which was originally leased in its entirety by The Mills Corporation in 2006. Mills subsequently filed for bankruptcy and put the entire building on the market for sublease, and the space was immediately backfilled by such tenants as New Enterprise Associates, Columbia Partners and The Travel Channel. DHR International moved into the building in 2010.

The latest project in Friendship Heights is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage. EDF, Inc. opened its new North American headquarters at Wisconsin Place in October 2010. EDF is a wholly-owned subsidiary of EDF International S.A. of France and an international low carbon energy leader. Wisconsin Place accounts for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. The Plan originally allowed for a total of over 1.4 million additional square feet of office and retail space, and an estimated 635 dwelling units. One of the first major projects constructed in this plan was the Chase Tower, a 240,000 square foot retail and office building delivered in November 2001. This luxury Class A tower is now home to the corporate headquarters for Ritz Carlton. Other tenants include Capital Trust and the JBG Companies.

Existing Office/R&D/Commercial Space

As of October 2011, Montgomery County has over 141 million square feet of commercial real estate space (office, flex, R&D, industrial and retail). The weighted direct vacancy rate for the County increased since December 2010 from 8.7 percent to 8.9 percent.

Most of Montgomery County's office space is located along two "Technology Corridors", the I-270 corridor and the Route 29 corridor. The I-270 corridor includes the Bethesda, Rockville, Gaithersburg and Germantown markets and features over 105 million square feet of commercial space. Notable buildings along the I-270 corridor include the 700,000 square foot Capital One Bank headquarters in Bethesda, and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 14 million square feet of commercial space. Discovery Communications' 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the Westech Business Park, which includes over three million square feet of office, R&D, light industrial and retail development.

Table 33
Office/Flex/Industrial/Retail Space Availability by Major Submarkets
As of October 2011

Montgomery County Market	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/ Sublet
Bethesda/Chevy Chase	16,895,828	1,444,592	7.2%	8.5%
Gaithersburg	21,645,728	2,083,689	9.0	9.6
Germantown	7,569,051	583,916	7.3	7.7
Kensington/Wheaton	7,818,267	790,732	9.9	10.1
North Bethesda/Potomac	17,170,908	1,873,258	10.0	10.9
North Rockville	22,230,466	2,659,458	11.3	12.0
North Silver Spring/Rt 29	9,330,513	680,108	6.9	7.3
Rockville	18,514,993	2,094,623	10.8	11.3
Silver Spring	13,431,802	1,072,391	7.4	8.0
Total County	134,607,556	13,282,767	8.8%	9.9%

Note: These figures are provided by CoStar Property, the County's source for commercial real estate information.
*Others include I-270 North, Outlying Montgomery County East, and Outlying Montgomery County West submarkets.

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Office/Industrial Projects

Summary

Despite the depressed economy, a few large commercial projects continued in Montgomery County in 2011. In 2010, construction began for the Fillmore in Silver Spring, and the new headquarters of the Nuclear Regulatory Commission in Bethesda, and the National Cancer Institute in Shady Grove. Additionally, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. Details on many of these projects appear below.

Public/Private Projects

The Fillmore in Silver Spring

The Fillmore broke ground in September 2010 and opened in September 2011. The Fillmore is a dynamic new music, entertainment and community use venue in downtown Silver Spring. Live will provide a variety of programming for the venue, and caters to the culturally diverse community. This much-anticipated music venue will be operated as a standing room only venue and is being designed to accommodate 2,000 people.

The Fillmore project is a unique public-private partnership between Montgomery County and Lee Development Group (LDG). The State of Maryland contributed $4 million and Montgomery County contributed $6.7 million, for a total of $10.7 million, toward the cost of building the facility, which will be owned by the County. LDG is contributing the value of the land estimated at $3.5 million, as well as developing the project. In addition, Live Nation will contribute up to $2 million in tenant improvements.

East County Center for Science and Technology (ECCST)

The proposed 115-acre Site II development is envisioned as a public-private partnership between the County and Percontee, Inc. The goal is to create a world-class life sciences, education and research campus that will be an economic engine in the eastern portion of the County, and complement nearby Federal agencies, including the consolidated Food and Drug Administration (FDA) headquarters. Currently, the County is taking the property through the State’s Voluntary Clean-Up Program, which will determine the type of environmental remediation that will need to occur prior to developing the site.

Montgomery College-Germantown Science and Technology Park

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College’s Germantown campus. This property was combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot Science and Technology Park will be constructed. The purchase of the 20-acre site was made possible by a total of $6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the Science and Technology Park calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown Campus. Once built out, the Science and Technology Park would be home to nearly 4,000 employees. Currently, 25 acres is leased to an anchor tenant. To complement the Science and Technology Park, the College provided space for a 35,000 square foot County-operated business incubator on campus, which is fully occupied with science and technology early stage companies. To complete this three part science and technology project, the 127,000 square foot Bioscience Education Center has begun construction and will open to students in 2013.

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Montgomery County Business Innovation Network

The Montgomery County Business Innovation Network is a program of business incubator facilities that has successfully assisted start-up technology and professional services companies to grow and expand in the County. The Maryland Technology Development Center (MTDC), opened its doors in 1998 and was renamed the Shady Grove Innovation Center in September 2009. To date, nearly 137 companies graduated from the County's incubators. The County opened a second incubator in 2004, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology facilities. The success of and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. The Wheaton Business Innovation Center (WBIC) opened in 2006, and the Rockville Innovation Center (RIC) opened in 2007. The latest addition to the incubator program is the Germantown Innovation Center (GIC), which opened in October 2008.

Commercial Projects Continuing in 2012

North Bethesda Center 1, North Bethesda

This 14-story, 362,000 square foot building is located near the White Flint Metro Station in North Bethesda. The U.S. Nuclear Regulatory Commission will occupy the space in the largest new office lease signed in Maryland. The main-street style, pedestrian-friendly development links all the new buildings to Metro and will include 930,000 square feet of office space, 202,000 square feet of retail space, four apartment buildings and a hotel. The entire North Bethesda Center development is expected to generate approximately 5,400 jobs.

National Cancer Institute

A $200 million new satellite campus of the National Cancer Institute broke ground last September on the Montgomery County campus of Johns Hopkins University. This 575,000 square foot facility will house 2,100 employees of the National Cancer Institute at the Shady Grove Life Sciences Center. This project was made possible through the cooperative efforts of the National Cancer Institute, Johns Hopkins University, the U.S. General Services Administration and The JBG Companies. JBG was selected to develop the complex as twin, seven-story buildings with a parking garage and shops on nine acres overlooking a large pond. JBG will register with the U.S. Green Building Council, and will pursue a LEED Gold certification. A transit stop on the future Corridor Cities Transitway will connect to the Shady Grove Metro station, which will be critical to the success of this transit-oriented project. JBG signed a long-term ground lease with Johns Hopkins, which owns the land, to build the facility, which is scheduled to be delivered in early 2013. It was designed by Washington architect HOK.

National Institute of Allergy and Infectious Diseases (NIAID)

The National Institute of Allergy and Infectious Diseases will bring a projected 2,000 workers to a new 491,000-square-foot building on Fishers Lane in Twinbrook, under a lease signed by the U.S. General Services Administration. The lease represents a boon to Twinbrook, which has been steadily gaining Federal tenants over the past few months.

Chevy Chase-based JBG Companies will construct and lease the 10-story office at 5601 Fishers Lane, near where NIAID already has 150,000 square feet of laboratory space.

The NIAID building will back onto the Parklawn Memorial Park and Menorah Gardens and will be adjacent the Parklawn Building, where the U.S. Department of Health and Human Services announced a new 15-year lease earlier this year.

Department of Health & Human Services

GSA decided that the Parklawn Building in Rockville will remain the home of the Department of Health and Human Services. GSA selected the “stay put” option for the 935,000 square foot HHS lease. It will be completed and renovated and remain home to HHS. The JBG Companies will renovate the massive 1.4 million square foot Parklawn Building on Fishers Lane in phases, using the available 500,000 square feet in the building until it can deliver a finished home to HHS in 2014.

Qiagen Sciences, LLC

Qiagen Sciences, a molecular diagnostics company in Germantown, began its North American headquarters and manufacturing facility project in September 2010. This $52 million, 117,000 square-foot expansion on the Germantown campus will enable the company to consolidate several key manufacturing operations and accommodate an expected 90 new jobs. The expansion project will bring the Germantown campus from 181,800 square feet to 300,000 square feet to accommodate office, lab and manufacturing operations. It will feature the addition of a manufacturing wing, a five-story office tower, parking deck and an expanded employee cafeteria.

New Business Additions and Expansions

Montgomery County’s Department of Economic Development worked with 67 companies during FY11 and FY12 that were interested in starting up, expanding, or relocating to the County. The companies that signed commitments to locate or expand in the County during the time frame are projected to retain and create over 13,327 jobs, lease or construct over 3.2 million square feet of office space, and generate over $755 million in capital investment over the next three to five years.

Highlights of this activity include:

- **Choice Hotels International** – leased 130,000 square feet of space for relocated corporate headquarters in new Class-A office building in Rockville Town Center, retaining 375 jobs with plans to add 75 new County jobs within two years;

- **Digital Receiver Technology, Inc. (DRT) -** broke ground on new 162,000 square foot office and manufacturing facility at Milestone Business Park in Germantown; retention of 400 cybersecurity/advanced technology jobs;

- **Advanced Bioscience Laboratories, Inc. (ABL)** – expanded into a new 72,000 square foot corporate headquarters facility in the Shady Grove Life Sciences Center, in which it invested more than $12 million; retention of 100 employees with plans to add 30 new biotech jobs in 12-18 months

- **Noble Life Sciences –** opened new 6,000 square-foot office and lab facility in Gaithersburg, adding to its existing office/lab space in the County's Shady Grove Innovation Center; currently 5 full-time employees with plans to add 25 new biotech jobs by 2014.

- **Brown Advisory Investment Group –** moved its regional headquarters to Chevy Chase, bringing with it 30 existing financial services jobs to the County with plans to grow to 60 employees in the next two to four years.

- **The Fillmore (Silver Spring) –** a new 2,000 patrons capacity music hall in Downtown Silver Spring opened in September 2011;

- **QIAGEN, Inc. –** broke ground on a $52 million, 117,000 square foot headquarters facility expansion in Germantown and will add 90 new biotech jobs in three years;

- **EDF, Inc**. – attraction of 25 energy sector jobs will move to 16,000 square foot North American headquarters in Chevy Chase;

- **International Baccalaureate** – opened new 36,000 square feet Americas Global Center in Bethesda, bringing 60 new international education jobs to the County with plans to grow to more than 200 employees in the next two to three years.

- **Meso Scale Diagnostics, LLC (**MSD), which develops, manufactures and markets cutting edge instruments and biological assay kits, signed a 15 year lease for just over 104,000 square feet of space . at 1701 Research Blvd. in Rockville. The lease follows MSD's recent purchase of the entire 180,000 square foot building at 1601 Research Blvd. also in Rockville, which the company will soon occupy.

- **Radio One** – Radio One leased space in Silver Spring. The communications company, locally based in Lanham, reportedly signed a lease for 21,000 square feet. Radio One will join its affiliate TV One at 1010 Waynen Avenue in Silver Spring, taking the top floor of the building. The deal gives some affirmation to Silver Spring’s effort to emerge as a “communications mecca,” given Discovery’s presence there already.

- **ICF International** – ICF signed a lease for 97,910 square feet at Redland Corporate Center II in Rockville and will occupy the space in April 2012.

Retail Sales

Retail sales, measured by sales tax data collected for the first nine months of calendar year (CY) 2011, increased 4.2 percent in Montgomery County compared to 3.4 percent for Maryland based on data adjusted for the rate increase. Compared to the prior full year, retail sales in the County increased 1.4 percent in CY10.

Retail sales in Montgomery County during the first nine months of CY11 experienced improvement over the same period in CY10. Sales of nondurable goods as measured by purchases of food and beverages (6.3%), apparel (3.3%), general merchandise (2.6%), utilities and transportation (15.7%) all increased in CY11 over to the same period in CY10. Sales of furniture and appliances (13.2%); and hardware, machinery, and equipment (12.5%) increased significantly while purchases of automobiles declined (0.5%) and building supplies increased (0.7%).

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Table 34
Sales & Use Tax Receipts
by Principal Business Activity

	Montgomery County						Maryland	
	2009		2010		Jan.-Sept. 2011		Jan.-Sept. 2011	
	Pct. Chg.(1)	Share of Total	Pct. Chg.(2)	Share of Total	Pct. Chg.(3)	Share of Total	Pct. Chg.(3)	Share of Total
Food and Beverages	0.2%	28.2%	5.6%	29.4%	6.3%	30.7%	4.5%	23.8%
Apparel	-6.7	6.5	-1.8	6.3	3.3	6.0	1.1	4.5
General Merchandise	-8.1	18.1	-6.9	16.6	2.6	15.3	4.1	17.1
Automotive	2.2	8.0	18.3	9.3	-0.5	9.3	8.7	6.9
Furniture & Appliances	-22.3	5.7	5.8	6.0	13.2	6.3	2.7	8.4
Building & Industrial Supplies	-17.1	8.1	8.0	8.6	0.7	8.6	3.2	12.2
Utilities & Transportation	-7.9	9.4	-17.8	7.6	15.7	8.4	-2.3	9.3
Hardware, Machinery & Equipment	-8.2	1.3	-4.4	1.2	12.5	1.4	3.3	2.5
Miscellaneous	-9.3	14.1	5.7	14.7	-3.8	13.6	3.0	14.9
Other	-12.5	0.6	-54.3	0.3	56.0	0.4	16.4	0.4
Total Retail Sales Tax	-7.1%	100.0%	1.4%	100.0%	4.2%	100.0%	3.4%	100.0%

(1) Percent change between 2008 and 2009 adjusted for rate change.
(2) Percent change between 2009 and 2010 adjusted for rate change.
(3) Percent change between the period January through September 2010 and January through September 2011.

Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

Major Retail Centers

Montgomery County is served by four regional shopping malls. They are Lakeforest Mall in Gaithersburg, Westfield Shoppingtown Montgomery in Bethesda, Westfield Shoppingtown Wheaton in Silver Spring, and White Flint Mall in North Bethesda.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features over 160 stores, including four major department stores: Macy's, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Home Store, Sears Roebuck & Co., 207 other stores, three parking garages, and is served by the Montgomery County Transit Center.

Westfield Shoppingtown Wheaton is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton Central Business District. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. JC Penney, Macy's, and Target anchor the mall, which includes 135 stores, with an expansion to include Costco coming in early 2012.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels with luxury department stores such as Lord & Taylor and Bloomingdale's, over 100 stores in all. The 800,000 square foot mall also features a five-auditorium cinema, an office center with professional space, numerous kiosks and specialty pushcarts.

COUNTY GOVERNMENT SERVICES

Human Resources

The County government employs approximately 8,744 full- and part-time employees. Approximately 7,000 employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

Table 35
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,340	June 30, 2012
Office, Professional & Technical (MCGEO)	3,431	June 30, 2012
Police officers (FOP)	1,105	June 30, 2012
Firefighters/Rescuers (IAFF)	1,133	June 30, 2013

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 20,612 full-time equivalent (FTE) employees. This number includes 76 non-represented employees and 20,614 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are four bargaining units, which are comprised of teachers, professional/administrative, non-certified supervisors, and support/maintenance employees, as presented in the table below.

Table 36
Board of Education Bargaining Units

Bargaining Unit	Number of FTE Employees	Contract Expiration Date
Teachers (MCEA)	11,744	June 30, 2014
Professional/Administrative (MCAASP)	701	June 30, 2014
Noncertified Supervisors (MCBOA)	94	June 30, 2014
Support Services (SEIU Local 500)	8,075	June 30, 2014

Arts and Leisure

The Montgomery County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, teen, senior citizen and therapeutic programs. The Department operates 19 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. Its newest community center, the Mid County Recreation Center, opened in the summer of 2011. Currently, two of the Department's Community Centers are closed for renovations, Plum Gar, which is scheduled to be completed in the Spring of 2013, and Scotland, scheduled for completion in February 2014. An additional ten program sites serve select senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood programs, and special programs for frail and isolated seniors. The Department also administers contracted grants for the Takoma Park Community Center, the Arts and Humanities Council and the Public Arts Trust. It also provides specialized recreational programming for at-risk teens, and works cooperatively with the Montgomery County Public Schools to provide a wide range of recreation and leisure opportunities for middle school and high school students throughout the County.

There are seven large public outdoor swimming pools and four indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs. The Germantown Indoor Aquatic Center, the newest of the four indoor aquatic complexes, opened in January 2006.

The Music Center at Strathmore was originally located in the historic Corby Mansion, which also housed the Strathmore Hall Foundation. The Center's original structure underwent a $3 million addition and renovation, and is used for art shows and dramatic readings. Significant improvements were made at the Center with the construction of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The Music Center at Strathmore facility houses a full range of complementary arts education classes for children and adults. It combines studio, classroom, rehearsal, and performance space for students. The performance hall is capable of supporting large-scale (2,000-seat) musical presentations including major choral, orchestral, and popular entertainments.

As part of the Silver Spring Redevelopment project, the historic Silver Theatre, operated by the American Film Institute, was restored. Two additional theatres were constructed on the same site. Located on an adjacent site is the Round House Theatre School, which provides both theatrical and educational programs. Round House also operates a 400-seat theatre in Bethesda. Additional cultural opportunities are available at Montgomery College. The College operates a Summer Dinner Theatre and its Performing Arts Series features theatre, dance, and music performances.

Economic Development

Department of Economic Development

The economic development vision for Montgomery County is a globally competitive and highly diversified knowledge-based economy that provides for the retention and growth of existing companies, stimulates job creation, and enhances entrepreneurial opportunities.

To realize this vision, the Department of Economic Development (DED) retains and grows existing businesses and strategically attracts new businesses to the County. DED cultivates a climate to ensure the ongoing growth and viability of small and minority-owned businesses. The department facilitates international business opportunities for County companies and proactively attracts foreign direct investment to the County. It preserves farmland and enhances the viability of the agricultural industry. DED also fosters creative and strong partnerships with academia, the Federal research community, and various levels of government to pursue innovative projects. Furthermore, it engages in public-private partnership projects to revitalize the County's town centers and provide for strategic redevelopment opportunities.

Economic Development Services and Programs

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), direct financial assistance, socioeconomic statistics, permit expediting, training and employment assistance and targeted programs and services to meet the unique needs of small and minority-owned businesses. DED also operates the County's business incubator program with 164 early-stage technology companies currently in the program. DED oversees the County's training and employment programs through its Division of Workforce Services, and tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau.

Economic Development Fund and Other Financial Incentives

Businesses seeking to either establish a presence or expand facilities in the County may qualify for assistance through the County's Economic Development Fund. Established in 1995, the Economic Development Fund provides assistance to private employers who will either retain jobs in the County, or create new jobs through the expansion of current businesses or location of new businesses to the County. The Economic Development Fund is administered by the County's Department of Finance.

As of November 2011, 169 offers for grants and loans totaling $69.7 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 33,000 jobs retained, attracted and to be created, over $1.67 billion in private investment, and an annual net revenue return of over $34 million.

In addition to the original Economic Development Fund Grant and Loan Program, three other financial incentive programs were added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. TGP is aimed at leveraging private sector financing and State Challenge and Enterprise Investment funds. Since the beginning of the TGP in 1999, 71 companies received funding for a total of $3.96 million.

The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program in FY00, 38 small businesses received loans totaling $2.11 million.

The Impact Assistance Program was created in FY05 to help mitigate any adverse impact small businesses might experience due to County initiated and funded development, redevelopment, or renovation projects. So far, 27 companies received funding totaling $477,521 from this program since its inception.

Education

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 200 elementary and secondary schools. The operating budget is $2.087 billion for FY12, a 0.83 percent decrease from the prior year, and the amended FY11-16 capital improvement budget is $1.359 billion, a decrease of $26.97 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of $13,607 in FY12, and in the high percentage of high school graduates who continue formal education. In FY12, projected enrollment is 146,709 students.

Finance

The Department of Finance is responsible for the financial administration of the County government, including accounting, debt and cash management, revenue collection, and risk management. The Controller’s Division is responsible for the analysis, interpretation, and presentation of the County’s financial position and results of operations through timely, accurate, and professional financial reports, and for timely and accurate payments to vendors for goods and services provided to the County. The Treasury Division is responsible for the collection of property taxes and for the collection and processing of transfer and recordation taxes.

The County 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 County financial obligations, and maximization of the investment yield on the County’s short-term working capital.

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County’s short-term investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months.

For FY011, the County managed an average of $322.9 million in its pooled consolidated investment portfolio. During FY11 the County earned investment income of $311,758, with an average rate of return of 0.1%.

Libraries

County public libraries offer free and equal access to services and resources to assist residents in finding ideas and information to sustain and enrich their lives. During FY11 total circulation was 10.14 million. Per capita circulation of ten items is among the highest in Maryland and nationally.

The County library system provides an array of services to the community, including computers with Internet access; books on tapes and CDs; numerous special collections such as business, children's, and disability resource centers; and quiet study rooms and public meeting rooms.

Liquor Control

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide prohibition, giving the Board monopoly power for the issuance of liquor, wine, and beer licenses in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department assumed wholesale and retail control powers, and the Montgomery County Board of License Commissioners retained the authority to issue licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption. On August 8, 2006, the Office of the Board of License Commissioners was reorganized into a new division of the Department of Liquor Control entitled, "Licensure, Regulation and Education". The Board remains an independent body.

The Department of Liquor Control's responsibilities include the operation of 23 County retail stores and a warehouse that distributes beverage alcohol to the County stores and to approximately 960 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); inspections of licensed premises, training and education programs and community partnering. The Department is a self-supporting business enterprise with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the County's General Fund to pay for general governmental services. In the last five fiscal years (FY07 through FY11) the Department transferred over $131.1 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers 34,600 acres of parkland in the County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 409 parks in the Montgomery Parks system, 310 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

Public Safety

Fire and Rescue Service

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS manages all components of the County's fire suppression, Emergency Medical Services, Emergency Communications, apparatus management, Fire Code Enforcement, Fire/Explosive Investigations, Community Outreach, Wellness, Safety and Training, and administration. MCFRS is comprised of approximately 2,032 personnel, including 1,091 career uniformed employees, 127 civilian employees, 943 call active volunteers and 19 Local Fire and Rescue Departments. MCFRS operates 35 fire and rescue stations and 13 satellite offices.

An extensive Capital Improvements Program (CIP) is in place to ensure that the MCFRS operates and maintains a sufficient complement of facilities to provide response capability and an appropriate level of readiness. In response to increasing calls for service and population growth, MCFRS is adding four additional stations to serve the UpCounty area: Germantown-Milestone, Germantown-Kingsview, Travilah, and Clarksburg. An interim fire station to serve the Clarksburg area was opened in November 2005. Construction of the Germantown-Kingsview Station was completed in calendar year 2009, and Germantown-Milestone was completed in 2010. In addition, MCFRS must rebuild or extensively renovate several older stations. The Takoma Park Station was rebuilt in its current location and reopened in October 2010. Also, the existing station in Wheaton is scheduled to be replaced. Stations in Rockville, Cabin John, and Glen Echo are scheduled to be renovated; an addition to the Burtonsville Station is scheduled as well. Finally, there are several on-going projects to replace and/or update major building systems (roof, HVAC, fire alarm, generators) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current standards.

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,159 sworn officers and 641 civilian staff for a total complement of 1,800 personnel. MCPD operates over 34 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (CALEA).

Renovations, replacements, and/or upgrades at several facilities are planned for the Department. There are approved projects for four of the six district stations. The 1st, 2nd, 3rd, and 6th police districts are scheduled to be replaced. Other capital projects include a renovation and addition to the 5th District Police Station and the Outdoor Firearms Training Center. There is also an approved project to replace the current County Animal Shelter with a state-of-the-art facility to be located in Gaithersburg. In conjunction with the County Executive's Smart Growth Initiative, a new Public Safety Training Academy (PSTA) and a new Montgomery County Public Safety Headquarters, which incorporates a new 1st District Police Station within the Headquarters facility, are being planned to replace existing aging facilities. The Smart Growth Initiative is designed to achieve significant savings and cost avoidance in replacing the various aging facilities.

Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 516 approved positions consisting of Correctional Officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release and Reentry Services (PRRS). In addition, the Pre-Trial Services Unit (PTSU) supervises over 2,200 defendants in the community on a daily basis.

The County is currently engaged in the planning and design of a new Criminal Justice Complex (CJC) to replace the existing Detention Center, and to construct a dedicated DOCR training facility at the Montgomery County Correctional Facility in Clarksburg. The County is also engaged in planning and design for the renovation and addition of the kitchen and expansion of the dining area at the Pre-Release Center.

Solid Waste Management

The County maintains a comprehensive program to manage solid waste generated within the County. The elements of the program include an integrated system of methods and technologies, including source reduction, recycling, waste-to-energy; contractual out-of-County landfilling, maintenance of closed landfills, and a reserve permitted landfill within its borders.

The County continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2011, the program included County-provided separate curbside collection from 212,131 single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is a 42-acre composting facility located in the northwest part of the County, which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste. The second is a Materials Recovery Facility (MRF), located mid-County and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). During FY11, the County collected \$3.6 million in MRF material sales revenue that includes \$2.084 million in plastics sales revenue and \$18,252 in recycled textiles sales revenue, plus \$1.096 million in other recycled metal sales revenue. The plastic containers are now sorted by type, baled, and shipped to plastics buyers (previous to FY03, all acceptable plastics were sold mixed yielding less than ideal prices). To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

A large percentage of the County's non-recycled waste is accepted at the County's Shady Grove Transfer Station and transported by rail to the County's mass burn Resource Recovery Facility (RRF) adjacent to the Mirant Corporation power plant near Dickerson, Maryland. The RRF, with a permitted capacity of 657,000 tons per calendar year, is operated by Covanta Montgomery Inc., and began commercial operations in August 1995. The RRF generates electricity which is sold under a long term contract to Constellation Energy. In October 1997, the County began the export of RRF residue and non-processible waste under a long-term disposal contract utilizing committed capacity at a landfill outside the County. A new landfill, within the County (known as Site 2) and located approximately two miles from the RRF, was permitted (refuse disposal permit) with adequate capacity for the disposal of all ash, by-pass, and non-processible waste. Under a County Council resolution adopted in May 1996, the County will not develop the Site 2 landfill unless economic conditions or changes in law render out-of-County waste disposal infeasible. The Oaks Landfill discontinued accepting solid waste in October 1997, and all capping and closure activities are complete. The Solid Waste Enterprise Fund maintains restricted cash sufficient to complete 30-year post-closure requirements.

Transportation

The Department of Transportation ensures the safe and convenient movement of pedestrians and vehicles on County roads, operates the traffic system in a safe and efficient manner, and maintains the County's road system, bridges, storm drains, sidewalks, curbs, gutters, alleys, bikeways, streetlights, traffic signals, facilities and related equipment. The Department also operates the Ride on Bus System and supports regional transportation efforts. The Department's services include bridge maintenance, road resurfacing, roadway and related maintenance, snow removal and storm services, trail maintenance, tree maintenance, urban streetscaping, facility engineering, facility maintenance and operations, parking, street lighting, traffic planning, traffic and pedestrian safety, traffic signs and marking, traffic signals and the Advanced Transportation Management System, and transportation management and operations.

Ride-On Bus System

The County Ride-On bus system operates on 76 routes and is designed to complement the service provided by other transit operators in the County. Two of those routes serve one or more of the 12 Metrorail Red Line or MARC Rail Stations in the County. In FY11, approximately 26.7 million passenger trips took place on the County system. The entire fleet consists of 339 buses owned and operated by the County, which travel approximately 14.3 million miles per year.

Parking Districts

There are four parking lot districts in the major urbanized areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial and residential property located within each district to pay debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County issued parking revenue bonds in the amount of $102 million for land acquisition, construction, repair and renovation of parking facilities. During FY11, the four districts collectively had in service 19 garages with approximately 16,994 parking spaces, 21 surface lots with 1,778 spaces, and 2,388 on-street metered spaces.

OTHER SERVICES

Transportation

Airports

The County is served by three major airports located within 35 miles of Rockville. These airports provide high levels of short, long, and international flight services.

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metrorail. In 2010, the airport served approximately 18.1 million passengers on commercial, general aviation and commuter flights, a 2.8 percent increase from 2009.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 23.7 million passengers in 2010, a 2.2 percent increase from 2009. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Approximately 21.9 million passengers used the airport in 2010, an increase of 4.7 percent over 2009. As part of a recently completed five-year expansion program, BWI added a new terminal facility, parking garages, multiple skywalks, and a new rental car facility.

Metrorail Transit System

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are 12 rapid rail stations with 13,368 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, the system includes 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

Metrorail is a 106-mile regional network connecting Washington, D.C. with the expanding Maryland and Virginia suburbs. It includes 38.3 miles of rapid transit services in the District of Columbia, 38.3 miles in Maryland and 29.4 miles in Virginia.

Metrobus

Another significant element in the mass transit system is Metrobus, which carries 15 million passengers annually on major trunk lines such as East-West Highway, Georgia Avenue, Viers Mill Road, and Colesville Road. Approximately 150 Metrobuses operate on 39 routes in the County.

MARC Rail

The Maryland Mass Transit Administration operates MARC commuter rail service with ten stations in the County. County residents make approximately 2,500 trips on MARC each weekday. There are also privately operated commuter bus services into Montgomery County from Hagerstown, Frederick, and Columbia, Maryland, subsidized by the Maryland Department of Transportation, connecting to Metrorail stations in the County.

Water and Sewer Service

Operation and maintenance of the public water and sewer systems in the County (exclusive of those for the City of Rockville and for the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC) that serves both Montgomery and Prince George's Counties. WSSC operates under State law and is governed by a six-member Commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY12 approved operating budget for WSSC totals $626.1 million; the FY12-19 approved capital improvement budget is $565.9 billion.

The Potomac and Patuxent Rivers are WSSC's two sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day (MGD). The Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River and Little Seneca Lake near Boyds on Little Seneca Creek can supplement flows to Potomac River water users, including WSSC and Rockville. These reservoirs can provide approximately 17 billion gallons of raw water, if needed during low flow periods. An approved expansion of the Patuxent Filtration Plant, which WSSC expects to complete during FY15, will increase normal capacity there from 56 MGD to 72 MGD, and emergency capacity from 72 MGD to 110 MGD.

Most of the sewage collected by WSSC's systems is conveyed for treatment at the Blue Plains Wastewater Treatment Plant ("Blue Plains") in Washington, D.C. Blue Plains, owned and operated by the District of Columbia Water and Sewer Authority (DC WASA), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC Water Board. WSSC's Seneca Creek Wastewater Treatment Plant provides 20 MGD of treatment capacity in the Seneca basin, serving the communities of Gaithersburg, Germantown, and Clarksburg. An approved expansion will increase treatment at the Seneca Plant to its planned capacity of 26 MGD, with completion expected in 2013. WSSC also operates two smaller treatment plants in the County which serve the communities of Damascus and Hyattstown. DC WASA and WSSC have planned significant improvements to the Blue Plains, Seneca, and Damascus Wastewater Plants to meet Chesapeake Bay environmental quality goals.

The City of Rockville operates its own water and wastewater system, which serves approximately 75 percent of the City's residential population. WSSC provides public service to the remainder of the city's population. Rockville's Water Treatment Plant, located on Sandy Landing Road in Potomac, draws raw water from the Potomac River. The plant is currently rated at 8.0 MGD. Rockville has 12 MG of water supply storage in the following tanks: Hunting Hill, Carr Avenue and Talbott Street. Wastewater treatment for Rockville's sewerage system is provided at Blue Plains via WSSC's and DC WASA's transmission facilities. Rockville is allocated 9.31 MGD of treatment capacity of WSSC's 170 MGD capacity at Blue Plains. The approved FY 12 Operating Budget for Rockville totals $10.1 million for the water fund and $8.1 million for the sewer fund. The approved FY12 Capital Budget for Rockville totals $9.7 million for the water fund and $15.3 million for the sewer fund.

Rockville initiated water supply system upgrades and rehabilitation projects in FY09 that improve fire flows, water quality, and water production. The Mayor and Council approved a financing plan to fund these programs through user rates, which started with a 25 percent increase in the rate for FY09 and an additional 25 percent rate increase for each of FY10, FY11, and FY12. The City is also undertaking an aggressive preventative maintenance, pipe-lining and dig and replace plan for the sewage collection system that will help prevent blockages and overflows, identify and prioritize capital improvements, and reduce opportunities for infiltration and inflow of rain and ground water into the system. Rockville plans to invest $ 4.3 million in capital projects for the wastewater collection system in FY12.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by eleven groundwater wells, with an average daily demand of approximately 0.5 MGD. The Town acquired withdrawal permits for up to 0.65 MGD on an annual daily average. An additional well, for redundancy, is slated to be constructed in 2014. A 500 thousand gallon elevated tank and a one million gallon standpipe serve as storage and fire protection. The Town's wastewater treatment plant (WWTP) is permitted to discharge 0.75 MGD and completed treatment improvements to meet the Enhanced Nutrient Removal limits of the State. Efforts continue to reduce Inflow and Infiltration to the sewer system through pipe lining and additional repairs. The Town's approved water and sewer operating budget in FY12 is just under $1 million, while the planned CIP budget is $150,000.

Utilities

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas and Baltimore Gas and Electric distribute this natural gas. There are 79 companies that sell gas in the County, of which only 33 serve residential customers, with only four seeking new customers as of December 2011.

In early 1999, the Maryland General Assembly enacted The Electric Customer Choice and Competition Act of 1999 that effectively deregulates the market for electric power generation. Under a companion act (Senate Bill 344 / House Bill 366), the General Assembly restructured the tax laws affecting the electric industry to ensure that Maryland companies are not put at a competitive disadvantage in relation to out-of-state electric generators. The tax law restructuring accounted for potential revenue losses at both the State and local level, and effectively mitigated any adverse tax impact to county and municipal governments.

PEPCO took advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets by selling these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system. Baltimore Gas and Electric restructured in 1996 under the name Constellation Energy Group (CEG), with BGE owning and operating the transmission and distribution system and various other CEG entities owning the generation assets. In November 2009 Constellation Energy Group, Baltimore Gas and Electric's parent company, sold nearly half of its interest in CEG's nuclear assets to EDF Group, the largest nuclear power company in the world. Potomac Edison, which does business as Allegheny Power, is the regulated transmission and distribution utility for Allegheny Energy Supply Company, LLC, which owns the company's generation assets. As of December 2011, there were 92 companies licensed as electricity suppliers to Montgomery County residents, but only 18 of them were actively seeking new customers.

Financial Institutions

The State of Maryland is home to 130 FDIC insured financial institutions, which in turn operate 1,785 branch banking locations with an estimated $116 billion in deposits. Montgomery County dominates the majority market share of these deposits with an estimated $39 billion in deposits or 26 percent of the market. The County's financial institutions are comprised of 31 commercial banks, with 311 branch locations and seven savings institutions with 18 branch locations. In addition to these FDIC institutions, the County has 19 national credit unions with an estimated $2.1 billion in share deposits and a membership base of over 263,600.

Table 37
Summary of Market Share by Location
As of June 30, 2011

City/County	Number of Branch Offices	Deposits	Market Share
Montgomery	311	$30,029,000	26%
Baltimore City	111	122,363,000	19
Baltimore	281	16354,000	14
Anne Arundel	179	10,036,000	8
Prince George's	174	7,884,000	7
Howard	90	4,739,000	4
Frederick	86	3,690,000	3
Carroll	57	3,099,000	3

Table 38
FDIC Institutions Market Share
Montgomery County
As of June 30, 2011

Institution Name	Number of Branch Offices	Deposits (000)	Market Share
Capital One Financial Corporation	62	$ 7,280,303,000	24.24%
Bank of America Corporation	33	4,780,665,000	15.92
SunTrust Banks, Inc.	37	3,976,408,000	13.24
Wells Fargo & Company	15	3,166,616,000	10.55
Sandy Spring Bancorp, Inc.	21	1,732,281,000	5.77
M & T Bancorporation	37	1,278,156,000	4.26
Eagle Bancorporation	7	1,259,410,000	4.19
Citigroup, Inc.	9	1,170,707,000	3.90
PNC Bank Financial Services Group, Inc.	26	935,460,000	3.10
BB & T Corporation	17	868,541,000	2.89

Source: FDIC Summary of Deposit Market Share Report for the State of Maryland, NCUA Credit Union Data Report.

Higher Education

The 2010 Census Update Survey indicated that County residents, on average, are highly educated. County residents 25 years old or over completing four or more years of college was 57 percent according with the 2010 Census. Advanced degrees are held by 29 percent of the adult population. While high school graduates account for 91 percent of the County population aged 25 and over, an increase of .07 percent from 90.3 percent in 2000.

Within a 40-mile radius of Montgomery County, there are 32 colleges and universities offering degrees in various disciplines. Many of those institutions also offer advanced degree programs in engineering, medicine, business, and computer sciences. The following table lists selected schools within or near the County and shows the student enrollment.

Table 39
Post - Secondary Education

College	Student Enrollment
American University, Washington, DC	12,551
Catholic University, Washington, DC	6,894
Hood College, Frederick, MD	2,522
Howard University, Washington, DC***	10,623
Johns Hopkins University, Baltimore, MD	6,971
Montgomery College, Rockville, MD (2-year)*	26,996**
University of Maryland, College Park, MD	37,195

* Articulation agreements with 4-year institutions are available.
** Excludes enrollment in workforce development and continuing education classes.
*** Homewood campus only.
Note: Most current data available for each institution.

Travel and Tourism

According to the most recent report released by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated $1.5 billion in expenditures in 2010 up from $1.45 billion in 2009. Local room rental transient tax (7% levied) collections generated $18.8 million in Fiscal Year 2011, up from $17.3 million in FY10. Lodging occupancy for the first six months of 2011 was down slightly, however average daily rate was up 3%. Lodging room demand was up 2.3% for the first six months of 2011.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a $350,000 advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, implements marketing programs specifically targeting large groups that could meet in the Montgomery County Conference Center, markets all of the County's assets, including the Music Center at Strathmore, The Fillmore and the American Film Institute. The CVB also provides marketing and sales support to the numerous sporting events hosted annually at signature facilities like the Maryland SoccerPlex and Discovery Sports Center, Congressional Country Club, and other Maryland National Capital Park and Planning facilities located in Montgomery County.

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APPENDIX A

BASIC FINANCIAL STATEMENTS

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 18% of the assets, 6% of the net assets and 8% of the revenues of the non-major component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports of 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 provides a reasonable basis for our opinions.

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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 29, 2012 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, budgetary comparison information for the general, revenue stabilization, housing initiative and grants funds, and schedule of funding progress, as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2012

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 FY11 by $1,206.3 million. That amount is net of a $1,342.7 million unrestricted deficit. The deficit occurs mainly 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 $1,359.4 million at June 30, 2011. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $16.7 million.

- The County's total government-wide net assets decreased by $16.1 million.

- As of the close of FY11, the County's governmental funds reported combined ending fund balances of $517.6 million, an increase of $111.5 million over the prior year's ending fund balances. Of the total ending fund balances, $52.8 million is available for spending at the County's discretion.

- At the end of FY11, unassigned fund balance for the General Fund was $69.0 million, or 2.9 percent of total General Fund expenditures.

- The County's government-wide long-term debt and obligations increased by $400.6 million during FY11. The key factors in this increase are:
  - The issuance of $325 million in general obligation (GO) bonds, used to refund $325 million in bond anticipation notes (BANS), and the issuance of an additional $400 million in BANS
  - Net increase in Other Postemployment Benefits obligation of $106.8 million
  - The retirement of $139 million in GO bond principal.
  - Revenue Bonds were issued in the amount of $29.4 million for Capital projects.

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

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 22.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 25 to 27

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 28 to 36.

Component Units
Provides information on the County's component units.
Pages 37 to 38.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 39 to 114

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:

<u>Governmental Funds</u> – 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 six major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, Grants and Capital Projects – and 12 non-major special revenue funds.

<u>Proprietary Funds</u> – 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.

<u>Fiduciary Funds</u> – 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, 2011 and 2010:

Summary of Net Assets *
June 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	$ 1,314,180,976	$ 1,077,567,178	$ 132,074,401	$ 135,014,403	$ 1,446,255,377	$ 1,212,581,581
Capital assets, net	3,205,431,287	3,049,076,279	248,242,405	254,007,887	3,453,673,692	3,303,084,166
Total Assets	4,519,612,263	4,126,643,457	380,316,806	389,022,290	4,899,929,069	4,515,665,747
Liabilities:						
Long-term liabilities outstanding	3,123,642,736	2,721,895,955	100,892,218	102,083,874	3,224,534,954	2,823,979,829
Other liabilities	434,164,523	431,986,222	34,940,069	37,344,963	469,104,592	469,331,185
Total Liabilities	3,557,807,259	3,153,882,177	135,832,287	139,428,837	3,693,639,546	3,293,311,014
Net assets:						
Invested in capital assets, net of related debt	1,923,668,729	1,965,289,080	173,232,831	178,781,693	2,069,882,289	2,112,966,502
Restricted	426,265,013	380,181,540	52,817,393	54,684,729	479,082,406	434,866,269
Unrestricted (deficit)	(1,388,128,738)	(1,372,709,340)	18,434,295	16,127,031	(1,342,675,172)	(1,325,478,038)
Total Net Assets	$ 961,805,004	$ 972,761,280	$ 244,484,519	$ 249,593,453	$ 1,206,289,523	$ 1,222,354,733

*Primary Government

The County's current and other assets increased by $233.7 million or 19.3 percent from FY10. The County's assets exceeded its liabilities at the close of FY11 by $1,206.3 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 $27.0 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 $1,359.4 million at June 30, 2011. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $16.7 million. An additional portion of the County's net assets ($479.1 million or 39.7 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $94.5 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by $16.1 million for FY11 or 1.3 percent under FY10. This decline is due to an economic downturn that caused a net operating loss for the year of $16.1 million.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2011 and 2010:

Summary of Changes in Net Assets *
For the Fiscal Years Ended June 30, 2011 and 2010

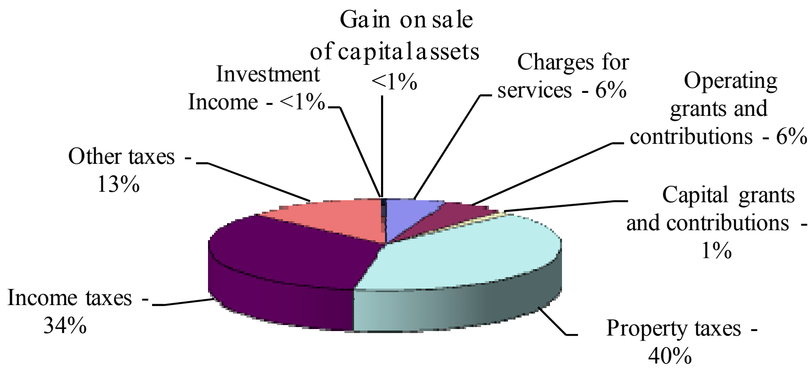
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Charges for services	$ 192,205,555	$ 157,758,240	$ 420,146,285	$ 397,188,893	$ 612,351,840	$ 554,947,133
Operating grants and contributions	192,755,739	180,427,674	-	30,000	192,755,739	180,457,674
Capital grants and contributions	47,397,507	55,170,347	-	-	47,397,507	55,170,347
General revenues:					-	
Property taxes	1,358,968,819	1,371,964,491	9,273,198	9,931,045	1,368,242,017	1,381,895,536
Income taxes	1,151,260,721	1,010,874,757	-	-	1,151,260,721	1,010,874,757
Other taxes	435,384,988	328,977,765	-	-	435,384,988	328,977,765
Investment income	5,543,975	8,299,709	154,471	569,792	5,698,446	8,869,501
Gain on sale of capital assets	2,669,858	(1,366,889)	-	-	2,669,858	(1,366,889)
Total Revenues	3,386,187,162	3,112,106,094	429,573,954	407,719,730	3,815,761,116	3,519,825,824
EXPENSES						
Governmental Activities:						
General government	287,987,929	293,349,395	-	-	287,987,929	293,349,395
Public safety	614,081,563	611,714,420	-	-	614,081,563	611,714,420
Public works and transportation	255,731,300	297,864,026	-	-	255,731,300	297,864,026
Health and human services	283,727,427	287,883,637	-	-	283,727,427	287,883,637
Culture and recreation	88,433,456	108,490,460	-	-	88,433,456	108,490,460
Community development and housing	73,432,068	40,627,603	-	-	73,432,068	40,627,603
Environment	19,189,065	16,446,934	-	-	19,189,065	16,446,934
Education	1,728,747,256	1,738,633,028	-	-	1,728,747,256	1,738,633,028
Interest on long-term debt	99,272,929	86,352,825	-	-	99,272,929	86,352,825
Business-type Activities:						
Liquor control	-	-	215,359,402	204,677,766	215,359,402	204,677,766
Solid waste activities	-	-	100,890,192	100,709,914	100,890,192	100,709,914
Parking lot districts	-	-	30,755,951	30,698,606	30,755,951	30,698,606
Permitting services	-	-	25,490,571	27,306,059	25,490,571	27,306,059
Community use of public facilities	-	-	8,727,217	8,397,989	8,727,217	8,397,989
Total Expenses	3,450,602,993	3,481,362,328	381,223,333	371,790,334	3,831,826,326	3,853,152,662
Net Assets Before Transfers	(64,415,831)	(369,256,234)	48,350,621	35,929,396	(16,065,210)	(333,326,838)
Transfers	53,459,555	55,088,988	(53,459,555)	(55,088,988)	-	-
Change in Net Assets	(10,956,276)	(314,167,246)	(5,108,934)	(19,159,592)	(16,065,210)	(333,326,838)
Net Assets, beginning of year	972,761,280	1,286,928,526	249,593,453	268,753,045	1,222,354,733	1,555,681,571
Net Assets, end of year	$ 961,805,004	$ 972,761,280	$ 244,484,519	$ 249,593,453	$ 1,206,289,523	$ 1,222,354,733

*Primary Government

Governmental Activities

Revenues for the County's governmental activities were $3,386 million for FY11. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2011



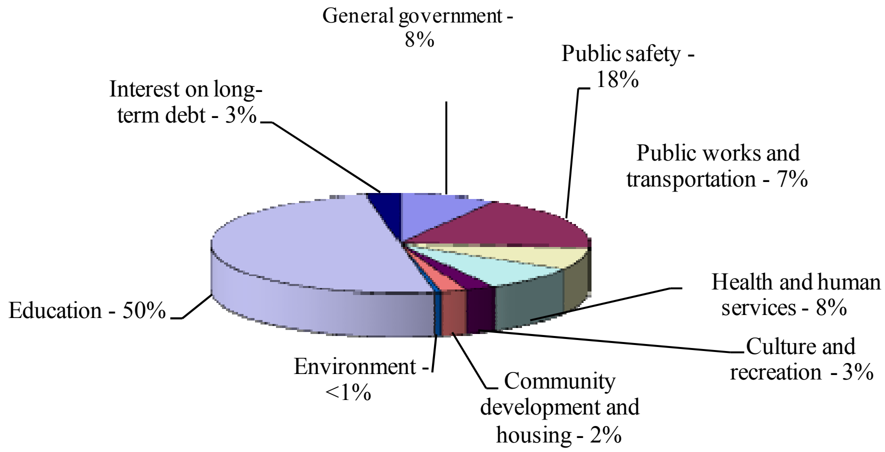
- Taxes constitute the largest source of County revenues, amounting to $2,945.6 million for FY11. Property and local income tax combined comprise 74.1 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2011 and 2010. 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 ($104 million or 54 percent), public works and transportation ($29.2 million or 15.1 percent) and public safety ($37.5 million or 19.5 percent).

A more detailed discussion of the County's revenue results for FY11 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 FY11 was $3,450.6 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.728.7 million. Public safety expenses totaled $614.1 million, general government services totaled $288 million, and Health and Human Services, the fourth largest expense for the County, totaled $283.7 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2011



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).

For the Fiscal Years Ended June 30, 2011 and 2010	Expenses		Revenues		Net Cost of Services	
	2011	2010	2011	2010	2011	2010
Education	$ 1,728,747,256	$ 1,738,633,028	$ -	$ -	$ 1,728,747,256	$ 1,738,633,028
Public safety	614,081,563	611,714,420	76,328,674	65,329,306	537,752,889	546,385,114
General government	287,987,929	293,349,395	83,396,479	64,004,062	204,591,450	229,345,333
Public works and transportation	255,731,300	297,864,026	94,541,571	95,545,887	161,189,729	202,318,139
Health and human services	283,727,427	287,883,637	108,728,767	96,634,099	174,998,660	191,249,538
Culture and recreation	88,433,456	108,490,460	41,080,801	38,396,575	47,352,655	70,093,885
Other	191,894,062	143,427,362	28,282,509	33,446,332	163,611,553	109,981,030
Total	$ 3,450,602,993	$ 3,481,362,328	$ 432,358,801	$ 393,356,261	$ 3,018,244,192	$3,088,006,067

Of the total cost of governmental activities of $3,450.6 million, $432.4 million was paid by those who directly benefited from the programs ($192.2 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($240.2 million). Of the $3,018.2 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $2,945.6 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

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

- Public Works and Transportation:
    - $36.8 million less in required costs for snow removal operations

- Culture and Recreation:
    - $11.8 million decrease in Library costs resulting from a reduction in materials purchases, staffing costs and service hours
    - $4.3 million decrease in Recreation staff, programs and service hours.

- Other:
    - Additional investment in housing programs to acquire and rehabilitate affordable housing stock.

<u>Business-type Activities</u>

Highlights of the County's business-type activities for FY11 are as follows:

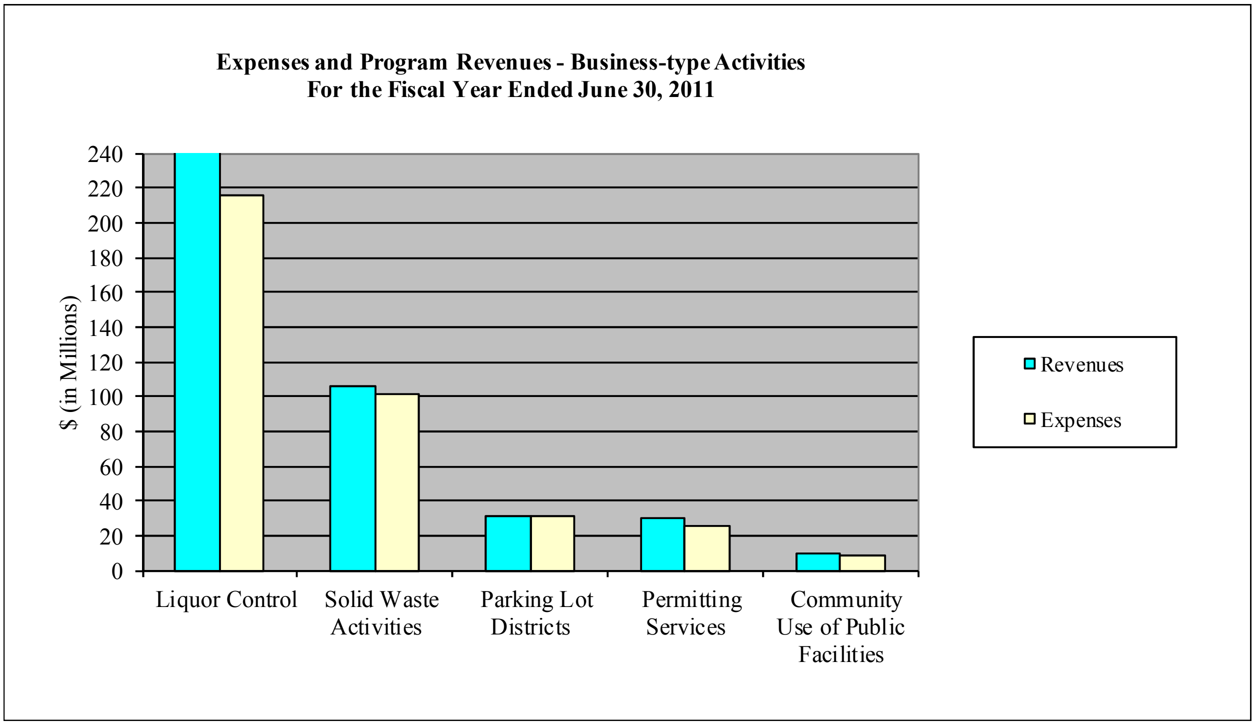
- Business-type activities experienced a decrease in net assets of $5.1 million for FY11. However, this amount is reported after total net transfers out of $53.5 million. The most significant components of this amount include:
    - $15.5 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit, Urban Districts, and General Funds; and
    - $31.3 million in FY11 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 97.8 percent of revenues, with $242.8 million (57.8 percent of charges for services revenue) attributable to liquor control operations and $106.3 million (25.3 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

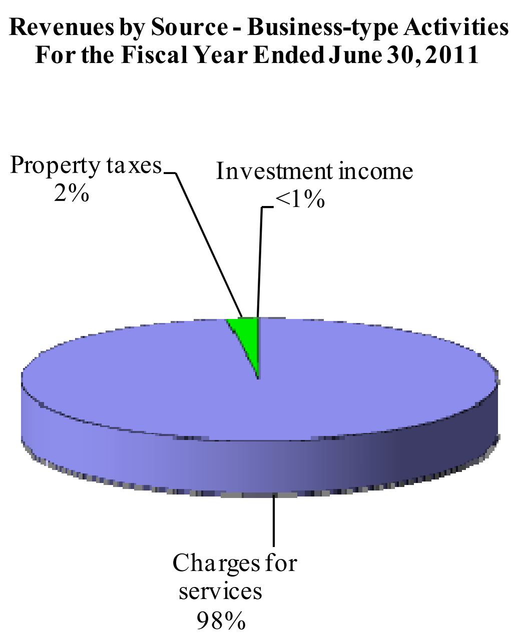
- Parking lot district property taxes of $9.3 million is the second largest source of revenue at only 2.1 percent of total revenues.

- Investment income of $0.2 million reflects a decrease of $.4 million or 72.9 percent under FY10, primarily because of the decrease in 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:



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 FY11, the County's governmental funds reported combined ending fund balances of $517.6 million, an increase of $111.5 million from the end of FY10. Of the total ending fund balances, $52.8 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $464.8 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 FY11, the General Fund had $69 million of unassigned fund balance and total fund balance was $107.5 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 4.5 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by $60.2 million during FY11, primarily due to increased income tax revenues.

The Revenue Stabilization Fund (RSF) is used to account for the accumulation of resources during periods of economic growth and prosperity to provide greater budgetary flexibility in addressing future revenue shortfalls. Funds may be drawn upon during periods of economic slowdown when appropriations become unfunded. At the end of FY11, the RSF had a fund balance of $94.5 million. This includes an increase of $19.6 million -- a transfer from the General Fund -- and represents a 26.2% increase in ending fund balance over FY10.

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY11, HI had a fund balance of $197 million, which is entirely restricted for legal reasons. The HI fund balance represents an decrease of $.2 million over FY10. Mortgage Receivables for this fund, which is a measure of its financing activities, increased $.2 million, or .1 percent, over FY10.

The Grant Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received $118.2 million in revenues for FY11. This is a $5.9 million increase over FY10.

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 unassigned fund balance; the restricted fund balance of $3.3 million represents a debt service reserve account.

The Capital Projects Fund has a total fund balance of $95.7 million, an increase of $48.1 million from the end of FY10. The increase was primarily due new debt issued in FY11 to fund capital projects.

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 FY11 amounted to $16.1 million, and operating income was $28.4 million. After a subsidy transfer to the General Fund of $31.3 million, the fund ended FY11 with a decrease in net assets of $5.2 million.

The Solid Waste Activities Fund total net assets amounted to $72.0 million, of which the unrestricted net assets were $762,398. Restricted net assets of $34.3 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 $6.4 million in FY11, resulting in total ending net assets of $152.5 million. Of this amount, $134.8 million (88.4 percent) is invested in capital net of related debt; $8.3 million (5.4 percent) is restricted for debt service on revenue bonds; and $9.4 million (6.2 percent) is unrestricted.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $23.4 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:

- $3.6 million increase in operating costs for the Department of General Services; and
- $19.8 million increase for the Department of Transportation largely due to snow removal operations and wind and rain storm clean up.

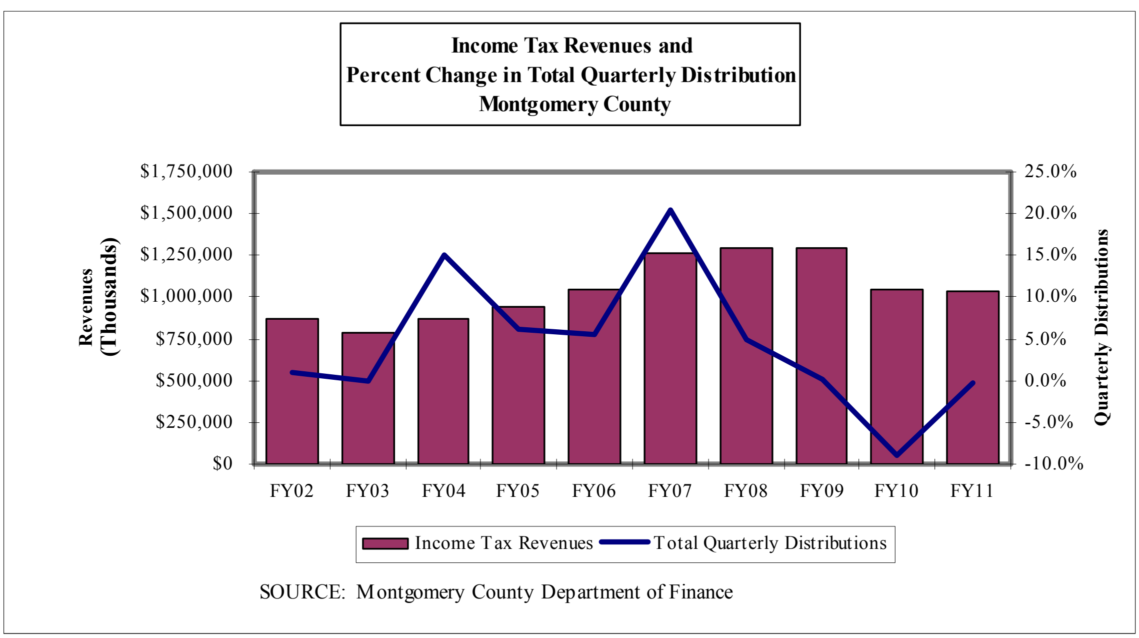
Actual revenues were less than budget amounts by $85.1 million, while actual expenditures and net transfers out were less than final budget by $11.6 million and $29.1 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2011, include the following:

- Actual expenditures of $846.7 million were $11.6 million less than the final budget, which represents 1.4 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $23.2 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:

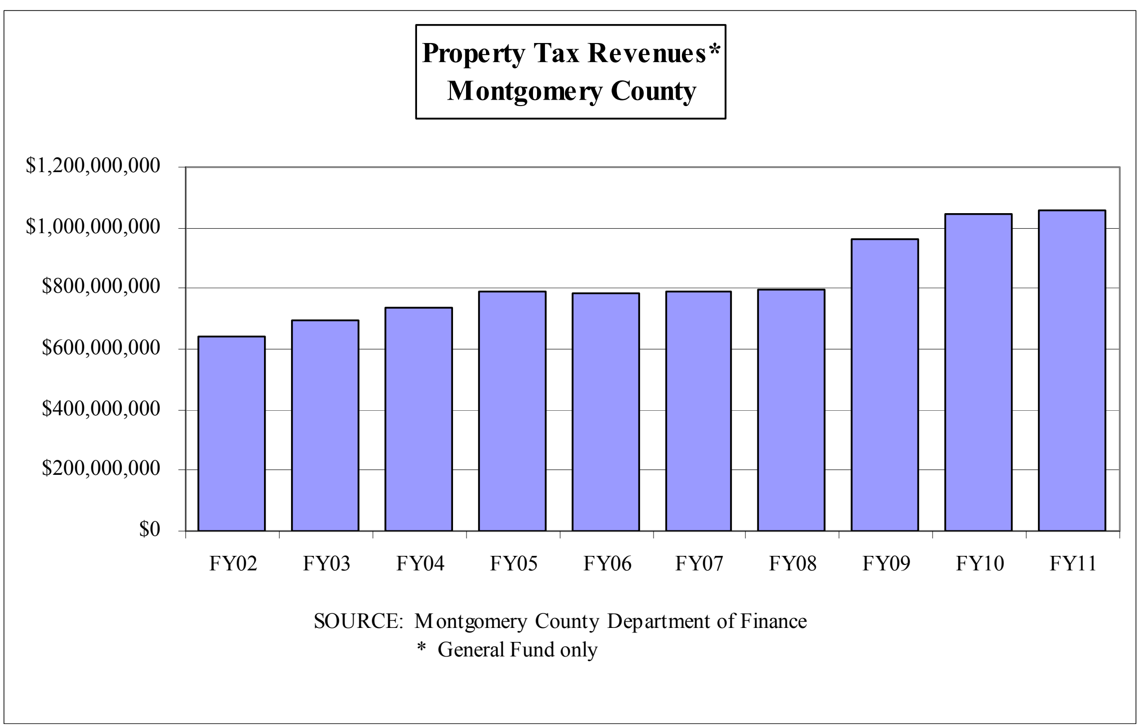
Overview - Actual revenues for the General Fund totaled $2,642.6 million and were 3.1 percent below the budget estimate for the fiscal year but 4.8 percent above actual revenues for FY10. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the property tax (-$24.7 million), followed by the income tax (-$21.4 million below the budget estimate), and finally federal reimbursements (-$14.2 million below the budget). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $304.0 million in FY11. That amount was $9.2 million or 3.0 percent below the budget estimate although the decline was driven by a shortfall in only one revenue – fuel/energy taxes. Investment income was approximately $1.0 million below the budget estimate. Licenses and permits came in above budget estimates (10.4%), but charges for services came in below budget estimates (-12.9%). Intergovernmental revenues were 24.7 percent below the budget estimate. Such a decrease was attributed across the board to State, federal, and other reimbursements, which came in 5.4 percent, 37.9 percent, and 36.1 percent below budget estimates, respectively.

Income Taxes - One of the major, and until the past two fiscal years, the largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $1,039.2 million and represented 41.0 percent of actual tax revenues in FY11 and 39.3 percent of total actual revenues. (Until FY10, income tax receipts were the largest source of tax revenues in the General Fund when it surpassed the property tax in size in FY09). The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. With a Standard & Poor's 500 index increasing 12.8 percent in calendar year (CY) 2010 following an increase of 23.5 percent in CY2009, a decrease of 38.5 percent in CY2008 and increases of 3.5 percent in CY2007, 13.6 percent in CY2006, and 3.0 percent in CY2005, and an average annual growth rate of only 0.7 percent in the County's resident employment during the CY2005-CY2008 period and a decrease of 3.1 percent in CY2009 and a decrease of 0.7 percent in CY2010, income tax revenues increased 8.2 percent in FY05, 11.0 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, no increase in FY09, and a 19.3 percent decline in FY10. However, with little change in total resident employment in CY2007 and CY2008, declines in CY2009 and CY2010, and modest growth in CY2011 coupled with the dramatic decline in the S&P 500 index in CY2008 affecting capital gains in FY10 and FY11, total income tax revenues declined 0.3 percent in FY11. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 0.3 percent in FY11, which followed decreases of 9.0 percent in FY10 and an increase of 0.2 percent in FY09 and 4.9 percent in FY08.



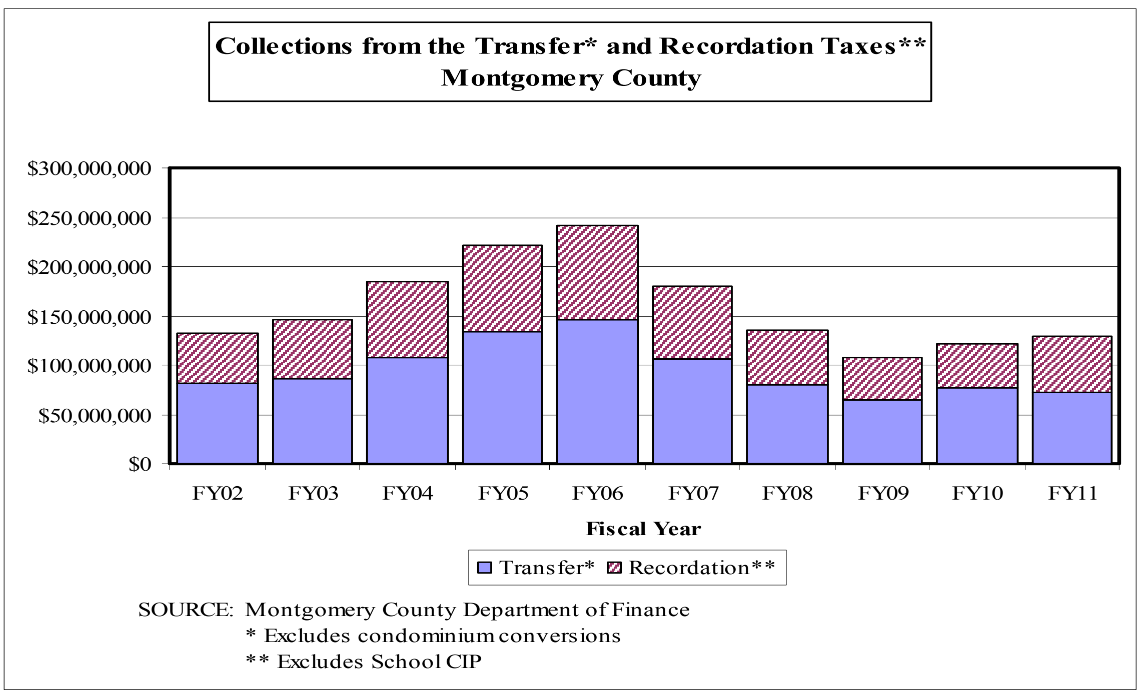
Property Taxes - Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the largest in FY11, amounted to $1,061.6 million in FY11, which were $24.7 million (-2.3%) below the budget estimate but 1.5 percent above actual revenues in FY10. Actual property taxes, excluding penalties and interest and other items, were $1,059.4 million in FY11 – an increase of 1.5 percent of the previous fiscal year. Collections from penalties and interest and other items were $2.223 million – a 3.3 percent increase when compared to FY10. The increase in actual property tax collections for the General Fund compared to FY10 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from $0.683 to $0.699 per $100 of assessed value while maintaining total tax-supported revenues at the Charter Limit.

The taxable assessments for real property increased 0.4 percent from FY10 to FY11. This was the smallest increase in over twenty years. New construction, which added $919.9 million to the base in FY11, was 33.4 percent lower than in FY10. 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 Group 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 Group Three reassessments in LY2006, but declined from 51.8 percent to 43.4 percent for Group One in LY2007 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 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY2005 to 16.2 percent for LY2008 and the rate for Group Three declined from 63.3 percent for LY2006 to -10.6 percent for LY2009. With the dramatic decline in averages sales price in FY09 and FY10, the reassessment rates for Group 1 declined from 43.4 percent to -17.0 percent for LY2010 and from 16.2 percent to -14.5 percent for Group 2 for LY2011. 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 was a dramatic decrease in the reassessment rates for Groups One, Two and Three for the past three levy years, the remaining amount of the credit added over $5.1 billion to the assessable base in FY11.

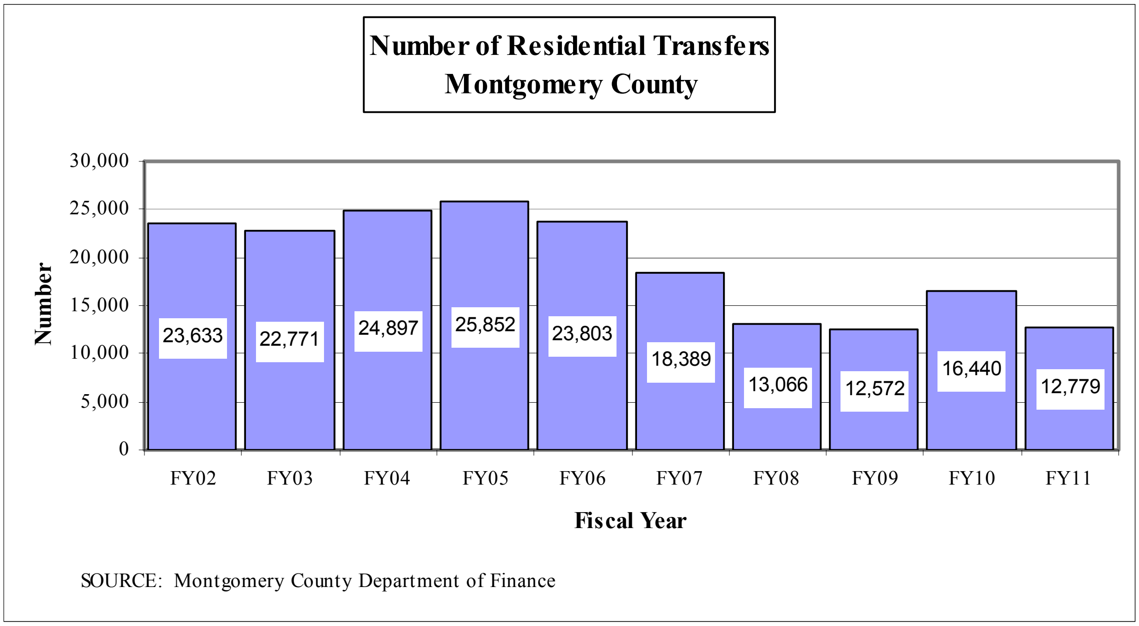


Assessments of personal property increased 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent 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 State Department of Assessments and Taxation (SDAT). 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 rebounding in FY10 (↑5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 to $3.856 billion and attributed to declines in corporate and utility personal property. For the previous four fiscal years (FY07-FY10), taxable assessments for personal property averaged $3.990 billion ranging from a low of $3.920 billion in FY09 to a high of $4.124 billion in FY10.

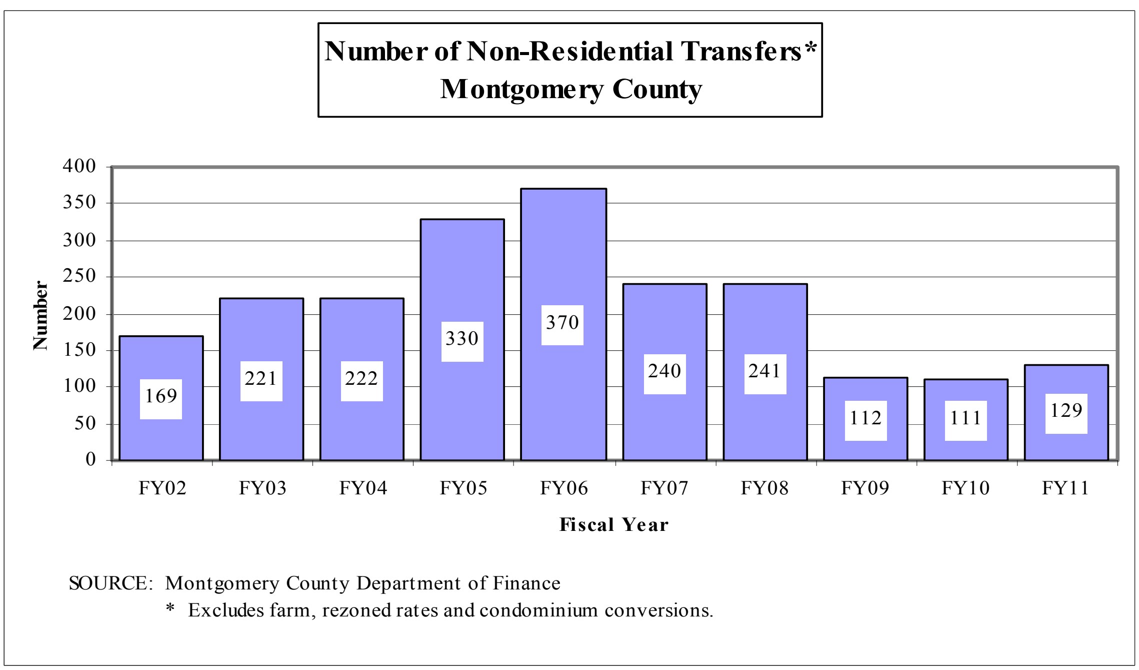
Transfer and Recordation Taxes - Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY11 were $129.5 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions). The FY11 increase in actual collections above FY10 from transfer and recordation taxes was the second increase during the past three fiscal years. Although actual revenues increased 6.1 percent in FY11, they were 7.4 percent below the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased from $132.1 million in FY02 to a peak of $241.7 million in FY06, before declining to $107.2 million in FY09.   In FY10, taxes from the combined transfer and recordation taxes rebounded to $122.0 million and increased to $129.5 million in FY11.



General Fund revenues from the transfer tax experienced a decrease of 6.9 percent in FY11 compared to a 28.7 percent increase from the recordation tax attributed to the transfer of recordation taxes collected from the tax rate premium and allocated to the General Fund. Because of the decline attributed to a dramatic decrease in home sales in FY11 (↓17.6%), revenues from the residential sector for both taxes were $80.1 million, a decrease of 16.0 percent from FY10. The number of residential transfers decreased to approximately 12,800 (↓22.3%).



Based on the amount of revenues, the commercial market improved in FY11 with revenues reaching $12.3 million – an increase of 45.9 percent over FY10. That amount of revenues was the highest since FY06. However, the number of commercial transfers (129) in FY11 remained relatively unchanged since FY09 and was the third lowest number in over twenty years.



The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $304.0 million and were approximately $9.2 million, or 3.0 percent, below the budget estimate. Revenues from the telephone tax were 1.5 percent above the budget estimate and 65.1 percent above actual revenues in FY10. That increase was attributed to an increase from $2.00 to $3.50 per month in wireless communication units. Revenues from the hotel/motel industry of $19.3 million in FY11 were 11.2 percent above the budget estimate and 13.1 percent above actual revenues in FY10. The increase was attributed to the 2011 U.S. Open held in June. The admissions tax was 8.3 percent above the budget estimate and 16.0 percent above actual revenues for FY10. Actual fuel/energy tax revenues were up 48.8 percent compared to FY10 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council for FY11, but 4.9 percent below the budget estimate.

In the General Fund, investment income increased from a deficit of $144,976 in FY10 to $12,206 in FY11 but was significantly below the budget estimate of $1.0 million. The dramatic decrease in FY11 over the budget estimate was the result of a continued 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 and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10 to 0.10 percent in FY11. In addition, investments were sold before maturity to meet the need for cash. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $303,000 or 74.8 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 $530.3 million in FY10 to $322.9.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2011, amounted to $3,454 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
Land	$ 784,839,133	$ 60,170,076	$ 845,009,209	$ 815,645,583
Buildings	434,878,012	135,505,946	570,383,958	598,287,525
Improvements other than buildings	28,307,683	34,496,654	62,804,337	68,174,084
Furniture, fixtures, equipment and machinery	59,079,964	8,271,671	67,351,635	74,184,676
Leasehold improvements	7,458,674	-	7,458,674	8,269,419
Automobiles and trucks	120,972,007	1,099,300	122,071,307	140,504,231
Infrastructure	1,131,658,426	11,577	1,131,670,003	1,129,552,747
Other assets	5,004	-	5,004	13,955
Construction in progress	638,232,384	8,687,181	646,919,565	468,451,946
Total	$ 3,205,431,287	$ 248,242,405	$ 3,453,673,692	$ 3,303,084,166

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

Changes in the County's capital assets for FY11 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
Beginning Balance	$ 3,049,076,279	$ 254,007,887	$3,303,084,166	$ 3,082,010,104
Additions*	240,370,674	9,366,227	249,736,901	335,095,810
Retirements, net*	771,115	42,936	814,051	3,283,309
Depreciation expense	83,244,551	15,088,773	98,333,324	110,738,439
Ending Balance	$ 3,205,431,287	$ 248,242,405	$3,453,673,692	$ 3,303,084,166

* 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:

- $39.1 million was invested as part of the continuing Silver Spring revitalizing initiative.
- $20.8 million was invested in the Public Safety Modernization project which will provide phased upgrades and modernization of computer aided dispatch and voice radio systems used primarily by the County's public safety agencies.
- Roads, including underlying land, valued at $4.43 million were transferred to the County by various developers.
- In order to transform the way Montgomery County serves it residents and customers, the Tech Mod project provided for replacement, upgrade and implementation of major IT systems. In FY11, $19.9 million was spent for the project.
- Construction began in FY11 on the new Judicial Center Annex. This project is expected to be completed in FY15, will house 21 Circuit Court Judges. In FY11, $6.3 million was spent on this project.
- Due to an increase in traffic volume, congestion levels and the increase in the number of accidents, the Traffic Signal project spent $4.8 million in FY11.
- The White Oak Community Recreation Center will serve communities in the White Oak region of the County; this densely populated and ethnically diverse community does not have an existing community recreation facility. The project spent $7.3 million in FY11 and will serve 65,000 residents once completed.

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, 2011:

Long-Term Debt
June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
General obligation bonds	$ 1,855,600,000	$ -	$ 1,855,600,000	$ 1,669,839,285
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	425,000,000
Revenue bonds	42,803,956	71,566,044	114,370,000	87,025,000
Lease revenue bonds	31,550,000	-	31,550,000	33,320,000
Notes payable *	15,023,171	81,782	15,104,953	14,150,552
Certificates of participation	43,935,000	-	43,935,000	50,255,000
Capital leases	71,156,740	-	71,156,740	81,564,283
Taxable Ltd. Obligation Certificates	29,470,000	-	29,470,000	30,400,000
Compensated absences	81,250,426	5,697,701	86,948,127	77,690,998
Other Postemployment Benefits	283,532,271	3,965,222	287,497,493	180,712,589
Claims and judgements	1,990,101	-	1,990,101	600,000
Landfill closure costs	-	17,630,123	17,630,123	18,880,923
Total	$ 3,056,311,665	$ 98,940,872	$ 3,155,252,537	$ 2,769,438,630

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

At June 30, 2011, the County had outstanding general obligation (GO) bonds of $1,855.6 million, with outstanding variable rate demand obligations (VRDOs) of $100 million and bond anticipation notes (BANs) of $500 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, which 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 FY02, the County sold general obligation bond issues, exclusive of refundings, of up to $325 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of $100 million of VRDOs) averaged $199 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 Ratings. 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, 2011, Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000. In July 2011, the County received its annual credit ratings. Fitch cited Key Rating Drivers of a considerable and formidable economic base, anchored by the extensive presence of the U.S. government and expanding broadly into biotechnology, showing excellent prospects for continued expansion. Fitch also concluded that strong wealth and unemployment indicators underscore the County's economic strengths. Moody's stated that their rating and outlook reflected the County's diverse and substantial economy, sizable tax base, affluent demographics and manageable debt burden. Standard and Poor's rating reflected their opinion of the County's very strong income levels, strong employment base and historically stable and diverse property tax base.

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.

On August 4, 2011, Moody's announced that in conjunction with its assignment of a negative outlook to the rating of the U.S. government, Moody's had revised the outlooks for indirectly linked U.S. public finance issuers including the County to negative. On December 7, 2011, after conducting a review process with each of the 166 indirectly linked issuers, Moody maintained the negative outlook for Montgomery County and certain other issuers including Maryland. Montgomery County is continuing to work with Moody's to resolve this issue.

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 FY11, the County satisfied its disclosure requirements via electronic 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 FY11 were:

- General Obligation Bonds – The County's annual issue of $325 million in July 2010 was allocated between a $195 million new money tax-exempt issue, a $106.3 million taxable Build America Bond (BABs) issue and a $23.7 million taxable Recovery Zone Economic Development Bond issue. The Federal government subsidizes interest payable on the taxable BAB and Recovery Zone Economic Development bonds. The proceeds of G.O. bonds, BABs and premium from these bond issues was used to pay off an equivalent amount of the County's BANs which funded capital expenditures for transportation, education, and other County facilities

- Liquor Control Revenue Bonds- In April 2011 the County issued $34.4 million of revenue bonds secured by Department of Liquor Control revenues. The proceeds will be used to renovate a warehouse facility for the department as well as finance transportation projects in the County.

- Bond Anticipation Notes (BANs) – Over the course of FY11, the County issued $400 million in BANs and retired $325 million with the General Obligation Bond issue.

- Variable Rate Demand Obligations - In May 2011, the County replaced the liquidity provider, Dexia Credit Local, with Wells Fargo Bank.

- 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 FY12 budget with updates based on revised economic data subsequent to the approval of the County's budget:

- The County's economic projections in the FY12 budget assume a mixed economic performance in FY12 with the County continuing to experience elevated unemployment rates that are higher than historic levels, i.e., pre-calendar year 2009 rates, and a modest increase (↑1.3% in calendar year 2011) in total payroll employment.

- On a calendar year basis, total payroll employment increased 0.6 percent in CY10, the latest year for which complete annual data are available. That rate followed a 2.6 percent decline in CY09 and an average annual increase of slightly more than 0.3 percent between CY00 and CY08. Following a modest increase in payroll employment during CY10, the County anticipates further increases in payroll employment of 1.3 percent per year for CY11 and CY12.

- On a calendar year basis, employment in Montgomery County, based on the labor force series, as opposed to payroll employment, is expected to increase 1.5 percent in CY11 and 1.1 percent in CY12. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.8 percent between CY12 and CY17. That estimate is above the projected growth in County population of 0.7 percent per year through CY17.

- The employment projection in the FY12 budget assumes that personal income will increase 3.3 percent in CY11 and 5.1 percent in CY12 and per capita income will increase 2.4 percent in CY11 and 4.3 percent in CY12. Those rates are a significant improvement over the 0.6 percent decrease in CY09 in total personal income and a 2.4 percent decrease in per capita income, the latest date for which annual data are available. Those decreases in FY09 are below the seven-year average annual growth rates of 5.4 percent and 4.5 percent experienced by total personal income and per capita income, respectively, between CY02-CY08.

- The estimated increase in employment and a modest increase of 3.3 percent in personal income in CY11 are offset by the elevated unemployment rate thereby reflecting a mixed performance in the County's economy.

- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System is expected to maintain the targeted federal funds rate within the target range of 0.00-0.25 percent until 2013. Because of that policy by the FOMC, the County's budget projections include only a modest increase in the yield on its investments from 0.10 percent in FY11 to 0.40 percent in FY12.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.4 percent in FY12.

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).

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BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2011
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 448,662,188	$ 47,261,834	$ 495,924,022	$ 71,857,522
Cash with fiscal agents	41,279,813	7,219,950	48,499,763	41,292,380
Cash	395,570	155,818	551,388	12,768,651
Investments - cash equivalents	-	-	-	148,051,758
Investments	-	-	-	35,850,927
Receivables (net of allowance for uncollectibles)				
Income Taxes	347,852,913	-	347,852,913	-
Property Taxes	19,349,150	614,407	19,963,557	-
Capital leases	31,550,000	-	31,550,000	24,400,121
Accounts	75,358,080	5,189,209	80,547,289	22,261,957
Notes	1,161,411	-	1,161,411	45,720,000
Parking violations	757,016	1,897,538	2,654,554	-
Mortgage receivable	180,130,609	-	180,130,609	375,499,211
Interest	-	-	-	6,447,532
Other	39,729	-	39,729	4,908,750
Internal balances	3,133,115	(3,133,115)	-	-
Due from primary government	-	-	-	78,059,061
Due from component units	85,782,949	140,521	85,923,470	-
Due from other governments	54,738,087	138,508	54,876,595	31,627,718
Inventory of supplies	12,139,707	28,236,159	40,375,866	9,923,841
Prepaids	759,911	402,255	1,162,166	4,772,877
Deferred charges	11,090,728	855,261	11,945,989	425,771
Other assets	-	464,268	464,268	108,682,891
Restricted Assets:				
Equity in pooled cash and investments	-	36,596,074	36,596,074	6,900,795
Cash with fiscal agents	-	-	-	20,882,272
Cash	-	-	-	641,585
Investments - cash equivalents	-	-	-	78,171,552
Investments	-	6,035,714	6,035,714	183,989,321
Capital Assets:				
Nondepreciable assets	1,423,071,517	68,857,257	1,491,928,774	399,878,640
Depreciable assets, net	1,782,359,770	179,385,148	1,961,744,918	2,576,288,141
Total Assets	4,519,612,263	380,316,806	4,899,929,069	4,289,303,274
LIABILITIES				
Accounts payable	65,349,532	16,983,834	82,333,366	72,031,272
Interest payable	24,364,848	324,783	24,689,631	28,474,707
Retainage payable	13,535,242	272,878	13,808,120	7,733,738
Accrued liabilities	92,348,891	4,025,314	96,374,205	91,214,217
Claims payable	109,555,407	-	109,555,407	17,309,242
Deposits	163,798	9,012,441	9,176,239	10,269,114
Due to primary government	-	-	-	87,176,318
Due to component units	77,371,698	687,362	78,059,060	-
Due to other governments	8,581,740	886,310	9,468,050	63,232
Unearned revenue	42,893,367	2,333,784	45,227,151	46,069,133
Other liabilities	-	413,363	413,363	19,290,598
Noncurrent Liabilities:				
Due within one year	743,947,335	12,376,004	756,323,339	134,654,701
Due in more than one year	2,379,695,401	88,516,214	2,468,211,615	1,408,207,964
Total Liabilities	3,557,807,259	135,832,287	3,693,639,546	1,922,494,236
NET ASSETS				
Invested in capital assets, net of related debt	1,923,668,729	173,232,831	2,069,882,289	2,452,085,300
Restricted for:				
Capital projects	95,674,420	-	95,674,420	153,888
General government	106,266,233	-	106,266,233	-
Public safety	3,681,702	-	3,681,702	-
Public works and transportation	7,050,607	52,817,393	59,868,000	-
Recreation	3,906,553	-	3,906,553	-
Community development and housing	201,426,187	-	201,426,187	-
Environment	4,916,202	-	4,916,202	-
Debt service	3,343,109	-	3,343,109	53,134,321
Other purposes	-	-	-	41,396,016
Unrestricted (deficit)	(1,388,128,738)	18,434,295	(1,342,675,172)	(179,960,487)
Total Net Assets	$ 961,805,004	$ 244,484,519	$ 1,206,289,523	$ 2,366,809,038

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Government Activities				
General government	$ 287,987,929	$ 72,444,386	$ 5,849,908	$ 5,102,185
Public safety	614,081,563	38,595,219	37,520,540	212,915
Public works and transportation	255,731,300	26,974,805	29,181,943	38,384,823
Health and human services	283,727,427	4,721,205	104,007,562	-
Culture and recreation	88,433,456	32,590,653	5,366,409	3,123,739
Community development and housing	73,432,068	5,019,056	10,261,792	79,902
Environment	19,189,065	11,860,231	567,585	493,943
Education	1,728,747,256	-	-	-
Interest on long term debt	99,272,929	-	-	-
Total Governmental Activities	3,450,602,993	192,205,555	192,755,739	47,397,507
Business-type Activities				
Liquor control	215,359,402	242,802,606	-	-
Solid waste disposal and collection	100,890,192	106,304,522	-	-
Parking lot districts	30,755,951	30,647,758	-	-
Permitting services	25,490,571	30,537,026	-	-
Community use of public facilities	8,727,217	9,854,373	-	-
Total Business-type Activities	381,223,333	420,146,285	-	-
Total Primary Government	$ 3,831,826,326	$ 612,351,840	$ 192,755,739	$ 47,397,507
Component Units:				
General government (BUPI)	$ 4,379,007	$ 4,188,105	$ 211,003	$ -
Culture and recreation (MCRA)	18,217,219	16,540,875	-	2,988,841
Community development and housing (HOC)	222,128,938	108,168,343	105,800,194	5,941,033
Eduation:				
Elementary and secondary education (MCPS)	2,446,298,246	30,805,697	141,432,227	54,955,236
Higher education (MCC)	278,827,886	77,112,136	40,932,761	628,185
Total Component Units	$ 2,969,851,296	$ 236,815,156	$ 288,376,185	$ 64,513,295

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 contibutions 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
$ (204,591,450)	$ -	$ (204,591,450)	$ -
(537,752,889)	-	(537,752,889)	-
(161,189,729)	-	(161,189,729)	-
(174,998,660)	-	(174,998,660)	-
(47,352,655)	-	(47,352,655)	-
(58,071,318)	-	(58,071,318)	-
(6,267,306)	-	(6,267,306)	-
(1,728,747,256)	-	(1,728,747,256)	-
(99,272,929)	-	(99,272,929)	-
(3,018,244,192)	-	(3,018,244,192)	-
-	27,443,204	27,443,204	-
-	5,414,330	5,414,330	-
-	(108,193)	(108,193)	-
-	5,046,455	5,046,455	-
-	1,127,156	1,127,156	-
-	38,922,952	38,922,952	-
(3,018,244,192)	38,922,952	(2,979,321,240)	-
-	-	-	20,101
-	-	-	1,312,497
-	-	-	(2,219,368)
-	-	-	(2,219,105,086)
-	-	-	(160,154,804)
-	-	-	(2,380,146,660)
1,358,968,819	9,273,198	1,368,242,017	-
1,151,260,721	-	1,151,260,721	-
71,809,475	-	71,809,475	-
57,725,334	-	57,725,334	-
233,408,845	-	233,408,845	-
19,295,158	-	19,295,158	-
49,087,889	-	49,087,889	-
4,058,287	-	4,058,287	-
-	-	-	2,445,251,342
5,543,975	154,471	5,698,446	8,389,316
2,669,858	-	2,669,858	236,130
53,459,555	(53,459,555)	-	-
3,007,287,916	(44,031,886)	2,963,256,030	2,453,876,788
(10,956,276)	(5,108,934)	(16,065,210)	73,730,128
972,761,280	249,593,453	1,222,354,733	2,293,078,910
$ 961,805,004	$ 244,484,519	$ 1,206,289,523	$ 2,366,809,038

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
Exhibit A-3

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS								
Equity in pooled cash and investments	$ 5,536,591	$ 94,537,588	$ 8,197,072	$ 64,906	$ 764,869	$ 165,340,054	$ 35,645,154	$ 310,086,234
Cash with fiscal agents	2,132,618	-	-	-	3,343,109	35,804,086	-	41,279,813
Cash	150,020	-	212,450	-	-	-	32,800	395,270
Receivables (net of allowances for uncollectibles):								
Income taxes	347,852,913	-	-	-	-	-	-	347,852,913
Property taxes	15,259,381	-	-	-	-	-	4,089,769	19,349,150
Capital leases	-	-	-	-	31,550,000	-	-	31,550,000
Accounts	68,638,466	-	-	-	-	344,977	5,425,750	74,409,193
Notes	-	-	-	-	-	12,068	1,149,343	1,161,411
Parking violations	445,387	-	-	-	-	-	311,629	757,016
Mortgages receivable	150,571	-	147,367,612	28,720,648	-	300,000	3,591,778	180,130,609
Other	-	-	-	39,654	-	75	-	39,729
Due from other funds	105,966,097	-	-	1,645,123	-	-	-	107,611,220
Due from component units	512,025	-	44,341,900	9,965,086	-	29,814,912	-	84,633,923
Due from other governments	5,161,412	-	-	29,749,502	-	17,280,139	1,635,843	53,826,896
Inventory of supplies	3,842,213	-	-	-	-	4,349,690	-	8,191,903
Prepaids	339,269	-	-	355	-	2,500	177,320	519,444
Total Assets	$ 555,986,963	$ 94,537,588	$ 200,119,034	$ 70,185,274	$ 35,657,978	$ 253,248,501	$ 52,059,386	$ 1,261,794,724
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 13,757,423	$ -	$ 267,500	$ 6,933,996	$ 764,869	$ 32,302,647	$ 2,595,926	$ 56,622,361
Retainage payable	2,578	-	-	-	-	13,499,925	32,739	13,535,242
Accrued liabilities	50,381,906	-	81,349	4,537,986	-	3,461,812	14,703,458	73,166,511
Deposits	-	-	-	-	-	-	163,798	163,798
Due to other funds	13,893,058	-	20,403	16,875,152	-	83,318,419	9,822,450	123,929,482
Due to component units	67,613,154	-	808,331	2,100,766	-	6,844,977	4,470	77,371,698
Due to other governments	1,757,583	-	300	975,840	-	5,211,918	635,582	8,581,223
Deferred revenue	301,069,340	-	1,977,130	38,761,534	31,550,000	12,934,383	4,543,066	390,835,453
Total Liabilities	448,475,042	-	3,155,013	70,185,274	32,314,869	157,574,081	32,501,489	744,205,768
Fund Balances:								
Nonspendable	4,181,482	-	189,732,382	-	-	17,795,235	4,783,676	216,492,775
Restricted	-	94,537,588	6,965,096	-	3,343,109	-	11,997,912	116,843,705
Committed	23,275,746	-	266,543	-	-	77,879,185	18,964,291	120,385,765
Assigned	11,022,956	-	-	-	-	-	-	11,022,956
Unassigned	69,031,737	-	-	-	-	-	(16,187,982)	52,843,755
Total Fund Balances	107,511,921	94,537,588	196,964,021	-	3,343,109	95,674,420	19,557,897	517,588,956
Total Liabilities and Fund Balances	$ 555,986,963	$ 94,537,588	$ 200,119,034	$ 70,185,274	$ 35,657,978	$ 253,248,501	$ 52,059,386	$ 1,261,794,724

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, 2011
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 517,588,956
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets uses in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 784,816,627	
Construction in progress	637,541,082	
Depreciable capital assets:		
Buildings	758,238,424	
Improvements other than buildings	48,719,574	
Furniture, fixtures, equipment and machinery	250,993,660	
Automobiles and trucks	170,706,421	
Infrastructure	1,677,492,480	
Other capital assets	2,079,731	
Total capital assets	4,330,587,999	
Less accumulated depreciation	(1,150,940,785)	3,179,647,214
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	(1,855,600,000)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(31,550,000)	
Accrued interest payable	(24,364,090)	
Capital leases payable	(71,156,740)	
Taxable Limited Obligation	(29,470,000)	
Certificates of participation	(43,935,000)	
Notes payable	(15,101,063)	
Revenue bonds	(42,803,956)	
Other postemployment benefits	(282,391,058)	
Claims and judgements	(1,990,101)	
Compensated absences	(78,734,983)	(3,077,096,991)
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	(89,186,739)	
Deferred amount on refunding	21,855,668	
Deferred issuance costs	11,090,728	(56,240,343)
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 non current assets	154,697,511	
Capital assets	78,355,832	
Less accumulated depreciation	(52,571,758)	
Liabilities	(132,232,616)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,410,314	49,659,283
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	278,953,602	
Property taxes	17,364,048	
Intergovernmental revenue	13,553,404	
Other revenue	38,375,831	348,246,885
Net assets of governmental activities (See Exhibit A-1)		$ 961,805,004

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, 2011
Exhibit A-5

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	$ 2,534,356,327	$ -	$ 1,160,533	$ -	$ -	$ 41,286,326	$ 266,103,966	$ 2,842,907,152
Licenses and permits	10,372,598	-	-	-	-	-	2,474,050	12,846,648
Intergovernmental	51,645,248	-	-	117,025,807	5,102,186	33,559,158	25,845,320	233,177,719
Charges for services	26,716,455	-	-	125,599	-	-	68,485,974	95,328,028
Fines and forfeitures	19,249,187	-	-	-	-	-	2,845,861	22,095,048
Investment income	39,925	21,955	822,547	288,946	1,184,635	8,076	135,291	2,501,375
Miscellaneous	16,790,058	-	8,591,573	770,297	3,292,009	2,360,193	3,893,765	35,697,895
Total Revenues	2,659,169,798	21,955	10,574,653	118,210,649	9,578,830	77,213,753	369,784,227	3,244,553,865
EXPENDITURES								
Current:								
General government	237,437,305	-	-	3,857,995	-	-	8,912,730	250,208,030
Public safety	332,783,573	-	-	21,037,667	-	-	186,855,330	540,676,570
Public works and transportation	62,554,343	-	-	4,585,917	-	-	105,462,189	172,602,449
Health and human services	182,149,005	-	-	77,691,839	-	-	-	259,840,844
Culture and recreation	34,123,996	-	-	207,878	-	-	35,136,130	69,468,004
Community development and housing	10,132,691	-	35,682,104	10,529,384	-	-	-	56,344,179
Environment	2,652,665	-	-	1,062,698	-	-	10,042,662	13,758,025
Education	1,525,074,457	-	-	-	-	-	-	1,525,074,457
Debt Service:								
Principal retirement	-	-	-	-	142,318,320	-	-	142,318,320
Interest	-	-	-	-	90,118,001	-	-	90,118,001
Leases and other obligations	-	-	-	-	28,650,471	-	-	28,650,471
Issuing costs	-	-	-	-	4,407,985	-	-	4,407,985
Capital projects	-	-	-	-	-	496,309,888	-	496,309,888
Total Expenditures	2,386,908,035	-	35,682,104	118,973,378	265,494,777	496,309,888	346,409,041	3,649,777,223
Excess (Deficiency) of Revenues over (under) Expenditures	272,261,763	21,955	(25,107,451)	(762,729)	(255,915,947)	(419,096,135)	23,375,186	(405,223,358)
OTHER FINANCING SOURCES (USES)								
Transfers in	63,257,854	19,640,592	25,906,015	1,395,123	252,792,151	26,822,267	18,091,172	407,905,174
Transfers (out)	(275,367,677)	-	(2,777,202)	(632,394)	-	(15,430,595)	(57,675,291)	(351,883,159)
Sale of property	-	-	1,703,045	-	-	1,421,447	-	3,124,492
Financing under notes and leases payable	97,525	-	-	-	-	-	-	97,525
Debt Issued:								
General obligation bonds	-	-	-	-	301,320,000	-	-	301,320,000
Premium on original issue LT debt	-	-	-	-	26,659,385	16,128	-	26,675,513
Premium Revenue Bonds	-	-	-	-	143,349	1,289,015	-	1,432,364
Bond anticipation notes	-	-	-	-	(325,000,000)	400,000,000	-	75,000,000
Lease revenue bonds	-	-	-	-	-	29,360,000	-	29,360,000
Recovery zone bonds	-	-	-	-	-	23,680,000	-	23,680,000
Total Other Financing Sources (Uses)	(212,012,298)	19,640,592	24,831,858	762,729	255,914,885	467,158,262	(39,584,119)	516,711,909
Net Change in Fund Balances	60,249,465	19,662,547	(275,593)	-	(1,062)	48,062,127	(16,208,933)	111,488,551
Fund Balances - Beginning of Year	47,262,456	74,875,041	197,239,614	-	3,344,171	47,612,293	35,766,830	406,100,405
Fund Balances - End of Year	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ -	$ 3,343,109	$ 95,674,420	$ 19,557,897	$ 517,588,956

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 111,488,551
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays are expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported are depreciation expense:		
Capital outlay	$ 233,665,804	
Depreciation expense	(76,215,146)	157,450,658
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.	(591,151)	(591,151)
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.	5,256,701	5,256,701
Some revernues 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	112,025,871	
Property taxes	(9,436,941)	
Intergovernmental revenues	275,028	
Other revenues	(345,309)	102,518,649
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 governmenal funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and simmilar 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	(351,675,513)	
Bond anticipation notes	(400,000,000)	
Taxable Limited Obligation Certificates	(30,792,364)	
Notes payable	-	
Capital lease financing	(25,000)	
Lease revenue bonds	(3,919,247)	
Certificates of participation	-	
Less issuance costs	4,407,985	
Principal repayments:	-	
General obligation bonds	139,239,285	
Bond anticipation notes	325,000,000	
Leases payable	1,813,000	
Capital leases	11,362,543	
Certificates of participation	6,320,000	
Notes payable	3,230,386	(295,038,925)
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, therfore, are not reported as expenditures in governmental funds:		
Accrued interest payable	591,335	
Compensated absences	(8,677,006)	
Other postemployment benefits	(105,678,862)	
Amortization	12,809,325	(100,955,208)
The current year gain for certain activities of internal service funds is reported with governmental activities.		8,914,449
Change in net assets of governmental activities (see Exhibit A-2)		$ (10,956,276)

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011
Exhibit A-7

	Business-Type Activities - Enterprise Funds					
	Liquor	**Solid Waste Activities**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	**Governmental Activities- Internal Service Funds**
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 1,710,713	$ 22,878,691	$ 8,476,253	$ 14,196,177	$ 47,261,834	$ 138,575,954
Cash with fiscal agents	7,219,950	-	-	-	7,219,950	-
Cash	34,625	3,000	118,193	-	155,818	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	614,407	-	614,407	-
Accounts	2,227,865	2,863,001	6,397	91,946	5,189,209	948,886
Parking violations	-	-	1,897,538	-	1,897,538	-
Due from other funds	-	-	-	-	-	8,923,884
Due from component units	-	52,971	87,550	-	140,521	1,149,026
Due from other governments	-	138,508	-	-	138,508	911,191
Inventory of supplies	28,236,159	-	-	-	28,236,159	3,947,804
Prepaids	265,424	927	135,904	-	402,255	240,466
Other assets	464,268	-	-	-	464,268	-
Total Current Assets	40,159,004	25,937,098	11,336,242	14,288,123	91,720,467	154,697,511
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	29,941,835	6,654,239	-	36,596,074	-
Investments	-	4,382,960	1,652,754	-	6,035,714	-
Restricted Assets	-	34,324,795	8,306,993	-	42,631,788	-
Unamortized debt costs	333,146	106,866	415,249	-	855,261	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	35,301,665	-	60,170,076	22,506
Improvements other than buildings	-	81,554,468	64,790,579	-	146,345,047	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	32,591,722	181,671,417	-	247,860,396	-
Furniture, fixtures, equipment, and machinery	6,629,359	13,505,998	1,060,733	1,964,586	23,160,676	5,008,348
Automobiles and trucks	3,679,373	285,202	131,445	215,595	4,311,615	72,365,111
Construction in progress	1,040,507	-	7,646,674	-	8,687,181	691,302
Subtotal	51,980,152	145,786,496	290,602,513	2,180,181	490,549,342	78,355,832
Less: Accumulated depreciation	13,801,853	102,494,574	124,074,974	1,935,536	242,306,937	52,571,758
Total Capital Assets (net of accumulated depreciation)	38,178,299	43,291,922	166,527,539	244,645	248,242,405	25,784,074
Total Noncurrent Assets	38,511,445	77,723,583	175,249,781	244,645	291,729,454	25,784,074
Total Assets	78,670,449	103,660,681	186,586,023	14,532,768	383,449,921	180,481,585
LIABILITIES						
Current Liabilities:						
Accounts payable	10,971,156	4,243,809	1,539,536	229,333	16,983,834	8,727,170
Interest payable	-	26,563	298,220	-	324,783	758
Retainage payable	-	-	272,878	-	272,878	-
Deposits	272,718	-	-	8,739,723	9,012,441	-
Claims payable	-	-	-	-	-	109,555,407
Accrued liabilities	2,932,143	1,757,432	808,700	2,800,317	8,298,592	5,590,399
Due to other funds	413,920	188,718	73,603	1,046,531	1,722,772	7,524,012
Due to component units	-	-	-	687,362	687,362	-
Due to other governments	184,002	702,308	-	-	886,310	517
Equipment notes payable	-	-	81,782	-	81,782	600,622
Unearned Revenue	-	-	-	2,333,784	2,333,784	304,800
Revenue bonds payable	1,286,154	3,690,000	1,995,000	-	6,971,154	-
Landfill closure costs	-	1,049,790	-	-	1,049,790	-
Other liabilities	-	-	413,363	-	413,363	-
Total Current Liabilities	16,060,093	11,658,620	5,483,082	15,837,050	49,038,845	132,303,685
Noncurrent Liabilities:						
Revenue bonds payable	35,633,360	2,678,732	28,234,144	-	66,546,236	-
Landfill closure costs	-	16,580,333	-	-	16,580,333	-
Compensated absences	521,071	255,380	102,590	545,384	1,424,425	628,862
Other postemployment benefits	1,838,263	477,233	229,800	1,419,926	3,965,222	1,141,214
Total Noncurrent Liabilities	37,992,694	19,991,678	28,566,534	1,965,310	88,516,216	1,770,076
Total Liabilities	54,052,787	31,650,298	34,049,616	17,802,360	137,555,061	134,073,761
NET ASSETS						
Invested in capital, net of related debt	1,258,785	36,923,190	134,806,211	244,645	173,232,831	25,183,452
Restricted for debt service	7,219,950	34,324,795	8,306,993	-	49,851,738	-
Unrestricted	16,138,927	762,398	9,423,203	(3,514,237)	22,810,291	21,224,372
Total Net Assets	$ 24,617,662	$ 72,010,383	$ 152,536,407	$ (3,269,592)	245,894,860	$ 46,407,824
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,410,341)	
Net assets of business-type activities					$ 244,484,519	

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, 2011
Exhibit A-8

	Business-Type Activities - Enterprise Funds					
	Liquor	**Solid Waste Activities**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	**Governmental Activities- Internal Service Funds**
OPERATING REVENUES						
Sales - net	$ 240,523,067	$ -	$ -	$ -	$ 240,523,067	$ -
Charges for services	15,500	105,946,867	20,299,350	12,385,845	138,647,562	248,324,207
Licenses and permits	1,822,593	3,335	-	27,755,635	29,581,563	-
Fines and penalties	248,113	47,576	8,507,888	64,193	8,867,770	-
Claim recoveries	-	-	-	-	-	2,206,152
Total Operating Revenues	242,609,273	105,997,778	28,807,238	40,205,673	417,619,962	250,530,359
OPERATING EXPENSES						
Cost of goods sold	173,560,513	-	-	-	173,560,513	-
Personnel costs	24,466,639	12,866,056	3,895,351	22,230,602	63,458,648	24,782,825
Other post employment contributions	2,563,788	665,588	320,475	1,980,350	5,530,201	1,717,414
Postage	15,820	121,289	16,183	24,805	178,097	1,075,825
Self-insurance incurred and estimated claims	-	-	-	-	-	132,957,182
Insurance	777,220	689,651	19,790	156,970	1,643,631	23,413,018
Supplies and materials	45,194	913,212	393,520	260,152	1,612,078	27,473,273
Contractual services	2,112,073	80,126,674	5,854,383	4,265,460	92,358,590	11,287,823
Communications	476,255	249,584	195,067	244,668	1,165,574	715,630
Transportation	862,502	1,446,856	260,792	433,417	3,003,567	65,268
Public utility services	945,998	143,430	3,730,874	1,847,496	6,667,798	899,649
Rentals	6,072,435	22,404	1,238,652	2,325,417	9,658,908	1,644,178
Maintenance	472,189	565,474	2,550,213	295,803	3,883,679	10,829,267
Depreciation	1,633,972	2,405,883	10,902,731	146,187	15,088,773	7,029,404
Landfill closure expense	-	44,000	-	-	44,000	-
Other	179,801	112,521	2,646	6,333	301,301	295,115
Total Operating Expenses	214,184,399	100,372,622	29,380,677	34,217,660	378,155,358	244,185,871
Operating Income (Loss)	28,424,874	5,625,156	(573,439)	5,988,013	39,464,604	6,344,488
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,273,198	-	9,273,198	-
Gain (loss) on disposal of capital assets	-	115,896	1,270,390	-	1,386,286	136,517
Investment income	5,483	100,437	41,734	6,817	154,471	39,536
Interest expense	(1,175,003)	(517,570)	(1,375,274)	(128)	(3,067,975)	(14,099)
Other revenue	-	72,523	547,411	9,257	629,191	2,422,290
Insurance recoveries	-	35,245	-	-	35,245	447,247
Total Nonoperating Revenues (Expenses)	(1,169,520)	(193,469)	9,757,459	15,946	8,410,416	3,031,491
Income (Loss) Before Capital Contributions and Transfers	27,255,354	5,431,687	9,184,020	6,003,959	47,875,020	9,375,979
Transfers In (Out):						
Transfers in	-	-	-	25,000	25,000	-
Transfers out	(32,422,543)	(2,209,110)	(15,548,542)	(3,304,360)	(53,484,555)	(2,562,460)
Total Transfers In (Out)	(32,422,543)	(2,209,110)	(15,548,542)	(3,279,360)	(53,459,555)	(2,562,460)
Change in Net Assets	(5,167,189)	3,222,577	(6,364,522)	2,724,599	(5,584,535)	6,813,519
Total Net Assets - Beginning of Year	29,784,851	68,787,806	158,900,929	(5,994,191)		39,594,305
Total Net Assets - End of Year	$ 24,617,662	$ 72,010,383	$ 152,536,407	$ (3,269,592)		$ 46,407,824

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	475,601
Change in net assets of business-type activities	$ (5,108,934)

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, 2011
Exhibit A-9

	Business Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	**Solid Waste Disposal and Collection**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 247,708,752	$ 102,933,291	$ 29,306,094	$ 38,944,857	$ 418,892,994	$ 250,273,193
Payments to suppliers	(193,546,791)	(86,730,961)	(14,545,265)	(11,155,935)	(305,978,952)	(76,966,338)
Payments to employees	(23,712,850)	(12,726,014)	(3,613,835)	(21,647,577)	(61,700,276)	(22,778,310)
Internal activity - payments from other funds	-	3,005,450	-	1,153,770	4,159,220	-
Other operating receipts	-	-	-	21,212,968	21,212,968	634,816
Other operating payments	-	-	-	(21,191,317)	(21,191,317)	-
Claims paid	-	-	-	-	-	(126,204,519)
Other revenue	-	107,768	547,411	9,257	664,436	2,422,290
Net Cash Provided (Used) by Operating Activities	30,449,111	6,589,534	11,694,405	7,326,023	56,059,073	27,381,132
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,273,198	-	9,273,198	-
Operating subsidies and transfers from other funds	-	-	-	630,000	630,000	-
Operating subsidies and transfers to other funds	(32,422,543)	(2,209,110)	(15,548,542)	(6,726,460)	(56,906,655)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(32,422,543)	(2,209,110)	(6,275,344)	(6,096,460)	(47,003,457)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	5,193,995	-	-	-	5,193,995	-
Proceeds from sale of capital assets	-	135,389	-	-	135,389	714,586
Acquisition and construction of capital assets	(1,502,881)	(1,333,293)	(5,236,219)	-	(8,072,393)	(1,477,874)
Principal paid on capital debt	(1,070,632)	(3,550,000)	(2,073,859)	(11,969)	(6,706,460)	(151,351)
Interest paid on capital debt	(1,323,072)	(460,750)	(1,363,159)	(287)	(3,147,268)	(15,572)
Internal activity - payments from other funds	-	-	-	-	-	(2,562,460)
Net Cash Provided (Used) by Capital and Related Financing Activities	1,297,410	(5,208,654)	(8,673,237)	(12,256)	(12,596,737)	(3,492,671)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	5,090	17,043	4,575	6,817	33,525	39,482
Investment income from nonpooled investments	393	(341)	-	-	52	54
Net Cash Provide (Used) by Investing Activities	5,483	16,702	4,575	6,817	33,577	39,536
Net Increase (Decrease) in Cash and Cash Equivalents	(670,539)	(811,528)	(3,249,601)	1,224,124	(3,507,544)	23,927,997
Balances - Beginning of Year	9,635,827	53,635,054	18,498,286	12,972,053	94,741,220	114,648,257
Balances - End of Year	$ 8,965,288	$ 52,823,526	$ 15,248,685	$ 14,196,177	$ 91,233,676	138,576,254
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 28,424,874	$ 5,625,156	$ (573,439)	$ 5,988,013	$ 39,464,604	$ 6,344,488
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	1,633,972	2,405,883	10,902,731	146,187	15,088,773	7,029,404
Other revenue	-	107,768	547,411	9,257	664,436	2,422,290
Receivables, net	(268,148)	(432,454)	494,810	(88,043)	(293,835)	377,650
Inventories, prepaids and other assets	(964,509)	396	4,046	189,765	(770,302)	(134,370)
Accounts payable and other liabilities	1,910,177	(1,614,950)	49,123	520,541	864,891	10,293,936
Accrued expenses	(287,255)	497,735	269,723	560,303	1,040,506	1,047,734
Net Cash Provided (Used) by Operating Activities	$ 30,449,111	$ 6,589,534	$ 11,694,405	$ 7,326,023	$ 56,059,073	$ 27,381,132
Noncash investing, capital and financing activities:						
Change in fair value of investments that are not cash and cash equivalents	$ -	$ (63,474)	$ 37,160	$ -	$ (26,314)	$ -
Capital asset disposals	-	19,491	58,257	59,663	137,411	-
Noncash gain on land disposal used to fund construction costs	-	-	1,270,390	-	1,270,390	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011
Exhibit A-10

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 1,362,399	$ 52,923,348	$ 739,972	$ 25,461,643
Cash	-	-	-	173,410
Investments:				
U.S. Government and agency obligations	291,168,660	-	-	-
Asset-backed securities	23,074,251	-	-	-
Municipal/Provincial bonds	3,521,986	-	-	-
Corporate bonds	529,817,550	-	-	-
Collateralized mortgage obligations	4,494,269	-	-	-
Commercial mortgage-backed securities	68,577	-	-	-
Common and preferred stock	1,293,907,305	-	-	-
Mutual and commingled funds	670,499,295	-	-	-
Short-term investments	236,990,877	-	-	-
Cash collateral received under securities lending agreements	278,648,672	-	-	-
Real estate	119,090,399	-	-	-
Private equity	210,629,024	-	-	-
Total investments	3,661,910,865	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	19,514,710	-	-	-
Property taxes	-	-	-	4,250,487
Accounts	258,100	-	-	100,980
Due from other funds	16,666,352	-	-	-
Due from component units	1,252,848	-	-	-
Due from other governments	38,265	-	-	-
Total Current Assets	3,701,003,539	52,923,348	739,972	29,986,520
Total Assets	3,701,003,539	52,823,348	739,972	$ 29,986,520
LIABILITIES				
Current Liabilities:				
Accounts payable	284,723,260	-	-	$ 24,750
Accrued liabilities	289,705	-	-	1,395
Deposits	-	-	-	920,578
Claims payable	4,492,121	-	-	-
Due to other funds	25,190	-	-	-
Due to other governments	-	-	-	1,440,833
Uncollected property taxes due to governments	-	-	-	3,925,991
Undistributed taxes and refunds	-	-	-	5,140,499
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,147,132
Other liabilities	-	-	-	15,385,342
Total Current Liabilities	289,607,397	-	-	29,986,520
Noncurrent Liabilities:				
Compensated absences	64,192	-	-	-
Total Liabilities	289,671,589	-	-	$ 29,986,520
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	$ 3,411,331,950	$ 52,923,348	$ 739,972	

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, 2011
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 167,812,971	$ -	$ -
Members	61,644,863	-	40,000
Federal government - Medicare Part D	1,654,013	-	-
Share purchases	-	28,869,686	-
Total Contributions	231,111,847	28,869,686	40,000
Investment income (loss)	616,595,687	59,085	703
Less: Investment expenses	21,148,372	-	-
Net Investment Income (Loss)	595,447,315	59,085	703
Other income - forfeitures	425,002	-	-
Total Additions, net	826,984,164	28,928,771	40,703
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	129,940,460	-	-
Survivors	7,944,401	-	-
Disability	40,906,886	-	-
Claims	51,071,129	-	-
Total Benefits	229,862,876	-	-
Share redemptions	-	20,660,000	-
Member refunds	23,599,935	-	-
Administrative expenses	6,514,738	-	6,656
Total Deductions	259,977,549	20,660,000	6,656
Net Increase (Decrease)	567,006,615	8,268,771	34,047
Net Assets - Beginning of Year	2,844,325,335	44,654,577	705,925
Net Assets - End of Year	$ 3,411,331,950	$ 52,923,348	$ 739,972

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2011
Exhibit A-12

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 49,233,420	$ -	$ 22,624,102	$ 71,857,522
Cash with fiscal agents	-	40,487,837	804,543	41,292,380
Cash	6,579,242	18,918	6,170,491	12,768,651
Investments-cash equivalents	56,779,927	39,761,095	51,510,736	148,051,758
Investments	4,578,640	-	31,272,287	35,850,927
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	24,400,121	24,400,121
Accounts	17,827,991	431,510	4,002,456	22,261,957
Notes	-	-	45,720,000	45,720,000
Mortgages receivable	-	375,499,211	-	375,499,211
Interest	-	6,447,532	-	6,447,532
Other	390,976	2,946,688	1,571,086	4,908,750
Due from primary government	69,634,864	1,389,934	7,034,263	78,059,061
Due from other governments	23,302,572	651,432	7,673,714	31,627,718
Inventory of supplies	7,699,325	262,919	1,961,597	9,923,841
Prepaids	265,737	2,651,147	1,855,993	4,772,877
Deferred charges	-	-	425,771	425,771
Other assets	1,106,600	44,947,105	62,629,186	108,682,891
Restricted Assets:				
Equity in pooled cash and investments	-	-	6,900,795	6,900,795
Cash with fiscal agents	-	20,882,272	-	20,882,272
Cash	-	-	641,585	641,585
Investments - cash equivalents	-	78,171,552	-	78,171,552
Investments	-	180,694,511	3,294,810	183,989,321
Capital Assets:				
Nondepreciable assets	216,456,909	85,132,353	98,289,378	399,878,640
Depreciable assets, net	1,882,550,455	376,527,039	317,210,647	2,576,288,141
Total Assets	2,336,406,658	1,256,903,055	695,993,561	4,289,303,274
LIABILITIES				
Accounts payable	32,128,765	16,224,739	23,677,768	72,031,272
Interest payable	-	27,669,093	805,614	28,474,707
Retainage payable	7,728,738	-	5,000	7,733,738
Accrued liabilities	83,420,537	6,795,747	997,933	91,214,217
Claims payable	17,309,242	-	-	17,309,242
Deposits	-	10,186,579	82,535	10,269,114
Due to primary government	16,271,476	67,841,318	3,063,524	87,176,318
Due to other governments	-	-	63,232	63,232
Unearned revenue	17,981,631	21,745,161	6,342,341	46,069,133
Other liabilities	-	19,228,271	62,327	19,290,598
Noncurrent Liabilities:				
Due within one year	23,102,790	101,425,261	10,126,650	134,654,701
Due in more than one year	430,720,600	792,787,796	184,699,568	1,408,207,964
Total Liabilities	628,663,779	1,063,903,965	229,926,492	1,922,494,236
NET ASSETS				
Invested in capital, net of related debt	2,077,734,151	28,154,346	346,196,803	2,452,085,300
Restricted for:				
Capital projects	-	-	153,888	153,888
Debt service	-	49,808,995	3,325,326	53,134,321
Other purposes	1,309,070	14,188,056	25,898,890	41,396,016
Unrestricted (deficit)	(371,300,342)	100,847,693	90,492,162	(179,960,487)
Total Net Assets	$ 1,707,742,879	$ 192,999,090	$ 466,067,069	$ 2,366,809,038

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, 2011
Exhibit A-13

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: MCPS	HOC	Nonmajor Component Units	Total
Component Units:								
General government	$ 4,379,007	$ 4,188,105	$ 211,003	$ -	$ -	$ -	$ 20,101	$ 20,101
Culture and recreation	18,217,219	16,540,875	-	2,988,841	-	-	1,312,497	1,312,497
Community development and housing	222,128,938	108,168,343	105,800,194	5,941,033	-	(2,219,368)	-	(2,219,368)
Education:								
Secondary education	2,446,298,246	30,805,697	141,432,227	54,955,236	(2,219,105,086)	-	-	(2,219,105,086)
Higher education	278,827,886	77,112,136	40,932,761	628,185	-	-	(160,154,804)	(160,154,804)
Total component units	$ 2,969,851,296	$ 236,815,156	$ 288,376,185	$ 64,513,295	(2,219,105,086)	(2,219,368)	(158,822,206)	(2,380,146,660)
General revenues:								
Grants and contributions not restricted to specific programs					2,257,231,024	-	188,020,318	2,445,251,342
Investment Income					-	627,137	7,762,179	8,389,316
Gain on sale of capital assets					189,763	-	46,367	236,130
Total general revenues					2,257,420,787	627,137	195,828,864	2,453,876,788
Change in net assets					38,315,701	(1,592,231)	37,006,658	73,730,128
Net assets - beginning					1,669,427,178	194,591,321	429,060,411	2,293,078,910
Net assets - ending					$ 1,707,742,879	$ 192,999,090	$ 466,067,069	$ 2,366,809,038

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Taxes:				
Property	$ 1,084,783,128	$ 1,084,783,128	$ 1,059,358,787	$ (25,424,341)
Property - penalty and interest	1,478,098	1,478,098	2,223,293	745,195
Total Property Tax	1,086,261,226	1,086,261,226	1,061,582,080	(24,679,146)
County income tax	1,060,680,000	1,060,680,000	1,039,234,850	(21,445,150)
Other Local Taxes:				
Real property transfer	75,650,000	75,650,000	71,809,475	(3,840,525)
Recordation	64,241,000	64,241,000	57,725,334	(6,515,666)
Fuel energy	245,484,000	245,484,000	233,408,845	(12,075,155)
Hotel - motel	17,353,000	17,353,000	19,295,158	1,942,158
Telephone	48,368,500	48,368,500	49,087,889	719,389
Other	2,043,000	2,043,000	2,212,696	169,696
Total Other Local Taxes	453,139,500	453,139,500	433,539,397	(19,600,103)
Total Taxes	2,600,080,726	2,600,080,726	2,534,356,327	(65,724,399)
Licenses and Permits:				
Business	4,247,150	4,247,150	4,513,166	266,016
Non business	5,145,060	5,145,060	5,859,431	714,371
Total Licenses and Permits	9,392,210	9,392,210	10,372,597	980,387
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement - HB669	22,500	22,500	24,630	2,130
Highway user revenue	885,000	885,000	2,352,970	1,467,970
Police protection	8,194,100	8,194,100	8,683,265	489,165
Health and human services programs	4,614,540	4,614,540	3,807,098	(807,442)
Public libraries	5,419,710	5,419,710	5,032,904	(386,806)
911 Emergency	6,849,290	6,849,290	5,415,903	(1,433,387)
Other	1,690,510	1,690,510	874,219	(816,291)
Total State Aid and Reimbursements	27,675,650	27,675,650	26,190,989	(1,484,661)
Federal Reimbursements:				
Federal financial participation	10,396,980	10,396,980	10,425,219	28,239
Other	27,211,240	27,211,240	12,944,851	(14,266,389)
Total Federal Reimbursements	37,608,220	37,608,220	23,370,070	(14,238,150)
Other Intergovernmental	3,260,400	3,260,400	2,084,188	(1,176,212)
Total Intergovernmental Revenue	68,544,270	68,544,270	51,645,247	(16,899,023)
Charges for Services:				
General government	1,735,060	1,735,060	1,706,416	(28,644)
Public safety	7,094,520	7,094,520	5,973,850	(1,120,670)
Health and human services	1,480,150	1,480,150	1,156,373	(323,777)
Culture and recreation	600	600	9,822	9,222
Environment	288,000	288,000	527,803	239,803
Public works and transportation:	292,180	292,180	109,383	(182,797)
Total Charges for Services	10,890,510	10,890,510	9,483,647	(1,406,863)
Fines and Forfeitures	25,734,240	25,734,240	19,249,187	(6,485,053)
Investment Income:				
Pooled investment income	902,535	902,535	(2,760)	(905,295)
Other interest income	140,000	140,000	14,966	(125,034)
Total Investment Income	1,042,535	1,042,535	12,206	(1,030,329)
Miscellaneous Revenue:				
Property rentals	5,631,970	5,631,970	5,388,500	(243,470)
Sundry	6,493,890	6,493,890	12,158,711	5,664,821
Total Miscellaneous Revenues:	12,125,860	12,125,860	17,547,211	5,421,351
Total Revenues	2,727,810,351	2,727,810,351	2,642,666,422	(85,143,929)
Expenditures:				
Departments or Offices:				
County Council:				
Personnel costs	8,147,300	8,147,300	7,955,867	191,433
Operating	624,416	699,018	699,012	6
Totals	8,771,716	8,846,318	8,654,879	191,439
Board of Appeals:				
Personnel costs	510,210	510,210	493,148	17,062
Operating	57,174	57,174	55,103	2,071
Totals	567,384	567,384	548,251	19,133

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Legislative Oversight:				
Personnel costs	$ 1,192,260	$ 1,192,260	$ 1,145,347	$ 46,913
Operating	54,160	54,160	21,095	33,065
Totals	1,246,420	1,246,420	1,166,442	79,978
Merit System Protection Board:				
Personnel costs	132,910	137,450	137,442	8
Operating	16,184	15,743	6,018	9,725
Totals	149,094	153,193	143,460	9,733
Zoning and Administrative Hearings:				
Personnel costs	439,910	439,910	430,568	9,342
Operating	112,282	110,282	61,336	48,946
Totals	552,192	550,192	491,904	58,288
Inspector General:				
Personnel costs	500,290	500,290	412,223	88,067
Operating	159,851	159,851	46,464	113,387
Totals	660,141	660,141	458,687	201,454
Circuit Court:				
Personnel costs	7,694,820	7,849,400	7,849,391	9
Operating	2,418,960	2,521,664	2,521,662	2
Totals	10,113,780	10,371,064	10,371,053	11
State's Attorney:				
Personnel costs	11,845,550	11,855,350	11,855,348	2
Operating	503,946	532,477	532,469	8
Totals	12,349,496	12,387,827	12,387,817	10
County Executive:				
Personnel costs	4,196,420	4,196,420	3,964,170	232,250
Operating	750,178	750,078	682,245	67,833
Totals	4,946,598	4,946,498	4,646,415	300,083
Commission for Women:				
Personnel costs	799,420	813,270	813,268	2
Operating	81,880	84,820	84,819	1
Totals	881,300	898,090	898,087	3
Regional Service Centers:				
Personnel costs	1,930,150	1,930,150	1,915,167	14,983
Operating	840,784	826,895	523,865	303,030
Totals	2,770,934	2,757,045	2,439,032	318,013
Ethics Commission:				
Personnel costs	214,650	231,660	231,658	2
Operating	3,600	23,600	19,090	4,510
Totals	218,250	255,260	250,748	4,512
Intergovernmental Relations				
Personnel costs	722,540	722,540	686,083	36,457
Operating	86,420	86,420	70,554	15,866
Totals	808,960	808,960	756,637	52,323
Public Information:				
Personnel costs	3,813,460	3,849,950	3,849,949	1
Operating	1,146,890	1,222,890	1,222,886	4
Totals	4,960,350	5,072,840	5,072,835	5
Board of Elections:				
Personnel costs	3,699,640	3,699,640	3,636,660	62,980
Operating	4,292,506	4,285,350	3,766,035	519,315
Totals	7,992,146	7,984,990	7,402,695	582,295
County Attorney:				
Personnel costs	4,136,300	4,366,740	4,366,731	9
Operating	427,536	600,166	600,159	7
Totals	4,563,836	4,966,906	4,966,890	16
Management and Budget:				
Personnel costs	3,211,250	3,211,250	3,106,020	105,230
Operating	107,540	107,540	105,666	1,874
Total Management & Budget	3,318,790	3,318,790	3,211,686	107,104
Finance:				
Personnel costs	8,457,170	7,843,170	7,842,626	544
Operating	1,154,449	1,136,251	991,856	144,395
Totals	9,611,619	8,979,421	8,834,482	144,939

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Human Resources:				
Personnel costs	$ 4,093,180	$ 4,247,860	$ 4,247,855	$ 5
Operating	2,153,824	2,153,824	1,738,367	415,457
Totals	6,247,004	6,401,684	5,986,222	415,462
Technology Services				
Personnel costs	14,366,490	14,937,260	14,937,255	5
Operating	13,115,376	13,090,147	12,109,249	980,898
Totals	27,481,866	28,027,407	27,046,504	980,903
General Services:				
Personnel costs	13,657,140	14,618,410	14,618,405	5
Operating	10,364,553	13,840,550	13,314,675	525,875
Totals	24,021,693	28,458,960	27,933,080	525,880
Consumer Protection				
Personnel costs	1,848,090	1,899,710	1,899,705	5
Operating	231,110	231,110	120,270	110,840
Totals	2,079,200	2,130,820	2,019,975	110,845
Corrections and Rehabilitation:				
Personnel costs	55,148,820	56,723,650	56,723,646	4
Operating	6,657,420	6,657,420	6,303,837	353,583
Totals	61,806,240	63,381,070	63,027,483	353,587
Human Rights Commission:				
Personnel costs	1,599,730	1,599,730	1,468,065	131,665
Operating	139,117	139,117	100,575	38,542
Totals	1,738,847	1,738,847	1,568,640	170,207
Police:				
Personnel costs	194,650,710	195,416,800	195,416,799	1
Operating	35,717,656	32,161,356	28,292,741	3,868,615
Totals	230,368,366	227,578,156	223,709,540	3,868,616
Sheriff:				
Personnel costs	17,742,590	18,267,590	18,266,864	726
Operating	1,768,337	1,904,470	1,899,976	4,494
Totals	19,510,927	20,172,060	20,166,840	5,220
Emergency Management and Homeland Security:				
Personnel costs	1,056,440	950,800	945,118	5,682
Operating	351,650	323,990	227,931	96,059
Totals	1,408,090	1,274,790	1,173,049	101,741
Transportation:				
Personnel costs	21,934,160	26,651,550	26,651,543	7
Operating	13,903,508	28,850,609	27,531,151	1,319,458
Totals	35,837,668	55,502,159	54,182,694	1,319,465
Health and Human Services:				
Personnel costs	104,544,180	101,222,650	100,873,421	349,229
Operating	73,873,438	69,703,191	69,627,736	75,455
Totals	178,417,618	170,925,841	170,501,157	424,684
Libraries:				
Personnel costs	24,378,940	24,614,710	24,614,704	6
Operating	4,472,140	4,472,140	4,247,187	224,953
Totals	28,851,080	29,086,850	28,861,891	224,959
Housing and Community Affairs:				
Personnel costs	3,309,940	3,322,810	3,322,807	3
Operating	591,750	591,750	537,414	54,336
Totals	3,901,690	3,914,560	3,860,221	54,339
Economic Development:				
Personnel costs	3,719,200	3,733,710	3,733,709	1
Operating	2,579,514	2,565,950	2,493,037	72,913
Totals	6,298,714	6,299,660	6,226,746	72,914
Environmental Protection:				
Personnel costs	1,481,990	1,481,990	1,456,655	25,335
Operating	485,584	485,584	407,307	78,277
Totals	1,967,574	1,967,574	1,863,962	103,612
Total Departments	704,419,583	721,631,777	710,830,004	10,801,773

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Nondepartmental:				
State retirement contribution - operating	$ 1,030,360	$ 1,030,360	$ 1,030,360	$ -
Retirees group insurance - operating	31,096,730	31,096,730	31,096,730	-
State positions supplement - personnel	133,150	133,150	98,940	34,210
Judges special pension contribution - personnel	3,500	3,500	273	3,227
Compensation adjustment - personnel	1,088,070	1,088,070	733,370	354,700
Compensation adjustment - operating	640,710	847,020	847,017	3
Municipal tax duplication - operating	6,662,120	6,662,120	6,656,131	5,989
Tax grants to municipalities - operating	28,020	28,020	28,012	8
Rebate - Takoma Park police - operating	717,580	881,170	881,162	8
Rebate - Takoma Park library - operating	100,950	100,950	100,950	-
Homeowners' association roadways - operating	16,000	16,000	16,000	-
Contribution to risk management - operating	16,861,890	16,861,890	16,699,467	162,423
Housing Opportunities Commission	5,804,040	-	-	-
Historical activities - operating	287,090	287,090	287,090	-
Conference and Visitors Bureau - operating	700,710	700,710	700,710	-
Arts Council - operating	4,872,920	4,872,920	4,872,920	-
Community grants - operating	4,699,944	4,719,810	4,719,800	10
Conference Center - personnel	116,170	116,170	100,216	15,954
Conference Center - operating	451,230	451,230	369,964	81,266
English Literacy - operating	717,850	717,850	717,850	-
County associations - operating	72,710	72,710	72,709	1
Metropolitan Washington C O G - operating	754,500	754,500	742,928	11,572
Public Technology, Inc. - operating	20,000	20,000	20,000	-
Independent audit - operating	420,820	420,820	418,193	2,627
Prisoner medical services - operating	10,000	10,000	-	10,000
State property tax services - operating	205,760	205,760	114,207	91,553
Boards, committees and commissions - operating	27,000	27,000	17,919	9,081
Charter Review Commission - operating	100	100	-	100
Working families income supplement - operating	11,788,200	12,961,080	12,961,074	6
Interagency technology, policy & coordinating committee - opera	5,000	5,040	5,039	1
County leases - operating	21,002,899	20,557,349	20,557,329	20
Rockville Parking District - operating	381,390	383,040	383,040	-
Climate Change - operating	65,855	17,964	-	17,964
Inauguration & Transition - Personnel	5,000	5,000	2,741	2,259
Desktop computer modernization - operating	4,021,821	3,834,646	3,832,641	2,005
Utilities - operating	28,630,440	26,800,940	26,800,938	2
Total - Nondepartmental	143,440,529	136,690,709	135,885,720	804,989
Total Expenditures	847,860,112	858,322,486	846,715,724	11,606,762
Excess of Revenues over (under) Expenditures	1,879,950,239	1,869,487,865	1,795,950,698	(73,537,167)
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Fire Tax District	120,750	120,750	120,750	-
Recreation	3,765,140	3,765,140	3,765,140	-
Mass Transit	7,097,710	7,097,710	7,097,710	-
Water Quality Protection	555,880	555,880	555,880	-
Urban Districts	355,690	355,690	355,690	-
Housing Activities	201,500	201,500	201,500	-
Grants	632,480	632,480	632,394	(86)
Cable TV	9,328,460	11,920,460	11,920,460	-
Total Special Revenue Funds	22,057,610	24,649,610	24,649,524	(86)
Enterprise Funds:				
Liquor	26,206,170	31,291,320	31,291,320	-
Parking Lot Districts	966,750	966,750	966,750	-
Solid Waste Activities	2,194,660	2,209,110	2,209,110	-
Community Use of Public Facilities	326,290	326,290	326,290	-
Permitting Services	2,978,070	2,978,070	2,978,070	-
Total Enterprise Funds	32,671,940	37,771,540	37,771,540	-
Internal Service Funds:				
Motor Pool	2,500,000	2,500,000	2,500,000	-
Total Internal Service Funds	2,500,000	2,500,000	2,500,000	-
Total Transfers In	57,229,550	64,921,150	64,921,064	(86)

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Component Units:				
Montgomery College	$ 247,610	$ 247,610	$ 247,613	$ 3
Total Transfers In - Component Units	247,610	247,610	247,613	3
Transfers (Out):				
Special Revenue Fund:				
Recreation	(1,409,460)	(1,409,460)	(1,409,460)	-
Urban Districts	(949,090)	(949,090)	(949,090)	-
Mass Transit	(531,310)	(531,310)	(531,310)	-
Revenue Stabilization	(33,793,000)	(19,104,919)	(19,640,592)	(535,673)
Housing Activities	(10,475,420)	(10,475,420)	(10,475,420)	-
Economic Development	(619,520)	(619,520)	(619,520)	-
Total Special Revenue Funds	(47,777,800)	(33,089,719)	(33,625,392)	(535,673)
Enterprise Funds:				
Community Use of Public Facilities	(273,500)	(273,500)	(273,500)	-
Parking Lot Districts	(80,340)	(80,340)	-	80,340
Solid Waste Activities	(1,992,800)	(1,992,800)	(1,992,800)	-
Permitting Services	(1,153,770)	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(3,500,410)	(3,500,410)	(3,420,070)	80,340
Debt Service Fund	(226,908,900)	(227,049,369)	(220,150,085)	6,899,284
Capital Projects Fund	(35,907,117)	(35,907,117)	(21,567,200)	14,339,917
Total Transfers (Out)	(314,094,227)	(299,546,615)	(278,762,747)	20,783,868
Transfers (Out) - Component Units / Joint Ventures:				
Montgomery County Public Schools - Operating	(1,416,575,854)	(1,416,575,854)	(1,416,575,854)	-
Montgomery County Public Schools - Capital	(8,991,238)	(11,191,238)	(5,988,811)	5,202,427
Total Montgomery County Public Schools	(1,425,567,092)	(1,427,767,092)	(1,422,564,665)	5,202,427
Montgomery Community College - Operating	(99,989,930)	(99,989,930)	(99,989,930)	-
Montgomery Community College - Capital	(5,385,264)	(5,385,264)	(2,519,862)	2,865,402
Total Montgomery Community College	(105,375,194)	(105,375,194)	(102,509,792)	2,865,402
Housing Opportunities Commission - Operating	-	(5,804,040)	(6,293,617)	(489,577)
Housing Opportunities Commission - Capital	(625,000)	(787,659)	-	787,659
Total Housing Opportunity Commission	(625,000)	(6,591,699)	(6,293,617)	298,082
Maryland National Capital Parks & Planning - Op	(785,000)	(785,000)	(785,000)	-
Total Transfers (Out) - Component Units / Joint Ventures	(1,532,352,286)	(1,540,518,985)	(1,532,153,074)	8,365,911
Total Other Financing Sources (Uses)	(1,788,969,353)	(1,774,896,840)	(1,745,747,144)	29,149,696
Excess of Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	90,980,886	94,591,025	50,203,554	(44,387,471)
Fund Balance - Beginning of Year	44,606,232	39,657,640	39,657,640	-
Fund Balance - End of Year	$ 135,587,118	$ 134,248,665	$ 89,861,194	$ (44,387,471)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
REVENUE STABILIZATION SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-2

	Budget			
	Original Budget	**Final Budget**	**Actual**	**Variance Positive (Negative)**
Revenues - Investment income	$ 150,395	$ 150,395	$ 21,955	$ (128,440)
Expenditures:	-	-	-	-
Excess of Revenues over (under) Expenditures	150,395	150,395	21,955	(128,440)
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	33,793,000	19,104,919	19,640,592	535,673
Total Other Financing Sources (Uses)	33,793,000	19,104,919	19,640,592	535,673
Excess of Revenues and other Sources over (under) Expenditures and Other Financing Uses	33,943,395	19,255,314	19,662,547	407,233
Fund Balance - Beginning of Year	74,875,041	74,875,041	74,875,041	-
Fund Balance - End of Year	$ 108,818,436	$ 94,130,355	$ 94,537,588	$ 407,233

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

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 19,662,547
Reconciling item - N/A	-
GAAP - Net Change in Fund Balance	$ 19,662,547

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-3

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Taxes - transfer	$ 1,000,000	$ 1,000,000	$ 1,160,533	160,533
Investment Income:				
Pooled investment income	140,000	140,000	2,282	(137,718)
Other interest income	-	-	820,265	820,265
Total Investment Income	140,000	140,000	822,547	682,547
Miscellaneous:				
Property rentals, MPDU and other contributions	1,044,190	1,117,770	409,017	(708,753)
Total Miscellaneous	1,044,190	1,117,770	409,017	(708,753)
Total Revenues	2,184,190	2,257,770	2,392,097	134,327
Expenditures:				
Personnel	1,436,060	1,436,060	1,353,394	82,666
Operating	15,275,519	34,220,593	33,246,690	973,903
Total Expenditures	16,711,579	35,656,653	34,600,084	1,056,569
Excess of Revenues over (under) Expenditures	(14,527,389)	(33,398,883)	(32,207,987)	1,190,896
Other Financing Sources (Uses):				
Transfers In (Out):				
From Capital Projects Fund	-	15,430,595	15,430,595	-
From General Fund	10,475,420	10,475,420	10,475,420	-
To General Fund	(201,500)	(201,500)	(201,500)	-
To Debt Service Fund	(2,500,000)	(2,573,580)	(2,575,702)	(2,122)
Mortgage repayment	1,750,000	1,750,000	8,182,556	6,432,556
Sale of property	2,000,000	2,000,000	1,703,045	(296,955)
Total Other Financing Sources (Uses)	11,523,920	26,880,935	33,014,414	6,133,479
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(3,003,469)	(6,517,948)	806,427	7,324,375
Fund Balance - Beginning of Year	3,003,469	2,090,678	2,090,678	-
Fund Balance - End of Year	$ -	$ (4,427,270)	$ 2,897,105	$ 7,324,375

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

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 806,427
Reconciling items:	
Elimination of encumbrances outstanding	266,543
Decrease in mortgages receivable	(1,348,563)
GAAP - Net Change in Fund Balance	$ (275,593)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-4

	Budget			Variance
	Budget Original	Final Budget	Actual	Positive (Negative)
Revenues:				
Intergovernmental:				
Federal grants	$ 73,625,241	$ 98,965,108	$ 60,775,439	$ (38,189,669)
State grants	72,980,802	85,010,757	61,044,765	(23,965,992)
Other non-state and non-federal reimbursements	-	1,525,110	1,992,344	467,234
Total Intergovernmental	146,606,043	185,500,975	123,812,548	(61,688,427)
Investment income:				
Other interest income	-	300,000	288,946	(11,054)
Total Investment Income	-	300,000	288,946	(11,054)
Miscellaneous	1,000,000	1,000,000	687,814	(312,186)
Total Revenues	147,606,043	186,800,975	124,789,308	(62,011,667)
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	1,224,950	2,502,261	2,070,213	432,048
Operating	316,410	459,767	118,002	341,765
Totals	1,541,360	2,962,028	2,188,215	773,813
Office of State's Attorney:				
Personnel costs	508,820	573,285	396,506	176,779
Operating	-	1,405	1,332	73
Totals	508,820	574,690	397,838	176,852
Office of the County Executive:				
Personnel costs	216,960	475,312	203,484	271,828
Operating	158,149	324,848	98,111	226,737
Totals	375,109	800,160	301,595	498,565
Regional Service Centers:				
Personnel costs	78,050	117,688	112,071	5,617
Operating	26,450	62,772	2,668	60,104
Totals	104,500	180,460	114,739	65,721
Intergovernmental Relations:				
Operating	34,000	34,666	30,664	4,002
Totals	34,000	34,666	30,664	4,002
Commission for Women:				
Personnel costs	-	-	3,494	(3,494)
Operating	-	14,000	10,506	3,494
Totals	-	14,000	14,000	-
Department of Technology Services:				
Operating	-	581,376	6,619	574,757
Totals	-	581,376	6,619	574,757
Total General Government	2,563,789	5,147,380	3,053,670	2,093,710
Public Safety:				
Department of Corrections and Rehabilitation:				
Personnel costs	-	73,111	55,233	17,878
Operating	41,651	440,473	347,430	93,043
Totals	41,651	513,584	402,663	110,921
Department of Fire and Rescue Services:				
Personnel costs	3,477,100	3,997,862	2,551,341	1,446,521
Operating	4,447,986	5,499,279	2,370,960	3,128,319
Totals	7,925,086	9,497,141	4,922,301	4,574,840
Department of Police:				
Personnel costs	1,086,750	1,494,117	682,604	811,513
Operating	7,691,248	9,152,537	8,553,776	598,761
Totals	8,777,998	10,646,654	9,236,380	1,410,274
Office of the County Sheriff:				
Personnel costs	1,389,220	1,557,627	908,386	649,241
Operating	542,325	756,345	240,411	515,934
Totals	1,931,545	2,313,972	1,148,797	1,165,175
Office of Emergency Management & Homeland Security:				
Personnel costs	-	914,290	249,555	664,735
Operating	709,106	7,019,788	4,979,455	2,040,333
Totals	709,106	7,934,078	5,229,010	2,705,068
Total Public Safety	19,385,386	30,905,429	20,939,151	9,966,278
Transportation:				
Department of Transportation:				
Personnel costs	1,754,240	2,079,748	1,702,712	377,036
Operating	6,726,356	6,922,886	3,629,879	3,293,007
Total Transportation	8,480,596	9,002,634	5,332,591	3,670,043
Department of Economic Development:				
Operating	2,625,083	3,799,335	3,463,721	335,614
Total Economic Development	2,625,083	3,799,335	3,463,721	335,614

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-4

	Budget			Variance
	Budget Original	Budget Final	Actual	Positive (Negative)
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	$ 42,742,580	$ 45,955,309	$ 39,971,016	$ 5,984,293
Operating	42,675,586	44,658,065	36,401,098	8,256,967
Total Health and Human Services	85,418,166	90,613,374	76,372,114	14,241,260
Culture and Recreation:				
Department of Libraries:				
Personnel costs	87,290	93,335	85,298	8,037
Operating	12,000	27,753	24,381	3,372
Totals	99,290	121,088	109,679	11,409
Department of Recreation:				
Personnel costs	64,010	140,181	68,954	71,227
Operating	52,300	61,888	28,999	32,889
Totals	116,310	202,069	97,953	104,116
Total Culture and Recreation	215,600	323,157	207,632	115,525
Housing:				
Department of Housing and Community Affairs:				
Personnel costs	4,057,300	4,215,132	2,691,873	1,523,259
Operating	21,094,936	20,638,005	11,511,788	9,126,217
Total Housing	25,152,236	24,853,137	14,203,661	10,649,476
Environment:				
Department of Environmental Protection:				
Personnel costs	162,980	165,706	164,921	785
Operating	3,352,207	2,518,353	1,501,322	1,017,031
Total Environmental Protection	3,515,187	2,684,059	1,666,243	1,017,816
Department of Liquor Control:				
Personnel costs	-	11,980	5,998	5,982
Operating	-	60,490	35,255	25,235
Total Liquor Control	-	72,470	41,253	31,217
Nondepartmental:				
NDA Historical Activities - Operating	250,000	300,000	272,001	27,999
Future Grants - Personnel	-	20,000,000	-	20,000,000
Total Nondepartmental	250,000	20,300,000	272,001	20,027,999
Total Expenditures	147,606,043	187,700,975	125,552,037	62,148,938
Excess of Revenues over (under) Expenditures	-	(900,000)	(762,729)	137,271
Other Financing Sources (Uses):				
Transfers In:				
Mass Transit Special Revenue Fund	-	950,000	832,609	(117,391)
Fire Tax District Special Revenue Fund	-	600,000	562,514	(37,486)
Total Transfers In	-	1,550,000	1,395,123	(154,877)
Transfers Out - General Fund	-	(650,000)	(632,394)	17,606
Total Transfers Out	-	(650,000)	(632,394)	17,606
Total Other Financing Sources (Uses)	-	900,000	762,729	(137,271)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
Fund Balance - End of Year	$ -	$ -	$ -	$ -

Grants Fund prior year carryover includes: a) re-appropriation of encumbered appropriations, and b) revenues under grants that require more than one fiscal year to complete the grant program.

Reconciliation of Budgetary Schedule to GAAP Basis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - budgetary basis	$ 124,789,308	$ 125,552,037	$ 762,729	$ -
Reconciling items:				
Elimination of encumbrances outstanding	(9,174,191)	(9,174,191)	-	-
Loan expenditures	(2,469,358)	(2,469,358)	-	-
Indirect costs	(708,948)	(708,948)	-	-
Pass-through expenditures	5,773,838	5,773,838	-	-
As reported - GAAP basis	$ 118,210,649	$ 118,973,378	$ 762,729	$ -

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, including one student member, are elected by the voters. 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 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, 4th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

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

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785

Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002	Northeast Maryland Waste Disposal Authority 100 South Charles St, Tower II-Suite 402 Baltimore, MD 21201

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 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.

Budget-to-Actual Comparison Schedules - 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. Budget-to-actual comparison schedules for the General Fund and the County's major special revenue funds, (Revenue Stabilization, Housing Initiative, and Grants) are presented as Required Supplementary Information.

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 within the governmental funds and unearned revenue in the government-wide financial statements.

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 at a targeted reserve level sufficient to address unexpected increases or decreases in revenues and expenditures. Funds may be drawn upon during periods of economic slowdown, when a current year appropriation has become unfunded due to revenue shortfalls or unexpected expenditure increases.

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

Grants Fund - This fund accounts for the Federal and State grant-funded activities of the tax-supported General Fund and special revenue funds.

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 two Montgomery County liquor warehouses. 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:

Proprietary Fund Types – The Solid Waste Activities and the Parking Lot District enterprise funds investments 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, 2011. 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, at the time of purchase, 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 the 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:

Assets	Years
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, accrued leave is classified as current and long-term. 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 related capital assets are reported on the financial statements of these governments. For MCPS and MCC, component units of the County, 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, 2011, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MCC, and M-NCPPC amounting to $1,359,354,018. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net assets of governmental activities in the amount of $28,774,720.

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 $45,898,030 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $27,019,271 at June 30, 2011, 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 restricted, committed, and assigned fund balance categories 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 any of the constrained categories of fund balance. In the Capital Projects Fund, fund balance restricted/committed 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.

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 FY11. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine 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 2010 (i.e., FY11), in conjunction with 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) New Accounting Standards

The County has adopted the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. Additionally, this statement clarifies the definitions of the general fund, special revenue funds and capital project fund as applicable to the County. This statement changes fund balance classifications reported in the Governmental Fund Balance Sheet and requires expanded disclosure of the County's policies and procedures as it relates to authority levels, spending policy, and reporting of encumbrances. The classifications used in governmental fund financial statements are as follows:

Nonspendable: Amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact, such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid items.

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Council, the County's highest level of decision making authority, through the passing of ordinances. These amounts cannot be used for any other purpose unless the County removes or changes the ordinances that were employed when the funds were initially committed.

Assigned: Amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County Council and the County Executive or through the County delegating this responsibility to the County Administrative Officer or County department heads.

Unassigned: The residual classification for the County's funds and includes all spendable amounts not contained in the four classifications described above.

Order of Fund Balance Spending Policy

The County has established a fund balance spending policy for those instances where an expenditure is incurred for a purpose for which amounts in any of the restricted or unrestricted fund balance classifications (committed, assigned, or unassigned) could be used. The County will apply expenditures against restricted amounts first, followed by the committed, assigned and unassigned amounts.

GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement has no significant impact on the current fiscal year reporting as a result of implementing this Statement.

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 restricted, committed, or assigned category of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in two major categories (personnel costs and operating) 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 reported as a restricted or committed component 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 FY11, the County Council increased the operating budget through supplemental and special appropriations by $36.8 million. In addition, supplemental appropriations increased the CIP budget by $35.5 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	and Encumbrances	Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,642,666,422	$ 846,715,724	$ (1,745,747,144)	$ 50,203,554
Reconciling items:				
Cancellation of prior year encumbrances	(1,004,764)	-	-	(1,004,764)
Elimination of encumbrances outstanding	-	(11,022,956)	-	11,022,956
Unrealized gains (1osses)	27,719	-	-	27,719
Financing under notes payable	-	97,525	97,525	-
Conference Center activity	15,569,598	15,569,598	-	-
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	1,663,210	-	(1,663,210)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid waste tipping fees	-	1,992,800	1,992,800	-
Community use of public facilities for elections	-	248,500	248,500	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	247,613	-	(247,613)	-
Component Units and Joint Venture - Transfer out	-	1,532,153,074	1,532,153,074	-
As reported - GAAP basis	$ 2,659,169,798	$ 2,386,908,035	$ (212,012,298)	$ 60,249,465

B) Deficit Fund Equity

Fire Tax District – The fund balance deficit in the Fire Tax District (FTD) Fund was caused primarily by the County's mid year termination of the planned Emergency Medical Services Transport (EMST) fee in a voter referendum on the issue in the November 2010 elections. The County had planned to collect $14 million in EMST fee revenue in FY11, but fee collection was never initiated due to the referendum. In addition, the FTD incurred higher than anticipated overtime costs. To address this shortfall, management recommended and the County Council approved increased property tax rates for the FTD in FY12 which eliminates the current deficit by the end of FY13.

Permitting Services – The $5,184,035 total net deficit in the Permitting Services Fund was caused by the severe economic downturn, which resulted in a loss in assets of $7,380,995 in FY09 and $2,923,619 in FY10. In the FY11 budget process, Permitting Services reduced staff by 16 filled and 25 vacant positions. With the increased projections for revenue, the cash deficit was projected to be eliminated in FY11. As a result of these measures the net deficit was reduced by $2,073,401, from $7,257,436 to $5,184,035 in FY11. In the FY12 budget process, two measures to improve cash flow and to increase current year revenue were approved, collecting 30% of permit fees at time of application, and increasing the cap on commercial building permits. Combined with the costs savings measures from FY11 continued in FY12 the cash and net deficits will be eliminated in FY12.

Liability and Property Coverage Self Insurance - The $6,434,891 total net deficit in the Liability and Property Coverage Self Insurance Fund was caused by an increase in claims payable and a carryover from the previous fiscal year of a net deficit of $6,990,990. The trend of increasing claims payable liabilities began in FY09 and was the primary cause of the total net deficit in this fund in FY10 as well. Management has increased the participants' premium contributions to this fund beginning in FY10 and continuing through FY12 to align fund revenues with projected future claims costs and eliminate the net 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, 2011, totaled $4,930,585,359 of which $4,330,178,598 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:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 576,411,384	$ 71,857,522	$ 648,268,906
Cash with fiscal agents	48,499,763	41,292,380	89,792,143
Cash	724,798	12,768,651	13,493,449
Investments - cash equivalents	-	148,051,758	148,051,758
Investments	3,661,910,865	35,850,927	3,697,761,792
Restricted equity in pooled cash and investments	36,596,074	6,900,795	43,496,869
Restricted cash with fiscal agents	-	20,882,272	20,882,272
Restricted cash	-	641,585	641,585
Restricted investments - cash equivalents	-	78,171,552	78,171,552
Restricted investments	6,035,714	183,989,321	190,025,035
Total	$ 4,330,178,598	$ 600,406,763	$ 4,930,585,361
Deposit and Investment Summary:			
Deposits	$ 416,530,117	$ 124,247,372	$ 540,777,489
Investments	3,864,423,920	363,753,531	4,228,177,451
Cash on hand, fiscal agents, safe deposit escrow	49,224,561	112,405,860	161,630,421
Total	$ 4,330,178,598	$ 600,406,763	$ 4,930,585,361

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

Government-wide	$ 587,606,961
Fiduciary funds	3,742,571,637
Total	$ 4,330,178,598

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 do not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest are typically classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and any 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 related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) is typically recorded in the General Fund, since this amount is not material. At year-end, based on the nature of investments held, there was no adjustment to fair value, since fair value was the same as cost.

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

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 576,411,384	$ 4,029,968	$ 580,441,352
Restricted equity in pooled cash and investments	36,596,074	-	36,596,074
Total	$ 613,007,458	$ 4,029,968	$ 617,037,426
Deposit and Investment Summary:			
Deposits	$ 416,530,117	$ -	$ 416,530,117
Investments, including accrued interest	196,477,341	4,029,968	200,507,309
Total	$ 613,007,458	$ 4,029,968	$ 617,037,426

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 typically include bank accounts and non-negotiable certificates of deposit; at year-end the County held no non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

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. At year-end, the investment portfolio was comprised of money market mutual funds and the Maryland Local Government Investment Pool (MLGIP). During the year, the County also invested in U.S. Government securities. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 §22G, of the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. An MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool.

Investment Type:	Fair Value	Principal	Maturity Range	Interest Range
Money market mutual funds	$ 200,133,678	$ 200,133,678	n/a	0.00 - 0.12%
State pool	373,631	373,631	n/a	0.002
Total	$ 200,507,309	$ 200,507,309		

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, 2011, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Money market mutual funds	$ 200,133,678	$ 200,133,678	-
State pool	373,631	373,631	-
Total	$ 200,507,309	$ 200,507,309	$ -

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 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.

The County's investments held at year-end or during the year were rated as follows:

	Ratings		
Investment Type	Standard & Poor's	Fitch	Moody's
Repurchase agreements [1]	N/R	N/R	N/R
U.S. Government securities [2]:			
Agency discount notes	A-1+	F1+	P-1
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper [3]	A-1	F1	P-1
Bankers' acceptances [4]	N/R	N/R	N/R
Certificates of deposit [5]	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R - Not Rated

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

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

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

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

5 - 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, 2011, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk for investments is the risk that, in the event of failure of an issuer, the County will not be able to recover the value of the investment or suffer a loss as a result of the magnitude of the County's investment in that single issuer. It is the County's practice to manage the investment portfolio according to the County's investment policy, and the guidelines as outlined in the Annotated Code of Maryland, 6-222, to insure diversification by investment type and institution in order to avoid unreasonable and foreseeable risks but in conjunction with the need to ensure safety, liquidity and return in an ever changing economic environment. The County's policy provides the maximum limits as follows:

Diversification by Investment Type	Maximum percent of Portfolio*
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

Diversification by Institution	Maximum percent of Portfolio*
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.

The County's investment portfolio at year-end was comprised of money market mutual funds and the MLGIP, for liquidity, safety, and return purposes based on the economic environment, as provided for under State law and the County's investment policy objectives.

*As of June 30, 2011, five percent or more of the County's investments were only held in money market mutual funds.

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2011, are as follows:

Statement of Net Assets
June 30, 2011

Assets:	
Investment in securities, at fair value	$ 200,507,309
Cash	416,530,117
Accrued interest receivable	-
Total assets and net assets	$ 617,037,426
Net assets consist of:	
Internal participants' units outstanding ($1.00 par)	$ 564,114,078
External participants' units outstanding ($1.00 par)	52,923,348
Net assets	$ 617,037,426
Participants net asset value, offering price and redemption price per share ($617,037,426 /617,037,426 units)	$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Investment Income *		$ 342,663
Distributions to participants:		
Distributions paid and payable		(342,663)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$ 1,390,431,068	
Redemption of units	(1,277,820,434)	
Net decrease in net assets and shares resulting from share transactions		112,610,634
Total decrease in net assets		112,610,634
Net assets, July 1, 2010		504,426,792
Net assets, June 30, 2011		$ 617,037,426

* 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 $3,343,109 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund - Cash with fiscal agents of $35,804,086 is held in money market mutual funds.

Liquor Fund – Cash with fiscal agents of $7,219,950 at the end of FY11 was held in money market funds for the purpose of disbursement of design, planning and renovation 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, for the majority of public fund managers, 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, 2011, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 65,315,517	7.35 %
Foreign Government Obligations	AAA	7,619,034	0.86
	A	5,413,520	0.61
	BBB	1,835,371	0.21
	BB	1,857,842	0.21
	CCC	27,724	0.00
	Unrated	2,155,451	0.24
Asset-Backed Securities	AAA	2,433,055	0.27
	BBB	159,905	0.02
	B	606,349	0.07
	CCC	322,677	0.04
Commercial Mortgage-Backed Securities	BB	68,577	0.01
Collateralized Mortgage Obligations	AAA	244,248	0.03
	AA	426,445	0.05
	A	343,577	0.04
	BBB	520,313	0.06
	B	457,428	0.05
	CCC	1,760,408	0.20
	D	741,851	0.08
Municipal/Provincial Bonds	AAA	6,367,373	0.72
	AA	10,192,973	1.15
	A	5,827,963	0.65
	Unrated	685,942	0.08
Corporate Bonds	AAA	4,409,283	0.50
	AA	40,899,000	4.60
	A	124,390,534	14.00
	BBB	70,489,992	7.93
	BB	59,751,166	6.72
	B	91,805,950	10.33
	CCC	37,443,802	4.21
	CC	3,249,147	0.36
	C	622,000	0.07
	D	1,837,047	0.21
	Unrated	11,840,828	1.33
Fixed Income Pooled Funds	Unrated	290,023,002	32.63
Short-term Investments and Other	Unrated	36,534,841	4.11
Total Fixed Income Securities		$ 888,680,135	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, 2011, 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	14.68	$ 65,315,517	7.35 %
Foreign Government Obligations	4.49	18,908,943	2.13
Asset-Backed Securities	5.62	3,521,986	0.40
Commercial Mortgage-Backed Securities	4.88	68,577	0.01
Collateralized Mortgage Obligations	0.01	4,494,269	0.50
Municipal/Provincial Obligations	11.92	23,074,251	2.60
Corporate Bonds	5.84	446,738,749	50.27
Fixed Income Pooled Funds	N/A	290,023,002	32.63
Short-term Investments and Other	N/A	36,534,841	4.11
Total Fixed Income Securities		$ 888,680,135	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
European Currency Unit	$ 150,859,186	$ 121,424	$ 43,151,984	$ 194,132,594
British Pound Sterling	64,664,605	-	51,458,631	116,123,236
Japanese Yen	106,116,039	-	(5,281,142)	100,834,897
New Zealand Dollar	378,491	-	23,562,938	23,941,429
Hong Kong Dollar	19,981,540	-	6	19,981,546
Swedish Krona	13,903,840	-	2,247,859	16,151,699
Danish Krone	6,854,353	-	-	6,854,353
Indonesian Rupiah	817,172	5,929,307	9,556	6,756,035
South Korean Won	3,337,582	3,038,409	-	6,375,991
Philippine Peso	1,938,041	2,100,570	45,554	4,084,165
Other Currencies	45,241,197	9,686,124	(147,840,610)	(92,913,289)
Total International Securities	$ 414,092,046	$ 20,875,834	$ (32,645,224)	$ 402,322,656

Derivatives

In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY11, 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. 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. The system is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate, swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2011, the System held 189 long US Treasury futures contracts with a fair value of $23,861,250 and 502 short US Treasury futures contracts with a fair value of ($69,891,820).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2011, the System held a foreign currency swap with a notional value of $83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2011, the System held $211,204,697 buy foreign exchange contracts and ($261,094,085) sell foreign exchange contracts. The unrealized gain on the System's contracts was $2,250,160.

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 was removed on July 23, 2010. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2011, the fair value of securities on loan was $276,123,406. Cash received as collateral and the related liability of $278,648,672 as of June 30, 2011, 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 $833,495 and $52,666, 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, 2011:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 57,984,905	$ -	$ 59,301,871
Corporate Bonds	89,647,686	-	91,408,796
Equities	124,692,552	-	127,938,005
Lent for Non-Cash Collateral:			
U.S. Government Obligations	269,718	275,454	-
Corporate Bonds	397,385	404,693	-
Equities	3,131,160	3,227,093	-
Total	$ 276,123,406	$ 3,907,240	$ 278,648,672

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, 2011, 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, 2011, the fair value of the mutual and commingled investment funds was $182,851,306. The fair value of the investments in international mutual funds was $33,897,672.

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, 2011, the fair value of the mutual and commingled investment funds was $272,313,942. The fair value of the investments in international mutual funds included in the County Plan was $40,484,141.

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 Trust Fund 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 Trust Fund's asset allocation and the investment managers hired by the Board. 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, 2011, the fair value of the mutual and commingled investment funds was $54,073,341. The fair value of the investments in international mutual funds was $17,443,739.

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, 2011, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

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

Credit Risk

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

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

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank. 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, 2011 was P-1.

At June 30, 2011, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Rating
Cash Equivalents:		
General Fund:		
Money Market Accounts	17,200,045	N/A
Opportunity Housing Fund:		
Investment in MLGIP	444,925	AAAm
Money Market Accounts	9,654,076	N/A
Public Fund:		
Investment in MLGIP	3,797,699	AAAm
Money Market Accounts	3,002,107	N/A
Multi-Family Fund		
Money Market Accounts	35,089,616	AAA
Single Family Fund - Money Market Accounts	42,732,108	AAA
Total cash equivalents	$ 111,920,576	
Short-term Investments:		
Multi-Family Fund:		
GNMA Pool	775,960	AAA
Freddie Mac	1,608,652	AAA
Single Family Fund		
USG GSE Global Escrow Agreement	31,058,950	N/A
Total short-term investments	$ 33,443,562	

Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
Long-term Investments:					
Multi-Family Fund:					
U. S. Treasuries	$ 2,462,829	$ -	$ 1,460,390	$ 1,002,439	AAA
Fannie Mae	3,965,926	-	-	3,965,926	AAA
Freddie Mac	1,527,935	-	-	1,527,935	AAA
GNMA Pool	85,153,068	19,698,523	-	65,454,545	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Federal Farms	2,674,532	-	-	2,674,532	AAA
Bayerische	17,311,285	17,311,285	-	-	AAA
Single Family Fund:					
Federal Farm Credit Banks	6,071,207	-	-	6,071,207	AAA
Federal Home Loan Banks	7,801,645	-	-	7,801,645	AAA
Freddie Mac	1,502,000	-	-	1,502,000	AAA
Fannie Mae	940,240	-	-	940,240	AAA
U. S. Treasuries	8,717,581	305,876	4,296,236	4,115,469	AAA
Solomon Repurchase Agreement	2,345,800	2,345,800	-	-	A
Tennessee Valley Authority	6,185,376	-	2,599,087	3,586,289	AAA
Total long-term investments	147,250,949	39,661,484	8,355,713	99,233,752	
Cash balances	54,891,197				
Total Cash, Cash Equivalents and Investments	$ 347,506,284				

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2011, reported in the enterprise funds, amounted to:

Liquor	$ 654,680
Parking Lot Districts	1,838,823
	$ 2,493,503

2) Due from/to Component Units

The balances at June 30, 2011, were:

Due from Component Units / Due to Primary Government:						
Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ -	$ 450,000	$ -	$ 62,025	$ -	$ 512,025
Grants	-	-	-	9,965,086	-	9,965,086
Capital Projects	16,170,338	2,382,323	-	11,262,251	-	29,814,912
Housing Initiative				44,341,900		44,341,900
Solid Waste Activities Enterprise	47,421	2,924	-	726	1,900	52,971
Parking Lot Districts	-	-	-	87,550	-	87,550
Internal Service	53,717	23,200	140,328	894,851	36,930	1,149,026
Fiduciary	-	-	25,919	1,226,929	-	1,252,848
Total Due to Primary Government	$ 16,271,476	$ 2,858,447	$ 166,247	$ 67,841,318	$ 38,830	$ 87,176,318

Due to Component Units / Due from Primary Government:						
Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 67,489,898	$ 105,316	$ -	$ 17,941	$ -	$ 67,613,154
Grants	1,453,134	83,970	-	563,662		2,100,766
Capital Projects	-	6,844,977	-	-	-	6,844,977
Housing Initiative				808,331		808,331
Nonmajor Governmental	4,470				-	4,470
Nonmajor Enterprise	687,362	-	-	-	-	687,362
Total Due from Primary Government	$ 69,634,864	$ 7,034,263	$ -	$ 1,389,934	$ -	$ 78,059,061

In the major governmental funds, $44,341,900 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 $1,977,130, 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) <u>Due From Other Governments</u>

The total amount due from other governments at June 30, 2011, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 28,124,534	$ 40,000	$ 236	$ -	$ 743,760	$ -	$ 28,908,530
State of Maryland	5,161,412	1,457,968	16,411,675	17,474	872,632	69,451	31,105	24,021,717
Other	-	167,000	828,464	120,798	763,211	97,980	7,160	1,984,613
Total	$ 5,161,412	$ 29,749,502	$ 17,280,139	$ 138,508	$ 1,635,843	$ 911,191	$ 38,265	$ 54,914,860

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 755,440,694	$ 29,398,439	$ -	$ 784,839,133
Construction in progress	466,354,521	204,520,968	32,643,105	638,232,384
Total Nondepreciable Capital Assets	1,221,795,215	233,919,407	32,643,105	1,423,071,517
Depreciable Capital Assets:				
Buildings	757,883,641	354,783	-	758,238,424
Improvements other than buildings	48,939,639	48,500	-	48,988,139
Furniture, fixtures, equipment and machinery	242,038,395	1,638,785	453,075	243,224,105
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	256,430,769	1,240,305	14,599,542	243,071,532
Infrastructure	1,641,680,480	35,812,000	-	1,677,492,480
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,961,830,557	39,094,373	15,052,617	2,985,872,313
Less Accumulated Depreciation for:				
Buildings	304,046,307	19,314,105	-	323,360,412
Improvements other than buildings	19,491,949	1,188,507	-	20,680,456
Furniture, fixtures, equipment and machinery	175,016,408	9,489,129	361,396	184,144,141
Leasehold improvements	4,508,483	810,745	-	5,319,228
Automobiles and trucks	117,280,638	18,738,992	13,920,105	122,099,525
Infrastructure	512,139,932	33,694,122	-	545,834,054
Other assets	2,065,776	8,951	-	2,074,727
Total Accumulated Depreciation	1,134,549,493	83,244,551	14,281,501	1,203,512,543
Total Depreciable Assets, net	1,827,281,064	(44,150,178)	771,115	1,782,359,770
Governmental Activities Capital Assets, net	$ 3,049,076,279	$ 189,769,229	$ 33,414,220	$ 3,205,431,287
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 60,204,889	$ -	$ 34,813	$ 60,170,076
Construction in progress	2,097,425	6,968,064	378,308	8,687,181
Total Nondepreciable Capital Assets	62,302,314	6,968,064	413,121	68,857,257
Depreciable Capital Assets:				
Buildings	247,860,396	-	-	247,860,396
Improvements other than buildings	146,368,491	-	23,444	146,345,047
Furniture, fixtures, equipment and machinery	21,817,519	2,811,284	1,468,127	23,160,676
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,411,030	-	99,415	4,311,615
Total Capital Assets being Depreciated	420,471,787	2,811,284	1,590,986	421,692,085
Less Accumulated Depreciation for:				
Buildings	103,410,205	8,944,245	-	112,354,450
Improvements other than buildings	107,642,097	4,206,296	-	111,848,393
Furniture, fixtures, equipment and machinery	14,654,830	1,702,302	1,468,127	14,889,005
Infrastructure	2,152	622	-	2,774
Automobiles and trucks	3,056,930	235,308	79,923	3,212,315
Total Accumulated Depreciation	228,766,214	15,088,773	1,548,050	242,306,937
Total Depreciable Assets, net	191,705,573	(12,277,489)	42,936	179,385,148
Business-Type Activities Capital Assets, net	$ 254,007,887	$ (5,309,425)	$ 456,057	$ 248,242,405

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

Governmental activities:		
General government	$	6,303,325
Public safety		15,168,466
Public works and transportation		51,843,091
Health and human services		1,535,752
Culture and recreation		7,187,321
Community development and housing		999,868
Environment		206,728
Total depreciation expense-governmental activities	$	83,244,551
Business-type activities:		
Liquor	$	1,633,972
Solid waste activities		2,405,883
Parking lot districts		10,902,731
Permitting services		138,257
Community use of public facilities		7,930
Total depreciation expense-business-type activities	$	15,088,773

Construction commitments as of June 30, 2011, are as follows:

		Construction Commitments
General Government	$	255,338,779
Public Safey		184,510
Public Works and Transportaion		76,015,766
Culture & Recreation		3,333,796
Community Development & Housing		134,295
Environment		10,718,957
Total	$	345,726,103

COMPONENT UNITS

Capital assets of MCPS, amounting to $2,099,007,364 at June 30, 2011, are significant in relation to the total component unit capital assets.

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 70,222,101	$ 4,456,100	$ -	$ 74,678,201
Construction in progress	90,485,660	158,007,484	106,714,436	141,778,708
Total nondepreciable capital assets	160,707,761	162,463,584	106,714,436	216,456,909
Depreciable capital assets:				
Buildings and improvements	2,346,375,451	103,098,257	16,811,423	2,432,662,285
Site improvements	207,411,841	9,364,962	-	216,776,803
Vehicles and equipment	146,663,373	12,526,938	10,291,723	148,898,588
Total depreciable capital assets	2,700,450,665	124,990,157	27,103,146	2,798,337,676
Less accumulated depreciation for:				
Buildings and improvements	731,517,259	57,520,207	13,212,647	775,824,819
Site improvements	42,480,449	4,323,186	-	46,803,635
Vehicles and equipment	94,613,230	12,029,888	9,591,030	97,052,088
Total accumulated depreciation	868,610,938	73,873,281	22,803,677	919,680,542
Total depreciable capital assets, net	1,831,839,727	51,116,876	4,299,469	1,878,657,134
Government activities capital assets, net	$ 1,992,547,488	$ 213,580,460	$ 111,013,905	2,095,114,043
Business-Type Activities				
Depreciable capital assets:				
Vehicles and equipment	$ 16,954,438	$ 767,571	$ 348,627	$ 17,373,382
Total depreciable capital assets	16,954,438	767,571	348,627	17,373,382
Less accumulated depreciation for:				
Vehicles and equipment	12,794,050	977,855	291,844	13,480,061
Total accumulated depreciation	12,794,050	977,855	291,844	13,480,061
Business-type activities capital assets, net	$ 4,160,388	$ (210,284)	$ 56,783	3,893,321
Total MCPS government-wide capital assets				$ 2,099,007,364

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

Governmental activities:	
Regular instruction	$ 62,164,168
Special education	211,681
School administration	33,638
Student personnel services	798
Student transportation	8,984,310
Operation of plant	146,827
Maintenance of plant	1,614,745
Administration	717,114
Total depreciation expense-governmental activities	$ 73,873,281
Business-type activities:	
Food services	$ 976,372
Real estate management	1,483
Total depreciation expense-business type activities	$ 977,855

Commitments for ongoing construction in progress at June 30, 2011, were $136,501,022.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2011, is as follows:

	Due From Fund				
Due To Fund	General	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 250,000	$ 5,547,001	$ 8,096,057	$ 13,893,058
Montgomery Housing Initiative	-	-	9,047	11,356	20,403
Grants	16,100,000	-	430,711	344,441	16,875,152
Capital Projects	82,951,197	-	143,228	223,994	83,318,419
Liquor	-	-	233,793	180,127	413,920
Solid Waste Activities	-	-	97,792	90,926	188,718
Parking Lot Districts	-	-	34,315	39,288	73,603
Nonmajor Governmental	3,725,000	1,395,123	2,003,812	2,698,515	9,822,450
Nonmajor Enterprise	605,000	-	177,736	263,795	1,046,531
Internal Service	2,584,900	-	232,708	4,706,404	7,524,012
Fiduciary	-	-	13,741	11,449	25,190
Total	$ 105,966,097	$ 1,645,123	$ 8,923,884	$ 16,666,352	$ 133,201,456

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY12:

- $51.8 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.

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, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfers In Fund						
Transfers Out Fund	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Subtotal Major
General	$ -	$ 19,640,592	$ 10,475,420	$ -	$ 220,150,085	$ 21,567,200	$ 271,833,297
Revenue Stabilization	-	-	-	-	-	-	-
Housing Initiative	201,500	-	-	-	2,575,702	-	2,777,202
Grants	632,394	-	-	-	-	-	632,394
Capital Projects	-	-	15,430,595	-	-	-	15,430,595
Liquor	31,291,320	-	-	-	1,131,223	-	32,422,543
Solid Waste Activities	2,209,110	-	-	-	-	-	2,209,110
Parking Lot Districts	966,750	-	-	-	-	-	966,750
Nonmajor Governmental	22,152,420	-	-	1,395,123	28,872,681	5,255,067	57,675,291
Nonmajor Enterprise	3,304,360	-	-	-	-	-	3,304,360
Internal Service Funds	2,500,000	-	-	-	62,460	-	2,562,460
Total	$ 63,257,854	$ 19,640,592	$ 25,906,015	$ 1,395,123	$ 252,792,151	$ 26,822,267	$ 389,814,002

	Transfers In Fund			
Transfers Out Fund	Nonmajor Governmental	Nonmajor Enterprise	Subtotal Major	Total
General	$ 3,509,380	$ 25,000	$ 271,833,297	$ 275,367,677
Housing Initiative	-	-	2,777,202	2,777,202
Grants	-	-	632,394	632,394
Capital Projects	-	-	15,430,595	15,430,595
Liquor	-	-	32,422,543	32,422,543
Solid Waste Activities	-	-	2,209,110	2,209,110
Parking Lot Districts	14,581,792	-	966,750	15,548,542
Nonmajor Governmental	-	-	57,675,291	57,675,291
Nonmajor Enterprise	-	-	3,304,360	3,304,360
Internal Service Funds	-	-	2,562,460	2,562,460
Total	$ 18,091,172	$ 25,000	$ 389,814,002	$ 407,930,174

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.

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 $20,418,000 for FY11. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2012	$ 24,477,000
2013	19,850,000
2014	17,163,000
2015	11,395,000
2016	8,983,000
2017 - 2021	35,759,000
2022 - 2026	6,473,000
Total	$ 124,100,000

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:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 21,645,843	$ 21,280,572	$ 42,926,415
Unearned lease income	(5,732,534)	(5,643,881)	(11,376,415)
Net investment in direct financing leases	$ 15,913,309	$ 15,636,691	$ 31,550,000

At June 30, 2011, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30		
2012	$	3,296,303
2013		3,300,252
2014		3,300,640
2015		3,307,115
2016		3,307,735
2017-2021		16,638,635
2022-2024		9,775,735
Total minimum lease payments	$	42,926,415

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		69,065,126
Less accumulated depreciation		(24,612,372)
Total asset value under capital leases	$	44,452,754

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	
2012	$ 4,862,605
2013	3,955,329
2014	3,465,929
2015	3,466,146
2016	3,473,586
2017-2021	11,125,092
2022-2023	1,990,900
Total minimum lease payments	32,339,587
Less: amount representing interest	(6,834,585)
Present value of minimum lease payments	$ 25,505,002

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

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

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$ 30,492,462	$ 29,700,233	$ 60,192,695
Less accumulated depreciation	(7,199,609)	(7,095,056)	(14,294,665)
Total asset value under capital leases	$ 23,292,853	$ 22,605,177	$ 45,898,030

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2012	$ 2,469,739	$ 3,084,425	$ 5,554,164
2013	2,461,668	3,113,219	5,574,887
2014	2,451,012	3,110,394	5,561,406
2015	2,451,021	3,112,856	5,563,877
2016	2,444,668	3,093,363	5,538,031
2017	2,442,177	3,094,143	5,536,320
Total minimum lease payments	14,720,285	18,608,400	33,328,685
Less: amount representing interest	(1,885,285)	(2,613,400)	(4,498,685)
Less: amount not drawn for leased facility	$ -	(1,810,729)	(1,810,729)
Present value of minimum lease payments	$ 12,835,000	$ 14,184,271	$ 27,019,271

The County has entered into a lease agreement in the amount of $22.6 million to finance the acquisition and implementation of new software systems - the County's 311 constituent resource management system, ERP financial management system, and the MCtime - timecard management system. The lease agreement represents proportionate interests in a funding agreement between the County and Chase Equipment Finance, Inc.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2011:

Fiscal Year Ending June 30	
2012	$ 3,631,087
2013	3,631,087
2014	3,631,086
2015	3,631,088
2016	3,631,088
2017	1,815,543
Total minimum lease payments	19,970,979
Less: amount representing interest	(1,820,359)
Present value of minimum lease payments	$ 18,150,620

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.

General obligation bond issues outstanding as of June 30, 2011, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2011
11/15/01 *	2003-19	3.6 - 5.25	$ 146,375,000	$ 102,010,000	$ 2,014,471	$ (2,580,618)	$ 101,443,853
02/01/02	2003-22	3.0 - 5.0	160,000,000	16,000,000	228,928	-	16,228,928
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	33,580,000	574,493	(434,305)	33,720,188
05/01/03	2004-23	1.5 - 4.0	155,000,000	77,500,000	460,808	-	77,960,808
05/01/03*	2004-11	2.0 - 5.0	49,505,000	3,515,000	-	-	3,515,000
03/15/04	2005-24	3.0 - 5.0	154,600,000	77,300,000	3,660,929	-	80,960,929
08/15/04*	2008-17	3.0 - 5.25	97,690,000	87,070,000	2,352,773	(2,880,441)	86,542,332
05/15/05	2006-25	4.0 - 5.0	200,000,000	100,000,000	6,046,679	-	106,046,679
06/01/05*	2005-16	3.781	120,355,000	120,355,000	7,569,379	(6,213,713)	121,710,666
05/01/06	2006-17	3.871	100,000,000	50,000,000	1,405,373	-	51,405,373
06/07/06	2017-26	Variable	100,000,000	100,000,000	-	-	100,000,000
05/01/07	2007-27	4.082	250,000,000	150,000,000	10,090,367	-	160,090,367
3/12/08*	2009-15	2.750 - 5.0	70,295,000	32,115,000	1,046,169	(459,321)	32,701,848
07/15/08	2009-29	3.0 - 5.0	250,000,000	225,000,000	5,872,468	-	230,872,468
11/03/09*	2011-20	2.0 - 5.0	161,755,000	161,755,000	17,014,423	(9,287,270)	169,482,153
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,619,733	-	233,619,733
11/17/09	2010-14	2.0 - 5.0	78,000,000	62,400,000	3,800,149	-	66,200,149
07/26/10	2011-22	2.0 - 5.0	195,000,000	195,000,000	22,693,320	-	217,693,320
07/26/10	2023-30	4.75 - 5.4	106,320,000	106,320,000	199,070	-	106,519,070
07/26/10	2023-30	4.75 - 5.4	23,680,000	23,680,000	44,338	-	23,724,338
Total			$2,744,170,000	$1,955,600,000	$86,693,870	$ (21,855,668)	$ 2,020,438,202

* 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 FY11 are as follows:

	Balance July 1, 2010	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2011
Governmental Activities:					
General County	$ 244,207,654	$ 86,780,000	$ 21,007,253	$ -	$ 309,980,401
Roads and Storm Drainage	368,244,452	66,600,000	33,606,359	-	401,238,093
Parks	56,791,205	9,500,000	5,305,351	-	60,985,854
Public Schools	838,635,316	99,100,000	68,853,524	-	868,881,792
Community College	84,867,155	42,020,000	5,900,783	-	120,986,372
Consolidated Fire Tax District	35,367,670	19,000,000	3,367,222	-	51,000,448
Mass Transit	41,714,229	2,000,000	1,187,189	-	42,527,040
Public Housing	11,604	-	11,604	-	-
	$1,669,839,285	$325,000,000	$139,239,285	$ -	$1,855,600,000

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

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2012	$ 157,265,000	$ 86,255,698	$ 243,520,698
2013	154,035,000	79,312,291	233,347,291
2014	148,080,000	71,442,173	219,522,173
2015	143,415,000	63,897,929	207,312,929
2016	138,220,000	56,966,241	195,186,241
2017-2021	601,485,000	198,316,174	799,801,174
2022-2026	419,970,000	93,338,441	513,308,441
2027-2030	193,130,000	20,777,205	213,907,205
Total	$ 1,955,600,000	$ 670,306,152	$ 2,625,906,152

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, 2011 is $8,190,276,345.

General obligation bonds authorized and unissued as of June 30, 2011, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and Consolidated Fire Tax District	43	2006	$ 92,000,000	$ 10,390,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
			611,800,000	530,190,000
Roads and Storm Drainage	12	2007	45,800,000	20,940,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
	54	2010	192,000,000	192,000,000
			338,400,000	313,540,000
Public Schools and Community College	36	2008	222,500,000	95,768,000
	22	2009	272,500,000	272,500,000
	54	2010	108,700,000	108,700,000
			603,700,000	476,968,000
Mass Transit	22	2009	57,100,000	31,005,000
	54	2010	32,600,000	32,600,000
			89,700,000	63,605,000
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
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,970,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$ 1,709,945,000	$ 1,445,403,000

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 the VRDOs, the County entered into a Standby Note Purchase Agreement on June 7, 2006, with Dexia Credit Local, acting through its New York Branch, which expired on June 7, 2011. On May 25, 2011, the County replaced the existing Standby Note Purchase Agreement with a Standby Note Purchase Agreement issued by Wells Fargo Bank, National Association which will expire on July 15, 2014. The Wells Fargo Note Purchase Agreement requires Wells Fargo to provide funds for the purchase of VRDOs that have been tendered and not remarketed pursuant to such 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, 2011, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011
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			$ 100,000,000	$ 100,000,000

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

Changes in VRDOs during FY11 are as follows:

	Balance July 1, 2010	VRDOs Issued	VRDOs Retired	Balance June 30, 2011
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
2012	$ -	$ 600,000	$ 600,000
2013	-	600,000	600,000
2014	-	600,000	600,000
2015	-	600,000	600,000
2016	-	600,000	600,000
2017-2021	50,000,000	2,400,000	52,400,000
2022-2026	50,000,000	900,000	50,900,000
Total	$ 100,000,000	$ 6,300,000	$ 106,300,000

* Includes interest on VRDOs at estimated rates of .600 percent for Series A and .600 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) <u>Revenue Bonds Payable</u>

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 and in 2011, the County issued $46.8 million and $34.6 million of revenue bonds respectively, secured by Department of Liquor Control revenues. The proceeds were used to purchase and to renovate 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. On April 28, 2011, the County issued an additional $34,360,000 to supplement these projects.

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

	Terms of Commitment	Approximate Amount of Pledge
Bethesda Parking Lot District	15	$ 39,223,644
Solid Waste Disposal Fund	2	6,828,000
Liquor Control	19	119,765,205
Total		$ 165,816,849

The pledged net revenues recognized during FY11 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service Principal	Debt Service Interest	Debt Service Total
Parking Lot District:				
Bethesda Parking Lot District	$ 11,388,501	$ 1,915,000	$ 1,355,235	$ 3,270,235
Silver Spring Parking Lot District	8,104,051	-	-	-
Solid Waste Disposal Fund:	7,929,829	3,550,000	460,750	4,010,750
Liquor Control Fund:	30,064,329	1,550,000	2,108,248	3,658,248

Revenue bond issues outstanding as of June 30, 2011, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2011
Parking Revenue								
Bethesda Parking Lot District 2002A	06/01/02	2003-21	3.00 - 4.75	$ 26,000,000	$ 16,165,000	$ (8,852)	$ -	$ 16,156,148
Bethesda Parking Lot District 2005A	08/31/05	2007-25	3.62 - 5.00	16,495,000	14,000,000	72,996	-	14,072,996
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	6,375,000	66,124	(72,392)	6,368,732
Liquor Control Revenue 2009:								
Liquor Control & Transportation 2009	05/12/09	2010-29	3.00 - 5.00	46,765,000	43,470,000	2,393,030	-	45,863,030
Liquor Control & Transportation 2011	04/28/11	2012-31	2.00 - 5.00	34,360,000	34,360,000	1,652,935	-	36,012,935
Total				$154,695,000	$114,370,000	$ 4,176,233	$ (72,392)	$ 118,473,841

Changes in revenue bond principal during FY11 are as follows:

	Balance July 1, 2010	Bonds Issued	Bonds Retired	Balance June 30, 2011
Bethesda Parking Lot District	$32,080,000	$ -	$1,915,000	$ 30,165,000
Solid Waste Disposal	9,925,000	-	3,550,000	6,375,000
Liquor Control	45,020,000	34,360,000	1,550,000	77,830,000
Total	$87,025,000	$34,360,000	$7,015,000	$ 114,370,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District Principal	Bethesda Parking Lot District Interest	Liquor Control Principal	Liquor Control Interest
2012	$ 1,995,000	$ 1,278,135	$ 2,825,000	$ 3,530,455
2013	2,085,000	1,194,010	2,790,000	3,561,750
2014	2,180,000	1,105,025	2,915,000	3,438,950
2015	2,275,000	1,013,663	3,055,000	3,295,200
2016	2,375,000	918,003	3,215,000	3,142,450
2017-2021	13,625,000	2,947,173	18,330,000	13,446,450
2022-2026	5,630,000	602,635	23,030,000	8,736,800
2027-2031	-	-	21,670,000	2,783,150
Total	$ 30,165,000	$ 9,058,644	$ 77,830,000	$ 41,935,205

Fiscal Year Ending June 30	Solid Waste Disposal Principal	Solid Waste Disposal Interest	Total Revenue Bond Requirements Principal	Total Revenue Bond Requirements Interest	Total Revenue Bond Requirements Total
2012	$ 3,690,000	$ 318,750	$ 8,510,000	$ 5,127,340	$ 13,637,340
2013	2,685,000	134,250	7,560,000	4,890,010	12,450,010
2014	-	-	5,095,000	4,543,975	9,638,975
2015	-	-	5,330,000	4,308,863	9,638,863
2016	-	-	5,590,000	4,060,453	9,650,453
2017-2021	-	-	31,955,000	16,393,623	48,348,623
2022-2026	-	-	28,660,000	9,339,435	37,999,435
2027-2031	-	-	21,670,000	2,783,150	24,453,150
Total	$ 6,375,000	$ 453,000	$ 114,370,000	$ 51,446,849	$ 165,816,849

Revenue bonds authorized and unissued as of June 30, 2011, 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	16-863	2009	60,000,000	56,875,000
Total			$ 253,098,000	$ 147,723,000

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	$1,459,918	$1,920,410	$ -
Debt Service Account - Used to pay debt service on bonds	273,911	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,652,754	-	4,382,960
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,894,265
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	24,149,860
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	1,897,710
Total	$4,886,583	$3,420,410	$ 34,324,795

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 FY11 are as follows:

	Balance July 1, 2010	BANs Issued	BANs Retired	Balance June 30, 2011
BAN Series 2002-M	$ 117,000,000	$ -	$ 117,000,000	$ -
BAN Series 2002-N	68,000,000	-	68,000,000	-
BAN Series 2002-P	115,000,000	-	15,000,000	100,000,000
BAN Series 2009-A	125,000,000	-	125,000,000	-
BAN Series 2010- Series 2010	-	200,000,000	-	200,000,000
BAN Series 2010- Series 2009	-	125,000,000	-	125,000,000
BAN Series 2010- Series 2010	-	75,000,000	-	75,000,000
Total	$ 425,000,000	$ 400,000,000	$ 325,000,000	$ 500,000,000

Interest earned on BAN proceeds totaling $130,638 was accounted for in the Debt Service Fund. During FY11 interest rates varied from .150 to .400 percent.

BANs totaling $400 million were issued during FY11; $200 million Series 2010 and $200 million Series 2009 respectively, 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, October 28, 2008, September 15, 2009, and November 30, 2010 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY12, and intends to use the proceeds to replace short-term notes that were issued to fund capital construction and improvements. In connection with the BANs, utilizing a competitive request for proposals process the County entered into credit agreements provided by State Street Bank and PNC Bank to borrow up to $300,000,000. These Agreements are each $150,000,000 and are for three-year terms; to expire on July 31, 2013. The county entered into a Credit Agreement with JPMorgan Chase to provide liquidity with respect to the 2009 Series Notes. Under the terms of the 2009 Credit agreement, the County may borrow up to $200,000,000 plus interest not to exceed 34 days interest at 10% per annum calculated on the basis of 365-day year on a revolving principal and interest; the credit agreement expires on August 24, 2012.

During FY11, the County passed Resolution No. 16-1567 dated November 23, 2010 to increase the County's authority to issue BANS by $721.3 million. Cumulative BANs authorized and unissued as of June 30, 2011, including amounts authorized and unissued from prior years, is $930,003,000.

5) Certificates of Participation

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of $23.0 million. In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue 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. 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 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2012	$ 6,515,000	$ 1,742,925	$ 8,257,925
2013	6,745,000	1,475,000	8,220,000
2014	6,370,000	1,212,600	7,582,600
2015	6,620,000	923,600	7,543,600
2016	6,885,000	640,000	7,525,000
2017 - 2018	10,800,000	434,900	11,234,900
Total	$ 43,935,000	$ 6,429,025	$ 50,364,025

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, 2011:

Fiscal Year Ending June 30	Equipment Notes Requirements Principal	Interest	Total
2012	$ 1,511,231	$ 126,088	$ 1,637,319
2013	1,083,777	85,161	1,168,938
2014	913,610	56,853	970,463
2015	871,941	30,550	902,491
2016	418,202	6,890	425,092
2017-2018	30,131	1,192	31,323
Total	$ 4,828,892	$ 306,734	$ 5,135,626

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 each year. 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 06/30/2011:

Fiscal Year Ending June 30	Promissory Note Requirements Principal	Interest	Total
2012	$ (26,400)	$ 426,400	$ 400,000
2013	(27,569)	427,569	400,000
2014	(28,791)	428,791	400,000
2015	(30,066)	430,066	400,000
2016	(31,398)	431,398	400,000
2017 - 2021	(179,130)	2,179,130	2,000,000
2022 - 2025	9,948,634	1,550,865	11,499,499
Total	$ 9,625,280	$ 5,874,219	$ 15,499,499

8) <u>Lease Revenue Bonds</u>

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 $42,926,415. 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 $3,343,109, included in Debt Service 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 FY11, pledged revenue of $3,292,009 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2011, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium	Carrying Value June 30, 2011
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$37,880,000	$28,110,000	$ 63,640	$28,173,640
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	3,440,000	12,083	3,452,083
Total				$42,625,000	$31,550,000	$ 75,723	$31,625,723

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
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	2,095,000	1,212,115	3,307,115
2016	2,185,000	1,122,735	3,307,735
2017-2021	12,595,000	4,043,635	16,638,635
2022-2024	8,900,000	875,735	9,775,735
Total	$ 31,550,000	$ 11,376,415	$ 42,926,415

9) <u>Taxable Limited Obligation Certificates</u>

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of $30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. Bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2011:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements Principal	Interest	Total
2012	$ 1,005,000	$ 1,496,585	$ 2,501,585
2013	1,045,000	1,456,385	2,501,385
2014	1,085,000	1,414,585	2,499,585
2015	1,130,000	1,371,185	2,501,185
2016	1,175,000	1,325,985	2,500,985
2017-2021	6,735,000	5,772,950	12,507,950
2022-2026	8,595,000	3,910,150	12,505,150
2027-2030	8,700,000	1,297,520	9,997,520
Total	$ 29,470,000	$ 18,045,345	$ 47,515,345

10) <u>HUD Loan</u>

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, 2011, for this loan is $569,000.

11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

Governmental Activities	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$1,669,839,285	$ 325,000,000	$(139,239,285)	$1,855,600,000	$157,265,000
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	425,000,000	400,000,000	(325,000,000)	500,000,000	500,000,000
Lease revenue bonds	33,320,000	-	(1,770,000)	31,550,000	1,845,000
Revenue Bonds	13,923,324	29,360,000	(479,368)	42,803,956	1,538,846
Subtotal	2,242,082,609	754,360,000	(466,488,653)	2,529,953,956	660,648,846
Add remaining original issue premium	79,097,565	28,107,877	(18,283,354)	88,922,088	-
Less deferred amount on refundings	(26,717,785)	-	4,862,117	(21,855,668)	-
Total Bonds and Notes Payable	2,294,462,389	782,467,877	(479,909,890)	2,597,020,376	660,648,846
Other Liabilities:					
Certificates of participation	50,255,000	-	(6,320,000)	43,935,000	6,515,000
Taxable limited obligation certificates	30,400,000	-	(930,000)	29,470,000	1,005,000
HUD loan	612,000	-	(43,000)	569,000	43,000
WSSC Promissory Note	9,600,000	25,280	-	9,625,280	426,400
Equipment notes	3,685,942	3,893,967	(2,751,018)	4,828,891	1,511,231
Compensated absences	72,573,420	52,802,495	(44,125,489)	81,250,426	60,937,820
Other postemployment benefits	177,853,409	145,305,800	(39,626,938)	283,532,271	-
Capital leases	81,564,283	25,000	(10,432,543)	71,156,740	10,869,937
Claims and judgments	600,000	1,390,101	-	1,990,101	1,990,101
Subtotal	427,144,054	203,442,643	(104,228,988)	526,357,709	83,298,489
Add remaining original issue premium	289,512	-	(24,861)	264,651	-
Total Other Liabilities	427,433,566	203,442,643	(104,253,849)	526,622,360	83,298,489
Governmental Activities Long-Term Liabilities	$2,721,895,955	$ 985,910,520	$(584,163,739)	$3,123,642,736	$743,947,335
Business-Type Activities					
Revenue Bonds:					
Liquor Control	31,096,676	5,000,000	(1,070,632)	35,026,044	1,286,154
Parking revenue bonds	32,080,000	-	(1,915,000)	30,165,000	1,995,000
Solid waste disposal revenue refunding bonds	9,925,000	-	(3,550,000)	6,375,000	3,690,000
Subtotal	73,101,676	5,000,000	(6,535,632)	71,566,044	6,971,154
Add remaining original issue premium	2,042,412	243,931	(253,753)	2,032,590	-
Less remaining original issue discount	(10,486)	-	1,634	(8,852)	-
Less deferred amount on refundings	(160,019)	-	87,627	(72,392)	-
Total General Obligation and Revenue Bonds	74,973,583	5,243,931	(6,700,124)	73,517,390	6,971,154
Other Liabilities:					
Compensated absences	5,117,578	863,690	(283,567)	5,697,701	4,273,278
Other postemployment benefits	2,859,180	5,530,200	(4,424,158)	3,965,222	-
Equipment notes	252,610	-	(170,828)	81,782	81,782
Landfill closure costs	18,880,923	44,000	(1,294,800)	17,630,123	1,049,790
Total Other Liabilities	27,110,291	6,437,890	(6,173,353)	27,374,828	5,404,850
Business-Type Activities Long-Term Liabilities	$ 102,083,874	$ 11,681,821	$ (12,873,477)	$ 100,892,218	$ 12,376,004

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, $2,515,443 ($1,886,583 due within one year and $628,860 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) <u>Conduit Debt Obligations</u>

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 issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution 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, 2011, there were 26 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, 2011, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $167,560,000. The principal amount payable at June 30, 2011, for bonds issued after July 1, 1996, totaled $294,986,802.

13) <u>Special Taxing Districts</u>

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.

The County Council terminated the Clarksburg Town Center development district in October 2010, therefore, no bonds were issued and no special taxes or assessments were levied for the Clarksburg Town Center Development District.

In March 2010, the County adopted a new sector plan for the White Flint area of north Bethesda. This smart-growth master plan attempts to transform the area into a pedestrian-friendly, transit-oriented, urban setting that is expected to be a leading economic engine for the County. To successfully implement the sector plan, the County adopted legislation (Bill 50-10, December 2010) to create a new special taxing district in the White Flint area, along with an implementation strategy and a list of the infrastructure necessary to successfully implement that strategy (Resolution No.16-1570, December 2010).

Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy resolution by facilitating repayment of bonds authorized by the legislation.

COMPONENT UNITS

At June 30, 2011, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 74,977,121	$ 661,716,639	$ 736,693,760
Capital leases payable	246,438	20,478,213	20,724,651
Notes and other payable	26,201,702	110,592,944	136,794,646
Total	$ 101,425,261	$ 792,787,796	$ 894,213,057

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

Purpose	
Multi-Family Mortgage Purchase Program Fund	$ 432,396,933
Single Family Mortgage Purchase Program Fund	304,296,827
Total	$ 736,693,760

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.35 to 11.25 percent and 0.50 to 6.75 percent, respectively, as of June 30, 2011.

Pursuant to Section 15 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	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2012	$ 32,650,000	$ 1,126,455	$ 33,776,455
2013	370,000	464,058	834,058
2014	385,000	446,500	831,500
2015	405,000	427,834	832,834
2016	0	418,215	418,215
2017-2021	2,880,000	2,019,075	4,899,075
2022-2026	0	1,371,075	1,371,075
2027-2031	5,430,000	685,538	6,115,538
Total	$ 42,120,000	$ 6,958,750	$ 49,078,750

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
2012	$ 74,977,118	$ 24,112,164	$ 99,089,282
2013	17,729,620	22,837,212	40,566,832
2014	18,966,304	22,208,683	41,174,987
2015	19,918,199	21,556,074	41,474,273
2016	21,545,299	20,939,115	42,484,414
2017-2021	88,522,640	94,744,645	183,267,285
2022-2026	90,400,911	78,217,057	168,617,968
2027-2031	137,425,422	60,688,241	198,113,663
2032-2036	101,020,000	36,563,826	137,583,826
2037-2041	131,555,000	19,380,567	150,935,567
2042-2046	24,840,000	6,417,133	31,257,133
2047-2051	8,830,000	1,236,142	10,066,142
2052-2056	830,000	16,268	846,268
Unamortized Bond Discount	133,247	-	133,247
Total	$ 736,693,760	$ 408,917,127	$ 1,145,610,887

Changes in the HOC revenue bonds during FY11 are as follows:

Purpose	Balance July 1, 2010	Bonds Issued*	Bonds Retired	Balance June 30, 2011
Multi-Family Mortgage Purchase Program Fund	$ 438,500,891	$ 117,956,042	$ 124,060,000	$ 432,396,933
Single Family Mortgage Purchase Program Fund	328,760,828	16,995,174	41,459,175	304,296,827
Total	$ 767,261,719	$ 134,951,216	$ 165,519,175	$ 736,693,760

* 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, 2010	$ 249,592,047
Issuances during the year	-
Redemptions during the year	(305,190)
Bonds outstanding, June 30, 2011	$ 249,286,857

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, 2011, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 23,135,807	$ 2,632,338	$ 7,566,130
Due from component units	52,971	-	87,550
Other assets	34,431,661	3,420,410	5,301,832
Capital assets	43,291,922	83,515,484	77,279,415
Total Assets	100,912,361	89,568,232	90,234,927
LIABILITIES			
Current liabilities	10,991,501	1,656,446	3,562,180
Due to other funds	161,741	29,321	31,268
Long-term liabilities	19,903,469	164,613	28,368,194
Total Liabilities	31,056,711	1,850,380	31,961,642
NET ASSETS			
Invested in capital assets, net of related debt	36,923,190	83,433,702	47,050,271
Restricted for debt service	34,324,795	3,420,410	4,886,583
Unrestricted	(1,392,335)	863,740	6,336,431
Total Net Assets	$ 69,855,650	$ 87,717,852	$ 58,273,285

* 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	$ 99,202,688	$ 8,618,466	$ 10,935,126
Licenses and permits	3,335	-	-
Fines and penalties	47,576	2,524,512	5,322,323
Total Operating Revenues (pledged against bonds)	99,253,599	11,142,978	16,257,449
Depreciation	2,404,365	5,569,137	4,926,096
Other operating expenses	91,656,696	9,490,979	7,829,314
Operating Income (Loss)	5,192,538	(3,917,138)	3,502,039
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	6,018,718	2,748,427
Gain (loss) on disposal of capital assets	125,641	1,270,390	-
Investment income	99,517	1,330	40,136
Interest expense	(517,570)	(5,840)	(1,369,435)
Other revenue	107,768	431,938	171,754
Transfers out	(2,044,640)	(4,931,542)	(10,034,510)
Change in Net Assets	2,963,254	(1,132,145)	(4,941,589)
Beginning Net Assets	66,892,396	88,849,997	63,214,874
Ending Net Assets	$ 69,855,650	$ 87,717,852	$ 58,273,285

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 6,207,598	$ 2,684,958	$ 8,610,171
Noncapital financing activities	(2,044,640)	1,087,176	(7,286,083)
Capital and related financing activities	(5,208,654)	(2,793,812)	(5,631,779)
Investing activities	15,778	1,330	2,976
Net Increase (Decrease)	(1,029,918)	979,652	(4,304,715)
Beginning Cash and Cash Equivalents	51,115,932	3,781,692	13,929,191
Ending Cash and Cash Equivalents	$ 50,086,014	$ 4,761,344	$ 9,624,476

* Includes Solid Waste Leafing

H) Fund Equity

1) Governmental Fund Balances

The governmental fund balances at June 30, 2011 are composed of the following:

	General	Major Special Revenue Funds: Revenue Stabilization	Major Special Revenue Funds: Housing Initiative	Debt Service	Capital Projects	Other Non-Major Governmental Funds
Fund Balances:						
Nonspendable:						
Inventory	$ 3,842,213	$ -	$ -	$ -	$ 4,349,690	$ -
Long term receivables	-	-	189,732,382	-	13,443,045	4,741,121
Prepaids	339,269	-	-	-	2,500	42,555
Restricted for:						
Public works and transportation	-	-	-	-	-	387,675
Culture and recreation	-	-	-	-	-	2,443,887
Community development and housing	-	-	6,965,096	-	-	-
Environment	-	-	-	-	-	2,026,728
Other Purposes	-	94,537,588	-	3,343,109		7,139,622
Committed to:						
Public safety	-	-	-	-	-	3,681,702
Public works and transportation	80,340	-	-	-	-	6,617,808
Culture and recreation	3,277,440	-	-	-	-	1,453,341
Community development and housing	787,659	-	266,543	-	-	-
Environment	-	-	-	-	-	6,717,302
Education	8,067,828	-	-	-	-	-
Capital Projects	-	-	-	-	77,879,185	-
Other Purposes	11,062,479	-	-	-	-	494,138
Assigned to:						
Public safety	2,131,925	-	-	-	-	-
Public works and transportation	2,256,571	-	-	-	-	-
Health and human services	1,313,227	-	-	-	-	-
Culture and recreation	682,905	-	-	-	-	-
Community development and housing	21,146	-	-	-	-	-
Environment	13,848	-	-	-	-	-
Other Purposes	4,603,334	-	-	-	-	-
Unassigned:	69,031,737	-	-	-	-	(16,187,982)
Total fund balances	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ 3,343,109	$ 95,674,420	$ 19,557,897
Summary of fund balances:						
Nonspendable	$ 4,181,482	$ -	$ 189,732,382	$ -	$ 17,795,235	$ 4,783,676
Restricted	-	94,537,588	6,965,096	3,343,109	-	11,997,912
Committed	23,275,746	-	266,543	-	77,879,185	18,964,291
Assigned	11,022,956	-	-	-	-	-
Unassigned	69,031,737	-	-	-	-	(16,187,982)
Total fund balances	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ 3,343,109	$ 95,674,420	$ 19,557,897

2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2011, certain amounts which were available for specific purposes have been encumbered in the governmental funds. Encumbrances are included in the County's governmental fund balances are as follows:

Governmental Fund		Restricted/Committed or Assigned Fund Balance
General Fund	$	11,022,956
Housing Initiative		266,543
Capital Projects		77,879,185
Non-major Governmental Funds		3,755,608
Total Governmental Funds	$	92,924,292

The fund balances of the following governmental funds do not include the encumbrances which otherwise meet the criteria for restricted, committed or assigned fund balance:

Governmental Fund		Encumbrances not included in Fund Balance
Grants	$	9,174,191
Debt Service		1,154,946
Capital Projects		267,846,918
Fire Tax District		299,801
Total Governmental Funds	$	278,475,856

3) 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	$ 339,662,674
Business-type activities	10,185,601
Total	$ 349,848,275

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, 2011:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$ 1,416,575,854	$ 5,988,811	$ 1,422,564,665	$ 176,887,746	$ 1,599,452,411
MCC	99,989,930	2,519,862	102,509,792	20,828,802	123,338,594
HOC	6,293,617	-	6,293,617	1,700,396	7,994,013
Total	$ 1,522,859,401	$ 8,508,673	$ 1,531,368,074	$ 199,416,944	$ 1,730,785,018

* 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 $3,971,400 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 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, 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 FY11 and FY10 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2009	$ 88,136,000	$ 6,800,208
Claims and changes in estimates	35,825,614	98,011,667
Claim payments [1]	(29,128,614)	(97,609,306)
Balance June 30, 2010	94,833,000	7,202,569
Claims and changes in estimates	39,611,783	93,345,399
Claim payments [1]	(32,418,783)	(93,036,561)
Balance June 30, 2011 [2,3]	$ 102,026,000	$ 7,511,407

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of $52,742,000 and $7,529,407 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 $18,000 is not included in the schedule. Claims payable including Life IBNR is $7,529,407.

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 $62,467,000, which has been fully accrued through June 30, 2011. Of the total amount accrued, $41,321,077 in actual costs has been paid out in prior years, and $1,294,800 was paid in FY11, resulting in a net liability of $17,630,123 at June 30, 2011. The current and non-current portions of the adjusted liability at year-end are estimated at $1,049,790 and $16,580,333 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) <u>Pollution Remediation</u>

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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 FY11 and may not be until FY12. 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) <u>Litigation</u>

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 $1,990,101. In accordance with general accepted accounting principles, this amount has been reflected as a liability in the accompanying financial statements, given that the claims are determined to be probable.

4) <u>Grants, Entitlements, and Shared Revenues</u>

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, 2011, 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, 2011, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 32,255	$ -	$ 7,181,877	$ 7,214,132
Solid Waste Activities:				
Disposal operations	10,310,631	-	-	10,310,631
Collection operations	417,955	-	-	417,955
Parking Lot Districts:				
Silver Spring	1,374,119	1,122,060	-	2,496,179
Bethesda	550,475	1,359,087	-	1,909,562
Wheaton	101,247	134,218	-	235,465
Montgomery Hills	16,128	-	-	16,128
Subtotal	12,802,810	2,615,365	7,181,877	22,600,052
Nonmajor Funds:				
Permitting Services	158,830	-	-	158,830
Community Use of Public Facilities	383	-	-	383
Subtotal	159,213	-	-	159,213
Total Enterprise Funds	12,962,023	2,615,365	7,181,877	22,759,265
Internal Service Funds:				
Motor Pool	1,136,150	-	4,223,363	5,359,513
Central Duplicating	497,952	-	-	497,952
Employee Health Benefits Self-Insurance	2,722,160	-	-	2,722,160
Total Internal Service Funds	4,356,262	-	4,223,363	8,579,625
Total Proprietary Funds	$ 17,318,285	$ 2,615,365	$ 11,405,240	$ 31,338,890

As of June 30, 2011, the County has $6,995,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 7, 2011, the County issued a Purchase Agreement totaling $20,900,000 to finance public safety system communication Equipment. On August 3, 2011, the County issued General Obligation Bonds (Tax-Exempt, Series A) in the amount of $320,000,000 and General Obligation Refunding Bonds (Tax-Exempt, Series A) amounting to $237,655,000. Subsequent to closing, the County retired commercial paper bond anticipation notes (BANS) totaling $356,000,000; $112,200,000 for 2009 series and $243,800,000 for 2010 series. On August 10, 2011, the County issued Taxable Limited Obligation Certificates totaling $28,840,000. The County issued Lease Revenue and Refunding Bonds totaling $35,465,000 for Metrorail projects including the Glenmont metrorail garage on September 27, 2011 . On September 30, the County entered into a Master Lease- Purchase Agreement to finance the acquisition and installation of new information technology systems totaling $12,922,618.

D) Joint Ventures

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2011, M-NCPPC had outstanding notes payable and bonds payable in the amount of $97,757,611, of which $2,240,614 was self-supporting. Of the total amount payable, $13,745,848 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, 2011, is $29,166,493, 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, 2011, WSSC had outstanding notes payable and bonds payable in the amount of $1,426,620,000, which was fully self-supporting. Of the total amount payable, $300,451,000 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, 2011, 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 Maryland 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 $72,746 to WSTC during FY11.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of 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 sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government 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 Metrorail and Metrobus 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 that the State provide 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 FY11, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 53,006,974
Rail operating subsidy	22,453,803
Americans with Disabilities Act service	24,147,209
MetroMatters program	4,955,550
Capital Improvement Program	22,271,476
Project Development Program	506,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	22,089,042
Total	$154,297,554

At June 30, 2011, WMATA had outstanding bonds payable of $337,510,000, of which $32,160,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY11 membership dues and fees for services amounting to $742,928.

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, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. 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, 2011, NEMWDA had outstanding bonds payable in the amount of $139,935,000 of which $22,400,000 represented debt due within one year. Of these amounts, $134,140,000 is related to the Project, $20,420,000 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 FY11 amounted to $38,011,506.

E) Employee Benefits

1) Deferred Compensation

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

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

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

2) Annual, Sick Leave, and Other Compensated Absences

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

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY11, the County and its employees contributed $91,159,880 and $30,299,820, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $692,310, $3,168,411, and $187,615 for these component units, respectively, for FY11.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

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

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

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. 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 earnings.

Funding Policy - Required employee contribution rates varying from 3 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.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non -public safety and public safety employees, respectively.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY11 were based on an actuarial valuation as of June 30, 2009, 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 FY10 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2009	$ 109,567,014	100 %	$ -
2010	113,957,784	100	-
2011	109,343,933	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, unless they elect to participate in the GRIP. 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 non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency 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 FY11 were $16,071,953 and $8,685,919, respectively. In accordance with IRS regulations and the County Code, $600,000 in accumulated revenue was used to reduce employer contributions in FY11.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan. For employees who elected to participate in the GRIP, the $31.5 million transfer of their member account balances from the Plan to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

3) Other

The County contributed $1,030,360 during FY11 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 $1,283,309 in FY11 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 494 recipients comprising former volunteers and their beneficiaries at the end of FY11. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is $20,740,159.

G) 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, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union 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, 2010, the most recent actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	8,083
Active plan members	9,624
Total	17,707

Condensed FY11 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	$ 54,077,267	Contributions	$ 61,389,119
Other assets	5,707,596	Net investment income (loss)	9,988,452
Total Assets	59,784,863	Total Additions, net	71,377,571
LIABILITIES		**DEDUCTIONS**	
Claims payable	4,492,121	Benefits	51,071,129
Other liabilities	29,881	Administrative	3,191,143
Total Liabilities	4,522,002	Total Deductions	54,262,272
NET ASSETS:		Change in Net Assets	17,115,299
Held in trust for other		Beginning Net Assets	38,147,562
postemployment benefits	$ 55,262,861	Ending Net Assets	$ 55,262,861

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 FY11, plan members and beneficiaries receiving benefits contributed $17,338,021 (approximately 32 percent of current contributions). The County and other contributing entities contributed $44,051,098, including $36,762,808 (approximately 68 percent of current contributions) for current premiums, claims and administrative expenses, and $7,288,290 toward prefunding future benefits.

Funding Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation, the actuarial accrued liability (AAL) was $1,737,436,000 and there was $38,168,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was $1,699,268,000. The annual covered payroll of active employees covered by the Plan was $665,746,000 and the ratio of the UAAL to covered payroll was 255.2 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 fourth year of that eight year phase in.

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY11 was based on an actuarial valuation as of June 30, 2010, the latest valuation available on the date the County Council was required to approve the FY11 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2011 were as follows:

Annual required contribution (ARC)	$ 147,582,000
Interest on net OPEB obligation	3,254,000
Annual OPEB cost	150,836,000
Contributions made	44,051,098
Increase in net OPEB obligation	106,784,902
Net OPEB obligation - beginning of year	180,712,589
Net OPEB obligation - end of year	$ 287,497,491

The County's annual required contribution and the net OPEB obligation of the plan for the current and prior two years were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2009	$113,139,000	51.4 %	$113,534,939
2010	109,738,000	38.8	180,712,589
2011	150,836,000	29.2	287,497,491

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, 2010
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	6.0%
Salary scale	4.25%
Inflation rate	3%
Mortality	RP 2000 projected 30 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	9.5%, 5.0%
Medical (excluding Indemnity plan) post-65	7.5%, 5.0%
Medical (Indemnity plan)	10.5%, 5.0%
Prescription drugs	8.0%, 5.0%
Dental	5.5%, 4.5%

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