# MONTGOMERY COUNTY
# MARYLAND

## *Comprehensive Annual Financial Report*

***Fiscal Year 2013***

**July 1, 2012 - June 30, 2013**
**Rockville, Maryland**

# MONTGOMERY COUNTY
# MARYLAND

## *Comprehensive Annual Financial Report*


**Prepared by the**
**DEPARTMENT OF FINANCE**

**Joseph F. Beach, Director**
**101 Monroe Street**
**Rockville, Maryland 20850**
**240-777-8860**


**Fiscal Year 2013**

**July 1, 2012 - June 30, 2013**

Montgomery County, Maryland
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# FINANCIAL SECTION

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

**INDEPENDENT AUDITORS' REPORT**

The Honorable County Council
of Montgomery County, Maryland

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 17 percent, 6 percent, and 8 percent, respectively, of the assets, net position and revenues of the non-major component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audit and the report 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 Montgomery County, Maryland as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information for the general, housing initiative and grants funds, and the Consolidated Retiree Health Benefits Trust, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Arlington, Virginia
December 20, 2013

**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 and deferred outflows of the County exceeded its liabilities at the close of FY13 by $1,417.3 million. That amount is net of a $1,097.4 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 $1,471.3 million at June 30, 2013. Absent the effect of this relationship, the County would have reported government-wide unrestricted net position of $373.9 million.

- The County's total government-wide net position increased by $94.4 million.

- As of the close of FY13, the County's governmental funds reported combined ending fund balances of $801.1 million; an increase of $45.4 million over the prior year's ending fund balances. Of the total ending fund balances, $234.9 million is available for spending at the County's discretion.

- At the end of FY13, unassigned fund balance for the General Fund was $238.9 million, or 9.3 percent of total General Fund expenditures.

- The County's government-wide long-term debt and obligations increased by $201.0 million during FY13. The key factors in this increase are:
  - The issuance of $352.5 million in general obligation (GO) bonds, used to refund $326.0 million in bond anticipation notes (BANS), and the issuance of an additional $326.0 million in BANS
  - Net increase in Other Postemployment Benefits obligation of $48.3 million
  - The retirement of $164.3 million in GO bond principal.
  - Revenue Bonds were issued in the amount of $43.3 million for Water Quality Protection.

## 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 24.***

**Government-Wide Financial Statements**
*Provides information on governmental and business-type activities of the primary government.*
***Pages 27 to 29.***

**Fund Financial Statements**
*Provides information on the financial position of specific funds of the primary government.*
***Pages 30 to 39.***

**Component Units**
*Provides information on the County's component units.*
***Pages 40 to 41.***

**Notes to Financial Statements**
*Provides a summary of significant accounting policies and related disclosures.*
***Pages 43 to 120.***

**Government-Wide Financial Statements**

The government-wide financial statements report information about the County as a whole using accounting methods similar to those used by private-sector businesses. In addition, they report the County's net position and how they have changed during the fiscal year.

The first government-wide statement - the statement of net position- presents information on all of the County's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the four reported as net position. Over time, increases or decreases in net position 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 second statement-the statement of activities—presents information showing how the County's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The information on governmental activities included in the statement 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 five major governmental funds – General, Debt Service, 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 Position**

The following presents a summary of the Statements of Net position for the County as of June 30, 2013 and 2012:

**Summary of Net Position ***
**June 30, 2013 and 2012**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Assets: | | | | | | |
| Current and other assets | $ 1,619,781,091 | $ 1,535,312,047 | $ 216,412,383 | $ 211,399,140 | $ 1,836,193,474 | $ 1,746,711,187 |
| Capital assets, net | 3,561,334,107 | 3,352,484,513 | 268,523,855 | 254,668,972 | 3,829,857,962 | 3,607,153,485 |
| Total Assets | 5,181,115,198 | 4,887,796,560 | 484,936,238 | 466,068,112 | 5,666,051,436 | 5,353,864,672 |
| Liabilities: | | | | | | |
| Long-term liabilities outstanding | 3,780,160,937 | 3,574,662,183 | 115,002,675 | 119,427,445 | 3,895,163,612 | 3,694,089,628 |
| Other liabilities | 311,235,788 | 295,737,611 | 42,383,434 | 41,191,110 | 353,619,222 | 336,928,721 |
| Total Liabilities | 4,091,396,725 | 3,870,399,794 | 157,386,109 | 160,618,555 | 4,248,782,834 | 4,031,018,349 |
| Net position: | | | | | | |
| Net investment in capital assets | 1,932,495,036 | 1,880,813,780 | 191,266,741 | 185,300,678 | 2,123,761,777 | 2,041,539,458 |
| Restricted | 296,564,191 | 502,059,858 | 94,329,133 | 93,254,622 | 390,893,324 | 595,314,480 |
| Unrestricted (deficit) | (1,139,340,754) | (1,365,476,872) | 41,954,255 | 26,894,257 | (1,097,386,499) | (1,314,007,615) |
| Total Net Position | $ 1,089,718,473 | $ 1,017,396,766 | $ 327,550,129 | $ 305,449,557 | $ 1,417,268,602 | $ 1,322,846,323 |

* Primary Government

The County's current and other assets increased by $89.5 million or 5.1 percent from FY12. The County's assets exceeded its liabilities at the close of FY13 by $1,417.3 million. By far the largest portion of the County's net position reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $1,471.3 million at June 30, 2013. Absent the effect of this relationship, the County would have reported government-wide unrestricted net position of $373.9 million. An additional portion of the County's net position ($386.9 million or 27.3 percent) represents resources that are subject to restrictions on how they may be used.

The County's total net position increased by $94.4 million for FY13 or 7.0 percent over FY12.

## Statement of Activities

The following table summarizes the County's change in net position for the years ended June 30, 2013 and 2012:

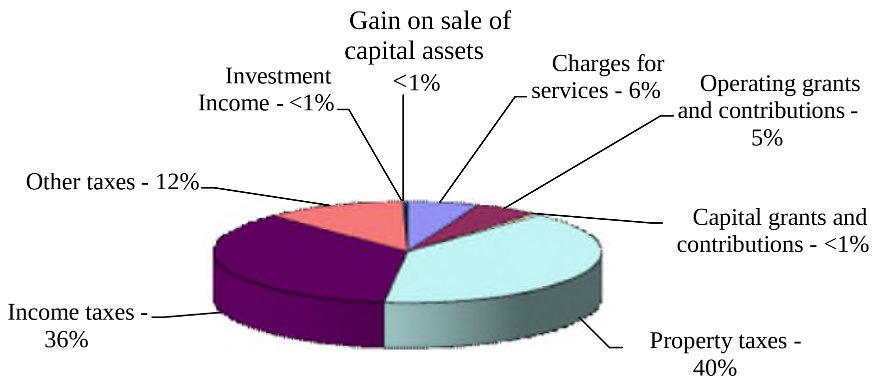
| Summary of Changes in Net Position * For the Fiscal Years Ended June 30, 2013 and 2012 | | | | | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | $ 217,536,545 | $ 198,420,598 | $ 455,875,247 | $ 441,479,602 | $ 673,411,792 | $ 639,900,200 |
| Operating grants and contributions | 195,874,335 | 165,428,771 | - | - | 195,874,335 | 165,428,771 |
| Capital grants and contributions | 23,414,475 | 61,263,275 | - | - | 23,414,475 | 61,263,275 |
| General revenues: | | | | | | |
| Property taxes | 1,463,855,656 | 1,395,693,492 | 10,063,874 | 8,503,222 | 1,473,919,530 | 1,404,196,714 |
| Income taxes | 1,311,161,472 | 1,265,289,159 | - | - | 1,311,161,472 | 1,265,289,159 |
| Other taxes | 433,751,496 | 422,095,840 | - | - | 433,751,496 | 422,095,840 |
| Investment income | 8,036,630 | 7,035,479 | 51,852 | 43,202 | 8,088,482 | 7,078,681 |
| Gain on sale of capital assets | 4,965,531 | 1,103,216 | - | 42,544,670 | 4,965,531 | 43,647,886 |
| Total Revenues | 3,658,596,140 | 3,516,329,830 | 465,990,973 | 492,570,696 | 4,124,587,113 | 4,008,900,526 |
| EXPENSES | | | | | | |
| Governmental Activities: | | | | | | |
| General government | 400,023,515 | 351,138,451 | - | - | 400,023,515 | 351,138,451 |
| Public safety | 609,565,746 | 600,877,545 | - | - | 609,565,746 | 600,877,545 |
| Public works and transportation | 278,716,716 | 263,586,549 | - | - | 278,716,716 | 263,586,549 |
| Health and human services | 272,032,818 | 256,703,043 | - | - | 272,032,818 | 256,703,043 |
| Culture and recreation | 93,965,468 | 93,560,027 | - | - | 93,965,468 | 93,560,027 |
| Community development and housing | 37,821,686 | 46,198,670 | - | - | 37,821,686 | 46,198,670 |
| Environment | 28,913,062 | 28,584,840 | - | - | 28,913,062 | 28,584,840 |
| Education | 1,797,097,286 | 1,751,721,080 | - | - | 1,797,097,286 | 1,751,721,080 |
| Interest on long-term debt | 112,841,235 | 116,354,151 | - | - | 112,841,235 | 116,354,151 |
| Business-type Activities: | | | | | | |
| Liquor control | - | - | 225,759,582 | 220,242,176 | 225,759,582 | 220,242,176 |
| Solid waste activities | - | - | 106,039,038 | 99,723,180 | 106,039,038 | 99,723,180 |
| Parking lot districts | - | - | 30,321,385 | 29,724,042 | 30,321,385 | 29,724,042 |
| Permitting services | - | - | 27,534,056 | 25,039,256 | 27,534,056 | 25,039,256 |
| Community use of public facilities | - | - | 9,533,241 | 8,890,716 | 9,533,241 | 8,890,716 |
| Total Expenses | 3,630,977,532 | 3,508,724,356 | 399,187,302 | 383,619,370 | 4,030,164,834 | 3,892,343,726 |
| Net Position Before Transfers | 27,618,608 | 7,605,474 | 66,803,671 | 108,951,326 | 94,422,279 | 116,556,800 |
| Transfers | 44,703,099 | 47,986,288 | (44,703,099) | (47,986,288) | - | - |
| Change in Net Position | 72,321,707 | 55,591,762 | 22,100,572 | 60,965,038 | 94,422,279 | 116,556,800 |
| Net Position, beginning of year | 1,017,396,766 | 961,805,004 | 305,449,557 | 244,484,519 | 1,322,846,323 | 1,206,289,523 |
| Net Position, end of year | $ 1,089,718,473 | $ 1,017,396,766 | $ 327,550,129 | $ 305,449,557 | $ 1,417,268,602 | $ 1,322,846,323 |

* Primary Government

## Governmental Activities

Revenues for the County's governmental activities were $3,658.6 million for FY13. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities**
**For the Fiscal Year Ended June 30, 2013**




- Taxes constitute the largest source of County revenues, amounting to $3,208.8 million for FY13.

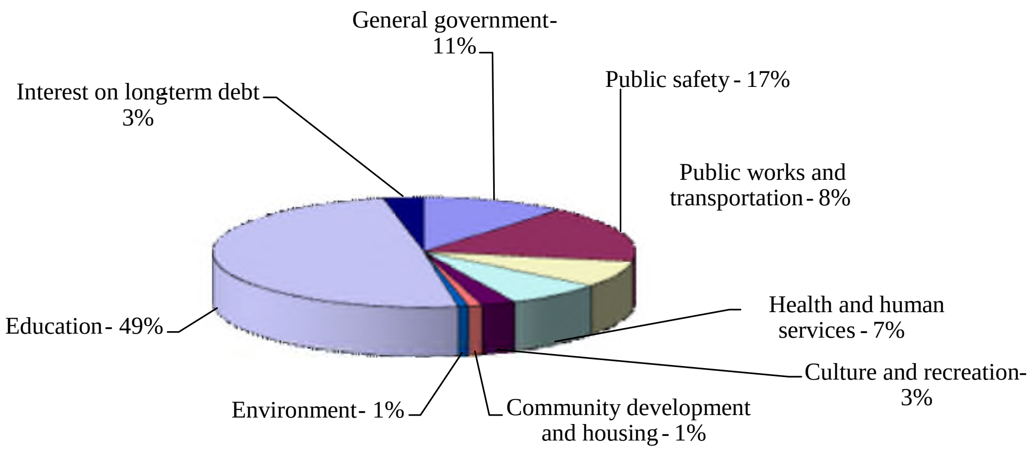
- Property and local income tax combined comprise 75.8 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2013 and 2012. There is no local 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 ($105.2 million or 53.7 percent), public works and transportation ($34.6 million or 17.7 percent) and public safety ($37.5 million or 19.2 percent).

A more detailed discussion of the County's revenue results for FY13 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 FY13 was $3,630.9 million. As the chart on the next page indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1,797.0 million. Public safety expenses totaled $609.6 million, general government services totaled $400.0 million, and Public Works and Transportation, the fourth largest expense for the County, totaled $278.7 million.

**Expenses by Function - Governmental Activities**
**For the Fiscal Year Ended June 30, 2013**




**For the Fiscal Years Ended June 30, 2013 and 2012**

| | Expenses | | Revenues | | Net Cost of Services | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Education | $ 1,797,097,286 | $ 1,751,721,080 | $ - | $ - | $ 1,797,097,286 | $ 1,751,721,080 |
| Public safety | 609,565,746 | 600,877,545 | 84,302,734 | 70,831,963 | 525,263,012 | 530,045,582 |
| General government | 400,023,515 | 351,138,451 | 79,700,459 | 80,262,370 | 320,323,056 | 270,876,081 |
| Public works and transportation | 278,716,716 | 263,586,549 | 77,468,212 | 95,806,572 | 201,248,504 | 167,779,977 |
| Health and human services | 272,032,818 | 256,703,043 | 110,206,238 | 92,830,929 | 161,826,580 | 163,872,114 |
| Culture and recreation | 93,965,468 | 93,560,027 | 51,778,244 | 45,215,425 | 42,187,224 | 48,344,602 |
| Other | 179,575,983 | 191,137,661 | 33,369,468 | 40,165,385 | 146,206,515 | 150,972,276 |
| Total | $ 3,630,977,532 | $ 3,508,724,356 | $ 436,825,355 | $ 425,112,644 | $ 3,194,152,177 | $ 3,083,611,712 |

Of the total cost of governmental activities of $3,630.9 million, $436.8 million was paid by those who directly benefited from the programs ($217.5 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($219.3 million). Of the $3,194.1 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $3,208.8 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:

- Education:
  - $45.3 million increase in resources spent on education

- Public Works and Transportation:
  - $33.5 million decrease in public works and transportation resources primarily due to decreased capital grants and contributions

- General Government:
  - $48.9 million increase in expenses due primarily to additional contributions to the County's consolidated retiree health trust

- Culture and Recreation:
  - $6.5 million increase in culture and recreation revenues including a significant increase in operating grants and contributions

**Business-type Activities**

Highlights of the County's business-type activities for FY13 are as follows:

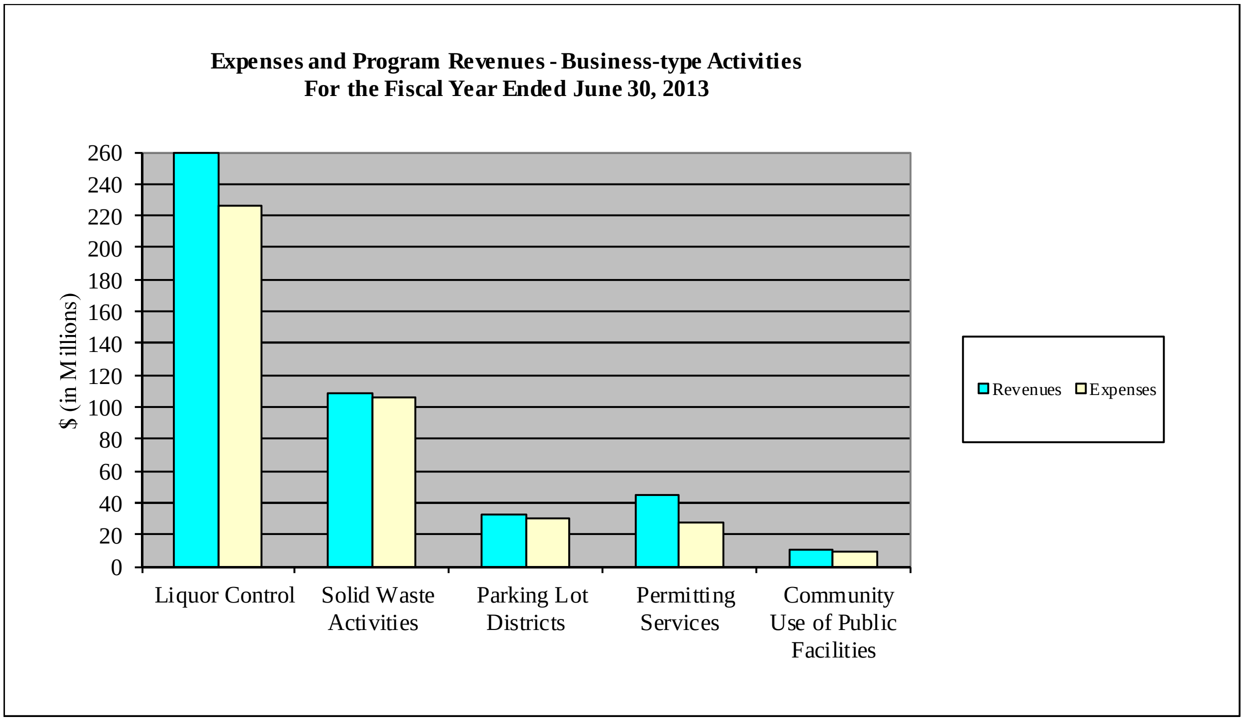
- Business-type activities experienced an increase in net position of $22.1 million for FY13. This amount is reported after total net transfers out of $44.7 million. The most significant components of the increase include:
  - $7.4 million increase in net position related to liquor control; and
  - $14.3 million increase in net position due to increase in fee revenue for licenses and permits.

- Charges for services to users comprise 97.8 percent of revenues, with $259.3 million (56.9 percent of charges for services revenue) attributable to liquor control operations and $108.8 million (23.9 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.

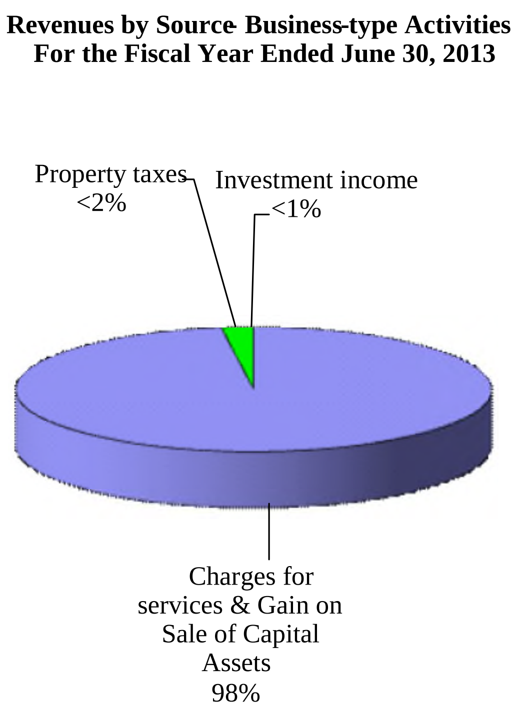
- Parking lot district property taxes of $10.1 million is the second largest source of revenue at only 2.2 percent of total revenues.

- Investment income of $0.05 million reflects an increase of $0.009 million or 20.9 percent from FY12, primarily because of the increase 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 FY13, the County's governmental funds reported combined ending fund balances of $801.1 million, an increase of $45.4 million from the end of FY12. Of the total ending fund balances, $234.9 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $566.1 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 FY13, the General Fund had $238.9 million of unassigned fund balance and total fund balance was $508.5 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 19.9 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by $93.1 million during FY13, primarily due to increased income tax revenues and the consolidation of $184.9 million from the Revenue Stabilization Fund (RSF). Additional information pertaining to the RSF consolidation can be found in Notes to Financial Statement, Note I-C.

**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 FY13, HI had a fund balance of $230.7 million, which is entirely restricted for legal reasons. The HI fund balance represents an increase of $37.8 million over FY12. Mortgage Receivables for this fund, which is a measure of its financing activities, increased $24.4 million or 16.2 percent over FY12.

**The Grants 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 $108.0 million in revenues for FY13. This is a $5.4 million decrease over FY12.

**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 $6.3 million represents a debt service reserve account.

**The Capital Projects Fund** has a total fund balance of $(4.0) million, a decrease of $119.8 million from the end of FY12. The negative fund balance was primarily due to a delay in the issuance of new debt to fund certain 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.

The unrestricted net position of the Liquor Fund at the end of FY13 amounted to $14.0 million, and operating income was $34.6 million. After a subsidy transfer to the General Fund of $25.7 million, the fund ended FY13 with an increase in net position of $7.4 million.

The Solid Waste Activities Fund total net position amounted to $79.0 million, of which the unrestricted net position was $39.1 million. Restricted net position of $40.0 million is attributable to the net investment of capital assets.

The Parking Lot Districts Fund decrease in net position amounted to $1.9 million in FY13, resulting in a total ending net position of $187.0 million. Of this amount, $131.7 million (70.5 percent) is invested in capital net of related debt; $10.9 million (5.8 percent) is restricted for debt service on revenue bonds; and $44.4 million (23.7 percent) is unrestricted.

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

**General Fund Budgetary Highlights**

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $13.5 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:

- $19.3 million increase in public works and transportation personnel and operating costs.

- $5.4 million increase in general services to fund the clean-up costs of Super Storm Sandy.

- $4.7 million decrease in health and human services personnel costs.

Actual revenues were more than budgeted amount by $71.6 million, while actual expenditures and net transfers out were less than final budget by $13.1 million and $32.7 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2013, include the following:

- Actual expenditures of $1,023.1 million were $13.2 million less than the final budget, which represents 1.2 percent of the final budget, and is attributable to savings achieved across numerous departments.

- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $49.6 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:

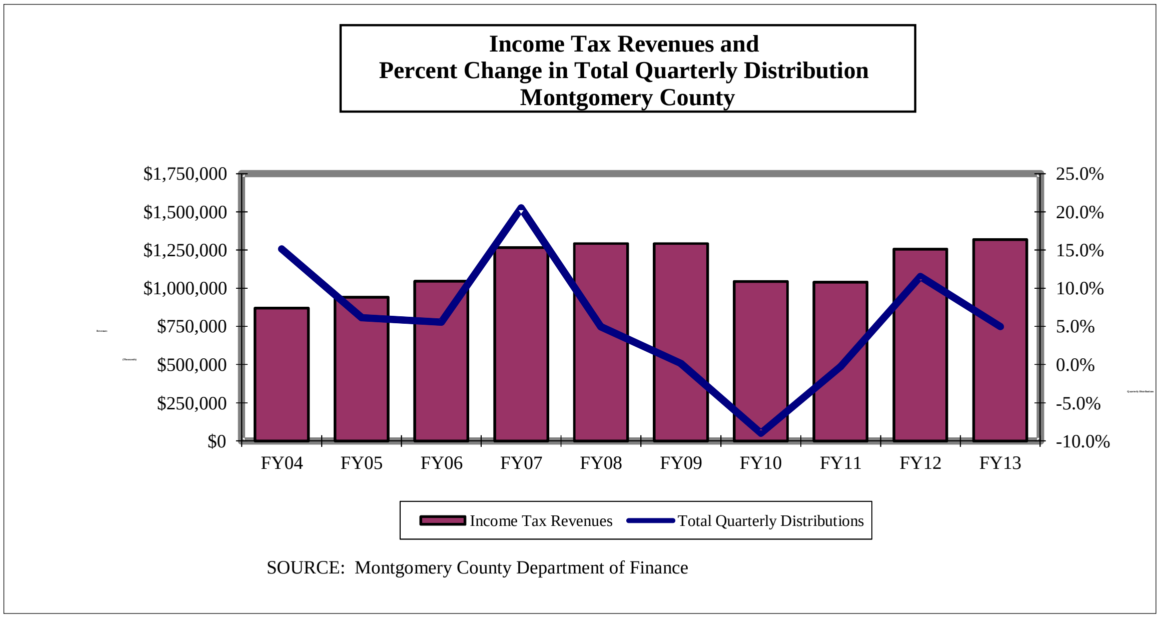
## Overview

Actual tax revenues for the General Fund totaled $2,892.5 million and were 2.5 percent above the budget estimate for the fiscal year and 3.0 percent above actual revenues for FY12. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (+$53.9 million), the property tax (+$11.0 million), followed by the energy tax (-$9.8 million). Revenues from the transfer and recordation taxes amounted to $142.0 million – +5.4 million, or 4.0 percent, above the budget estimate and 11.6 percent above actual tax revenues for FY12. Revenues from consumption/excise taxes, which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $292.0 million in FY13. That amount was $12.0 million or 4.0 percent below the budget estimate and that decline was driven by shortfalls across all excise taxes except for the admissions tax with the largest decline experienced by the fuel-energy tax (-$9.8 million or ↓4.2%). Investment income was approximately $0.186 million below the budget estimate. Licenses and permits came in below budget estimates (↓5.5%), and charges for services came in over the budget estimate (↑16.8%). Intergovernmental revenues were 20.0 percent above the budget estimate. Such a decrease was attributed across the board to federal and other reimbursements, which came in 78.2 percent and 102.8 percent above budget estimates, respectively.

## Income Taxes

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were $1,317.5 million and represented 47.3 percent of actual tax revenues in FY13 and 45.5 percent of total actual revenues. 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. However, the Standard & Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years ranging from an increase of +26.4 percent in CY04 to a decrease of -38.5 percent in CY08. Resident employment also experienced volatility during this period - an average annual growth rate of 1.2 percent in the County's resident employment during the CY02-CY06 period and a decline of -0.8 percent in CY07, followed by an increase of +0.8 percent in CY08, followed by a decrease of -1.8 percent in CY09, and increases of +0.3 percent, +1.4 percent, and +1.0 percent in CY10, CY11, and CY12, respectively. However, with employment growth in CY10, CY11, and CY12 coupled with strong growth in the S&P 500 index in CY09 (↑23.5%), CY10 (↑12.8%), and CY12 (↑13.4%) – there was no growth in CY11, total income tax revenues increased 5.0 percent in FY13. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 5.0 percent in FY13, which followed an increase of 11.5 percent in FY12, a decrease of 0.3 percent in FY11, another decrease of 9.0 percent in FY10 and increases of 0.2 percent and 4.9 percent in FY09 and FY08, respectively.

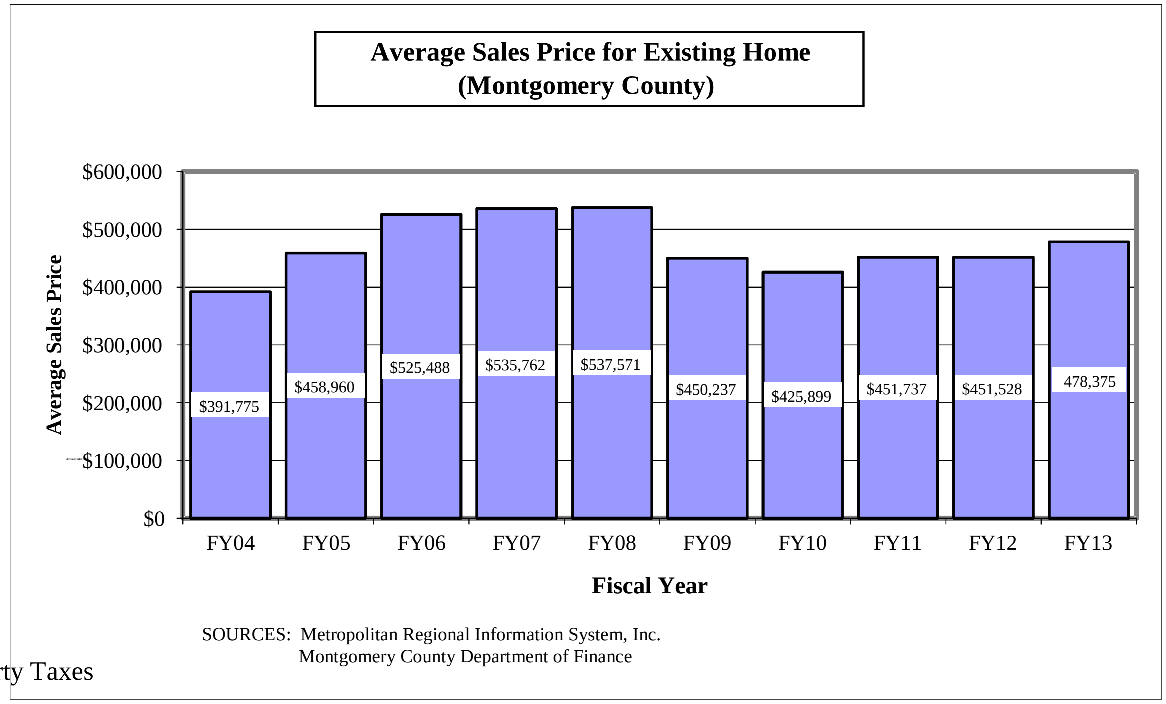
Property Taxes



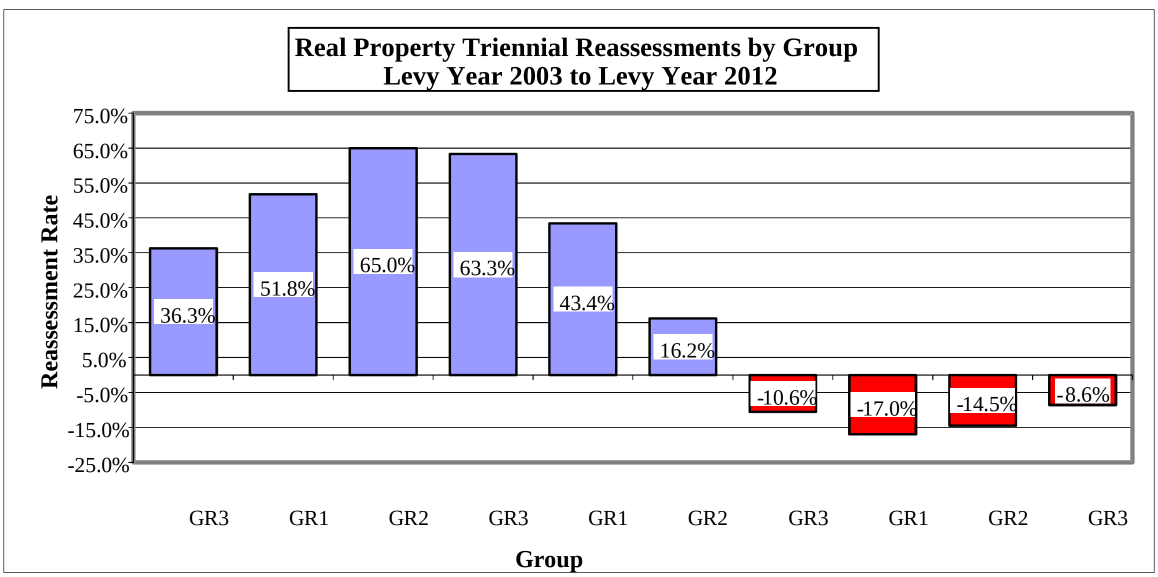

## Property Taxes

Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY13, amounted to $1,036.2 million in FY13, which were $11.0 million (↑1.1%) above the budget estimate but 0.6 percent below actual revenues in FY12. Actual property taxes, excluding penalties and interest and other items, were $1,033.9 million in FY13 – a decrease of 0.8 percent from the previous fiscal year. Collections from penalties and interest and other items were $2.3 million – a 352.2 percent increase from FY12.

The taxable assessments for real property decreased 2.4 percent from FY12 to FY13. This was the second consecutive decrease in over twenty-three years. New construction, which added $1.408 billion to the base in FY13, was 140.4 percent higher than in FY12. The real estate market, particularly the annual double-digit price increases during fiscal years (FY03-FY06), fueled the dramatic increases in the triennial reassessment rates beginning with Group Three, which increased from 36.3 percent in levy year 2003 to 63.3 percent in levy year (LY) 2006 and for Group One triennial reassessments were 51.8 percent and 43.3 percent in levy years 2004 and 2007, respectively. 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 LY05 to 16.2 percent for LY08, the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09, and the rate for Group One declined from 43.4 percent in levy year 2007 to -17.0 percent in levy year 2010. With the dramatic decline in average sales prices, the triennial reassessment rate for Group Two declined from 16.2 percent to -14.5 percent for LY11 and declined again for Group Three in LY12 (↓8,6%).

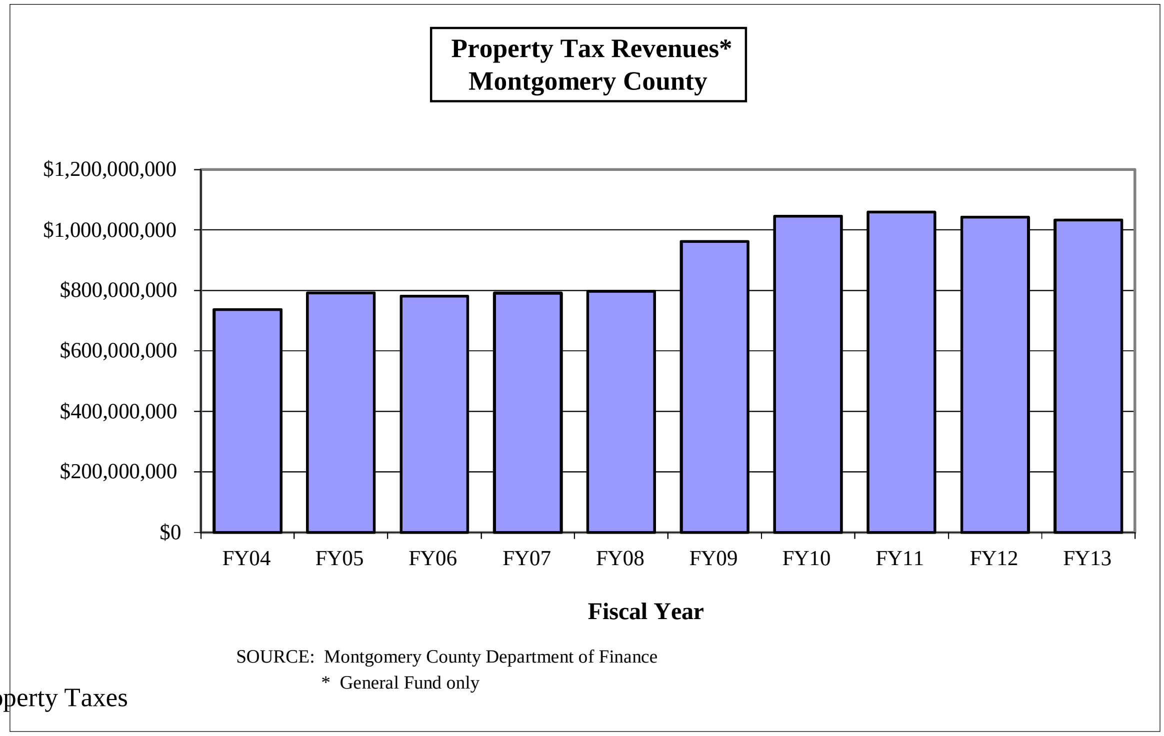



Property Taxes




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 over the past four levy years, the remaining amount of the credit added $229.4 million to the assessable base in FY13 down from $729.0 million in FY12.

Property Taxes

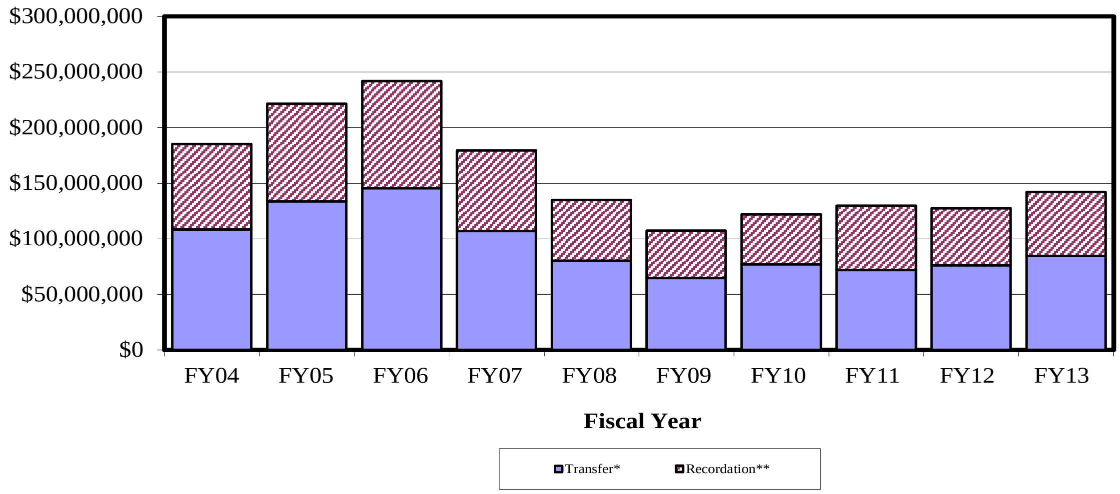



Assessments of personal property increased 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, 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 and declined 3.6 percent in FY12 to $3.719 billion and declined in FY13 to $3.605 billion attributed to declines in corporate and utility personal property. For the previous five fiscal years (FY08-FY12), taxable assessments for personal property averaged $3.265 billion ranging from a low of $3.719 billion in FY12 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 FY13 were $142.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). With the increase in actual revenues in FY13, they were also 4.0 percent above the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased from $185.2 million in FY04 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, increased to $129.5 million in FY11, declined to $127.3 million in FY12, then increased to $142.0 million in FY13.

**Collections from the Transfer* and Recordation Taxes****
**Montgomery County**

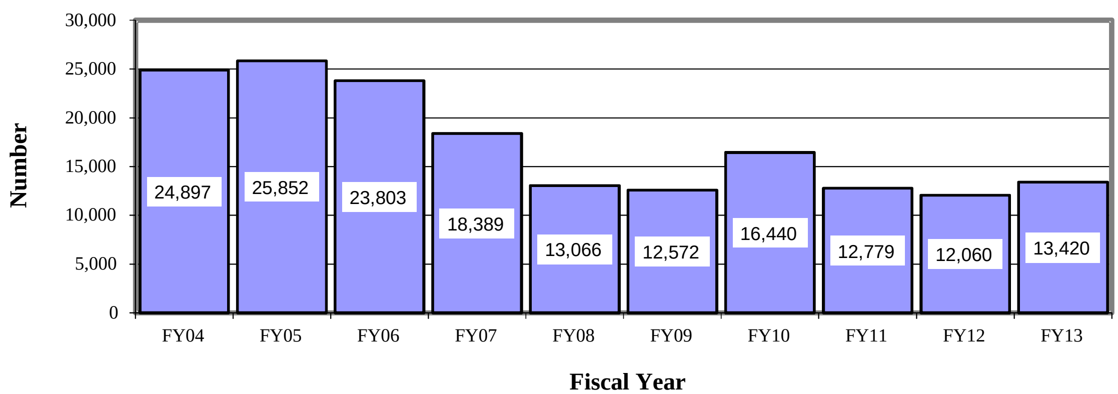



Property Taxes

SOURCE: Montgomery County Department of Finance
* Excludes condominium conversions
** Excludes School CIP, rental assistance, and County CIP

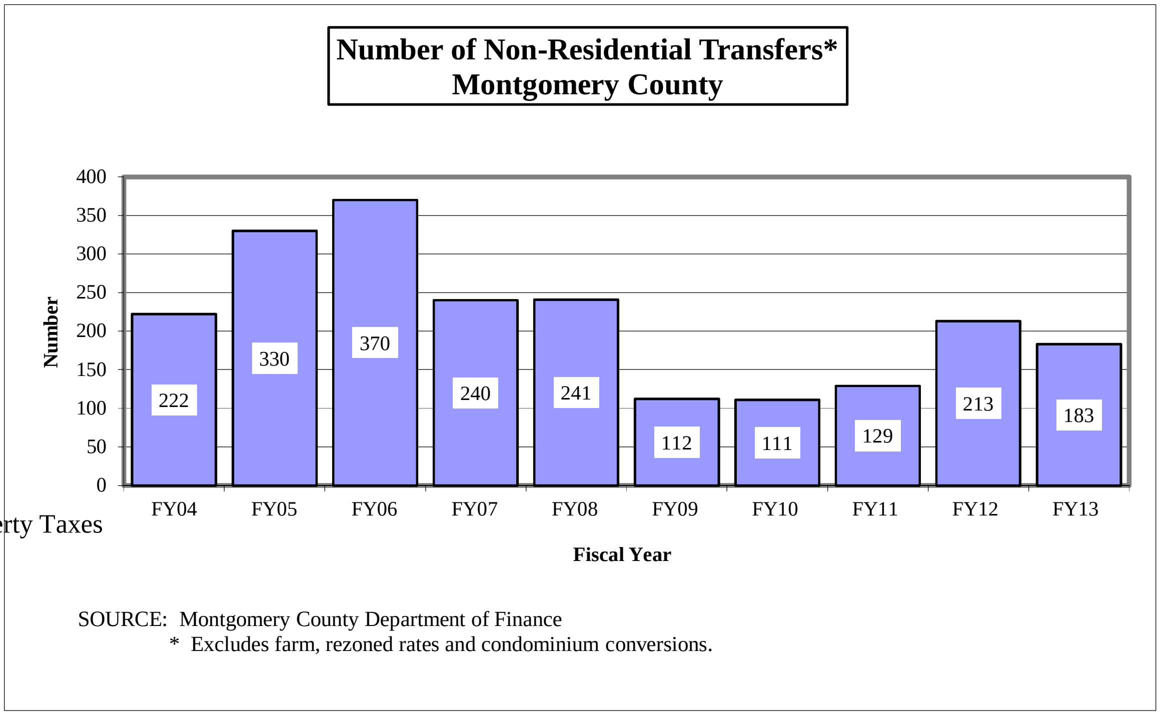
General Fund revenues from the transfer tax experienced an increase of 10.9 percent in FY13 and a 12.6 percent increase in the recordation tax. Because of the increase attributed to an increase in home sales in FY13, revenues from the residential sector for both taxes were $92.8 million, an increase of 21.9 percent from FY12. The number of residential transfers increased to 13,420 (↑11.3%).

**Number of Residential Transfers**
**Montgomery County**




SOURCE: Montgomery County Department of Finance

Based on the amount of revenues from the non-residential transfer tax, the commercial market declined in FY13 with revenues at $18.7 million – a decrease of 3.9 percent from FY12. However, even with that decline, the amount of revenue in FY13 was the third highest over the past ten fiscal years. The decrease in revenues from the commercial market was attributed to the decrease in the number of transfers (183) in FY13 compared to 213 in FY12.




Property Taxes

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $292.0 million and were approximately $12.1 million or 4.0 percent below the budget estimate. Revenues from the telephone tax were 6.3 percent below the budget estimate and 1.7 percent below actual revenues in FY12. Revenues from the hotel/motel industry of $18.9 million in FY13 were 0.7 percent below the budget estimate but 4.1 percent above actual revenues in FY12. The admissions tax was 38.0 percent above the budget estimate and 27.2 percent above actual revenues in FY12.

In the General Fund, actual investment income increased from $12,224 in FY12 to $66,215 in FY13 (↑441.7%) but was approximately $186,000 lower than the budget estimate (↓73.8%). The dramatic decrease in FY13 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 FY13. The justification for such a decrease was the significant global credit crisis that began in August 2007, the subsequent economic recession that ended in June 2009, and the European Community financial crisis of CY12, and the FOMC's monetary policy of stimulating investment and reducing the national unemployment rate. Because of this low level of interest rates during FY13 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, to 0.02 percent in FY12, but increased slightly to 0.16 percent in FY13. With the decrease in investment income coupled with a spending restraint, the average daily portfolio balance decreased from $187.9 million in FY12 to $121.8 million in FY13.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets at June 30, 2013, amounted to $3,830 million (net of accumulated depreciation and amortization), as summarized below:

**Capital Assets, Net of Depreciation**
**June 30, 2013**

| | Governmental Activities | Business-type Activities | Total FY13 | Total FY12 |
|---|---|---|---|---|
| Land | $ 799,206,085 | $ 59,639,134 | $ 858,845,219 | $ 855,290,969 |
| Buildings | 402,730,380 | 124,469,660 | 527,200,040 | 548,324,150 |
| Improvements other than buildings | 28,633,396 | 39,562,039 | 68,195,435 | 67,186,206 |
| Furniture, fixtures, equipment and machinery | 47,225,157 | 10,333,544 | 57,558,701 | 59,353,357 |
| Leasehold improvements | 6,163,085 | - | 6,163,085 | 6,638,513 |
| Automobiles and trucks | 100,671,107 | 691,656 | 101,362,763 | 118,729,667 |
| Infrastructure | 1,130,041,230 | 10,476 | 1,130,051,706 | 1,132,858,197 |
| Other assets | 33,472,612 | - | 33,472,612 | 37,613,553 |
| Construction in progress Property Taxes | 1,013,191,055 | 33,817,346 | 1,047,008,401 | 781,158,873 |
| Total | $ 3,561,334,107 | $ 268,523,855 | $ 3,829,857,962 | $ 3,607,153,485 |

Changes in the County's capital assets for FY13 are summarized as follows:

**Change in Capital Assets**
**For the Fiscal Year Ended June 30, 2013**

| | Governmental Activities | Business-type Activities | Total FY13 | Total FY12 |
|---|---|---|---|---|
| Beginning Balance | 3,352,484,513 | 254,668,972 | 3,607,153,485 | $ 3,453,673,692 |
| Additions* | 299,871,790 | 27,815,696 | 327,687,486 | 260,085,048 |
| Retirements, net* | 6,372,137 | 64,913 | 6,437,050 | 3,793,075 |
| Depreciation expense | 84,650,059 | 13,895,900 | 98,545,959 | 102,812,180 |
| Ending Balance | $ 3,561,334,107 | $ 268,523,855 | $ 3,829,857,962 | $ 3,607,153,485 |

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

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

- Roads, including underlying land, valued at $4.79 million were transferred to the County by various developers.
- The Judicial Center Annex project accumulated $47.19 million dollars in cost this fiscal year. This project provides for the planning, design, and construction of the Montgomery County Judicial Center annex, the Montgomery County Judicial Center HVAC renovation, and other needed renovations to the Montgomery County Judicial Center.

- The Equipment Maintenance and Operations Center project accumulated $45.86 million dollars in cost this fiscal year. The major components of the project consist of constructing administrative buildings for Transit Services, Fleet Management, Highway Services, developing a parking area for 200 buses, and construct a compressed natural gas fast-fill station.

- The Animal Services and Adoption Center project accumulated $13.34 million dollars in cost this fiscal year. This project provides for the design and construction of a new animal shelter. The new shelter will replace the existing animal shelter, which currently does not meet operational needs.

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, 2013:

**Long-Term Debt**
**June 30, 2013**

| Property Taxes | Governmental Activities | Business-type Activities | Total FY13 | Total FY12 |
|---|---|---|---|---|
| General obligation bonds | $2,149,825,000 | $ - | $2,149,825,000 | $1,997,290,000 |
| Variable rate demand obligation | 100,000,000 | - | 100,000,000 | 100,000,000 |
| Bond anticipation notes | 500,000,000 | - | 500,000,000 | 500,000,000 |
| Revenue bonds | 76,711,610 | 81,653,390 | 158,365,000 | 128,940,000 |
| Lease revenue bonds | 31,240,000 | - | 31,240,000 | 33,100,000 |
| Leases and Notes payable * | 49,745,063 | 1,976,348 | 51,721,411 | 59,537,476 |
| Certificates of participation | 30,675,000 | - | 30,675,000 | 37,420,000 |
| Capital leases | 20,130,000 | - | 20,130,000 | 46,530,000 |
| Taxable Ltd. Obligation Certificates | 54,170,000 | - | 54,170,000 | 56,265,000 |
| Compensated absences | 70,745,510 | 5,436,291 | 76,181,801 | 79,650,557 |
| Other Postemployment Benefits | 425,092,824 | 3,965,222 | 429,058,046 | 380,693,812 |
| Claims payable self-insurance | 141,713,632 | - | 141,713,632 | 138,197,027 |
| Claims and judgements | - | - | - | 1,976,921 |
| Landfill closure costs | - | 17,329,214 | 17,329,214 | 16,999,682 |
| Total | $3,650,048,639 | $ 110,360,465 | $3,760,409,104 | $3,576,600,475 |

*Lease and Notes payable include equipment notes, HUD loan, WSSC note, ERP and Safety Equipment.

At June 30, 2013, the County had outstanding general obligation (GO) bonds of $2,149.8 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. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since 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 $230 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.

Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000. In September 2012, the County received its annual credit ratings. Fitch cited "key rating drivers" of strong operating results that materially enhanced the County's reserve position and a balanced multi-year fiscal plan that addressed critical operating priorities relating to fund balance replenishment, pay-as-you-go capital, and other post-employment benefits. Fitch also cited the County's excellent economic underpinnings of a stable regional economy anchored by extensive federal government presence, a highly skilled labor force, and very high-income metrics.

Moody's stated that their rating and outlook reflected the County's sizeable and diverse tax base, strong socio-economic profile with above-average personal wealth and income levels and comprehensive fiscal policies. Standard and Poor's rating reflected their opinion of the County's broad-based economy, very strong income levels, historically stable and diverse property tax base and well-embedded financial management practices. Standard and Poor's also cited the County's improved financial position with significant increases in reserves and a moderate to low debt burden.

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.

<u>Continuing Disclosure</u> **-** 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 FY12, 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, and 17-21.

Significant bond-related debt activities during FY13 were:

- <u>Taxable Lease Revenue Refunding Bonds</u> - the County issued a Purchase Agreement totaling $8.4 million to advance refund outstanding taxable lease revenue refunding bonds for the Montgomery County Conference Center.

- <u>General Obligation Bonds and Refunding Bonds</u> – In October 2012, the County's annual general obligation bond issue was in the amount of $295 million. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs, which funded capital expenditures for transportation, education, and other County facilities. Concurrent with this annual bond sale, the County issued $23.7 million of general obligation refunding bonds to refund outstanding County bonds for debt service savings.

- <u>Bond Anticipation Notes (BANs)</u> – Over the course of FY13, the County issued $326.8 million in BANs and retired $326.8 million with general obligation bond proceeds.

- 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 FY14 budget with updates based on revised economic data subsequent to the approval of the County's budget:

- Montgomery County's economic performance improved during year (FY13). The major reasons for the improvement were a modest decrease in the unemployment rate, an increase in employment – both resident (labor force series) and payroll employment (establishment series), and an increase in the median prices for existing homes. Residential construction also picked up in FY13.The County's economic projections in the FY14 budget assume a mixed economic performance in FY14 with the County continuing to experience an elevated unemployment rate in calendar year (CY) 2013 but a modest revised increase (↑1.1% in CY13) in total resident employment.

- During the past thirteen years (CY00 – CY12), total payroll employment in Montgomery County, which is based on the survey of establishments, experienced three distinct cycles: modest growth from CY00 to CY06 at an average annual rate of 0.6 percent, a decline from CY06 to CY10 at an average annual rate of 0.9 percent, and an increase at a revised average annual rate of 0.9 percent from CY10 to CY12. The Department of Finance estimates that total payroll employment is expected to increase 1.2 percent in CY13.

- Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew at an average annual rate of 0.9 percent between CY00 and CY06 (compared to the 0.6 percent for payroll employment). Between CY06 and CY10, resident employment in the County experienced a decrease at an annual rate of 0.4 percent while payroll employment declined at an annual rate of 0.9 percent. On a calendar year basis, resident employment in Montgomery County increased a revised 1.4 percent in CY11 and a revised 1.0 percent in CY12. Resident employment is expected to increase a revised 1.1 percent in CY13.

- The employment projection in the FY14 budget assumes that personal income will increase 2.6 percent in CY13 and 5.5 percent in CY14 and per capita income will increase 1.8 percent in CY13 and 4.7 percent in CY14. Income data for CY13 and CY14 are based on estimates derived by the Department of Finance.

- The estimated increase in employment and an estimated increase of 2.6 percent in personal income in CY13 are offset by the current 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 through CY14 – based on the policy statement of the FOMC dated July 31, 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 0.16 percent in FY13 to 0.19 percent in FY14.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.32 percent in FY14.

- As part of the State of Maryland's Budget Reconciliation and Financing Act of 2012, the State of Maryland (State) required Counties to appropriate in local school board's operating budgets in FY13-16, a set amount above the maintenance of effort level of funding. The local school boards were required to use this additional amount of funding to pay to the State for the normal costs of teacher pensions in those years. In FY17 the calculation of the local maintenance of effort will include the FY16 amount for the normal cost of retirement for all qualifying employees. The State authorized certain additional revenues to offset the impact of this new obligation to contribute toward the pension cost of qualifying employees. In FY13, the County's contribution for school pensions was $27.2 million.

## OTHER SIGNIFICANT MATTERS

The County is also following the appeal of a case in which it is not a party, Comptroller v. Wynn, 431 Md. 147 (2013). In that case, the State has filed a writ of certiorari with the United States Supreme Court to review the judgment of the Court of Appeals of Maryland, which ruled that counties are prohibited from collecting personal income taxes from their own residents to the extent that the income was earned from sources in another state where the income is subject to tax by that state. The ruling has not affected County income tax revenues because the Court of Appeals stayed the effect of the ruling pending appeal to the United States Supreme Court. If the Court of Appeals ruling stands, each county in Maryland will see a reduction in income tax revenue, including this County. The final fiscal impact of the ruling on the County is not determinable at this time.

## 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).

Property Taxes

# BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2013
**Exhibit A-1**

| | Primary Government | | | Component Units |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Total |
| **ASSETS** | | | | |
| Equity in pooled cash and investments | $ 759,465,877 | $ 91,615,654 | $ 851,081,531 | $ 73,553,665 |
| Cash with fiscal agents | 46,550,676 | 13,172,253 | 59,722,929 | 69,688,457 |
| Cash | 392,695 | 130,713 | 523,408 | 12,319,884 |
| Investments - cash equivalents | - | - | - | 118,599,329 |
| Investments | - | - | - | 42,079,111 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Income taxes | 359,793,235 | - | 359,793,235 | - |
| Property taxes | 23,785,150 | 794,606 | 24,579,756 | - |
| Capital leases | 31,240,000 | - | 31,240,000 | 18,584,448 |
| Accounts | 44,339,367 | 6,120,288 | 50,459,655 | 49,855,695 |
| Notes | 6,074,077 | 33,171,500 | 39,245,577 | 57,785,000 |
| Parking violations | 661,014 | 1,673,066 | 2,334,080 | - |
| Mortgage receivable | 206,671,661 | - | 206,671,661 | 335,475,122 |
| Interest | - | - | - | 5,260,038 |
| Other | 8,141 | - | 8,141 | 6,459,601 |
| Internal balances | 1,083,999 | (1,083,999) | - | - |
| Due from primary government | - | - | - | 67,993,425 |
| Due from component units | 79,623,914 | 696,763 | 80,320,677 | - |
| Due from other governments | 38,697,643 | 206,471 | 38,904,114 | 38,078,508 |
| Inventory of supplies | 13,049,130 | 25,635,407 | 38,684,537 | 11,163,495 |
| Prepaids | 625,209 | 363,269 | 988,478 | 4,342,917 |
| Unamortized bond issuance cost | 7,719,303 | 908,604 | 8,627,907 | 412,435 |
| Other assets | - | 125,489 | 125,489 | 106,346,707 |
| Restricted Assets: | | | | |
| Equity in pooled cash and investments | - | 34,772,653 | 34,772,653 | 14,069,754 |
| Cash with fiscal agents | - | - | - | 21,471,053 |
| Cash | - | - | - | 471,511 |
| Investments - cash equivalents | - | - | - | 106,500,086 |
| Investments | - | 8,109,646 | 8,109,646 | 64,911,553 |
| Capital Assets: | | | | |
| Nondepreciable assets | 1,812,397,140 | 93,456,480 | 1,905,853,620 | 389,478,745 |
| Depreciable assets, net | 1,748,936,967 | 175,067,375 | 1,924,004,342 | 2,984,587,460 |
| Total Assets | 5,181,115,198 | 484,936,238 | 5,666,051,436 | 4,599,487,999 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Accumulated decrease in fair value of hedging derivatives | - | - | - | 11,850,257 |
| Total Assets and Deferred Outflow of Resources | 5,181,115,198 | 484,936,238 | 5,666,051,436 | 4,611,338,256 |
| **LIABILITIES** | | | | |
| Accounts payable | 61,711,023 | 19,701,048 | 81,412,071 | 101,242,521 |
| Interest payable | 32,863,056 | 328,706 | 33,191,762 | 18,780,607 |
| Retainage payable | 30,890,971 | 1,484,964 | 32,375,935 | 11,830,774 |
| Accrued liabilities | 63,675,460 | 4,908,114 | 68,583,574 | 57,973,453 |
| Deposits | 650,816 | 10,316,015 | 10,966,831 | 19,844,946 |
| Due to primary government | - | - | - | 82,532,140 |
| Due to component units | 67,268,533 | 724,892 | 67,993,425 | - |
| Due to other governments | 13,600,142 | 1,779,069 | 15,379,211 | 49,865 |
| Unearned revenue | 40,575,787 | 2,729,112 | 43,304,899 | 26,332,820 |
| Other liabilities | - | 411,514 | 411,514 | 22,211,308 |
| Noncurrent Liabilities: | | | | |
| Due within one year | 788,300,350 | 8,935,709 | 797,236,059 | 91,343,297 |
| Due in more than one year | 2,991,860,587 | 106,066,966 | 3,097,927,553 | 1,565,535,815 |
| Total Liabilities | 4,091,396,725 | 157,386,109 | 4,248,782,834 | 1,997,677,546 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 1,932,495,036 | 191,266,741 | 2,123,761,777 | 2,829,778,692 |
| Restricted for: | | | | |
| Capital projects | - | - | - | 57,599 |
| General government | 12,929,963 | - | 12,929,963 | - |
| Public safety | 6,466,542 | - | 6,466,542 | - |
| Public works and transportation | 18,382,036 | 94,329,133 | 112,711,169 | - |
| Recreation | 7,883,857 | - | 7,883,857 | - |
| Community development and housing | 235,138,560 | - | 235,138,560 | - |
| Environment | 9,425,823 | - | 9,425,823 | - |
| Debt service | 6,337,410 | - | 6,337,410 | 63,429,143 |
| Other purposes | - | - | - | 36,632,457 |
| Unrestricted (deficit) | (1,139,340,754) | 41,954,255 | (1,097,386,499) | (316,237,181) |
| Total Net Position | $ 1,089,718,473 | $ 327,550,129 | $ 1,417,268,602 | $ 2,613,660,710 |

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
**Exhibit A-2**

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary Government:** | | | | |
| Governmental Activities | | | | |
| General government | $ 400,023,515 | $ 67,955,551 | $ 4,746,333 | $ 6,998,575 |
| Public safety | 609,565,746 | 44,887,666 | 37,548,290 | 1,866,778 |
| Public works and transportation | 278,716,716 | 31,024,303 | 34,642,383 | 11,801,526 |
| Health and human services | 272,032,818 | 4,976,188 | 105,230,050 | - |
| Culture and recreation | 93,965,468 | 37,693,903 | 12,344,981 | 1,739,360 |
| Community development and housing | 37,821,686 | 7,882,996 | 738,299 | 1,008,236 |
| Environment | 28,913,062 | 23,115,938 | 623,999 | - |
| Education | 1,797,097,286 | - | - | - |
| Interest on long term debt | 112,841,235 | - | - | - |
| Total Governmental Activities | 3,630,977,532 | 217,536,545 | 195,874,335 | 23,414,475 |
| Business-type Activities | | | | |
| Liquor control | 225,759,582 | 259,327,227 | - | - |
| Solid waste disposal and collection | 106,039,038 | 108,780,916 | - | - |
| Parking lot districts | 30,321,385 | 31,980,146 | - | - |
| Permitting services | 27,534,056 | 45,231,452 | - | - |
| Community use of public facilities | 9,533,241 | 10,555,506 | - | - |
| Total Business-type Activities | 399,187,302 | 455,875,247 | - | - |
| Total Primary Government | $ 4,030,164,834 | $ 673,411,792 | $ 195,874,335 | $ 23,414,475 |
| **Component Units:** | | | | |
| General government (BUPI) | $ 4,471,400 | $ 4,311,405 | $ 218,782 | $ - |
| Culture and recreation (MCRA) | 18,495,505 | 16,690,212 | - | 398,778 |
| Community development and housing (HOC) | 231,494,325 | 114,581,672 | 110,901,827 | 5,186,386 |
| Education: | | | | |
| Elementary and secondary education (MCPS) | 2,516,248,649 | 28,777,818 | 112,121,707 | 67,675,374 |
| Higher education (MCC) | 288,337,005 | 76,977,267 | 15,171,127 | 319,724 |
| Total Component Units | $ 3,059,046,884 | $ 241,338,374 | $ 238,413,443 | $ 73,580,262 |

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 Positon
Net Position - Beginning
Net Position - Ending

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

**Net (Expense) Revenue and Changes in Net Position**

| Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Units |
|---|---|---|---|
| $ (320,323,056) | $ - | $ (320,323,056) | $ - |
| (525,263,012) | - | (525,263,012) | - |
| (201,248,504) | - | (201,248,504) | - |
| (161,826,580) | - | (161,826,580) | - |
| (42,187,224) | - | (42,187,224) | - |
| (28,192,155) | - | (28,192,155) | - |
| (5,173,125) | - | (5,173,125) | - |
| (1,797,097,286) | - | (1,797,097,286) | - |
| (112,841,235) | - | (112,841,235) | - |
| (3,194,152,177) | - | (3,194,152,177) | - |
| | | | |
| - | 33,567,645 | 33,567,645 | - |
| - | 2,741,878 | 2,741,878 | - |
| - | 1,658,761 | 1,658,761 | - |
| - | 17,697,396 | 17,697,396 | - |
| - | 1,022,265 | 1,022,265 | - |
| - | 56,687,945 | 56,687,945 | - |
| (3,194,152,177) | 56,687,945 | (3,137,464,232) | - |
| | | | |
| - | - | - | 58,787 |
| - | - | - | (1,406,515) |
| - | - | - | (824,440) |
| | | | |
| - | - | - | (2,307,673,750) |
| - | - | - | (195,868,887) |
| - | - | - | (2,505,714,805) |
| | | | |
| 1,463,855,656 | 10,063,874 | 1,473,919,530 | - |
| 1,311,161,472 | - | 1,311,161,472 | - |
| 84,391,394 | - | 84,391,394 | - |
| 57,635,661 | - | 57,635,661 | - |
| 223,948,716 | - | 223,948,716 | - |
| 18,910,872 | - | 18,910,872 | - |
| 45,696,525 | - | 45,696,525 | - |
| 3,168,328 | - | 3,168,328 | - |
| - | - | - | 2,644,023,106 |
| 8,036,630 | 51,852 | 8,088,482 | 8,045,436 |
| 4,965,531 | - | 4,965,531 | 191,112 |
| 44,703,099 | (44,703,099) | - | - |
| 3,266,473,884 | (34,587,373) | 3,231,886,511 | 2,652,259,654 |
| 72,321,707 | 22,100,572 | 94,422,279 | 146,544,849 |
| 1,017,396,766 | 305,449,557 | 1,322,846,323 | 2,467,115,861 |
| $ 1,089,718,473 | $ 327,550,129 | $ 1,417,268,602 | $ 2,613,660,710 |

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
**Exhibit A-3**

| | General | Housing Initiative | Grants | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Equity in pooled cash and investments | $ 454,643,577 | $ 12,005,289 | $ - | $ 202,834 | $ 54,491,848 | $ 68,372,992 | $ 589,716,540 |
| Cash with fiscal agents | 4,618,082 | - | - | 6,930,270 | 35,002,324 | - | 46,550,676 |
| Cash | 147,345 | 212,450 | - | - | - | 32,600 | 392,395 |
| Receivables (net of allowances for uncollectibles): | | | | | | | |
| Income taxes | 359,793,235 | - | - | - | - | - | 359,793,235 |
| Property taxes | 18,400,655 | - | - | - | - | 5,384,495 | 23,785,150 |
| Capital leases | - | - | - | 31,240,000 | - | - | 31,240,000 |
| Accounts | 30,539,617 | - | - | 17,464 | 253,024 | 12,063,068 | 42,873,173 |
| Notes | - | - | 5,306,470 | - | 12,068 | 755,538 | 6,074,076 |
| Parking violations | 430,113 | - | - | - | - | 230,901 | 661,014 |
| Mortgages receivable | 134,155 | 174,165,686 | 28,711,205 | - | 300,000 | 3,360,615 | 206,671,661 |
| Other | - | - | 8,066 | - | 75 | - | 8,141 |
| Due from other funds | 50,477,430 | - | - | - | - | 2,098,292 | 52,575,722 |
| Due from component units | 163,875 | 49,403,664 | 8,782,885 | - | 19,783,264 | - | 78,133,688 |
| Due from other governments | 12,543,738 | - | 20,560,305 | - | 3,642,464 | 1,797,438 | 38,543,945 |
| Inventory of supplies | 5,337,288 | - | - | - | 3,054,415 | - | 8,391,703 |
| Prepaids | 312,031 | - | 670 | - | 2,500 | 102,478 | 417,679 |
| Total Assets | $ 937,541,141 | $ 235,787,089 | $ 63,369,601 | $ 38,390,568 | $ 116,541,982 | $ 94,198,417 | $ 1,485,828,798 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 23,830,855 | $ 224,548 | $ 4,194,173 | $ 326,160 | $ 20,625,555 | $ 3,999,853 | $ 53,201,144 |
| Retainage payable | 2,578 | - | 15,250 | - | 30,787,086 | 86,062 | 30,890,976 |
| Accrued liabilities | 36,669,523 | 85,014 | 807,741 | - | 972,318 | 11,430,115 | 49,964,711 |
| Deposits | - | - | - | 486,998 | - | 163,818 | 650,816 |
| Due to other funds | 7,482,689 | 16,360 | 7,798,175 | - | 45,067,493 | 3,495,363 | 63,860,080 |
| Due to component units | 48,660,708 | 94,009 | 1,493,234 | - | 17,019,768 | 814 | 67,268,533 |
| Due to other governments | 1,578,689 | 900 | 6,260,468 | - | 3,425,884 | 2,331,898 | 13,597,839 |
| Unearned revenue | 310,800,583 | 4,656,162 | 42,800,560 | 31,240,000 | 2,667,689 | 13,173,809 | 405,338,803 |
| Total Liabilities | 429,025,625 | 5,076,993 | 63,369,601 | 32,053,158 | 120,565,793 | 34,681,732 | 684,772,902 |
| Fund Balances: | | | | | | | |
| Nonspendable | 5,649,319 | - | - | - | - | 102,478 | 5,751,797 |
| Restricted | 184,879,381 | 226,089,283 | - | 6,337,410 | - | 40,817,260 | 458,123,334 |
| Committed | 49,695,245 | 4,620,813 | - | - | - | 18,596,947 | 72,913,005 |
| Assigned | 29,344,177 | - | - | - | - | - | 29,344,177 |
| Unassigned | 238,947,394 | - | - | - | (4,023,811) | - | 234,923,583 |
| Total Fund Balances | 508,515,516 | 230,710,096 | - | 6,337,410 | (4,023,811) | 59,516,685 | 801,055,896 |
| Total Liabilities and Fund Balances | $ 937,541,141 | $ 235,787,089 | $ 63,369,601 | $ 38,390,568 | $ 116,541,982 | $ 94,198,417 | $ 1,485,828,798 |

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 POSITION
JUNE 30, 2013
**Exhibit A-4**

| | | |
|---|---|---|
| Total fund balance - governmental funds (see Exhibit A-3) | | $ 801,055,896 |
| Amounts reported for governmental activities in the statement of net position 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 | $ 799,183,579 | |
| Construction in progress | 1,012,499,753 | |
| Depreciable capital assets: | | |
| Buildings | 763,410,300 | |
| Improvements other than buildings | 51,417,703 | |
| Furniture, fixtures, equipment and machinery | 233,822,379 | |
| Automobiles and trucks | 170,626,963 | |
| Infrastructure | 1,745,897,233 | |
| Other capital assets | 43,489,147 | |
| Total capital assets | 4,820,347,057 | |
| Less accumulated depreciation | (1,280,429,655) | 3,539,917,402 |
| 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 | (2,149,825,000) | |
| Variable rate demand obligations | (100,000,000) | |
| Bond anticipation notes payable | (500,000,000) | |
| Lease revenue bonds payable | (31,240,000) | |
| Accrued interest payable | (32,863,056) | |
| Capital leases payable | (20,130,000) | |
| Taxable limited obligation | (54,170,000) | |
| Certificates of participation | (30,675,000) | |
| Notes payable | (49,745,063) | |
| Revenue bonds | (76,711,610) | |
| Other postemployment benefits | (423,951,611) | |
| Compensated absences | (68,662,015) | (3,537,973,355) |
| 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 | (157,787,372) | |
| Unrecognized amount on refunding | 27,675,074 | |
| Unamortized bond issuance costs | 7,719,303 | (122,392,995) |
| 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 position: | | |
| Assets: | | |
| Current and non current assets | 182,891,318 | |
| Capital assets | 79,767,331 | |
| Less accumulated depreciation | (58,350,626) | |
| Liabilities | (159,675,816) | |
| Cumulative gain/loss for certain activities of internal service funds that is reported with business-type activities | (319,748) | 44,312,459 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| Income taxes | 282,781,321 | |
| Property taxes | 22,542,383 | |
| Intergovernmental revenue | 12,855,940 | |
| Other revenue | 46,619,422 | 364,799,066 |
| Net position of governmental activities (See Exhibit A-1) | | $ 1,089,718,473 |

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
**Exhibit A-5**

| | General | Housing Initiative | Grants | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | |
| Taxes | $ 2,787,821,510 | $ 10,319,181 | $ - | $ - | $ 78,937,588 | $ 336,848,582 | $ 3,213,926,861 |
| Licenses and permits | 9,703,745 | - | - | - | - | 1,034,488 | 10,738,233 |
| Intergovernmental | 52,078,738 | - | 105,829,249 | 6,111,775 | 9,561,102 | 29,714,409 | 203,295,273 |
| Charges for services | 29,326,506 | - | 127,898 | - | - | 89,443,237 | 118,897,641 |
| Fines and forfeitures | 23,160,668 | - | - | - | - | 829,513 | 23,990,181 |
| Investment income | 71,201 | 3,052,687 | 276,290 | 3,831 | 47,785 | 107,457 | 3,559,251 |
| Miscellaneous | 10,068,311 | 10,082,404 | 1,738,802 | 4,753,669 | 1,039,272 | 927,148 | 28,609,606 |
| Total Revenues | 2,912,230,679 | 23,454,272 | 107,972,239 | 10,869,275 | 89,585,747 | 458,904,834 | 3,603,017,046 |
| **EXPENDITURES** | | | | | | | |
| Current: | | | | | | | |
| General government | 357,625,727 | - | 4,113,459 | - | - | 15,698,700 | 377,437,886 |
| Public safety | 359,143,452 | - | 18,376,415 | - | - | 206,598,031 | 584,117,898 |
| Public works and transportation | 65,802,491 | - | 4,036,240 | - | - | 112,535,109 | 182,373,840 |
| Health and human services | 189,005,324 | - | 73,664,810 | - | - | - | 262,670,134 |
| Culture and recreation | 35,495,928 | - | 117,730 | - | - | 39,449,372 | 75,063,030 |
| Community development and housing | 9,943,318 | 24,581,716 | 7,876,458 | - | - | - | 42,401,492 |
| Environment | 2,334,365 | - | 796,232 | - | - | 17,042,576 | 20,173,173 |
| Education | 1,541,101,257 | - | - | - | - | - | 1,541,101,257 |
| Debt Service: | | | | | | | |
| Principal retirement | - | - | - | 164,255,364 | - | - | 164,255,364 |
| Leases and other obligations | - | - | - | 26,472,773 | - | - | 26,472,773 |
| Interest | - | - | - | 112,329,448 | - | - | 112,329,448 |
| Issuing costs | - | - | - | 3,943,616 | - | - | 3,943,616 |
| Capital projects | - | - | - | - | 603,801,660 | - | 603,801,660 |
| Total Expenditures | 2,560,451,862 | 24,581,716 | 108,981,344 | 307,001,201 | 603,801,660 | 391,323,788 | 3,996,141,571 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 351,778,817 | (1,127,444) | (1,009,105) | (296,131,926) | (514,215,913) | 67,581,046 | (393,124,525) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Transfers in | 69,287,609 | 50,446,602 | 1,645,975 | 295,723,920 | 58,325,934 | 25,209,253 | 500,639,293 |
| Transfers (out) | (328,005,356) | (13,336,499) | (636,870) | - | (34,857,355) | (61,663,770) | (438,499,850) |
| Sale of property | - | 1,814,418 | - | - | 3,838,021 | - | 5,652,439 |
| Financing under notes and leases payable | - | - | - | 8,395,000 | - | - | 8,395,000 |
| Payment to refunded bond escrow agent | - | - | - | (33,636,846) | - | - | (33,636,846) |
| Debt Issued: | | | | | | | |
| General obligation bonds | - | - | - | 295,000,000 | - | - | 295,000,000 |
| Premium on original issue debt | - | - | - | 32,201,168 | - | - | 32,201,168 |
| Premium on revenue bonds | - | - | - | 3,020,750 | 2,457,405 | - | 5,478,155 |
| Bond anticipation notes | - | - | - | (326,790,000) | 326,790,000 | - | - |
| Revenue bonds | - | - | - | - | 37,835,000 | - | 37,835,000 |
| General obligation refunding bonds | - | - | - | 23,360,000 | - | - | 23,360,000 |
| Premium on general obligation refunding bonds | - | - | - | 2,013,430 | - | - | 2,013,430 |
| Premium on lease revenue refunding bonds | - | - | - | 57,288 | - | - | 57,288 |
| Total Other Financing Sources (Uses) | (258,717,747) | 38,924,521 | 1,009,105 | 299,344,710 | 394,389,005 | (36,454,517) | 438,495,077 |
| Net Change in Fund Balances | 93,061,070 | 37,797,077 | - | 3,212,784 | (119,826,908) | 31,126,529 | 45,370,552 |
| Fund Balances - Beginning of Year* | 415,454,446 | 192,913,019 | - | 3,124,626 | 115,803,097 | 28,390,156 | 755,685,344 |
| Fund Balances - End of Year | $ 508,515,516 | $ 230,710,096 | $ - | $ 6,337,410 | $ (4,023,811) | $ 59,516,685 | $ 801,055,896 |

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

*Beginning Fund Balance has been restated for General Fund to reflect the consolidation of the Revenue Stabilization Fund. See Footnote II.C.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
**Exhibit A-6**

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds (see Exhibit A-5) | | $ 45,370,552 |
| 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 | $ 296,596,760 | |
| Depreciation expense | (78,495,159) | 218,101,601 |
| In the statement of activities, only the gain or loss on capital assets is reported. However, in the governmental funds, all proceeds or losses are reported as financial resources. Thus, the change in net position differs from the change in fund balance by the capital assets value. | (6,372,137) | (6,372,137) |
| Donations of capital assets increase net position in the statement of activities but do not appear in the governmental funds because they are not financial resources. | 4,795,380 | 4,795,380 |
| Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Unearned revenues increased (decreased) this year, as follows: | | |
| Income taxes | (6,371,618) | |
| Property taxes | 2,737,790 | |
| Intergovernmental revenues | 10,310,522 | |
| Other revenues | 6,996,618 | 13,673,312 |
| 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 position. 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 | (352,574,598) | |
| Bond anticipation notes | (326,790,000) | |
| Notes payable | (367,569) | |
| Capital lease financing | (8,452,288) | |
| Revenue bonds | (43,313,155) | |
| Less issuance costs | 729,095 | |
| Principal repayments: | | |
| General obligation bonds | 165,825,000 | |
| Bond anticipation notes | 326,790,000 | |
| Taxable Limited Obligation Certificates | 2,095,000 | |
| Leases payable | 1,903,000 | |
| Capital leases | 34,795,000 | |
| Certificates of participation | 6,745,000 | |
| Notes payable | 10,116,982 | |
| Revenue bonds | 2,388,500 | (180,110,033) |
| 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 | 2,714,101 | |
| Compensated absences | 3,404,165 | |
| Other postemployment benefits | (48,364,234) | |
| Amortization | 20,954,675 | (21,291,293) |
| The current year gain for certain activities of internal service funds is reported with governmental activities. | | (1,845,675) |
| Change in net position of governmental activities (see Exhibit A-2) | | $ 72,321,707 |

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
**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 | $ 5,099,811 | $ 28,455,512 | $ 14,156,135 | $ 43,904,196 | $ 91,615,654 | $ 169,749,337 |
| Cash with fiscal agents | 2,249,608 | - | 10,922,645 | - | 13,172,253 | - |
| Cash | 33,325 | 3,000 | 94,388 | - | 130,713 | 300 |
| Receivables (net of allowance for uncollectibles): | | | | | | |
| Property taxes | - | - | 794,606 | - | 794,606 | - |
| Accounts | 3,209,060 | 2,846,228 | 10,203 | 54,797 | 6,120,288 | 1,466,197 |
| Parking violations | - | - | 1,673,066 | - | 1,673,066 | - |
| Due from other funds | - | - | - | - | - | 5,166,603 |
| Due from component units | - | 52,206 | 644,557 | - | 696,763 | 1,490,226 |
| Due from other governments | - | 206,471 | - | - | 206,471 | 153,698 |
| Inventory of supplies | 25,635,407 | - | - | - | 25,635,407 | 4,657,427 |
| Prepaids | 359,302 | 927 | 3,040 | - | 363,269 | 207,530 |
| Other assets | 125,489 | - | - | - | 125,489 | - |
| Total Current Assets | 36,712,002 | 31,564,344 | 28,298,640 | 43,958,993 | 140,533,979 | 182,891,318 |
| Noncurrent Assets: | | | | | | |
| Restricted Assets: | | | | | | |
| Equity in pooled cash and equivalents | - | 28,180,296 | 6,592,357 | - | 34,772,653 | - |
| Investments | - | 3,796,253 | 4,313,393 | - | 8,109,646 | - |
| Restricted Assets | - | 31,976,549 | 10,905,750 | - | 42,882,299 | - |
| Notes receivable | - | - | 33,171,500 | - | 33,171,500 | - |
| Unamortized debt costs | 296,418 | - | 612,186 | - | 908,604 | - |
| Capital Assets: | | | | | | |
| Land, improved and unimproved | 7,033,656 | 17,834,755 | 34,770,723 | - | 59,639,134 | 22,506 |
| Improvements other than buildings | 18,235 | 81,554,468 | 78,292,010 | - | 159,864,713 | 268,565 |
| Infrastructure | - | 14,351 | - | - | 14,351 | - |
| Buildings | 33,579,022 | 32,750,237 | 185,519,552 | - | 251,848,811 | - |
| Furniture, fixtures, equipment, and machinery | 10,992,475 | 12,633,191 | 1,060,733 | 1,866,031 | 26,552,430 | 4,790,129 |
| Automobiles and trucks | 3,679,373 | 173,960 | 131,446 | 215,595 | 4,200,374 | 73,994,829 |
| Construction in progress | 16,409,217 | - | 17,408,129 | - | 33,817,346 | 691,302 |
| Subtotal | 71,711,978 | 144,960,962 | 317,182,593 | 2,081,626 | 535,937,159 | 79,767,331 |
| Less: Accumulated depreciation | 16,488,157 | 104,988,131 | 144,056,541 | 1,880,475 | 267,413,304 | 58,350,626 |
| Total Capital Assets (net of accumulated depre | 55,223,821 | 39,972,831 | 173,126,052 | 201,151 | 268,523,855 | 21,416,705 |
| Total Noncurrent Assets | 55,520,239 | 71,949,380 | 217,815,488 | 201,151 | 345,486,258 | 21,416,705 |
| Total Assets | 92,232,241 | 103,513,724 | 246,114,128 | 44,160,144 | 486,020,237 | 204,308,023 |

(Continued)

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
**Exhibit A-7**

| | Business-Type Activities - Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | **Liquor** | **Solid Waste Activities** | **Parking Lot Districts** | **Other Enterprise Funds** | **Totals** | **Governmental Activities- Internal Service Funds** |
| **LIABILITIES** | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | 13,333,382 | 3,958,029 | 2,018,399 | 391,238 | 19,701,048 | 8,509,879 |
| Interest payable | - | - | 328,706 | - | 328,706 | - |
| Retainage payable | 1,193,300 | - | 291,664 | - | 1,484,964 | - |
| Deposits | 536,292 | - | 273,078 | 9,506,645 | 10,316,015 | - |
| Claims payable | - | - | - | - | - | 37,366,897 |
| Accrued liabilities | 2,254,793 | 1,360,460 | 3,106,450 | 2,263,629 | 8,985,332 | 3,090,264 |
| Due to other funds | 275,549 | 132,299 | 49,789 | 306,615 | 764,252 | 4,359,920 |
| Due to component units | - | - | 655 | 724,237 | 724,892 | - |
| Due to other governments | 809,230 | 969,839 | - | - | 1,779,069 | 2,306 |
| Equipment notes payable | 257,112 | - | - | - | 257,112 | 298,909 |
| Unearned revenue | 4,618 | - | - | 2,724,494 | 2,729,112 | 36,049 |
| Revenue bonds payable | 1,370,128 | - | 2,100,000 | - | 3,470,128 | - |
| Landfill closure costs | - | 1,131,251 | - | - | 1,131,251 | - |
| Other liabilities | - | - | 411,514 | - | 411,514 | - |
| Total Current Liabilities | 20,034,404 | 7,551,878 | 8,580,255 | 15,916,858 | 52,083,395 | 53,664,224 |
| Noncurrent Liabilities: | | | | | | |
| Claims payable | - | - | - | - | - | 104,346,735 |
| Equipment note payable | 1,626,452 | - | - | 92,784 | 1,719,236 | - |
| Revenue bonds payable | 32,601,966 | - | 50,223,506 | - | 82,825,472 | - |
| Landfill closure costs | - | 16,197,963 | - | - | 16,197,963 | - |
| Compensated absences | 480,493 | 259,327 | 81,332 | 537,921 | 1,359,073 | 523,643 |
| Other postemployment benefits | 1,838,263 | 477,232 | 229,800 | 1,419,926 | 3,965,221 | 1,141,214 |
| Total Noncurrent Liabilities | 36,547,174 | 16,934,522 | 50,534,638 | 2,050,631 | 106,066,965 | 106,011,592 |
| Total Liabilities | 56,581,578 | 24,486,400 | 59,114,893 | 17,967,489 | 158,150,360 | 159,675,816 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 19,368,164 | 39,972,235 | 131,725,191 | 201,151 | 191,266,741 | 21,117,796 |
| Restricted for debt service | 2,249,608 | - | 10,905,750 | - | 13,155,358 | - |
| Unrestricted | 14,032,891 | 39,055,089 | 44,368,294 | 25,991,504 | 123,447,778 | 23,514,411 |
| Total Net Position | $ 35,650,663 | $ 79,027,324 | $ 186,999,235 | $ 26,192,655 | $ 327,869,877 | $ 44,632,207 |

**ADJUSTMENTS**

| | |
|---|---|
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | (319,748) |
| Net position of business-type activities | $ 327,550,129 |

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
**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 | $ 256,880,993 | $ - | $ - | $ - | $ 256,880,993 | $ - |
| Charges for services | 19,800 | 108,208,593 | 23,546,672 | 14,574,184 | 146,349,249 | 271,925,844 |
| Licenses and permits | 1,743,362 | 17,853 | - | 40,775,893 | 42,537,108 | - |
| Fines and penalties | 232,499 | 22,464 | 7,507,700 | 65,311 | | - |
| Claim recoveries | - | - | - | - | - | 1,676,703 |
| Total Operating Revenues | 258,876,654 | 108,248,910 | 31,054,372 | 55,415,388 | 445,767,350 | 273,602,547 |
| **OPERATING EXPENSES** | | | | | | |
| Cost of goods sold | 181,941,516 | - | - | - | 181,941,516 | - |
| Personnel costs | 25,227,365 | 13,023,931 | 4,165,434 | 23,379,203 | 65,795,933 | 25,203,087 |
| Other post employment contributions | 3,074,750 | 803,850 | 522,500 | 2,110,120 | 6,511,220 | 2,411,570 |
| Postage | 10,102 | 61,113 | 9,443 | 11,140 | 91,798 | 1,200,958 |
| Self-insurance incurred and estimated claims | - | - | - | - | - | 155,293,741 |
| Insurance | 704,059 | 754,460 | 21,610 | 149,420 | 1,629,549 | 6,764,313 |
| Supplies and materials | 401,729 | 1,027,399 | 366,396 | 611,874 | 2,407,398 | 30,848,960 |
| Contractual services | 1,761,188 | 85,538,060 | 6,541,625 | 4,621,703 | 98,462,576 | 11,982,203 |
| Communications | 464,209 | 167,682 | 213,251 | 256,162 | 1,101,304 | 617,808 |
| Transportation | 1,013,835 | 1,722,637 | 275,147 | 692,767 | 3,704,386 | 269,538 |
| Public utility services | 906,361 | 132,380 | 2,184,458 | 1,895,027 | 5,118,226 | 1,044,480 |
| Rentals | 6,436,345 | 21,096 | 1,330,285 | 2,509,013 | 10,296,739 | 1,826,010 |
| Maintenance | 443,722 | 260,982 | 2,508,703 | 596,201 | 3,809,608 | 12,278,895 |
| Depreciation | 1,547,073 | 1,693,169 | 10,603,482 | 52,176 | 13,895,900 | 6,154,900 |
| Landfill closure expense | - | 329,532 | - | - | 329,532 | - |
| Other | 374,372 | 332,194 | 7,983 | 126,742 | 841,291 | 96,549 |
| Total Operating Expenses | 224,306,626 | 105,868,485 | 28,750,317 | 37,011,548 | 395,936,976 | 255,993,012 |
| Operating Income (Loss) | 34,570,028 | 2,380,425 | 2,304,055 | 18,403,840 | 57,658,348 | 17,609,535 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Property taxes | - | - | 10,063,874 | - | 10,063,874 | - |
| Gain (loss) on disposal of capital assets | (10,869) | 5,446 | (199) | - | (5,622) | 96,220 |
| Investment income | 278 | 25,631 | 15,136 | 10,807 | 51,852 | 26,333 |
| Interest expense | (1,442,087) | (170,553) | (1,570,869) | - | (3,183,509) | (11,367) |
| Miscellaneous | - | - | - | (55,749) | (55,749) | - |
| Other revenue | 26,337 | 330,053 | 873,487 | 15,737 | 1,245,614 | 2,567,924 |
| Insurance recoveries | - | 23,881 | 2,949 | - | 26,830 | 374,278 |
| Total Nonoperating Revenues (Expenses) | (1,426,341) | 214,458 | 9,384,378 | (29,205) | 8,143,290 | 3,053,388 |
| Income (Loss) Before Capital Contributions and Transfers | 33,143,687 | 2,594,883 | 11,688,433 | 18,374,635 | 65,801,638 | 20,662,923 |
| Transfers In (Out): | | | | | | |
| Transfers in | - | - | 71,674 | 125,000 | 196,674 | 1,597,958 |
| Transfers out | (25,729,463) | (2,080,440) | (13,676,710) | (3,413,160) | (44,899,773) | (19,034,302) |
| Total Transfers In (Out) | (25,729,463) | (2,080,440) | (13,605,036) | (3,288,160) | (44,703,099) | (17,436,344) |
| Change in Net Position | 7,414,224 | 514,443 | (1,916,603) | 15,086,475 | 21,098,539 | 3,226,579 |
| Total Net Position - Beginning of Year | 28,236,439 | 78,512,881 | 188,915,838 | 11,106,180 | | 41,405,628 |
| Total Net Position - End of Year | $ 35,650,663 | $ 79,027,324 | $ 186,999,235 | $ 26,192,655 | | $ 44,632,207 |

**ADJUSTMENTS**

| | |
|---|---|
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | 1,002,033 |
| Change in net position of business-type activities | $ 22,100,572 |

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, 2013
**Exhibit A-9**

| | Business Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|---|---|
| | **Liquor** | **Solid Waste Activities** | **Parking Lot Districts** | **Other Enterprise Funds** | **Totals** | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Receipts from customers | $ 269,181,230 | $ 106,084,487 | $ 30,429,263 | $ 54,349,579 | $ 460,044,559 | $ 272,210,230 |
| Payments to suppliers | (205,032,258) | (91,963,848) | (16,163,302) | (13,168,868) | (326,328,276) | (82,809,962) |
| Payments to employees | (27,146,412) | (13,069,005) | (4,827,873) | (23,281,629) | (68,324,919) | (25,434,586) |
| Internal activity - payments from other funds | - | 2,324,080 | - | 1,153,770 | 3,477,850 | - |
| Other operating receipts | 26,334 | - | - | 15,737 | 42,071 | 3,004,228 |
| Other operating payments | - | - | - | (4,264,497) | (4,264,497) | - |
| Miscellaneous | - | - | - | (55,749) | (55,749) | - |
| Claims paid | - | - | - | - | - | (138,322,352) |
| Other revenue | - | 323,695 | 876,435 | 5,285,400 | 6,485,530 | - |
| Net Cash Provided (Used) by Operating Activities | 37,028,894 | 3,699,409 | 10,314,523 | 20,033,743 | 71,076,569 | 28,647,558 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | |
| Property tax collections | - | - | 10,063,874 | - | 10,063,874 | - |
| Operating subsidies and transfers from other funds | - | - | 71,674 | 125,000 | 196,674 | - |
| Operating subsidies and transfers to other funds | (25,729,463) | (2,080,440) | (13,676,710) | (3,413,160) | (44,899,773) | (19,034,302) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (25,729,463) | (2,080,440) | (3,541,162) | (3,288,160) | (34,639,225) | (19,034,302) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | |
| Proceeds from capital debt | 1,910,484 | - | - | - | 1,910,484 | - |
| Proceeds from sale of capital assets | - | 5,446 | - | - | 5,446 | 606,606 |
| Acquisition and construction of capital assets | (10,358,002) | (636,433) | (16,644,394) | - | (27,638,829) | (5,541,959) |
| Principal paid on capital debt | (1,343,419) | (2,685,000) | (2,020,000) | - | (6,048,419) | - |
| Interest paid on capital debt | (1,592,851) | (134,250) | (2,030,369) | - | (3,757,470) | (11,367) |
| Internal activity - payments from other funds | - | - | - | - | - | 1,597,958 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (11,383,788) | (3,450,237) | (20,694,763) | - | (35,528,788) | (3,348,762) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Investment income from pooled investments | 278 | 17,510 | 5,779 | 10,807 | 34,374 | 26,244 |
| Investment income from nonpooled investments | - | - | - | - | - | 89 |
| Net Cash Provided (Used) by Investing Activities | 278 | 17,510 | 5,779 | 10,807 | 34,374 | 26,333 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (84,079) | (1,813,758) | (13,915,623) | 16,756,390 | 942,930 | 6,290,827 |
| Balances - Beginning of Year | 7,466,823 | 58,452,566 | 45,681,148 | 27,147,806 | 138,748,343 | 163,458,810 |
| Balances - End of Year | $ 7,382,744 | $ 56,638,808 | $ 31,765,525 | $ 43,904,196 | $ 139,691,273 | $ 169,749,637 |
| **Reconciliation of operating income (loss) to net cash provided by operating activities:** | | | | | | |
| Operating income (loss) | $ 34,570,028 | $ 2,380,425 | $ 2,304,055 | $ 18,403,840 | $ 57,658,348 | $ 17,609,535 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation and amortization | 1,547,073 | 1,693,169 | 10,603,482 | 52,176 | 13,895,900 | 6,154,900 |
| Other revenue | 26,334 | 323,694 | 876,435 | 15,737 | 1,242,200 | 2,572,321 |
| Other operating expenses | - | 178,335 | - | - | 178,335 | - |
| Miscellaneous | - | - | - | (55,749) | (55,749) | - |
| Changes in assets and liabilities: | | | | | | |
| Receivables, net | (1,433,335) | (18,680) | (625,109) | 49,690 | (2,027,434) | (960,409) |
| Inventories, prepaids and other assets | 871,447 | - | - | | 871,447 | (431,458) |
| Accounts payable and other liabilities | 2,532,146 | (789,557) | (2,179,679) | 433,630 | (3,460) | 3,649,724 |
| Accrued expenses | (1,084,799) | (67,977) | (664,661) | 1,134,419 | (683,018) | 52,945 |
| Net Cash Provided (Used) by Operating Activities | $ 37,028,894 | $ 3,699,409 | $ 10,314,523 | $ 20,033,743 | $ 71,076,569 | $ 28,647,558 |
| **Noncash investing, capital and financing activities:** | | | | | | |
| Change in fair value of investments that are not cash and cash equivalents | $ - | $ 41,668 | $ 9,357 | $ - | $ 51,025 | $ - |
| Capital asset disposals | 253,897 | 53,844 | 216 | - | 307,957 | - |

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
**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 | $ 2,010,602 | $ 18,566,486 | $ 205,482 | $ 24,781,701 |
| Cash | - | - | - | 281,863 |
| Investments: | | | | |
| Government and agency obligations | 282,344,930 | - | - | - |
| Asset-backed securities | 3,212,480 | - | - | - |
| Municipal/Provincial bonds | 22,924,377 | - | - | - |
| Corporate bonds | 582,765,510 | - | - | - |
| Collateralized mortgage obligations | 25,117 | - | - | - |
| Common and preferred stock | 1,356,684,162 | - | - | - |
| Mutual and commingled funds | 1,143,727,784 | - | - | - |
| Short-term investments | 75,697,933 | - | - | - |
| Cash collateral received under securities lending agreements | 291,568,717 | - | - | - |
| Real assets | 235,951,453 | - | - | - |
| Private equity | 238,964,221 | - | - | - |
| Total investments | 4,233,866,684 | - | - | - |
| Receivables (net of allowances for uncollectibles): | | | | |
| Receivables and accrued interest | 14,762,968 | - | - | - |
| Property taxes | - | - | - | 5,942,957 |
| Accounts | 286,286 | - | - | 366,083 |
| Due from other funds | 11,254,736 | - | - | - |
| Due from component units | 2,211,463 | - | - | - |
| Due from other governments | 359,725 | - | - | 214,231 |
| Total Current Assets | 4,264,752,464 | 18,566,486 | 205,482 | 31,586,835 |
| Total Assets | 4,264,752,464 | 18,566,486 | 205,482 | $ 31,586,835 |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 297,915,758 | - | 69,585 | 165,815 |
| Accrued liabilities | 235,661 | - | - | - |
| Deposits | - | - | - | 881,591 |
| Claims payable | 4,032,961 | - | - | - |
| Due to other funds | 12,808 | - | - | - |
| Due to other governments | - | - | - | 954,722 |
| Uncollected property taxes due to governments | - | - | - | 5,618,190 |
| Undistributed taxes and refunds | - | - | - | 3,893,792 |
| Unearned revenue | 77,121 | - | - | - |
| Tax sale surplus and redemptions payable | - | - | - | 2,616,527 |
| Other liabilities | - | - | - | 17,456,198 |
| Total Current Liabilities | 302,274,309 | - | 69,585 | 31,586,835 |
| Noncurrent Liabilities: | | | | |
| Compensated absences | 60,767 | - | - | - |
| Total Liabilities | 302,335,076 | - | 69,585 | $ 31,586,835 |
| **NET POSITION** | | | | |
| Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes | $ 3,962,417,388 | $ 18,566,486 | $ 135,897 | |

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
**Exhibit A-11**

| | Pension and Other Employee Benefit Trusts | Investment Trust | Private-Purpose Trusts |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions: | | | |
| Employers | $ 292,591,269 | $ - | $ - |
| Members | 70,926,229 | - | - |
| Federal government - Medicare Part D | 2,084,873 | - | - |
| Share purchases | - | 30,584,819 | - |
| Total Contributions | 365,602,371 | 30,584,819 | - |
| Investment income (loss) | 391,812,969 | 37,833 | - |
| Less: Investment expenses | 17,859,044 | - | - |
| Net Investment Income (Loss) | 373,953,925 | 37,833 | - |
| Other income - forfeitures | 353,400 | - | - |
| Total Additions, net | 739,909,696 | 30,622,652 | - |
| **DEDUCTIONS** | | | |
| Benefits: | | | |
| Annuities: | | | |
| Retirees | 153,566,262 | - | - |
| Survivors | 8,601,914 | - | - |
| Disability | 46,635,541 | - | - |
| Claims | 53,700,188 | - | - |
| Total Benefits | 262,503,905 | - | - |
| Share redemptions | - | 46,244,804 | - |
| Member refunds | 31,161,503 | - | - |
| Administrative expenses | 6,379,405 | - | 48,389 |
| Total Deductions | 300,044,813 | 46,244,804 | 48,389 |
| Net Increase (Decrease) | 439,864,883 | (15,622,152) | (48,389) |
| Net Position - Beginning of Year | 3,522,552,505 | 34,188,638 | 184,286 |
| Net Position - End of Year | $ 3,962,417,388 | $ 18,566,486 | $ 135,897 |

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

MONTGOMERY COUNTY, MD
STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2013
Exhibit A-12

| | MCPS | HOC | Nonmajor Component Units | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Equity in pooled cash and investments | $ 36,761,454 | $ - | $ 36,792,211 | $ 73,553,665 |
| Cash with fiscal agents | - | 57,094,444 | 12,594,013 | 69,688,457 |
| Cash | 5,702,332 | 14,989 | 6,602,563 | 12,319,884 |
| Investments - cash equivalents | 68,057,730 | 30,726,587 | 19,815,012 | 118,599,329 |
| Investments | 4,598,490 | - | 37,480,621 | 42,079,111 |
| Receivables (net of allowances for uncollectables): | | | | |
| Capital leases | - | - | 18,584,448 | 18,584,448 |
| Accounts | 33,073,314 | 367,461 | 16,414,920 | 49,855,695 |
| Notes | - | - | 57,785,000 | 57,785,000 |
| Mortgages receivable | - | 335,475,122 | - | 335,475,122 |
| Interest | - | 5,260,038 | - | 5,260,038 |
| Other | 308,675 | 5,125,262 | 1,025,664 | 6,459,601 |
| Due from primary government | 55,033,711 | 699,531 | 12,260,183 | 67,993,425 |
| Due from other governments | 34,316,924 | 602,695 | 3,158,889 | 38,078,508 |
| Inventory of supplies | 8,728,855 | 290,742 | 2,143,898 | 11,163,495 |
| Prepaids | 257,171 | 2,527,044 | 1,558,702 | 4,342,917 |
| Unamortized charges | - | - | 412,435 | 412,435 |
| Other assets | 1,089,516 | 40,148,006 | 65,109,185 | 106,346,707 |
| Restricted Assets: | | | | |
| Equity in pooled cash and investments | - | - | 14,069,754 | 14,069,754 |
| Cash with fiscal agents | - | 21,471,053 | - | 21,471,053 |
| Cash | - | - | 471,511 | 471,511 |
| Investments - cash equivalents | - | 106,500,086 | - | 106,500,086 |
| Investments | - | 61,956,582 | 2,954,971 | 64,911,553 |
| Capital assets: | | | | |
| Nondepreciable assets | 122,974,630 | 100,350,631 | 166,153,484 | 389,478,745 |
| Depreciable assets, net | 2,284,941,202 | 375,600,383 | 324,045,875 | 2,984,587,460 |
| Total Assets | 2,655,844,004 | 1,144,210,656 | 799,433,339 | 4,599,487,999 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Accumulated decrease in fair value of hedging derivatives | - | 11,712,520 | 137,737 | 11,850,257 |
| Total Assets and Deferred Outflow of Resources | 2,655,844,004 | 1,155,923,176 | 799,571,076 | 4,611,338,256 |
| **LIABILITIES** | | | | |
| Accounts payable | 66,565,488 | 1,305,601 | 33,371,432 | 101,242,521 |
| Interest payable | - | 18,146,789 | 633,818 | 18,780,607 |
| Retainage payable | 11,830,774 | - | - | 11,830,774 |
| Accrued liabilities | 49,406,183 | 7,660,021 | 907,249 | 57,973,453 |
| Deposits | - | 19,638,229 | 206,717 | 19,844,946 |
| Due to primary government | 89,433 | 82,258,198 | 184,509 | 82,532,140 |
| Due to other governments | - | - | 49,865 | 49,865 |
| Unearned revenue | 5,410,444 | 12,174,759 | 8,747,617 | 26,332,820 |
| Other liabilities | - | 22,188,216 | 23,092 | 22,211,308 |
| Noncurrent liabilities: | | | | |
| Due within one year | 44,085,366 | 36,634,929 | 10,623,002 | 91,343,297 |
| Due in more than one year | 588,028,730 | 759,387,272 | 218,119,813 | 1,565,535,815 |
| Total Liabilities | 765,416,418 | 959,394,014 | 272,867,114 | 1,997,677,546 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 2,380,524,265 | 38,600,642 | 410,653,785 | 2,829,778,692 |
| Restricted for: | | | | |
| Capital projects | - | - | 57,599 | 57,599 |
| Debt Service | - | 60,474,172 | 2,954,971 | 63,429,143 |
| Other purposes | 1,045,223 | 8,079,815 | 27,507,419 | 36,632,457 |
| Unrestricted (deficit) | (491,141,902) | 89,374,533 | 85,530,188 | (316,237,181) |
| Total Net Position | $ 1,890,427,586 | $ 196,529,162 | $ 526,703,962 | $ 2,613,660,710 |

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

**Exhibit A-13**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|---|---|---|---|---|
| **Functions** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **MCPS** | **HOC** | **Nonmajor Component Units** | **Total** |
| **Component Units:** | | | | | | | | |
| General government | $ 4,471,400 | $ 4,311,405 | $ 218,782 | $ - | $ - | $ - | $ 58,787 | $ 58,787 |
| Culture and recreation | 18,495,505 | 16,690,212 | - | 398,778 | - | - | (1,406,515) | (1,406,515) |
| Community development and housing | 231,494,325 | 114,581,672 | 110,901,827 | 5,186,386 | - | (824,440) | - | (824,440) |
| Education: | | | | | | | | |
| Secondary education | 2,516,248,649 | 28,777,818 | 112,121,707 | 67,675,374 | (2,307,673,750) | - | - | (2,307,673,750) |
| Higher education | 288,337,005 | 76,977,267 | 15,171,127 | 319,724 | - | - | (195,868,887) | (195,868,887) |
| Total component units | $ 3,059,046,884 | $ 241,338,374 | $ 238,413,443 | $ 73,580,262 | (2,307,673,750) | (824,440) | (197,216,615) | (2,505,714,805) |
| General revenues: | | | | | | | | |
| Grants and contributions not restricted to specific programs | | | | | 2,408,477,214 | - | 235,545,892 | 2,644,023,106 |
| Investment income | | | | | - | 463,211 | 7,582,225 | 8,045,436 |
| Gain on sale of capital assets | | | | | 184,112 | - | 7,000 | 191,112 |
| Total general revenues | | | | | 2,408,661,326 | 463,211 | 243,135,117 | 2,652,259,654 |
| Change in net position | | | | | 100,987,576 | (361,229) | 45,918,502 | 146,544,849 |
| Net position - beginning, as restated | | | | | 1,789,440,010 | 196,890,391 | 480,785,460 | 2,467,115,861 |
| Net position - ending | | | | | $ 1,890,427,586 | $ 196,529,162 | $ 526,703,962 | $ 2,613,660,710 |

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

MONTGOMERY COUNTY, MARYLAND

# NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

## 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<br>850 Hungerford Drive<br>Rockville, MD 20850 | Montgomery College<br>900 Hungerford Drive<br>Rockville, MD 20850 | Montgomery County Revenue Authority<br>101 Monroe Street, 4th Floor<br>Rockville, MD 20850 |
| Housing Opportunities Commission<br>of Montgomery County, Maryland<br>10400 Detrick Avenue<br>Kensington, MD 20895-2484 | Bethesda Urban Partnership, Inc.<br>7700 Old Georgetown Road<br>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<br>Planning Commission<br>6611 Kenilworth Avenue<br>Riverdale, MD 20737 | Washington Suburban Sanitary<br>Commission<br>14501 Sweitzer Lane<br>Laurel, MD 20707 | Washington Suburban Transit<br>Commission<br>4351 Garden City Drive, Suite 305<br>Hyattsville, MD 20785 |

| | | |
|---|---|---|
| Washington Metropolitan Area Transit Authority | Metropolitan Washington Council of Governments | Northeast Maryland Waste Disposal Authority |
| 600 Fifth Street, NW | 777 N. Capitol Street, NE, #300 | 100 South Charles St, Tower II-Suite 402 |
| Washington, DC 20001 | Washington, DC 20002 | 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 Position** – 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 Position and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. Net position is divided into three categories – 1) net investment in capital assets; 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 of assets, liabilities, fund balance/net position, 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, (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 unearned revenue. At year-end, unearned 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. Unearned 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 unearned 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 unearned 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. For financial reporting purposes, the General Fund also includes amounts maintained in a legally separate Revenue Stabilization Fund. (See Note II. C.)

**Housing Initiative Fund** – This fund is used to account for the fiscal activity for financing, supplementing, and constructing affordable residential facilities for eligible participants. The Fund's revenue sources consist of a portion of each County-owned property sold, repayments on loans, and recordation taxes. All of these revenue sources are restricted, as all funds received must be used to finance, supplement, and construct affordable residential housing 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. These grant funds must be spent according to the restrictions prescribed by the respective funding agencies.

**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-three 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. 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 down county 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. The County periodically uses permanent funds to 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.

In the process of aggregating data for the Statement of Net Position 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 Position. 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 non-operating 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 Position 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, 2013. Fair value for private investments funds, including private equity, and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were 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, fund balance equivalent to the year-end inventory value is classified as nonspendable to indicate that portion of fund balance which is not available in a spendable form.

**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, computer software, 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 $10,000 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.

An asset’s cost basis may be adjusted after acquisition due to improvements or impairments to the asset. However, 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 |
| Intangibles | 3 – 20 |

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 position. 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 an Unamortized 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 Position**

In the government-wide financial statements, the County has reported negative unrestricted net position. 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 position invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net position (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 position (deficit) in the Governmental Activities column of the government-wide Statement of Net Position. At June 30, 2013, 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 $1,471,314,322. Absent the effect of this relationship, the County would have reported a surplus in unrestricted net position of governmental activities in the amount of $336,053,039.

The County classifies fund balance based 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. The constraints are a hierarchy of five classifications. First identified are amounts that are considered *nonspendable,* such as fund balance associated with inventories. The next four classifications are based on the relative strength of the constraints that control how specific amounts can be spent. The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. In the County's case this would be the County Council. The highest act of this body is for it to pass a bill, which becomes a public law. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or 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* fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.
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 committed, assigned and unassigned amounts.

Long-term receivables in the Grants Special Revenue Fund, a major governmental fund, have not met the "available" criteria for revenue recognition, and are, therefore, offset by unearned revenue rather than any of the constrained categories of fund balance. In the Capital Projects Fund, committed fund balance 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 below the constant yield rate for FY13. 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 LY12 (i.e., FY13), in conjunction with a one-time income tax offset credit, generated revenues below 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 and "small business" 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 GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* which was issued to improve financial reporting by addressing issues related to service concession arrangements. This statement did not have any impact on the County's financial statements as the County currently does not participate in any service concession arrangements.

The County has adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* which was issued to update and improve existing standards requiring financial reporting and disclosure requirements regarding component units. This statement did not have any impact on the County's financial statements as the classification of component units of the County was not affected.

The County has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. The implementation of this new standard modified certain language disclosures related to the applicable basis of accounting in the County's FY13 financial statements. The County has the option to follow subsequent private-sector guidance for its business-type activities and enterprise funds with certain limitations, but has elected not to do so.

The County has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which was issued to provide financial reporting guidance for deferred inflows and outflows of resources. This statement also defines net position as the residual of all other items on the statement of financial position, replacing net assets. These changes are reflected in the County's financial statements.

## NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A) Budgetary Information

#### Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as 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 FY13, the County Council increased the operating budget through supplemental and special appropriations by $37.7 million. In addition, supplemental appropriations increased the CIP budget by $116.3 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.

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

| | Revenues | Expenditures and Encumbrances | Other Financing Sources (Uses) | Effect on Fund Balance |
|---|---|---|---|---|
| General Fund: | | | | |
| As reported - budgetary basis | $ 2,892,526,316 | $ 1,023,139,867 | $ (1,806,340,987) | $ 63,045,462 |
| Reconciling items: | | | | |
| Cancellation of prior year encumbrances | 26,141 | - | - | 26,141 |
| Fair market value gains (losses) | (23,535) | - | - | (23,535) |
| Elimination of encumbrances outstanding | - | (29,318,256) | - | 29,318,256 |
| Revenue Stabilization investment income | 28,521 | - | - | 28,521 |
| Conference center activity | 16,788,378 | 16,122,153 | - | 666,225 |
| Interfund activities budgeted as transfers: | | | | |
| Recreation facility maintenance costs | 2,652,320 | - | (2,652,320) | - |
| Public agency permits | - | 1,153,770 | 1,153,770 | - |
| Solid Waste tipping fees | - | 1,431,670 | 1,431,670 | - |
| Community Use of Public Facilities for elections | - | 134,300 | 134,300 | - |
| Component Unit activities budgeted as transfers: | | | | |
| Component Units - transfer in | 232,538 | - | (232,538) | - |
| Component Units and Joint Venture - transfer out | - | 1,547,788,358 | 1,547,788,358 | - |
| As reported - GAAP basis | $ 2,912,230,679 | $ 2,560,451,862 | $ (258,717,747) | $ 93,061,070 |

### B) Deficit Fund Equity

**Capital Projects** – The $4,023,811 deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets during FY13 and the planned FY14 issuance of debt to fund that construction.

**Liability and Property Coverage Self Insurance Internal Service Fund** – The $16,421,065 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 $19,505,953. Participant contributions were increased in FY11, FY12 and FY13 to offset a deficit that originated in FY10, due to higher than anticipated claims in that year. However, an unfavorable trend in increased claim cost development has been identified over the past several years, particularly in FY10, FY11 and FY12. Increased participant contributions, originally designed to eliminate the FY10 deficit, will need to continue through FY16 in order to offset the increased claims costs trend and align fund revenues with projected future costs.

**Central Duplicating Internal Service Fund** – The $712,852 total net deficit in the Central Duplicating Fund resulted from actual printing and mailing work that was less than anticipated in the budget, leading to a reduction in chargeback revenue to the fund. As a result, overhead costs were not fully recovered by chargeback collections. Chargebacks will be adjusted over two years to eliminate the fund deficit by FY15.

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### C) Fund Consolidation

**Revenue Stabilization Fund –** Historically, the County has classified the Revenue Stabilization Fund (RSF) as a separate, stand-alone Special Revenue Fund in the financial statements. However, recent changes to the law governing the RSF (Montgomery County Code 36-10) significantly changed the primary revenue source(s) for this fund. In addition, a recently released clarification of GASB 54 indicated that the foundational revenue of a special revenue fund cannot be transfers for financial reporting purposes.

The RSF has been consolidated into the General Fund in the accompanying financial statements, as shown below.

| | General Fund | Revenue Stabilization Fund |
|---|---|---|
| Fund balance, July 1, 2012 | $ 260,199,258 | $ 155,255,188 |
| Consolidation of funds | 155,255,188 | (155,255,188) |
| Fund balance, July 1, 2012 (restated) | $ 415,454,446 | $ - |

Below is a Condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance for the RSF for the fiscal year ended June 30, 2013.

Montgomery County, MD
Revenue Stabilization Fund (RSF)
Condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013

| | |
|---|---|
| Fund Balance - Beginning of Year | $ 155,255,188 |
| Investment Income | 28,521 |
| FY 13 Statutory contribution | 29,595,672 |
| Fund Balance - End of Year | $ 184,879,381 |

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**White Flint Special Taxing District** - The White Flint Special Taxing District (WFSTD) was established to finance new transportation-related infrastructure projects proposed by the White Flint Sector Plan. The White Flint Sector Plan was approved by the County Council on March 23, 2010 and the WFSTD was approved by County Council Bill 50-10 on November 30, 2010. A separate fund was established, but for financial reporting purposes the WFSTD has been consolidated in the Capital Projects Fund for FY13. Below is a Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance of the WFSTD for the fiscal year ended June 30, 2013.

Montgomery County, MD
White Flint Special Taxing District (WFSTD)
Condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013

| | |
|---|---|
| Fund Balance - Beginning of Year | $ - |
| Property Taxes | 942,070 |
| Investment Income | 152 |
| Fund Balance - End of Year | $ 942,222 |

*(Rest of page intentionally left blank)*

## 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, 2013, totaled $5,757,587,388 of which $5,233,922,985 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 Position Amounts: | Primary Government | Component Units | Total Reporting Entity |
|---|---|---|---|
| Equity in pooled cash and investments | $ 896,645,802 | $ 73,553,665 | $ 970,199,467 |
| Cash with fiscal agents | 59,722,929 | 69,688,457 | 129,411,386 |
| Cash | 805,271 | 12,319,884 | 13,125,155 |
| Investments - cash equivalents | - | 118,599,329 | 118,599,329 |
| Investments | 4,233,866,684 | 42,079,111 | 4,275,945,795 |
| Restricted equity in pooled cash and investments | 34,772,653 | 14,069,754 | 48,842,407 |
| Restricted cash with fiscal agents | - | 21,471,053 | 21,471,053 |
| Restricted cash | - | 471,511 | 471,511 |
| Restricted investments - cash equivalents | - | 106,500,086 | 106,500,086 |
| Restricted investments | 8,109,646 | 64,911,553 | 73,021,199 |
| Total | $ 5,233,922,985 | $ 523,664,403 | $ 5,757,587,388 |
| Deposit and Investment Summary: | | | |
| Deposits | $ 703,935,674 | $ 140,340,426 | $ 844,276,100 |
| Investments | 4,469,459,111 | 251,389,589 | 4,720,848,700 |
| Cash on hand, fiscal agents, safe deposit escrow | 60,528,200 | 131,934,388 | 192,462,588 |
| Total | $ 5,233,922,985 | $ 523,664,403 | $ 5,757,587,388 |

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

| | |
|---|---|
| Government-wide | $ 954,210,167 |
| Fiduciary funds | 4,279,712,818 |
| Total | $ 5,233,922,985 |

**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 the Securities and Exchange Commission Rule 2a-7 ("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 | $ 896,645,802 | $ 680,829 | $ 897,326,631 |
| Restricted equity in pooled cash and investments | 34,772,653 | - | 34,772,653 |
| Total | $ 931,418,455 | $ 680,829 | $ 932,099,284 |
| | | | |
| Deposit and Investment Summary: | | | |
| Deposits | $ 703,935,674 | $ - | $ 703,935,674 |
| Investments, including accrued interest | 227,482,781 | 680,829 | 228,163,610 |
| Total | $ 931,418,455 | $ 680,829 | $ 932,099,284 |

**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 within 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 |
|---|---|---|---|---|
| U.S. Government Securities | $ 74,947,147 | $ 74,930,581 | September 13-June 14 | 0.13%-0.19% |
| Commercial paper | 22,448,586 | 22,448,586 | August 13-December 13 | 0.30%-0.43% |
| Money market mutual funds | 20,148,847 | 20,148,847 | n/a | 0.07%-0.35% |
| State pool | 110,571,163 | 110,571,163 | n/a | 0.20% |
| Total | $ 228,115,743 | $ 228,099,177 | | |

**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, 2013, the County's investment maturities are as follows:

| | | Investment Maturities (in Years) | |
|---|---|---|---|
| Investment Type: | Fair Value | Less than 1 | 1-2 |
| U.S. Government Securities | $ 74,947,147 | $ 74,947,147 | $ - |
| Commercial paper | 22,448,586 | 22,448,586 | - |
| Money market mutual funds | 20,148,847 | 20,148,847 | - |
| State pool | 110,571,163 | 110,571,163 | - |
| Total | $ 228,115,743 | $ 228,115,743 | $ - |

**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, 2013, 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, 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.

In FY13, the County's investment pool consisted of the following investments: Local Government Investment Pool (44.34%), Agencies (30.05%), Certificates of Deposit (8.53%), Money Market funds (8.08%) and Commercial Papers (9.00%).

**External Investment Pool Condensed Financial Statements:**

The condensed financial statements of the County's external investment pool at June 30, 2013, are as follows:

Statement of Net Position
June 30, 2013

| | |
|---|---|
| Assets: | |
| Investment in securities, at fair value | $ 228,115,743 |
| Cash | 703,935,674 |
| Accrued interest receivable | 47,867 |
| Total assets and net position | $ 932,099,284 |
| Net position consists of: | |
| Internal participants' units outstanding ($1.00 par) | $ 913,532,798 |
| External participants' units outstanding ($1.00 par) | 18,566,486 |
| Net position | $ 932,099,284 |
| Participants net position value, offering price and redemption price per share ($932,099,283 /932,398,288 units) | $ 1.00 |

Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2013

| | | |
|---|---|---|
| Investment Income * | | $ 126,229 |
| Distributions to participants: | | |
| Distributions paid and payable | | (126,229) |
| Share transactions at net position value of $1.00 per share: | | |
| Purchase of units | $ 114,981,095 * | |
| Redemption of units | (23,628,620) | |
| Net increase (decrease) in net position and shares resulting from share transactions | | 91,352,475 * |
| Total increase (decrease) in net position | | 91,352,475 * |
| Net position, July 1, 2012 | | 840,746,809 |
| Net position, June 30, 2013 | | $ 932,099,284 |

* 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:

**General Fund –** Cash with fiscal agents of $4,618,082 relates to amounts held by Marriott Hotels, pursuant to a management agreement, for the operation of the Conference Center.

**Debt Service Fund** – Cash with fiscal agents of $6,930,270 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 $35,002,324 is held in money market mutual funds for the purpose of reimbursing construction expenditures incurred for various capital projects in the County.

**Liquor Fund** – Cash with fiscal agents of $2,249,608 is held in money market funds for the purpose of reimbursing design, planning and renovation costs for a warehouse and for debt service. At the end of FY13, the County had incurred and paid renovation expenses that were to be reimbursed from cash from fiscal agents which occurred subsequent to year-end.

**Parking Lot Districts** – Cash with fiscal agents of $10,922,645 represents revenue bond proceeds held in a mutual fund which invests exclusively in short-term U.S government securities, including repurchase agreements secured by U.S. government securities.

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

**4) Fiduciary Funds**

**Employees' Retirement System:**

**Investment Overview**

Section 33-61C 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 five percent or more of net position 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, 2013, are as follows:

| Type of Investment | Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|---|
| U.S. Government Obligations* | AAA | $ 79,437,489 | 8.03 % |
| Foreign Government Obligations | AAA | 1,646,938 | 0.16 |
| | AA | 347,468 | 0.04 |
| | A | 7,226,770 | 0.73 |
| | BBB | 5,909,844 | 0.60 |
| | BB | 1,949,738 | 0.20 |
| | Unrated | 1,235,066 | 0.12 |
| Asset-Backed Securities | AAA | 3,212,480 | 0.32 |
| Collateralized Mortgage Obligations | B | 25,117 | 0.00 |
| Municipal/Provincial Bonds | AAA | 5,456,529 | 0.55 |
| | AA | 10,074,437 | 1.02 |
| | A | 7,393,411 | 0.75 |
| Corporate Bonds | AAA | 3,330,563 | 0.34 |
| | AA | 29,345,558 | 2.96 |
| | A | 147,530,472 | 14.91 |
| | BBB | 92,810,428 | 9.38 |
| | BB | 61,195,343 | 6.18 |
| | B | 92,892,719 | 9.39 |
| | CCC | 58,932,444 | 5.95 |
| | CC | 1,588,733 | 0.16 |
| | C | 149,625 | 0.02 |
| | D | 209,125 | 0.02 |
| | Unrated | 27,300,113 | 2.76 |
| Fixed Income Pooled Funds | Unrated | 275,800,459 | 27.87 |
| Short-term Investments and Other | Unrated | 74,571,534 | 7.54 |
| Total Fixed Income Securities | | $ 989,572,403 | 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, 2013, 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 | 15.70 | $ 79,437,489 | 8.03 % |
| Foreign Government Obligations | 1.72 | 18,315,824 | 1.85 |
| Asset-Backed Securities | 13.81 | 3,212,480 | 0.32 |
| Collateralized Mortgage Obligations | 3.97 | 25,117 | 0.00 |
| Municipal/Provincial Obligations | 15.53 | 22,924,377 | 2.32 |
| Corporate Bonds | 8.44 | 515,285,123 | 52.07 |
| Fixed Income Pooled Funds | N/A | 275,800,459 | 27.87 |
| Short-term Investments and Other | N/A | 74,571,534 | 7.54 |
| Total Fixed Income Securities | | $ 989,572,403 | 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 | $ 136,868,124 | $ 7,848,238 | $ 102,869,688 | $ 247,586,050 |
| British Pound Sterling | 66,222,859 | - | 46,142,487 | 112,365,346 |
| Japanese Yen | 112,789,888 | - | (4,373,507) | 108,416,381 |
| Hong Kong Dollar | 15,599,744 | - | 4 | 15,599,748 |
| Norwegian Krone | 2,552,418 | - | 10,829,229 | 13,381,647 |
| Danish Krone | 8,732,325 | - | - | 8,732,325 |
| Mexican Peso | - | 5,007,271 | - | 5,007,271 |
| South Korean Won | 4,911,741 | - | (55,996) | 4,855,745 |
| Philippine Peso | 544,058 | 2,219,499 | - | 2,763,557 |
| Brazilian Real | - | 2,119,539 | - | 2,119,539 |
| Other Currencies | 54,806,423 | 2,268,497 | (212,510,474) | (155,435,554) |
| Total International Securities | $ 403,027,580 | $ 19,463,044 | $ (57,098,569) | $ 365,392,055 |

**Derivatives**

In accordance with the Board's Statement of Investment Policy and Objectives, 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 FY13, the System invested directly in various derivatives including, exchange-traded future contracts, forward currency contracts, and swaps. 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 Statement of Investment Policy and Objectives 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-balance sheet derivatives in the form of exchange-traded financial futures, 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, 2013, the System held 143 long US Treasury futures contracts with a fair value of $20,366,094 and 559 short US Treasury futures contracts with a fair value of ($79,338,453).

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, 2013, the System held $216,526,562 buy foreign exchange contracts and ($290,955,095) sell foreign exchange contracts. The unrealized gain on the System's contracts was $919,827.

**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 position. 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, 2013, the fair value of securities on loan was $297,121,590. Cash received as collateral and the related liability of $291,568,717 as of June 30, 2013, is shown on the Statement of Plan Net Position. 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 $1,186,186 and ($285,825), 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, 2013:

| Securities Lent | Underlying Securities | Non-Cash Collateral Value | Cash Collateral Investment Value |
|---|---|---|---|
| Lent for Cash Collateral: | | | |
| U.S. Government Obligations | $ 62,106,649 | $ - | $ 63,236,757 |
| Corporate Bonds | 79,125,445 | - | 81,140,442 |
| Equities | 142,347,171 | - | 147,191,518 |
| Lent for Non-Cash Collateral: | | | |
| U.S. Government Obligations | 10,201,154 | 10,445,843 | |
| Corporate Bonds | 625,718 | 658,993 | |
| Equities | 2,715,453 | 2,874,110 | - |
| Total | $ 297,121,590 | $ 13,978,946 | $ 291,568,717 |

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, 2013, 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, 2013, the fair value of the mutual and commingled investment funds was $234,672,571. The fair value of the investments in international mutual funds was $45,999,788.

**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, 2013, the fair value of the mutual and commingled investment funds was $303,302,906. The fair value of the investments in international mutual funds included in the County Plan was $42,187,291.

**Consolidated Retiree Health Benefits Trust:**

Section 33-163 of the Code authorizes the Board of Trustees of the Trust 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, 2013, the fair value of the mutual and commingled investment funds was $235,901,106. The fair value of the investments in international mutual funds was $64,685,487.

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**COMPONENT UNITS**

**<u>HOC:</u>**

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, 2013, 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 obligations 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 PNC Bank 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, 2013 was P-1.

At June 30, 2013, HOC had the following cash, cash equivalents, investments, and maturities:

| Cash Equivalents | Fair Value | Rating |
|---|---|---|
| Cash Equivalents: | | |
| General Fund: | | |
| Money Market Accounts | $ 6,245,722 | N/A |
| Opportunity Housing Fund: | | |
| Investment in MLGIP | 261,532 | AAAm |
| Money Market Accounts | 14,457,680 | N/A |
| Public Fund: | | |
| Investment in MLGIP | 4,069,484 | AAAm |
| Money Market Accounts | 5,477,172 | N/A |
| Multi-Family Fund | | |
| Money Market Accounts | 33,579,059 | N/A |
| Single Family Fund - Money Market Accounts | 67,900,348 | N/A |
| Total cash equivalents | $ 131,990,997 | |
| Short-term Investments: | | |
| Multi-Family Fund: | | |
| GNMA Pool | 7,178,745 | AAA |
| Federal Farm Credit Banks | 671,945 | AAA |
| Total short-term investments | $ 7,850,690 | |

| 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 | $ 2,825,645 | $ - | $ 2,164,355 | $ 661,290 | AAA |
| Fannie Mae | 3,035,008 | - | - | 3,035,008 | AAA |
| Freddie Mac | 848,403 | - | - | 848,403 | AAA |
| Federal Farm Credit Banks | 860,894 | - | - | 860,894 | AAA |
| Federal Home Loan Banks | 905,317 | - | - | 905,317 | AAA |
| Israel ST Bonds | 447,160 | - | - | 447,160 | AAA |
| Federal Home Loan Mortgage | 541,036 | | | 541,036 | AAA |
| Bank One Investment Agreement | 591,525 | | | 591,525 | AA/Aa2 |
| | | | | | |
| Single Family Fund: | | | | | |
| Federal Farm Credit Banks | 6,631,759 | | | 6,631,759 | AAA |
| Federal Home Loan Banks | 8,735,527 | - | - | 8,735,527 | Aaa |
| Federal Home Loan Mtg Corp | 1,605,593 | | | 1,605,593 | AAA |
| Fannie Mae | 1,027,182 | - | - | 1,027,182 | AAA |
| GNMA Pass-through certificates | 8,479,931 | | | 8,479,931 | AAA |
| Solomon Repurchase Agreement | 2,345,800 | 2,345,800 | - | - | AAA |
| U. S. Treasuries | 8,777,795 | 2,618,983 | 4,875,696 | 1,283,116 | N/A |
| Tennessee Valley Authority | 6,447,318 | 2,577,296 | - | 3,870,022 | Aaa |
| Total long-term investments | 54,105,893 | $ 7,542,079 | $ 7,040,051 | $ 39,523,763 | |
| Cash balances | 72,165,067 | | | | |
| Total Cash, Cash Equivalents and Investments | $ 266,112,647 | | | | |

## B) Receivables

### 1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2013, reported in the enterprise funds, amounted to:

| | |
|---|---|
| Liquor | $ 47,624 |
| Parking Lot Districts | 1,753,637 |
| | $ 1,801,261 |

### 2) Due from/to Component Units

The balances at June 30, 2013, were:

Due from Component Units /
Due to Primary Government:

| Due from Component Units: | MCPS | MCC | MCRA | HOC | BUPI | Total |
|---|---|---|---|---|---|---|
| Due to Primary Government: | | | | | | |
| General | 660 | 44,402 | - | 118,813 | - | 163,875 |
| Housing Initiative | - | - | - | 49,403,664 | - | 49,403,664 |
| Grants | - | - | - | 8,782,885 | - | 8,782,885 |
| Capital Projects | - | - | - | 19,783,264 | - | 19,783,264 |
| Solid Waste Activities Enterprise | 48,111 | 1,704 | - | 772 | 1,619 | 52,206 |
| Parking Lot Districts | - | - | - | 644,557 | - | 644,557 |
| Internal Service | 40,662 | 31,990 | 74,744 | 1,326,760 | 16,070 | 1,490,226 |
| Fiduciary | - | - | 13,980 | 2,197,483 | - | 2,211,463 |
| Total Due to Primary Government | $ 89,433 | $ 78,096 | $ 88,724 | $ 82,258,198 | $ 17,689 | $ 82,532,140 |

Due to Component Units /
Due from Primary Government:

| Due to Component Units: | MCPS | MCC | MCRA | HOC | BUPI | Total |
|---|---|---|---|---|---|---|
| Due from Primary Government: | | | | | | |
| General | $ 48,269,274 | $ - | $ - | $ 391,434 | $ - | $ 48,660,708 |
| Housing Initiative | - | - | - | 94,009 | - | 94,009 |
| Grants | 1,466,219 | 13,578 | - | 13,437 | - | 1,493,234 |
| Capital Projects | 4,573,167 | 12,245,950 | - | 200,651 | - | 17,019,768 |
| Parking Lot Districts | - | - | - | - | 655 | 655 |
| Nonmajor Governmental | 814 | - | - | - | - | 814 |
| Nonmajor Enterprise | 724,237 | - | - | - | - | 724,237 |
| Total Due from Primary Government | $ 55,033,711 | $ 12,259,528 | $ - | $ 699,531 | $ 655 | $ 67,993,425 |

In the major governmental funds, $49,403,664 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 $1,953,403, 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. 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, amounting to $59 at year-end. These two loans are offset by unearned revenue. Fund balance has been reserved for the remaining loans.

## 3) Due From Other Governments

The total amount due from other governments at June 30, 2013, was comprised of the following:

| | General | Grants | Capital Projects | Solid Waste Activities | Nonmajor Governmental | Internal Service | Fiduciary | Total |
|---|---|---|---|---|---|---|---|---|
| Federal government | $ 8,541 | $ 15,242,724 | $ 40,000 | $ 360 | $ - | $ - | $ 334,645 | $ 15,626,270 |
| State of Maryland | 12,336,183 | 5,317,581 | 2,774,707 | 44,779 | - | 93,314 | 21,309 | 20,587,873 |
| Other | 199,014 | - | 827,757 | 161,332 | 1,797,438 | 60,384 | 3,771 | 3,049,696 |
| Total | $ 12,543,738 | $ 20,560,305 | $ 3,642,464 | $ 206,471 | $ 1,797,438 | $ 153,698 | $ 359,725 | $ 39,263,839 |

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## C) Capital Assets

**PRIMARY GOVERNMENT**

Capital asset activity for the year ended June 30, 2013, was as follows:

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Nondepreciable Capital Assets: | | | | |
| Land | $ 795,651,835 | $ 3,554,250 | $ - | $ 799,206,085 |
| Construction in progress | 765,516,273 | 262,009,400 | 14,334,618 | 1,013,191,055 |
| Total Nondepreciable Capital Assets | 1,561,168,108 | 265,563,650 | 14,334,618 | 1,812,397,140 |
| Depreciable Capital Assets: | | | | |
| Buildings | 758,406,976 | 5,003,324 | - | 763,410,300 |
| Improvements other than buildings | 49,024,561 | 2,661,707 | - | 51,686,268 |
| Furniture, fixtures, equipment and machinery | 247,865,725 | 2,072,937 | 24,282,997 | 225,655,665 |
| Leasehold improvements | 12,777,902 | 178,940 | - | 12,956,842 |
| Automobiles and trucks | 254,314,426 | 6,258,031 | 15,950,664 | 244,621,793 |
| Infrastructure | 1,713,429,414 | 32,467,819 | - | 1,745,897,233 |
| Other assets | 43,489,147 | - | - | 43,489,147 |
| Total Capital Assets being Depreciated | 3,079,308,151 | 48,642,758 | 40,233,661 | 3,087,717,248 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 342,174,780 | 18,505,140 | - | 360,679,920 |
| Improvements other than buildings | 21,869,492 | 1,183,380 | - | 23,052,872 |
| Furniture, fixtures, equipment and machinery | 194,858,003 | 7,275,970 | 23,703,465 | 178,430,508 |
| Leasehold improvements | 6,139,389 | 654,368 | - | 6,793,757 |
| Automobiles and trucks | 136,492,220 | 17,616,525 | 10,158,059 | 143,950,686 |
| Infrastructure | 580,582,268 | 35,273,735 | - | 615,856,003 |
| Other assets | 5,875,594 | 4,140,941 | - | 10,016,535 |
| Total Accumulated Depreciation | 1,287,991,746 | 84,650,059 | 33,861,524 | 1,338,780,281 |
| Total Depreciable Assets, net | 1,791,316,405 | (36,007,301) | 6,372,137 | 1,748,936,967 |
| Governmental Activities Capital Assets, net | $ 3,352,484,513 | $ 229,556,349 | $ 20,706,755 | $ 3,561,334,107 |
| **Business-Type Activities** | | | | |
| Nondepreciable Capital Assets: | | | | |
| Land | 59,639,134 | $ - | $ - | $ 59,639,134 |
| Construction in progress | 15,642,600 | 18,174,746 | - | 33,817,346 |
| Total Nondepreciable Capital Assets | 75,281,734 | 18,174,746 | - | 93,456,480 |
| Depreciable Capital Assets: | | | | |
| Buildings | 251,848,811 | - | - | 251,848,811 |
| Improvements other than buildings | 155,779,767 | 4,085,162 | 216 | 159,864,713 |
| Furniture, fixtures, equipment and machinery | 21,963,189 | 5,555,788 | 966,547 | 26,552,430 |
| Infrastructure | 14,351 | - | - | 14,351 |
| Automobiles and trucks | 4,200,374 | - | - | 4,200,374 |
| Total Capital Assets being Depreciated | 433,806,492 | 9,640,950 | 966,763 | 442,480,679 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 119,775,092 | 7,605,407 | 1,348 | 127,379,151 |
| Improvements other than buildings | 115,730,395 | 4,572,296 | 17 | 120,302,674 |
| Furniture, fixtures, equipment and machinery | 15,617,554 | 1,501,817 | 900,485 | 16,218,886 |
| Infrastructure | 3,300 | 575 | - | 3,875 |
| Automobiles and trucks | 3,292,913 | 215,805 | - | 3,508,718 |
| Total Accumulated Depreciation | 254,419,254 | 13,895,900 | 901,850 | 267,413,304 |
| Total Depreciable Assets, net | 179,387,238 | (4,254,950) | 64,913 | 175,067,375 |
| Business-Type Activities Capital Assets, net | $ 254,668,972 | $ 13,919,796 | $ 64,913 | $ 268,523,855 |

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

| | | |
|---|---|---|
| Governmental Activities: | | |
| General Government | $ | 6,983,739 |
| Public Safety | | 9,681,161 |
| Public Works and Transportation | | 57,700,425.00 |
| Health and Human Services | | 2,168,955 |
| Culture and Recreation | | 7,050,495.00 |
| Community Development and Housing | | 885,885 |
| Environment | | 179,399 |
| Total depreciation expense for governmental activities | $ | 84,650,059 |
| | | |
| Business-type activities: | | |
| Liquor | $ | 1,547,073 |
| Solid Waste Activities | | 1,693,169 |
| Parking Lot Districts | | 10,603,482 |
| Permitting Services | | 44,970 |
| Community Use of Public Facilities | | 7,206 |
| Total depreciation expense business-type activities | $ | 13,895,900 |

| | | |
|---|---|---|
| Construction commitments as of June 30, 2013 are as follows: | | |
| General Government | $ | 167,352,957 |
| Public Safety | | 1,079,474 |
| Public Works and Transportation | | 84,304,309 |
| Health and Human Services | | 1,306,594 |
| Culture and Recreation | | 56,893 |
| Community Development and Housing | | 1,267,987 |
| Environment | | 23,831,791 |
| Total | $ | 279,200,005 |

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## COMPONENT UNITS

Capital assets of MCPS, amounting to $2,407,915,832 at June 30, 2013, are significant in relation to the total component unit capital assets.

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Nondepreciable capital assets: | | | | |
| Land | $ 74,678,201 | $ 4,621,959 | $ - | $ 79,300,160 |
| Construction in progress | 207,712,314 | 191,204,219 | 355,242,063 | 43,674,470 |
| Total nondepreciable capital assets | 282,390,515 | 195,826,178 | 355,242,063 | 122,974,630 |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 2,574,880,147 | 307,860,758 | 2,264,687 | 2,880,476,218 |
| Site improvements | 230,362,212 | 65,314,475 | 136,700 | 295,539,987 |
| Vehicles and equipment | 151,818,906 | 13,868,348 | 7,897,873 | 157,789,381 |
| Total depreciable capital assets | 2,957,061,265 | 387,043,581 | 10,299,260 | 3,333,805,586 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 832,128,269 | 67,033,455 | 2,126,244 | 897,035,480 |
| Site improvements | 51,266,499 | 5,055,288 | 85,100 | 56,236,687 |
| Vehicles and equipment | 96,988,870 | 9,824,451 | 7,887,657 | 98,925,664 |
| Total accumulated depreciation | 980,383,638 | 81,913,194 | 10,099,001 | 1,052,197,831 |
| Total depreciable capital assets, net | 1,976,677,627 | 305,130,387 | 200,259 | 2,281,607,755 |
| Government activities capital assets, net | $ 2,259,068,142 | $ 500,956,565 | $ 355,442,322 | 2,404,582,385 |
| **Business-Type Activities** | | | | |
| Depreciable capital assets: | | | | |
| Vehicles and equipment | $ 17,666,135 | $ 80,428 | $ 243,062 | $ 17,503,501 |
| Total depreciable capital assets | 17,666,135 | 80,428 | 243,062 | 17,503,501 |
| Less accumulated depreciation for: | | | | |
| Vehicles and equipment | 13,827,423 | 622,205 | 235,337 | 14,214,291 |
| Total accumulated depreciation | 13,827,423 | 622,205 | 235,337 | 14,214,291 |
| Business-type activities capital assets, net | $ 3,838,712 | $ (541,777) | $ 7,725 | 3,289,210 |
| Educational Foundation capital assets net of accumulated depreciation | $ - | $ 44,237 | $ - | $ 44,237 |
| Total MCPS government-wide capital assets | | | | $ 2,407,915,832 |

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

| | |
|---|---|
| Governmental activities: | |
| Regular instruction | $ 69,565,145 |
| Special education | 209,040 |
| School administration | 87,651 |
| Student transportation | 7,621,135 |
| Operation of plant | 109,472 |
| Maintenance of plant | 3,694,446 |
| Administration | 626,305 |
| Total depreciation expense-governmental activities | $ 81,913,194 |
| Business-type activities: | |
| Food services | $ 620,722 |
| Real estate management | 1,483 |
| Total depreciation expense-business type activities | $ 622,205 |

Commitments for ongoing construction in progress at June 30, 2013, were $119,218,918.

## D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2013, is as follows:

| | Due From Fund | | | | |
|---|---|---|---|---|---|
| Due To Fund | General | Nonmajor Governmental | Internal Service | Fiduciary | Total |
| General | $ - | $ - | $ 3,000,730 | $ 4,481,959 | $ 7,482,689 |
| Montgomery Housing Initiative | - | - | 6,529 | 9,831 | 16,360 |
| Grants | 7,472,850 | - | 147,238 | 178,087 | 7,798,175 |
| Capital Projects | 42,616,505 | 2,098,292 | 152,474 | 200,222 | 45,067,493 |
| Liquor | - | - | 152,865 | 122,684 | 275,549 |
| Solid Waste Activities | - | - | 63,264 | 69,035 | 132,299 |
| Parking Lot Districts | - | - | 23,705 | 26,084 | 49,789 |
| Nonmajor Governmental | 575 | - | 1,335,707 | 2,159,081 | 3,495,363 |
| Nonmajor Enterprise | - | - | 126,436 | 180,179 | 306,615 |
| Internal Service | 387,500 | - | 150,140 | 3,822,280 | 4,359,920 |
| Fiduciary | - | - | 7,515 | 5,293 | 12,808 |
| Total | $ 50,477,430 | $ 2,098,292 | $ 5,166,603 | $ 11,254,735 | $ 68,997,060 |

Included in the amounts presented above are the following short-term loans from the General Fund that was, or will be, repaid during FY14:

- $7.5 million to the Grants Special Revenue Fund to cover vendor payments prior to revenues being received from other government agencies; and

- $42.6 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes.

- $0.4 million to the Central Duplicating Internal Service Fund to offset cash deficits.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2013, consisted of the following:

| | Transfers In Fund | | | | | | |
|---|---|---|---|---|---|---|---|
| Transfers Out Fund | General | Housing Initiative | Grants | Debt Service | Capital Projects | Parking Lot Districts | Subtotal Major |
| General | $ - | $ 15,589,247 | $ 514,931 | $ 252,311,377 | $ 45,695,781 | $ 28,349 | $ 314,139,685 |
| Housing Initiative | 202,560 | - | - | 4,476,342 | 8,657,597 | - | 13,336,499 |
| Grants | 636,870 | - | - | - | - | - | 636,870 |
| Capital Projects | - | 34,857,355 | - | - | - | - | 34,857,355 |
| Liquor | 22,297,140 | - | - | 3,432,323 | - | - | 25,729,463 |
| Solid Waste Activities | 2,080,440 | - | - | - | - | - | 2,080,440 |
| Parking Lot Districts | 610,170 | - | - | - | - | - | 610,170 |
| Nonmajor Governmental | 21,012,967 | - | 1,131,044 | 35,503,878 | 3,972,556 | 43,325 | 61,663,770 |
| Nonmajor Enterprise | 3,413,160 | - | - | - | - | - | 3,413,160 |
| Internal Service Funds | 19,034,302 | - | - | - | - | - | 19,034,302 |
| Total | $ 69,287,609 | $ 50,446,602 | $ 1,645,975 | $ 295,723,920 | $ 58,325,934 | $ 71,674 | $ 475,501,714 |

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| | Transfers In Fund | | | | |
|---|---|---|---|---|---|
| Transfers Out Fund | Nonmajor Governmental | Nonmajor Enterprise | Internal Service | Subtotal Major | Total |
| General | $ 12,142,713 | $ 125,000 | $ 1,597,958 | $ 314,139,685 | $ 328,005,356 |
| Housing Initiative | - | - | - | 13,336,499 | 13,336,499 |
| Grants | - | - | - | 636,870 | 636,870 |
| Capital Projects | - | - | - | 34,857,355 | 34,857,355 |
| Liquor | - | - | - | 25,729,463 | 25,729,463 |
| Solid Waste Activities | - | - | - | 2,080,440 | 2,080,440 |
| Parking Lot Districts | 13,066,540 | - | - | 610,170 | 13,676,710 |
| Nonmajor Governmental | - | - | - | 61,663,770 | 61,663,770 |
| Nonmajor Enterprise | - | - | - | 3,413,160 | 3,413,160 |
| Internal Service Funds | - | - | - | 19,034,302 | 19,034,302 |
| Total | $ 25,209,253 | $ 125,000 | $ 1,597,958 | $ 446,001,714 | $ 502,433,925 |

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;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfers from Capital Projects to Housing Initiative to build multi-family housing.

## 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 $25,157,200 for FY13. Future minimum lease payments under significant non-cancelable operating leases are as follows:

| Fiscal Year Ending June 30 | |
|---|---|
| 2014 | $ 22,286,948 |
| 2015 | 17,392,063 |
| 2016 | 15,691,645 |
| 2017 | 13,980,529 |
| 2018 | 13,128,667 |
| 2019 - 2023 | 44,495,102 |
| 2024 - 2028 | 8,333,731 |
| Total | $ 135,308,685 |

### 2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F8), 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.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Series 2004 Lease Revenue Bonds.

The composition of the capital lease receivable is as follows:

| | Minimum Lease Receivable | Unearned Income | Net Investment |
|---|---|---|---|
| Shady Grove | $ 16,875,590 | $ (4,379,590) | $ 12,496,000 |
| Grosvenor | 16,453,700 | (4,270,100) | 12,183,600 |
| Glenmont | 8,859,685 | (2,299,285) | 6,560,400 |
| | $ 42,188,975 | $ (10,948,975) | $ 31,240,000 |

At June 30, 2013, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

| Fiscal Year Ending June 30 | |
|---|---|
| 2014 | $ 3,474,363 |
| 2015 | 3,481,613 |
| 2016 | 3,478,613 |
| 2017 | 3,490,613 |
| 2018 | 3,491,613 |
| 2019-2023 | 17,545,562 |
| 2024-2028 | 5,525,262 |
| 2029-2031 | 1,701,336 |
| Total minimum lease payments | $ 42,188,975 |

**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 | (27,309,233) |
| Total asset value under capital leases | $ 41,755,893 |

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The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, are as follows:

| Fiscal Year Ending June 30 | |
|---|---|
| 2014 | $ 3,465,929 |
| 2015 | 3,466,146 |
| 2016 | 3,473,586 |
| 2017 | 3,473,912 |
| 2018 | 2,830,630 |
| 2019-2023 | 6,811,450 |
| Total minimum lease payments | 23,521,653 |
| Less: amount representing interest | (4,411,651) |
| Present value of minimum lease payments | $ 19,110,002 |

Included in the preceding schedules 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. During FY13, the County entered into a new capital lease with MCRA related to the October 18, 2012 refunding of Montgomery County Revenue Authority Taxable Lease Revenue bonds issued for the construction of the Conference Center.

## 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, are reflected as Committed Fund Balance of the Capital Projects Fund.

The County issued $23,360,000 in general refunding bonds dated October 24, 2012; the County received a premium on the issue of $2,013,430. The total net proceeds were used to advance refund

$4,995,000 of general obligation (GO) refunding bonds that were previously issued and early retire $20,115,000 in capital leases. These bonds were issued with a true interest cost of 0.38%. A detail listing of these refunded bonds is as follows:

| | Dated Date | Original Maturity | True Interest Cost | Originally Issued | Years Refunded | Amount Refunded |
|---|---|---|---|---|---|---|
| GO Bonds | 11/15/2002 | 2005-13 | 3.2628 | $ 93,595,000 | 2013 | $ 4,995,000 |
| Town Square Lease | 6/11/2002 | 2003-16 | N/A | 26,540,000 | 2013-16 | 8,910,000 |
| Wayne Ave. Lease | 6/11/2002 | 2003-16 | N/A | 32,560,000 | 2013-16 | 11,205,000 |
| | | | | $ 152,695,000 | | $ 25,110,000 |

Net proceeds of the general obligation refunding bonds were used to purchase direct obligation, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the U.S government. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance bond refunding of $4,995,000, which mature in FY14. As a result, the trust account assets and the liabilities for the defeased bonds are not included in these financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by $75,380. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

The debt service savings from this refunding is $2,502,972 as shown below. The present value of the debt service savings (or economic gain) on the refunding is $2,511,164.

| Fiscal Year | Refunded Debt Service Requirements | Refunding Debt Service Requirements | Debt Service Savings |
|---|---|---|---|
| 2013 | $ 753,987 | $ 426,698 | $ 327,289 |
| 2014 | 10,681,280 | 8,514,075 | 2,167,205 |
| 2015 | 5,563,877 | 5,561,550 | 2,327 |
| 2016 | 5,538,030 | 5,533,200 | 4,830 |
| 2017 | 5,536,321 | 5,535,000 | 1,321 |
| Total | $ 28,073,495 | $ 25,570,523 | $ 2,502,972 |

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General obligation bond issues outstanding as of June 30, 2013, are as follows:

| Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2013 | Unamortized Premium | Unamortized Deferred Difference | Carrying Value June 30, 2013 |
|---|---|---|---|---|---|---|---|
| 03/15/04 | 2005-24 | 3.0 - 5.0 | 154,600,000 | $ 15,460,000 | $ 784,446 | $ - | $ 16,244,446 |
| 08/15/04* | 2008-17 | 3.0 - 5.25 | 97,690,000 | 74,895,000 | 1,228,886 | (1,504,495) | 74,619,391 |
| 05/15/05 | 2006-25 | 4.0 - 5.0 | 200,000,000 | 40,000,000 | 2,582,760 | - | 42,582,760 |
| 06/01/05* | 2005-16 | 3.781 | 120,355,000 | 114,175,000 | 5,436,687 | (4,462,983) | 115,148,704 |
| 05/01/06 | 2006-17 | 3.871 | 100,000,000 | 30,000,000 | 545,761 | - | 30,545,761 |
| 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 | 112,500,000 | 7,411,637 | - | 119,911,637 |
| 3/12/08* | 2009-15 | 2.750 - 5.0 | 70,295,000 | 10,150,000 | 214,064 | (94,068) | 10,269,996 |
| 07/15/08 | 2009-29 | 3.0 - 5.0 | 250,000,000 | 200,000,000 | 4,608,451 | - | 204,608,451 |
| 11/03/09* | 2011-20 | 2.0 - 5.0 | 161,755,000 | 147,915,000 | 11,264,529 | (6,147,455) | 153,032,074 |
| 11/03/09 | 2015-29 | 3.75 - 5.5 | 232,000,000 | 232,000,000 | 1,333,996 | - | 233,333,996 |
| 11/17/09* | 2010-14 | 2.0 - 5.0 | 78,000,000 | 31,200,000 | 863,823 | - | 32,063,823 |
| 07/26/10 | 2011-22 | 2.0 - 5.0 | 195,000,000 | 162,500,000 | 15,525,294 | - | 178,025,294 |
| 07/26/10 | 2023-30 | 4.75 - 5.4 | 106,320,000 | 106,320,000 | 173,524 | - | 106,493,524 |
| 07/26/10 | 2023-30 | 4.75 - 5.4 | 23,680,000 | 23,680,000 | 38,648 | - | 23,718,648 |
| 08/11/11 | 2012-31 | 2.00 - 5.0 | 320,000,000 | 304,000,000 | 30,952,135 | - | 334,952,135 |
| 08/11/11* | 2012-22 | 2.00 - 5.0 | 237,655,000 | 226,670,000 | 31,770,137 | (13,913,493) | 244,526,644 |
| 10/24/12 | 2013-32 | 2.50 - 5.0 | 295,000,000 | 295,000,000 | 30,157,467 | - | 325,157,467 |
| 10/24/12* | 2013-16 | 2.50 - 5.0 | 23,360,000 | 23,360,000 | 1,442,153 | (53,993) | 24,748,160 |
| Total | | | $ 3,015,710,000 | $ 2,249,825,000 | $ 146,334,398 | $ (26,176,487) | $ 2,369,982,911 |

* Issue represents refunding bonds.

Changes in general obligation bonds during FY13 are as follows:

| | Balance July 1, 2012 | Bonds Issued | Bonds Retired | Bonds Refunded | Balance June 30, 2013 |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| General County | $ 325,279,233 | $ 72,631,840 | $ 23,992,523 | $ 459,041 | $ 373,459,509 |
| Roads and Storm Drainage | 449,677,420 | 40,574,560 | 38,725,490 | 1,146,852 | 450,379,638 |
| Parks | 67,838,583 | 3,070,080 | 5,963,352 | 80,420 | 64,864,891 |
| Public Schools | 902,017,621 | 152,896,640 | 76,910,213 | 3,105,389 | 974,898,659 |
| Community College | 128,095,991 | 17,616,800 | 8,534,636 | 117,383 | 137,060,772 |
| Consolidated Fire Tax District | 53,236,009 | 2,546,720 | 4,345,243 | 49,451 | 51,388,035 |
| Mass Transit | 71,145,143 | 29,023,360 | 2,358,543 | 36,464 | 97,773,496 |
| | $ 1,997,290,000 | $ 318,360,000 | $ 160,830,000 | $ 4,995,000 | $ 2,149,825,000 |

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

| Fiscal Year Ending June 30 | General Obligation Bond Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 171,510,000 | $ 97,721,004 | $ 269,231,004 |
| 2015 | 178,250,000 | 89,162,266 | 267,412,266 |
| 2016 | 173,570,000 | 80,147,860 | 253,717,860 |
| 2017 | 167,740,000 | 71,890,461 | 239,630,461 |
| 2018 | 156,795,000 | 64,248,769 | 221,043,769 |
| 2019-2023 | 689,450,000 | 223,326,116 | 912,776,116 |
| 2024-2028 | 482,570,000 | 99,078,762 | 581,648,762 |
| 2029-2033 | 229,940,000 | 16,677,950 | 246,617,950 |
| Total | $ 2,249,825,000 | $ 742,253,188 | $ 2,992,078,188 |

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, 2013 is $7,181,853,539.

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General obligation bonds authorized and unissued as of June 30, 2013, are as follows:

| Purpose | Authority Chapter | Authority Act | Authority Amount | Amount Unissued |
|---|---|---|---|---|
| General County, Parks, and | 36 | 2008 | $ 68,200,000 | $ 6,890,000 |
| Consolidated Fire Tax District | 22 | 2009 | 58,700,000 | 58,700,000 |
| | 54 | 2010 | 341,600,000 | 341,600,000 |
| | 24 | 2011 | 65,400,000 | 65,400,000 |
| | 19 | 2012 | 13,900,000 | 13,900,000 |
| | | | 547,800,000 | 486,490,000 |
| Roads and Storm Drainage | 54 | 2010 | 192,000,000 | 182,540,000 |
| | 19 | 2012 | 38,700,000 | 38,700,000 |
| | | | 230,700,000 | 221,240,000 |
| Public Schools and | 22 | 2009 | 272,500,000 | 66,268,000 |
| Community College | 54 | 2010 | 108,700,000 | 108,700,000 |
| | 24 | 2011 | 214,300,000 | 214,300,000 |
| | 19 | 2012 | 187,400,000 | 187,400,000 |
| | | | 782,900,000 | 576,668,000 |
| Mass Transit | 54 | 2010 | 32,600,000 | 4,605,000 |
| | 24 | 2011 | 103,200,000 | 103,200,000 |
| | | | 135,800,000 | 107,805,000 |
| 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 |
| Agricultural Eastments | 24 | 2011 | 2,000,000 | 2,000,000 |
| Facade Eastments | 24 | 2011 | 1,100,000 | 1,100,000 |
| | | | 3,100,000 | 3,100,000 |
| Parking Districts: | | | | |
| Silver Spring | 9 | 1983 | 2,945,000 | 2,045,000 |
| | 6 | 1984 | 1,220,000 | 1,220,000 |
| | 19 | 2012 | 20,115,000 | 1,193,000 |
| | | | 24,280,000 | 4,458,000 |
| 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 | | | 33,430,000 | 9,323,000 |
| Total General Obligation Bonds | | | $ 1,786,760,000 | $ 1,457,596,000 |

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, on May 25, 2011, the County entered into a Standby Note Purchase Agreement with 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, 2013, are as follows:

| Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2013 |
|---|---|---|---|---|
| 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.

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Changes in VRDOs during FY13 are as follows:

| | Balance July 1, 2012 | VRDOs Issued | VRDOs Retired | Balance June 30, 2013 |
|---|---|---|---|---|
| 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 |
|---|---|---|---|
| 2014 | $ - | $ 600,000 | $ 600,000 |
| 2015 | - | 600,000 | 600,000 |
| 2016 | - | 600,000 | 600,000 |
| 2017 | 10,000,000 | 600,000 | 10,600,000 |
| 2018 | 10,000,000 | 540,000 | 10,540,000 |
| 2019-2023 | 50,000,000 | 1,620,000 | 51,620,000 |
| 2024-2026 | 30,000,000 | 240,000 | 30,240,000 |
| Total | $ 100,000,000 | $ 4,800,000 | $ 104,800,000 |

* 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 proposed budget.

**3) Revenue Bonds Payable**

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

In July 2012, the County issued $37.8 million Water Quality Protection Revenue Bonds Series 2012A. The proceeds of the Series 2012A Bonds will be used to finance and refinance the planning, design, acquisition, and construction of stormwater management facilities that are included in the County's Capital Improvement Program. It is a proactive program to protect natural waterway environments, restore streams previously damaged by excessive erosion, sedimentation, and improved water quality.

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

| | Terms of Commitment (Years) | Approximate Amount of Pledge |
|---|---|---|
| Bethesda Parking Lot District | 19 | $ 64,808,542 |
| Water Quality Protection | 19 | 57,350,250 |
| Liquor Control | 18 | 107,061,092 |
| Total | | $ 229,219,884 |

The pledged net revenues recognized during FY13 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 | Interest | Total |
| Parking Lot District: | | | | |
| Bethesda Parking Lot District | $ 12,195,271 | $ 2,020,000 | $ 2,030,369 | $ 4,050,369 |
| Silver Spring Parking Lot District | 10,683,649 | - | - | - |
| Solid Waste Disposal Fund | 4,300,009 | 2,685,000 | 134,250 | 2,819,250 |
| Liquor Control Fund | 36,143,713 | 2,790,000 | 3,561,750 | 6,351,750 |
| Water Quality Protection | 8,364,596 | 915,000 | 1,207,601 | 2,122,601 |

Revenue bond issues outstanding as of June 30, 2013, are as follows:

| | Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2013 | Unamortized Premium/ (Discount) | Unamortized Deferred Difference | Carrying Value June 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Parking Revenue Bonds: | | | | | | | | |
| Bethesda Parking Lot District 2005A | 08/31/05 | 2007-25 | 3.62 - 5.00 | $ 16,495,000 | $ 12,585,000 | $ 55,671 | $ - | $ 12,640,671 |
| Bethesda Parking Lot District 2012 | 05/16/12 | 2015-23 | 3.00 - 3.25 | 24,190,000 | 24,190,000 | 1,383,085 | - | 25,573,085 |
| Bethesda Parking Lot District 2012 Ref. | 05/16/12 | 2013-17 | 1.25 - 1.93 | 13,750,000 | 12,455,000 | 1,846,826 | (192,075) | 14,109,751 |
| Water Quality Protection 2012A | 07/18/12 | 2013-32 | 0.25 - 5.00 | 37,835,000 | 36,920,000 | 5,062,363 | - | 41,982,363 |
| Liquor Control Revenue Bonds:* | | | | | | | | |
| Liquor Control & Transportation 2009 | 05/12/09 | 2010-29 | 3.00 - 5.00 | 46,765,000 | 40,195,000 | 1,951,567 | - | 42,146,567 |
| Liquor Control & Transportation 2011 | 04/28/11 | 2012-31 | 2.00 - 5.00 | 34,360,000 | 32,020,000 | 1,379,179 | - | 33,399,179 |
| Total | | | | $ 173,395,000 | $ 158,365,000 | $ 11,678,691 | $ (192,075) | $ 169,851,616 |

* Liquor Control Revenue bonds are allocated to Governmental and Business-Type Activities on the Statement of Activities. See Note III-F11 for allocation.

Changes in revenue bond principal during FY13 are as follows:

| | Balance July 1, 2012 | Bonds Issued | Bonds Retired | Balance June 30, 2013 |
|---|---|---|---|---|
| Bethesda Parking Lot District | $ 51,250,000 | $ - | $ 2,020,000 | $ 49,230,000 |
| Solid Waste Disposal | 2,685,000 | - | 2,685,000 | - |
| Liquor Control* | 75,005,000 | - | 2,790,000 | 72,215,000 |
| Water Quality Protection | - | 37,835,000 | 915,000 | 36,920,000 |
| Total | $ 128,940,000 | $ 37,835,000 | $ 8,410,000 | $ 158,365,000 |

* Liquor Control Revenue bonds are allocated to Governmental and Business-Type Activities on the Statement of Activities. See Note III-F11 for allocation.

Revenue bond debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30 | Bethesda Parking Lot District | | Liquor Control | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2014 | $ 2,100,000 | $ 1,910,939 | $ 2,915,000 | $ 3,438,950 |
| 2015 | 3,120,000 | 1,839,789 | 3,055,000 | 3,295,200 |
| 2016 | 3,245,000 | 1,715,917 | 3,215,000 | 3,142,450 |
| 2017 | 3,375,000 | 1,588,008 | 3,345,000 | 3,010,950 |
| 2018 | 3,525,000 | 1,438,470 | 3,510,000 | 2,844,300 |
| 2019-2023 | 16,360,000 | 4,624,060 | 20,055,000 | 11,712,240 |
| 2024-2028 | 10,825,000 | 1,929,053 | 25,280,000 | 6,492,450 |
| 2029-2033 | 6,680,000 | 532,306 | 10,840,000 | 909,552 |
| Total | $ 49,230,000 | $ 15,578,542 | $ 72,215,000 | $ 34,846,092 |

| Fiscal Year Ending June 30 | Water Quality Protection | | Total Revenue Bond Requirements | | |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Total |
| 2014 | $ 1,310,000 | $ 1,706,150 | $ 6,325,000 | $ 7,056,039 | $ 13,381,039 |
| 2015 | 1,340,000 | 1,678,850 | 7,515,000 | 6,813,839 | 14,328,839 |
| 2016 | 1,395,000 | 1,625,250 | 7,855,000 | 6,483,617 | 14,338,617 |
| 2017 | 1,435,000 | 1,583,400 | 8,155,000 | 6,182,358 | 14,337,358 |
| 2018 | 1,490,000 | 1,526,000 | 8,525,000 | 5,808,770 | 14,333,770 |
| 2019-2023 | 8,495,000 | 6,598,850 | 44,910,000 | 22,935,150 | 67,845,150 |
| 2024-2028 | 10,750,000 | 4,341,000 | 46,855,000 | 12,762,503 | 59,617,503 |
| 2029-2033 | 10,705,000 | 1,370,750 | 28,225,000 | 2,812,608 | 31,037,608 |
| Total | $ 36,920,000 | $ 20,430,250 | $ 158,365,000 | $ 70,854,884 | $ 229,219,884 |

Revenue bonds authorized and unissued as of June 30, 2013, are as follows:

| Purpose | Resolution Number | Year | Amount Authorized | Amount Unissued |
|---|---|---|---|---|
| Parking Lot Districts | 11-1383 | 1989 | $ 51,163,000 | $ 1,403,000 |
| Parking Lot Districts | 14-921 | 2001 | 35,000,000 | 9,000,000 |
| Solid Waste Disposal | 12-1010 | 1993 | 56,635,000 | 6,255,000 |
| Public Housing | 16-675 | 2008 | 50,000,000 | 50,000,000 |
| Liquor & Transportation | 16-863 | 2009 | 138,000,000 | 56,875,000 |
| Parking Lot Districts | 17-403 | 2012 | 46,000,000 | 46,000,000 |
| Public Housing | 17-227 | 2012 | 40,000,000 | 40,000,000 |
| Water Quality Protection | Bill 12-12 | 2012 | 95,000,000 | 57,165,000 |
| Total | | | $ 511,798,000 | $ 266,698,000 |

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 | $ 1,492,458 | $ 1,835,549 | $ - |
| Debt Service Account - Used to pay debt service on bonds | 264,351 | - | - |
| Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available | 4,313,392 | - | 3,796,253 |
| Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs | 1,500,000 | 1,500,000 | 3,884,647 |
| Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months | - | - | 23,795,649 |
| Rate Stabilization Account - In case of short-term extraordinary expenses | - | - | 500,000 |
| Total | $ 7,570,201 | $ 3,335,549 | $ 31,976,549 |

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 FY13 are as follows:

| | Balance July 1, 2012 | BANs Issued | BANs Retired | Balance June 30, 2013 |
|---|---|---|---|---|
| BAN Series 2009-A | $ 200,000,000 | $ 100,000,000 | $ 200,000,000 | $ 100,000,000 |
| BAN Series 2009-B | - | 100,000,000 | - | 100,000,000 |
| BAN Series 2010-A | - | 63,395,000 | - | 63,395,000 |
| BAN Series 2010-B | 300,000,000 | 63,395,000 | 126,790,000 | 236,605,000 |
| Total | $ 500,000,000 | $ 326,790,000 | $ 326,790,000 | $ 500,000,000 |

Interest earned on BAN proceeds totaling $750 was accounted for in the Debt Service Fund. During FY13 interest rates varied from .065 to .185 percent.

BANs totaling $326.8 million were issued during FY13; $126.8 million Series 2010 and $200 million Series 2009 respectively. BANs are issued at varying maturities to a maximum of 270 days, under a program whose authority was adopted on September 15, 2009, as amended, 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 FY14, and intends to use a portion of the proceeds to replace short-term notes that were issued to fund capital construction and improvements.

In connection with the BANs, the County entered into three-year credit agreements with State Street Bank and PNC Bank to provide liquidity with respect to the 2010 Series BANs for $150,000,000 each. The agreements were due to expire on July 31, 2013 but were renewed after the fiscal year end. With respect to the 2009 Series BANs, the County has a credit agreement with JP Morgan Chase which expires on August 24, 2014. All credit agreements provide liquidity for the principal amount of the notes and approximately one month of interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

During FY13, the County Council passed Resolution No. 17-556 dated September 25, 2012 to increase the County's authority to issue BANs by $240 million. Cumulative BANs authorized and unissued as of June 30, 2013, including amounts authorized and unissued from prior years, is $86,790,000.

## 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 |
| 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 | 7,155,000 | 289,100 | 7,444,100 |
| 2018 | 3,645,000 | 145,800 | 3,790,800 |
| Total | $ 30,675,000 | $ 3,211,100 | $ 33,886,100 |

**6) Master Lease/Equipment Notes**

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, 2013:

| Fiscal Year Ending June 30 | |
|---|---|
| 2014 | $ 5,659,959 |
| 2015 | 5,659,962 |
| 2016 | 5,659,995 |
| 2017 | 3,844,416 |
| 2018 | 2,028,872 |
| 2019 | 1,130,237 |
| Total minimum lease payments | 23,983,441 |
| Less: amount representing interest | (1,718,785) |
| Present value of minimum lease payments | $ 22,264,656 |

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, 2013:

| Fiscal Year Ending June 30 | Equipment Notes Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 980,801 | $ 59,701 | $ 1,040,502 |
| 2015 | 939,880 | 32,650 | 972,530 |
| 2016 | 490,183 | 8,233 | 498,416 |
| 2017 | 84,291 | 1,409 | 85,700 |
| 2018 | 15,300 | 361 | 15,661 |
| Total | $ 2,510,455 | $ 102,354 | $ 2,612,809 |

On July 7, 2011, the County issued a Master Lease Purchase Agreement to finance public safety system communication equipment. The following is a schedule by fiscal year for the agreement as of June 30, 2013:

| Fiscal Year Ending June 30 | Safety Equipment Notes Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 4,143,021 | $ 230,518 | $ 4,373,539 |
| 2015 | 4,212,636 | 160,903 | 4,373,539 |
| 2016 | 4,283,421 | 90,118 | 4,373,539 |
| 2017 | 2,168,627 | 18,144 | 2,186,771 |
| Total | $ 14,807,705 | $ 499,683 | $ 15,307,388 |

## 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 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 June 30, 2013:

| Fiscal Year Ending June 30 | Promissory Note Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ (28,791) | $ 428,791 | $ 400,000 |
| 2015 | (30,066) | 430,066 | 400,000 |
| 2016 | (31,398) | 431,398 | 400,000 |
| 2017 | (32,789) | 432,789 | 400,000 |
| 2018 | (34,242) | 434,242 | 400,000 |
| 2019 - 2023 | (195,352) | 2,195,362 | 2,000,010 |
| 2024 - 2025 | 10,031,887 | 667,603 | 10,699,490 |
| Total | $ 9,679,249 | $ 5,020,251 | $ 14,699,500 |

**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 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 on June 1, 2024.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Series 2004 Lease Revenue Bonds.

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 $42,188,975. 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.

In the event that the County's Reserve Subfund of $3,125,664, 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.

In FY13, pledged revenue of $3,472,363 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2013, are as follows:

| | Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2013 | Unamortized Premium (Discount) | Unamortized Deferred Difference | Carrying Value June 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Lease Revenue Bonds | 10/13/11 | 2011-31 | 2.6687% | $ 35,465,000 | $ 31,240,000 | $ 4,061,034 | $ (1,498,587) | $ 33,802,447 |

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

| Fiscal Year Ending June 30 | Lease Revenue Bond Requirements Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 1,955,000 | $ 1,519,363 | $ 3,474,363 |
| 2015 | 2,060,000 | 1,421,613 | 3,481,613 |
| 2016 | 2,160,000 | 1,318,613 | 3,478,613 |
| 2017 | 2,280,000 | 1,210,613 | 3,490,613 |
| 2018 | 2,395,000 | 1,096,613 | 3,491,613 |
| 2019-2023 | 13,990,000 | 3,555,563 | 17,545,563 |
| 2024-2028 | 4,825,000 | 700,263 | 5,525,263 |
| 2029-2031 | 1,575,000 | 126,334 | 1,701,334 |
| Total | $ 31,240,000 | $ 10,948,975 | $ 42,188,975 |

**9) Taxable Limited Obligation Certificates**

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.

In August 2011, the County issued Taxable Limited Obligation Certificates, in the amount of $28.8 million; the County issued the certificates to finance and promote a broad range of housing opportunities in Montgomery County, Maryland and a community and recreational facility.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2013:

| Fiscal Year Ending June 30 | Taxable Limited Obligation Requirements | | |
|---|---|---|---|
| | Principal | Interest | Total |
| 2014 | $ 2,165,000 | $ 2,533,897 | $ 4,698,897 |
| 2015 | 2,240,000 | 2,458,098 | 4,698,098 |
| 2016 | 2,320,000 | 2,379,597 | 4,699,597 |
| 2017 | 2,400,000 | 2,298,247 | 4,698,247 |
| 2018 | 2,500,000 | 2,201,847 | 4,701,847 |
| 2019-2023 | 14,140,000 | 9,354,611 | 23,494,611 |
| 2024-2028 | 17,825,000 | 5,676,070 | 23,501,070 |
| 2029-2031 | 10,580,000 | 1,016,570 | 11,596,570 |
| Total | $ 54,170,000 | $ 27,918,937 | $ 82,088,937 |

**10) HUD Loan**

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of $870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of $870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2013, for this loan is $483,000.

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## 11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

| Governmental Activities | Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 | Due within one year |
|---|---|---|---|---|---|
| General obligation bonds payable: | | | | | |
| General obligation bonds | $ 1,997,290,000 | $ 318,360,000 | $ (165,825,000) | $ 2,149,825,000 | $ 171,510,000 |
| Variable rate demand obligations | 100,000,000 | - | - | 100,000,000 | - |
| Bond anticipation notes | 500,000,000 | 326,790,000 | (326,790,000) | 500,000,000 | 500,000,000 |
| Revenue bonds | | | | | |
| Liquor Control | 41,265,110 | - | (1,473,500) | 39,791,610 | 1,544,872 |
| Water Quality Protection | - | 37,835,000 | (915,000) | 36,920,000 | 1,310,000 |
| Lease revenue bonds payable | 33,100,000 | - | (1,860,000) | 31,240,000 | 1,955,000 |
| Add remaining original issue premium | 145,451,170 | 39,692,753 | (27,904,082) | 157,239,841 | - |
| Less deferred amount on refundings | (33,791,743) | (75,380) | 6,192,049 | (27,675,074) | - |
| Total general obligation bonds | 2,783,314,537 | 722,602,373 | (518,575,533) | 2,987,341,377 | 676,319,872 |
| Leases and Notes payable: | | | | | |
| Capital leases | 46,530,000 | 8,395,000 | (34,795,000) | 20,130,000 | 2,380,000 |
| Certificates of participation | 37,420,000 | - | (6,745,000) | 30,675,000 | 6,370,000 |
| Taxable limited obligation certificates | 56,265,000 | - | (2,095,000) | 54,170,000 | 2,165,000 |
| HUD loan | 526,000 | - | (43,000) | 483,000 | 43,000 |
| WSSC Promissory Note | 9,651,680 | 27,569 | - | 9,679,249 | 428,791 |
| Equipment notes | 49,359,796 | 340,000 | (10,116,982) | 39,582,814 | 10,167,657 |
| Add remaining original issue premium | 542,957 | 57,288 | (52,714) | 547,531 | - |
| Total Leases and Notes Payable | 200,295,433 | 8,819,857 | (53,847,696) | 155,267,594 | 21,554,448 |
| Other non-debt related liabilities: | | | | | |
| Compensated absences | 74,149,675 | 43,758,914 | (47,163,079) | 70,745,510 | 53,059,133 |
| Other postemployment benefits | 376,728,590 | 136,407,792 | (88,043,558) | 425,092,824 | - |
| Claims payable - self-insurance | 138,197,027 | 136,583,689 | (133,067,084) | 141,713,632 | 37,366,897 |
| Claims and judgments | 1,976,921 | - | (1,976,921) | - | - |
| Total other non-debt related | 591,052,213 | 316,750,395 | (270,250,642) | 637,551,966 | 90,426,030 |
| **Total Governmental Activities Liabilities** | $ 3,574,662,183 | $ 1,048,172,625 | $ (842,673,871) | $ 3,780,160,937 | $ 788,300,350 |
| **Business-Type Activities** | | | | | |
| Revenue Bonds: | | | | | |
| Liquor Control | $ 33,739,890 | $ - | $ (1,316,500) | $ 32,423,390 | $ 1,370,128 |
| Parking revenue bonds | 51,250,000 | - | (2,020,000) | 49,230,000 | 2,100,000 |
| Solid waste disposal revenue refunding bonds | 2,685,000 | - | (2,685,000) | - | - |
| Add remaining original issue premium | 5,539,819 | - | (705,534) | 4,834,285 | - |
| Less deferred amount on refundings | (253,050) | - | 60,975 | (192,075) | - |
| Total revenue bonds | 92,961,659 | - | (6,666,059) | 86,295,600 | 3,470,128 |
| Leases and Notes payable: | | | | | |
| Equipment notes | - | 2,003,268 | (26,920) | 1,976,348 | 257,112 |
| Other non-debt related liabilities: | | | | | |
| Compensated absences | 5,500,882 | 185,005 | (249,596) | 5,436,291 | 4,077,218 |
| Other postemployment benefits | 3,965,222 | 2,483,208 | (2,483,208) | 3,965,222 | - |
| Landfill closure costs | 16,999,682 | 1,158,853 | (829,321) | 17,329,214 | 1,131,251 |
| Total other non-debt related | 26,465,786 | 3,827,066 | (3,562,125) | 26,730,727 | 5,208,469 |
| **Total Business-Type Activities Liabilities** | $ 119,427,445 | $ 5,830,334 | $ (10,255,104) | $ 115,002,675 | $ 8,935,709 |

Funding Source for Other Non-debt Related Liabilities

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, $2,083,495 ($1,562,620 due within one year and $520,875 due in more than one year) of internal service fund compensated absences were included in the above amounts. Compensated absences liabilities of governmental activities are generally liquidated by the governmental funds that incurred the associated personnel cost. In FY13, over 80% of the compensated absences were paid out of the General Fund and the Fire Tax District Special Revenue Fund. The County liquidates claims payable for self-insurance funds with internal service fund resources. Other post employment benefit liabilities are liquidated with General Fund resources. Claims and judgments are liquidated with resources from the General Fund or the fund to which the claim relates.

## 12) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County 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, 2013, there were 24 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 9 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2013, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $158,695,000. The principal amount payable at June 30, 2013, for bonds issued after July 1, 1996, totaled $330,579,274.

## 13) Special Taxing Districts

The County has three special taxing districts: Kingsview Village Center, West Germantown, and White Flint. Kingsview Village Center and West Germantown were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The White Flint Taxing District was created in accordance with Chapter 68C of the Montgomery County Code, which was enacted in 2010. 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 and 68C, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective districts. Any bond issued under Chapter 14 and 68C 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. However, unlike the Kingsview Village Center and West Germantown development districts, the County may issue financing or provide funding for certain infrastructure projects within the White Flint Taxing District that are not derived under the authority of 68C.

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.

**COMPONENT UNITS**

At June 30, 2013, HOC's noncurrent liabilities are comprised of the following:

| | Due within a year | Long-Term | Total |
|---|---|---|---|
| Revenue bond payable | $ 15,906,304 | $ 594,135,670 | $ 610,041,974 |
| Capital leases payable | 174,875 | 20,133,710 | 20,308,585 |
| Derivative investment - hedging | - | 11,712,520 | 11,712,520 |
| Notes and other payable | 20,553,750 | 133,405,372 | 153,959,122 |
| | $ 36,634,929 | $ 759,387,272 | $ 796,022,201 |

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 | $ 328,648,259 |
| Single Family Mortgage Purchase Program Fund | 281,393,715 |
| Total | $ 610,041,974 |

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.20 to 11.26 percent and 0.25 to 6.75 percent, respectively, as of June 30, 2013.

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 |
| 2014 | $ 385,000 | $ 446,500 | $ 831,500 |
| 2015 | 405,000 | 427,834 | 832,834 |
| 2016 | 425,000 | 407,590 | 832,590 |
| 2017 | 445,000 | 385,840 | 830,840 |
| 2018 | 465,000 | 363,090 | 828,090 |
| 2019-2023 | 2,710,000 | 1,431,249 | 4,141,249 |
| 2024-2028 | 3,465,000 | 656,879 | 4,121,879 |
| 2029-2033 | 800,000 | 20,200 | 820,200 |
| Total | $ 9,100,000 | $ 4,139,182 | $ 13,239,182 |

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 |
|---|---|---|---|
| 2014 | $ 15,906,304 | $ 19,804,608 | $ 35,710,912 |
| 2015 | 21,938,199 | 19,371,919 | 41,310,118 |
| 2016 | 22,370,300 | 18,886,431 | 41,256,731 |
| 2017 | 23,112,645 | 18,312,104 | 41,424,749 |
| 2018 | 23,905,266 | 17,659,723 | 41,564,989 |
| 2019-2023 | 105,152,548 | 75,732,812 | 180,885,360 |
| 2024-2028 | 114,435,741 | 51,366,831 | 165,802,572 |
| 2029-2033 | 106,530,000 | 29,606,732 | 136,136,732 |
| 2034-2038 | 88,610,000 | 13,203,276 | 101,813,276 |
| 2039-2043 | 70,920,000 | 3,210,069 | 74,130,069 |
| 2044-2048 | 12,300,000 | 94,658 | 12,394,658 |
| 2049-2053 | 1,975,000 | - | 1,975,000 |
| Unamortized Bond Discount | 2,885,971 | - | 2,885,971 |
| Total | $ 610,041,974 | $ 267,249,163 | $ 877,291,137 |

Changes in the HOC revenue bonds during FY13 are as follows:

| Purpose | Balance July 1, 2012 | Bonds Issued* | Bonds Retired | Balance June 30, 2013 |
|---|---|---|---|---|
| Multi-Family Mortgage Purchase Program Fund | $ 426,974,338 | $ 76,778,921 | $ 175,105,000 | $ 328,648,259 |
| Single Family Mortgage Purchase Program Fund | 305,696,527 | 85,177,212 | 109,480,024 | 281,393,715 |
| Total | $ 732,670,865 | $ 161,956,133 | $ 284,585,024 | $ 610,041,974 |

* 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, 2012 | $ 191,962,190 |
| Issuances during the year | 8,400,000 |
| Redemptions during the year | (36,709,943) |
| Bonds outstanding, June 30, 2013 | $ 163,652,247 |

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, 2013, is presented below:

**Condensed Statements of Net Position**

| | Solid Waste Disposal * | Silver Spring PLD | Bethesda PLD |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 28,529,093 | $ 11,936,004 | $ 47,616,572 |
| Due from component units | 52,206 | - | 644,557 |
| Other assets | 31,976,549 | 3,335,548 | 8,182,388 |
| Capital assets | 39,954,687 | 82,426,556 | 85,493,635 |
| Total Assets | 100,512,535 | 97,698,108 | 141,937,152 |
| **LIABILITIES** | | | |
| Current liabilities | 6,903,751 | 2,291,625 | 6,121,888 |
| Due to other funds | 119,865 | 22,685 | 22,832 |
| Long-term liabilities | 16,846,013 | 154,684 | 50,348,211 |
| Total Liabilities | 23,869,629 | 2,468,994 | 56,492,931 |
| **NET POSITION** | | | |
| Invested in capital assets, net of related debt | 39,954,687 | 82,426,556 | 44,092,774 |
| Restricted for debt service | - | 3,335,548 | 7,570,202 |
| Unrestricted | 36,688,219 | 9,467,010 | 33,781,245 |
| Total Net Position | $ 76,642,906 | $ 95,229,114 | $ 85,444,221 |

* Includes Solid Waste Leafing

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**Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position**

| | Solid Waste Disposal * | Silver Spring PLD | Bethesda PLD |
|---|---|---|---|
| **OPERATING REVENUES (EXPENSES):** | | | |
| Operating Revenues: | | | |
| Charges for services | $ 102,175,870 | $ 10,167,356 | $ 12,355,743 |
| Licenses and permits | 18,875 | - | - |
| Fines and penalties | 22,464 | 2,465,270 | 4,522,998 |
| Total Operating Revenues (pledged against bonds) | 102,217,209 | 12,632,626 | 16,878,741 |
| Depreciation | 1,681,074 | 5,480,297 | 4,774,163 |
| Other operating expenses | 98,271,467 | 9,019,777 | 8,006,351 |
| Operating Income (Loss) | 2,264,668 | (1,867,448) | 4,098,227 |
| **NONOPERATING REVENUES (EXPENSES):** | | | |
| Property taxes | - | 6,935,865 | 2,568,464 |
| Gain (loss) on disposal of capital assets | 59,290 | - | (199) |
| Investment income | 25,128 | 5,583 | 9,358 |
| Interest expense | (170,553) | - | (1,570,869) |
| Other revenue | 269,849 | 126,403 | 745,059 |
| Insurance Recoveries | - | 2,949 | - |
| Transfers in | - | 28,349 | 43,325 |
| Transfers out | (1,911,870) | (4,439,100) | (8,653,660) |
| Change in Net Position | 536,512 | 792,601 | (2,760,295) |
| Beginning Net Position | 76,106,394 | 94,436,513 | 88,204,516 |
| Ending Net Position | $ 76,642,906 | $ 95,229,114 | $ 85,444,221 |

**Condensed Statements of Cash Flows**

| | Solid Waste Disposal * | Silver Spring PLD | Bethesda PLD |
|---|---|---|---|
| Net Cash Provided (Used) By: | | | |
| Operating activities | $ 3,199,325 | $ 2,122,586 | $ 7,847,519 |
| Noncapital financing activities | (1,911,870) | 2,525,114 | (6,041,871) |
| Capital and related financing activities | (3,396,393) | (2,402,425) | (18,146,705) |
| Investing activities | 17,007 | 5,583 | - |
| Net Increase (Decrease) | (2,091,931) | 2,250,858 | (16,341,057) |
| Beginning Cash and Cash Equivalents | 55,760,050 | 11,685,114 | 33,057,753 |
| Ending Cash and Cash Equivalents | $ 53,668,119 | $ 13,935,972 | $ 16,716,696 |

* Includes Solid Waste Leafing

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## H) Fund Equity

### 1) Governmental Fund Balances

The governmental fund balances at June 30, 2013 are composed of the following:

| | General | Housing Initiative | Grants | Debt Service | Capital Projects | Other Non-Major Governmental Funds |
|---|---|---|---|---|---|---|
| **Fund Balances:** | | | | | | |
| **Nonspendable:** | | | | | | |
| Inventory | $ 5,337,288 | $ - | $ - | $ - | $ - | $ - |
| Prepaids | 312,031 | - | - | - | - | 102,478 |
| **Restricted for:** | | | | | | |
| Debt service | - | - | - | 6,337,410 | - | - |
| General government | - | - | - | - | - | 613,234 |
| Public safety | - | - | - | - | - | 5,100,786 |
| Public works and transportation | - | - | - | - | - | 11,426,058 |
| Health and human services | - | - | - | - | - | 1,021,628 |
| Culture and recreation | - | - | - | - | - | 3,644,378 |
| Community development and housing | - | 226,089,283 | - | - | - | 12,717,466 |
| Environment | - | - | - | - | - | 6,293,710 |
| Revenue stabilization | 184,879,381 | - | - | - | - | - |
| **Committed to:** | | | | | | |
| Public safety | - | - | - | - | - | 1,708,706 |
| Public works and transportation | 94,030 | - | - | - | - | 1,051,831 |
| Culture and recreation | 5,939,309 | - | - | - | - | 4,261,758 |
| Community development and housing | 3,892,658 | 4,620,813 | - | - | - | 335,253 |
| Environment | - | - | - | - | - | 5,356,186 |
| Education | 18,531,086 | - | - | - | - | - |
| Capital Projects | 21,238,162 | - | - | - | - | 5,883,213 |
| **Assigned to:** | | | | | | |
| General government | 8,133,337 | - | - | - | - | - |
| Public safety | 8,494,728 | - | - | - | - | - |
| Public works and transportation | 4,051,596 | - | - | - | - | - |
| Health and human services | 7,371,555 | - | - | - | - | - |
| Community development and housing | 84,534 | - | - | - | - | - |
| Environment | 37,149 | - | - | - | - | - |
| Education | 1,171,278 | - | - | - | - | - |
| **Unassigned:** | | - | - | - | - | - |
| Total fund balances | 238,947,394 | - | - | - | (4,023,811) | - |
| | $ 508,515,516 | $ 230,710,096 | $ - | $ 6,337,410 | $ (4,023,811) | $ 59,516,685 |

| **Summary of fund balances:** | General Fund | Initiative | Grants | Debt Service | Capital Projects | Governmental |
|---|---|---|---|---|---|---|
| Nonspendable | $ 5,649,319 | $ - | $ - | $ - | $ - | $ 102,478 |
| Restricted | 184,879,381 | 226,089,283 | - | 6,337,410 | - | 40,817,260 |
| Committed | 49,695,245 | 4,620,813 | - | - | - | 18,596,947 |
| Assigned | 29,344,177 | - | - | - | - | - |
| Unassigned | 238,947,394 | - | - | - | (4,023,811) | - |
| Total fund balances | $ 508,515,516 | $ 230,710,096 | $ - | $ 6,337,410 | $ (4,023,811) | $ 59,516,685 |

## 2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2013, 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 as follows:

| Governmental Fund | Restricted/Committed or Assigned Fund Balance |
|---|---|
| General Fund | $ 49,695,245 |
| Housing Initiative | 4,620,813 |
| Non-major Governmental Funds | 18,596,947 |
| Total Governmental Funds | $ 72,913,005 |

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 | $ 10,391,718 |
| Debt Service | 983,195 |
| Capital Projects | 278,578,045 |
| Fire Tax District | 1,496,976 |
| Total Governmental Funds | $ 291,449,934 |

## 3) Net Position Restricted by Enabling Legislation

Net position 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 position 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 a component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net position of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net position in the government-wide Statement of Net Position, are as follows at year-end:

| | |
|---|---|
| Governmental activities | $ 288,588,248 |
| Business-type activities | 83,423,383 |
| Total | $ 372,011,631 |

## 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, 2013:

| | General Fund | | | Capital | |
|---|---|---|---|---|---|
| | Operating | Capital * | Total | Projects | Total |
| MCPS | $ 1,420,971,292 | $ 16,501,093 | $ 1,437,472,385 | $ 215,658,330 | $ 1,653,130,715 |
| MCC | 96,663,605 | 6,965,266 | 103,628,871 | 51,720,637 | 155,349,508 |
| HOC | 5,588,102 | - | 5,588,102 | - | 5,588,102 |
| Total | $ 1,523,222,999 | $ 23,466,359 | $ 1,546,689,358 | $ 267,378,967 | $ 1,814,068,325 |

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

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

### 2) Other Transactions

BUPI charges for services revenue includes $4,124,551 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 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 FY13 and FY12 are as follows:

| | Liability and Property Coverage | Employee Health Benefits |
|---|---|---|
| Balance July 1, 2011 | $ 102,026,000 | $ 7,511,407 |
| Claims and changes in estimates | 56,847,994 | 113,729,341 |
| Claim payments [1] | (36,985,994) | (104,743,187) |
| Balance June 30, 2012 | 121,888,000 | 16,497,561 |
| Claims and changes in estimates | 39,603,266 | 96,980,423 |
| Claim payments [1] | (34,439,538) | (99,029,160) |
| Balance June 30, 2013 [2,3] | $ 127,051,728 | $ 14,448,824 |

**1** Includes non-monetary settlements.

**2** Includes incurred but not reported (IBNR) claims of $63,511,068 and $14,661,904 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 decrease in Life Insurance IBNR of $213,080 is not reflected in the schedule. Claims payable including the effect of the decrease in Life IBNR is $14,661,904.

## B) Significant Commitments and Contingencies

### 1) Landfill

The County, in its effort to provide for estimated landfill capping and post closure 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. 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 $63,867,853, which have been fully accrued through June 30, 2013. Of the total amount accrued, $45,709,318 in actual costs have been paid out in prior years, and $829,321 was paid in FY13, resulting in a net liability of $17,329,214 at June 30, 2013. The current and non-current portions of the adjusted liability at year-end are estimated at $1,131,251 and $16,197,963 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 post closure costs as they are incurred in the future.

**2) Pollution Remediation**

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 reached a consent agreement with the State in FY13. The consent agreement requires the County to recommend a remediation plan to the State for the Gude Landfill site. The County plans to submit its corrective measures report to the State on January 31, 2014. The county has employed an independent contractor to help it develop an estimate of the cost of its proposal. As of June 30, 2013, no plan had been agreed to on estimated costs.

**3) Litigation**

In addition to those suits in which claims for liability are adequately covered by insurance, the County may be 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 $1,471,376 plus any applicable interest. In accordance with general accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on none of the claims are determined to be probable.

**4) Grants, Entitlements, and Shared Revenues**

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2013, 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, 2013, are as follows:

| Enterprise Funds: | Operating | Capital | Inventory | Total |
|---|---|---|---|---|
| Major Funds: | | | | |
| Liquor | $ 3,694,114 | $ - | $ 6,592,837 | $ 10,286,951 |
| Solid Waste Activities: | | | | |
| Disposal operations | 8,108,805 | - | - | 8,108,805 |
| Collection operations | 105,357 | - | - | 105,357 |
| Leafing operations | 36,400 | - | - | 36,400 |
| Parking Lot Districts: | | | | |
| Silver Spring | 812,861 | 1,167,197 | - | 1,980,058 |
| Bethesda | 596,899 | 687,780 | - | 1,284,679 |
| Wheaton | 250,558 | 205,512 | - | 456,070 |
| Montgomery Hills | 25,199 | - | - | 25,199 |
| Subtotal | 13,630,193 | 2,060,489 | 6,592,837 | 22,283,519 |
| Nonmajor Funds: | | | | |
| Permitting Services | 384,845 | - | - | 384,845 |
| Community Use of Public Facilities | 25,880 | - | - | 25,880 |
| Subtotal | 410,725 | - | - | 410,725 |
| Total Enterprise Funds | 14,040,918 | 2,060,489 | 6,592,837 | 22,694,244 |
| Internal Service Funds: | | | | |
| Motor Pool | 13,145,321 | - | 1,514,471 | 14,659,792 |
| Central Duplicating | 2,011,816 | - | - | 2,011,816 |
| Liability and Property Coverage Self-Insurance | 1,469,511 | - | - | 1,469,511 |
| Employee Health Benefits Self-Insurance | 5,474,515 | - | - | 5,474,515 |
| Total Internal Service Funds | 22,101,163 | - | 1,514,471 | 23,615,634 |
| Total Proprietary Funds | $ 36,142,081 | $ 2,060,489 | $ 8,107,308 | $ 46,309,878 |

As of June 30, 2013, the County has $40,210,150 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 2, and July 3, 2013, the County renewed agreements with State Street Bank and PNC Bank respectively to provide liquidity with respect to the 2010 Series BANs for $150,000,000 each. The credit agreements expire on July 31, 2016.

On July 30, 2013, the County issued $46,645,000 in proceeds from Department of Liquor Control Revenue Bonds (Series 2013A) to finance and refinance the acquisition, construction, and equipping of warehouse facilities and the design, right-of-way acquisition, and construction of transportation projects within the County.

On October 1, 2013, the County entered into a 20 year lease purchase agreement with Banc of America Leasing & Capital, LLC in the amount of $4.165 million to finance energy systems modernization at one of the County's Health and Human Services buildings. The project is to be implemented under an Energy Performance Contract. The lease purchase qualified as financing under the County's Qualified Energy Conservation Bond (QECB) allocation which provided a federal tax credit and will reduce the net effect interest rate to approximately 1.43%.

On November 13, 2013, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of $295,000,000 and General Obligation Refunding Bonds (Tax-Exempt Series B) in the amount of $24,915,000.

On November 19, 2013, the County issued Taxable Limited Obligation Certificates (Series 2013) in the amount of $38,015,000 for purposes of funding the County's Affordable Housing Program.

The County‘s costs, under the Gude Landfill remediation plan currently being developed (see Note IV-B2), is estimated to be $57 million over a 20 year period.

## 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, 2013, M-NCPPC had outstanding notes payable and bonds payable in the amount of $81,630,273, of which $222,228 was self-supporting. Of the total amount payable, $10,964,203 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, 2013, is $33,904,922, 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, 2013, WSSC had outstanding notes payable and bonds payable in the amount of $1,906,856,000, which was fully self-supporting. Of the total amount payable, $282,290,000 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, 2013, 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 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 Washington Suburban Transit Commission (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 $104,280 to WSTC during FY13.

**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 FY13, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

| | |
|---|---|
| Bus operating subsidy | $ 57,758,145 |
| Rail operating subsidy | 32,582,962 |
| Americans with Disabilities Act service | 22,324,318 |
| MetroMatters program | 4,944,539 |
| Capital Improvement Program | 31,297,000 |
| Project Development Program | 506,000 |
| Debt service on WMATA revenue bonds | 2,868,676 |
| Local bus program | 27,089,042 |
| Total | $ 179,370,682 |

At June 30, 2013, WMATA had outstanding bonds payable of $277,335,000, of which **$**20,335,000 represented bonds payable due within one year. This debt is payable from resources of WMATA.

**<u>Metropolitan Washington Council of Governments (COG)</u>**

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 13 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 FY13 membership dues and fees for services amounting to $767,173.

**<u>Northeast Maryland Waste Disposal Authority (NEMWDA)</u>**

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. On February 28, 2013, NEMWDA issued $77,685,000 in Series 2013 bonds to refund the Series 2003 bonds. On April 1, 2013, $113,720,000 were redeemed pursuant to an advanced refunding. At June 30, 2013, NEMWDA had outstanding bonds payable in the amount of $77,685,000 of which $20,715,000 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 FY13 amounted to $40,824,393.

**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. All 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 elected and all represented employees hired after March 1, 2005 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.

Members are automatically defaulted to make at least 1% contribution.

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) <u>Group Insurance Benefits</u>

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 FY13, the County and its employees contributed $88,977,716 and $34,342,744, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $720,880, $3,976,789, and $167,142 for these component units, respectively, for FY13.

## F) <u>Pension Plan Obligations</u>

### 1) <u>Defined Benefit Pension Plan</u>

**<u>Plan Description</u>** - 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. Montgomery County Employee Retirement Plans 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/mcerp, or can be obtained by writing the Montgomery County Employee Retirement Plans, 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 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 4 to 11.25 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 FY13 were based on an actuarial valuation as of June 30, 2011, 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 FY13 were as follows:

| Fiscal Year | APC | Percentage of APC Contributed | NPO |
|---|---|---|---|
| 2011 | $ 109,343,933 | 100 % | $ - |
| 2012 | 107,855,595 | 100 | - |
| 2013 | 127,887,620 | 100 | - |

**<u>Allocated Insurance Contract</u> –** 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) <u>Defined Contribution Plan</u>**

**<u>Plan Description</u>** - The 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 FY13 were $15,628,750 and $8,273,565, respectively.

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.

**3) <u>Other</u>**

The County contributed $1,135,590 during FY13 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) <u>Length of Service Award Program (LOSAP)</u>**

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 $1,166,461 in FY13 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 518 recipients comprising former volunteers and their beneficiaries at the end of FY13. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is $20,740,159.

**G) <u>Other Postemployment Benefits (OPEB)</u>**

**<u>Plan Description</u> –** 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. Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to change the name to Consolidated Retiree Health Benefits Trust (CRHBT) due to the addition of County-funded agency retiree benefits plans. The County-funded agencies are MCPS and MCC, both component units of the reporting entity. During FY13, the County contributed $58,853,092 and $1,779,914 to the CRHBT on behalf of MCPS and MCC for the health benefits of their retirees, respectively. The CRHBT 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 Trustees (Board) has the exclusive authority to manage the assets of the CRHBT. The Board consists of nineteen trustees and functions as part of the County. Separate financial statements are not issued for the CRHBT.

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 or the GRIP 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, 2012, the most recent actuarial valuation, consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 7,224 |
| Active plan members | 9,511 |
| Total | 16,735 |

Condensed FY13 financial statements for the Consolidated Retiree Health Benefits Trust are as follows:

| **Condensed Statement of Fiduciary Net Position** | | **Condensed Statement of Changes in Fiduciary Net Position** | |
|---|---|---|---|
| **ASSETS** | | **ADDITIONS** | |
| Cash and investments | $ 236,246,006 | Contributions | $ 170,729,165 |
| Other assets | 6,140,961 | Net investment income (loss) | 8,635,131 |
| Total Assets | 242,386,967 | Total Additions, net | 179,364,296 |
| **LIABILITIES** | | **DEDUCTIONS** | |
| Claims payable | 4,032,961 | Benefits | 53,700,188 |
| Other liabilities | 236,529 | Administrative | 3,777,357 |
| Total Liabilities | 4,269,490 | Total Deductions | 57,477,545 |
| **NET POSITION:** | | Change in Net Position | 181,886,751 |
| Held in trust for other | | Beginning Net Position | 116,230,726 |
| postemployment benefits | $ 238,117,477 | Ending Net Position | $ 238,117,477 |

**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 FY13, plan members and beneficiaries receiving benefits contributed $19,569,393 (approximately 35 percent of current contributions). The County and other contributing entities contributed $88,441,893, including $35,649,327 (approximately 65 percent of current contributions) for current premiums, claims and administrative expenses, and $52,792,566 toward prefunding future benefits.

**Funding Status and Funding Progress** – As of June 30, 2012, the most recent actuarial valuation, the actuarial accrued liability (AAL) was $1,403,693,000 and there was $92,610,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was $1,311,083,000. The annual covered payroll of active employees covered by the Plan was $618,227,000 and the ratio of the UAAL to covered payroll was 212.1 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.

The schedule of funding progress for this Plan presented in the required supplementary information (RSI-4) shows multi-year information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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 sixth year of that eight-year phase in.

**Annual OPEB Cost and Net OPEB Obligation** - The ARC, or annual OPEB cost (AOC), for FY13 was based on an actuarial valuation as of June 30, 2012, the latest valuation available on the date the County Council was required to approve the FY13 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2013 were as follows:

| | |
|---|---|
| Annual required contribution (ARC) | $ 132,388,000 |
| Interest on net OPEB obligation | 28,552,000 |
| Adjustment to annual required contribution | (22,049,000) |
| Annual OPEB cost | 138,891,000 |
| Contributions made | (90,526,766) |
| Increase in net OPEB obligation | 48,364,234 |
| Net OPEB obligation - beginning of year | 380,693,810 |
| Net OPEB obligation - end of year | $ 429,058,044 |

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 |
|---|---|---|---|
| 2011 | $150,836,000 | 29.2 % | $ 287,497,491 |
| 2012 | 161,060,000 | 42.1 | 380,693,810 |
| 2013 | 138,891,000 | 65.2 | 429,058,044 |

**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, 2012 |
| Actuarial method | Projected unit credit |
| Amortization method | Level percentage of projected payroll |
| Amortization period | 30 years (open period) |
| Investment rate of return | 7.50% |
| Salary scale | 3.00% |
| Inflation rate | 3.00% |
| 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 | 8.52%, 5.54% |
| Medical (excluding Indemnity plan) post-65 | 7.03%, 5.19% |
| Medical (Indemnity plan) | 8.00%, 5.48% |
| Medical (Indemnity plan) post-65 | 8.00%, 5.18% |
| Dental | 5.50%, 4.50% |

# REQUIRED SUPPLEMENTARY INFORMATION

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, 2013
**RSI-1**

| | Budget | | | Variance |
|---|---|---|---|---|
| | **Original Budget** | **Final Budget** | **Actual** | **Positive (Negative)** |
| Revenues: | | | | |
| Taxes: | | | | |
| Property | $ 1,025,203,222 | $ 1,025,203,222 | $ 1,033,873,492 | $ 8,670,270 |
| Property - penalty and interest | - | - | 2,354,137 | 2,354,137 |
| Total Property Tax | 1,025,203,222 | 1,025,203,222 | 1,036,227,629 | 11,024,407 |
| County income tax | 1,263,585,546 | 1,263,585,546 | 1,317,533,090 | 53,947,544 |
| Other Local Taxes: | | | | |
| Real property transfer | 80,650,000 | 80,650,000 | 84,391,394 | 3,741,394 |
| Recordation | 55,947,220 | 55,947,220 | 57,635,661 | 1,688,441 |
| Fuel energy | 233,790,000 | 233,790,000 | 223,948,716 | (9,841,284) |
| Hotel - motel | 19,051,600 | 19,051,600 | 18,910,872 | (140,728) |
| Telephone | 48,749,000 | 48,749,000 | 45,696,525 | (3,052,475) |
| Other | 2,501,000 | 2,501,000 | 3,451,483 | 950,483 |
| Total Other Local Taxes | 440,688,820 | 440,688,820 | 434,034,651 | (6,654,169) |
| Total Taxes | 2,729,477,588 | 2,729,477,588 | 2,787,795,370 | 58,317,782 |
| Licenses and Permits: | | | | |
| Business | 4,497,365 | 4,497,365 | 4,022,738 | (474,627) |
| Non business | 5,773,280 | 5,773,280 | 5,681,007 | (92,273) |
| Total Licenses and Permits | 10,270,645 | 10,270,645 | 9,703,745 | (566,900) |
| Intergovernmental Revenue: | | | | |
| State Aid and Reimbursements: | | | | |
| DHR State reimbursement - HB669 | 22,500 | 22,500 | 45,620 | 23,120 |
| Highway user revenue | 3,347,550 | 3,347,550 | 2,767,466 | (580,084) |
| Police protection | 8,683,265 | 8,683,265 | 8,682,015 | (1,250) |
| Health and human services programs | 4,697,276 | 4,697,276 | 4,712,015 | 14,739 |
| Public libraries | 5,339,000 | 5,339,000 | 4,687,092 | (651,908) |
| 911 Emergency | 5,420,000 | 5,420,000 | 5,110,854 | (309,146) |
| Other | 1,837,164 | 1,837,164 | 736,444 | (1,100,720) |
| Total State Aid and Reimbursements | 29,346,755 | 29,346,755 | 26,741,506 | (2,605,249) |
| Federal Reimbursements: | | | | |
| Federal financial participation | 9,295,158 | 9,295,158 | 13,629,923 | 4,334,765 |
| Other | 1,892,036 | 2,900,036 | 8,105,347 | 5,205,311 |
| Total Federal Reimbursements | 11,187,194 | 12,195,194 | 21,735,270 | 9,540,076 |
| Other Intergovernmental | 1,638,160 | 1,638,160 | 3,322,426 | 1,684,266 |
| Total Intergovernmental Revenue | 42,172,109 | 43,180,109 | 51,799,202 | 8,619,093 |
| Charges for Services: | | | | |
| General government | 989,404 | 989,404 | 715,429 | (273,975) |
| Public safety | 6,085,050 | 6,085,050 | 5,783,885 | (301,165) |
| Health and human services | 1,375,868 | 1,375,868 | 1,381,824 | 5,956 |
| Culture and recreation | 600 | 600 | 29,725 | 29,125 |
| Environment | 269,250 | 269,250 | 2,268,332 | 1,999,082 |
| Public works and transportation: | 284,024 | 310,274 | 372,833 | 62,559 |
| Total Charges for Service | 9,004,196 | 9,030,446 | 10,552,028 | 1,521,582 |
| Fines and Forfeitures | 20,461,110 | 20,461,110 | 23,160,668 | 2,699,558 |
| Investment Income: | | | | |
| Pooled investment income | 172,250 | 172,250 | (17,539) | (189,789) |
| Other interest income | 80,000 | 80,000 | 83,754 | 3,754 |
| Total Investment Income | 252,250 | 252,250 | 66,215 | (186,035) |
| Miscellaneous Revenue: | | | | |
| Property rentals | 5,114,970 | 5,114,970 | 4,879,923 | (235,047) |
| Sundry | 3,103,440 | 3,187,496 | 4,569,165 | 1,381,669 |
| Total Miscellaneous Revenues: | 8,218,410 | 8,302,466 | 9,449,088 | 1,146,622 |
| Total Revenues | 2,819,856,308 | 2,820,974,614 | 2,892,526,316 | 71,551,702 |
| Expenditures: | | | | |
| Departments or Offices: | | | | |
| County Council: | | | | |
| Personnel costs | 8,398,900 | 8,464,540 | 8,451,412 | 13,128 |
| Operating | 943,683 | 869,293 | 620,295 | 248,998 |
| Totals | 9,342,583 | 9,333,833 | 9,071,707 | 262,126 |
| Board of Appeals: | | | | |
| Personnel costs | 521,176 | 521,176 | 504,199 | 16,977 |
| Operating | 57,064 | 56,510 | 51,439 | 5,071 |
| Totals | 578,240 | 577,686 | 555,638 | 22,048 |
| Legislative Oversight: | | | | |
| Personnel costs | 1,290,727 | 1,290,727 | 1,237,707 | 53,020 |
| Operating | 40,410 | 40,410 | 37,503 | 2,907 |
| Totals | 1,331,137 | 1,331,137 | 1,275,210 | 55,927 |

(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, 2013
**RSI-1**

| | Budget | | | Variance |
|---|---|---|---|---|
| | **Original Budget** | **Final Budget** | **Actual** | **Positive (Negative)** |
| Board of Appeals: | | | | |
| Personnel costs | $ 521,176 | $ 521,176 | $ 504,199 | $ 16,977 |
| Operating | 57,064 | 56,510 | 51,439 | 5,071 |
| Totals | 578,240 | 577,686 | 555,638 | 22,048 |
| Legislative Oversight: | | | | |
| Personnel costs | 1,290,727 | 1,290,727 | 1,237,707 | 53,020 |
| Operating | 40,410 | 40,410 | 37,503 | 2,907 |
| Totals | 1,331,137 | 1,331,137 | 1,275,210 | 55,927 |
| Merit System Protection Board: | | | | |
| Personnel costs | 143,677 | 83,677 | 52,004 | 31,673 |
| Operating | 15,420 | 75,420 | 75,253 | 167 |
| Totals | 159,097 | 159,097 | 127,257 | 31,840 |
| Zoning and Administrative Hearings: | | | | |
| Personnel costs | 516,083 | 514,083 | 437,483 | 76,600 |
| Operating | 99,305 | 100,124 | 99,604 | 520 |
| Totals | 615,388 | 614,207 | 537,087 | 77,120 |
| Inspector General: | | | | |
| Personnel costs | 619,374 | 574,374 | 538,887 | 35,487 |
| Operating | 167,999 | 212,999 | 206,767 | 6,232 |
| Totals | 787,373 | 787,373 | 745,654 | 41,719 |
| Circuit Court: | | | | |
| Personnel costs | 8,134,200 | 8,053,760 | 8,053,757 | 3 |
| Operating | 2,392,036 | 2,560,846 | 2,552,180 | 8,666 |
| Totals | 10,526,236 | 10,614,606 | 10,605,937 | 8,669 |
| State's Attorney: | | | | |
| Personnel costs | 12,126,580 | 12,781,410 | 12,721,877 | 59,533 |
| Operating | 609,448 | 853,558 | 831,360 | 22,198 |
| Totals | 12,736,028 | 13,634,968 | 13,553,237 | 81,731 |
| County Executive: | | | | |
| Personnel costs | 3,896,367 | 3,896,367 | 3,774,099 | 122,268 |
| Operating | 872,139 | 871,704 | 741,113 | 130,591 |
| Totals | 4,768,506 | 4,768,071 | 4,515,212 | 252,859 |
| Community Engagement Cluster: | | | | |
| Personnel costs | 2,736,538 | 2,736,538 | 2,608,063 | 128,475 |
| Operating | 517,453 | 516,511 | 424,555 | 91,956 |
| Totals | 3,253,991 | 3,253,049 | 3,032,618 | 220,431 |
| Ethics Commission: | | | | |
| Personnel costs | 246,496 | 274,876 | 272,853 | 2,023 |
| Operating | 62,164 | 55,160 | 53,943 | 1,217 |
| Totals | 308,660 | 330,036 | 326,796 | 3,240 |
| Intergovernmental Relations | | | | |
| Personnel costs | 761,678 | 761,678 | 614,801 | 146,877 |
| Operating | 89,630 | 89,630 | 88,804 | 826 |
| Totals | 851,308 | 851,308 | 703,605 | 147,703 |
| Public Information: | | | | |
| Personnel costs | 3,927,319 | 3,938,329 | 3,937,326 | 1,003 |
| Operating | 1,363,541 | 1,506,307 | 1,492,336 | 13,971 |
| Totals | 5,290,860 | 5,444,636 | 5,429,662 | 14,974 |
| Board of Elections: | | | | |
| Personnel costs | 2,784,756 | 3,414,586 | 3,388,144 | 26,442 |
| Operating | 3,978,224 | 3,632,448 | 3,428,368 | 204,080 |
| Totals | 6,762,980 | 7,047,034 | 6,816,512 | 230,522 |
| County Attorney: | | | | |
| Personnel costs | 4,695,291 | 4,735,361 | 4,731,715 | 3,646 |
| Operating | 1,053,098 | 1,105,425 | 1,100,365 | 5,060 |
| Totals | 5,748,389 | 5,840,786 | 5,832,080 | 8,706 |

(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, 2013
**RSI-1**

| | Budget | | | Variance |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Positive (Negative) |
| Management and Budget: | | | | |
| Personnel costs | $ 3,591,619 | $ 3,514,119 | $ 3,361,168 | $ 152,951 |
| Operating | 128,572 | 206,072 | 190,586 | 15,486 |
| Total Management & Budget | 3,720,191 | 3,720,191 | 3,551,754 | 168,437 |
| Finance: | | | | |
| Personnel costs | 9,564,920 | 8,730,260 | 8,019,842 | 710,418 |
| Operating | 2,089,676 | 2,852,868 | 2,677,440 | 175,428 |
| Totals | 11,654,596 | 11,583,128 | 10,697,282 | 885,846 |
| Human Resources: | | | | |
| Personnel costs | 4,565,389 | 5,062,429 | 5,040,618 | 21,811 |
| Operating | 2,787,855 | 2,421,563 | 2,296,207 | 125,356 |
| Totals | 7,353,244 | 7,483,992 | 7,336,825 | 147,167 |
| Technology Services | | | | |
| Personnel costs | 14,277,333 | 14,368,073 | 14,355,761 | 12,312 |
| Operating | 13,882,325 | 13,707,452 | 13,707,443 | 9 |
| Totals | 28,159,658 | 28,075,525 | 28,063,204 | 12,321 |
| General Services: | | | | |
| Personnel costs | 13,618,243 | 14,202,526 | 14,202,519 | 7 |
| Operating | 13,473,231 | 18,301,340 | 18,038,127 | 263,213 |
| Totals | 27,091,474 | 32,503,866 | 32,240,646 | 263,220 |
| Consumer Protection | | | | |
| Personnel costs | 1,992,262 | 1,996,762 | 1,995,860 | 902 |
| Operating | 190,350 | 185,850 | 126,272 | 59,578 |
| Totals | 2,182,612 | 2,182,612 | 2,122,132 | 60,480 |
| Corrections and Rehabilitation: | | | | |
| Personnel costs | 58,420,073 | 59,099,843 | 59,038,039 | 61,804 |
| Operating | 6,979,653 | 8,558,145 | 8,414,172 | 143,973 |
| Totals | 65,399,726 | 67,657,988 | 67,452,211 | 205,777 |
| Human Rights Commission: | | | | |
| Personnel costs | 838,110 | 897,298 | 892,041 | 5,257 |
| Operating | 87,507 | 81,627 | 68,065 | 13,562 |
| Totals | 925,617 | 978,925 | 960,106 | 18,819 |
| Police: | | | | |
| Personnel costs | 209,248,173 | 203,254,476 | 203,254,423 | 53 |
| Operating | 44,799,793 | 46,167,396 | 46,165,218 | 2,178 |
| Totals | 254,047,966 | 249,421,872 | 249,419,641 | 2,231 |
| Sheriff: | | | | |
| Personnel costs | 18,760,098 | 19,226,728 | 19,184,299 | 42,429 |
| Operating | 2,356,926 | 2,561,945 | 2,529,944 | 32,001 |
| Totals | 21,117,024 | 21,788,673 | 21,714,243 | 74,430 |
| Homeland Security | | | | |
| Personnel costs | 1,029,388 | 1,029,388 | 874,855 | 154,533 |
| Operating | 425,935 | 422,935 | 364,488 | 58,447 |
| Totals | 1,455,323 | 1,452,323 | 1,239,343 | 212,980 |
| Public Works and Transportation: | | | | |
| Personnel costs | 18,942,053 | 23,539,662 | 22,200,265 | 1,339,397 |
| Operating | 23,203,377 | 37,857,867 | 37,089,268 | 768,599 |
| Totals | 42,145,430 | 61,397,529 | 59,289,533 | 2,107,996 |
| Health and Human Services: | | | | |
| Personnel costs | 105,277,760 | 100,539,710 | 100,539,613 | 97 |
| Operating | 82,053,673 | 81,347,656 | 81,116,650 | 231,006 |
| Totals | 187,331,433 | 181,887,366 | 181,656,263 | 231,103 |
| Libraries: | | | | |
| Personnel costs | 25,385,011 | 25,325,151 | 24,853,974 | 471,177 |
| Operating | 7,025,460 | 7,060,934 | 7,048,962 | 11,972 |
| Totals | 32,410,471 | 32,386,085 | 31,902,936 | 483,149 |
| Housing and Community Affairs: | | | | |
| Personnel costs | 3,880,077 | 3,880,077 | 3,768,325 | 111,752 |
| Operating | 697,231 | 686,665 | 671,425 | 15,240 |
| Totals | 4,577,308 | 4,566,742 | 4,439,750 | 126,992 |

(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, 2013
**RSI-1**

| | Budget | | | Variance |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Positive (Negative) |
| Economic Development: | | | | |
| Personnel costs | $ 3,763,517 | $ 3,487,107 | $ 3,486,777 | $ 330 |
| Operating | 5,598,765 | 6,209,747 | 6,196,523 | 13,224 |
| Totals | 9,362,282 | 9,696,854 | 9,683,300 | 13,554 |
| Environmental Protection: | | | | |
| Personnel costs | 1,386,792 | 1,351,792 | 1,334,322 | 17,470 |
| Operating | 253,780 | 288,210 | 284,524 | 3,686 |
| Totals | 1,640,572 | 1,640,002 | 1,618,846 | 21,156 |
| Total Departments | 763,635,703 | 783,011,500 | 776,516,227 | 6,495,273 |
| Nondepartmental: | | | | |
| State retirement contribution - operating | 1,135,590 | 1,135,590 | 1,135,590 | - |
| Retirees group insurance - operating | 32,462,450 | 32,462,450 | 31,961,461 | 500,989 |
| Consolidated Retiree Health Benefits Trust (MCPS) | 58,853,092 | 58,853,092 | 58,853,092 | - |
| Consolidated Retiree Health Benefits Trust (MC) | 1,779,914 | 1,779,914 | 1,779,914 | - |
| State positions supplement - personnel | 85,113 | 85,113 | 64,824 | 20,289 |
| Retiree Health Benefits Trust | 41,386,568 | 41,386,568 | 41,386,568 | - |
| Compensation adjustment - personnel | 91,731 | 117,571 | 115,220 | 2,351 |
| Compensation adjustment - operating | 629,340 | 644,170 | 642,820 | 1,350 |
| Municipal tax duplication - operating | 8,174,160 | 8,174,160 | 8,144,804 | 29,356 |
| Tax grants to municipalities - operating | 28,020 | 28,020 | 28,012 | 8 |
| Rebate - Takoma Park police - operating | 949,860 | 949,860 | 927,663 | 22,197 |
| Rebate - Takoma Park library - operating | 151,320 | 151,320 | 127,618 | 23,702 |
| Homeowners' association roadways - operating | 49,250 | 49,250 | 49,250 | - |
| Contribution to risk management - operating | 17,282,930 | 17,282,930 | 16,707,992 | 574,938 |
| Historical activities - operating | 287,090 | 287,090 | 287,090 | - |
| Conference and Visitors Bureau - operating | 732,543 | 732,543 | 732,543 | - |
| Arts Council - operating | 3,376,337 | 3,376,337 | 3,376,337 | - |
| Community grants - operating | 6,381,538 | 6,342,568 | 6,107,621 | 234,947 |
| Conference Center - personnel | 115,350 | 115,350 | 109,001 | 6,349 |
| Conference Center - operating | 449,690 | 449,690 | 189,302 | 260,388 |
| English literacy - operating | 716,058 | 716,058 | 716,058 | - |
| County associations - operating | 72,710 | 72,710 | 72,709 | 1 |
| Metropolitan Washington C O G - operating | 770,500 | 770,500 | 767,173 | 3,327 |
| Public Technology, Inc. - operating | 17,000 | 17,000 | 17,000 | - |
| Independent audit - operating | 420,820 | 420,820 | 240,822 | 179,998 |
| Prisoner medical services - operating | 50,000 | 50,000 | 13,535 | 36,465 |
| State property tax services - operating | 5,339,430 | 5,339,430 | 5,266,228 | 73,202 |
| Boards, committees and commissions - operating | 22,950 | 22,950 | 21,346 | 1,604 |
| Charter Review Commission - operating | 150 | 150 | - | 150 |
| Working families income supplement - operating | 14,867,000 | 14,867,000 | 14,720,616 | 146,384 |
| Interagency technology, policy & coordinating committee - operating | 5,307 | 5,307 | 2,242 | 3,065 |
| County leases - personnel | | 358,740 | 286,999 | 71,741 |
| County leases - operating | 23,700,501 | 23,341,761 | 22,416,774 | 924,987 |
| Rockville Parking District - operating | 375,000 | 375,000 | 369,115 | 5,885 |
| Legislative communications outreach - operating | 522,000 | 522,000 | 392,207 | 129,793 |
| Legislative communications outreach - personnel | 58,000 | 90,050 | 87,131 | 2,919 |
| Desktop computer modernization - operating | 5,793,073 | 5,792,911 | 5,788,258 | 4,653 |
| Utilities - operating | 26,148,118 | 26,148,118 | 22,718,705 | 3,429,413 |
| Snow removal and storm cleanup | 5,884,990 | - | - | - |
| Total - Nondepartmental | 259,165,493 | 253,314,091 | 246,623,640 | 6,690,451 |
| Total Expenditures | 1,022,801,196 | 1,036,325,591 | 1,023,139,867 | 13,185,724 |
| Excess of Revenues over (under) Expenditures | 1,797,055,112 | 1,784,649,023 | 1,869,386,449 | 84,737,426 |

(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, 2013
**RSI-1**

| | Budget | | | Variance |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Positive (Negative) |
| Other Financing Sources (Uses): | | | | |
| Transfers In: | | | | |
| Special Revenue Funds: | | | | |
| Consolidated Fire Tax District | $ 120,750 | $ 120,750 | $ 120,750 | $ - |
| Noise Abatement Districts | 1,577 | 4,070 | 3,876 | (194) |
| Recreation | 3,887,370 | 3,887,370 | 3,887,370 | - |
| Mass Transit | 7,553,320 | 7,553,320 | 7,553,320 | - |
| Water Quality Protection | 972,950 | 972,950 | 972,950 | - |
| Urban Districts | 361,060 | 361,060 | 361,060 | - |
| Housing Activities | 202,560 | 202,560 | 202,560 | - |
| Grants | 636,870 | 636,870 | 636,870 | - |
| Cable TV | 10,765,961 | 10,765,961 | 10,765,961 | - |
| Total Special Revenue Funds | 24,502,418 | 24,504,911 | 24,504,717 | (194) |
| Enterprise Funds: | | | | |
| Liquor | 22,297,140 | 22,297,140 | 22,297,140 | - |
| Parking Lot Districts | 610,170 | 610,170 | 610,170 | - |
| Solid Waste Activities | 2,080,440 | 2,080,440 | 2,080,440 | - |
| Community Use of Public Facilities | 350,620 | 350,620 | 350,620 | - |
| Permitting Services | 3,062,540 | 3,062,540 | 3,062,540 | - |
| Total Enterprise Funds | 28,400,910 | 28,400,910 | 28,400,910 | - |
| Internal Service Funds: | | | | |
| Self Insurance Employee Health Benefits | 8,572,842 | 19,034,302 | 19,034,302 | - |
| Total Internal Service Funds | 8,572,842 | 19,034,302 | 19,034,302 | - |
| Total Transfers In | 61,476,170 | 71,940,123 | 71,939,929 | (194) |
| Component Units: | | | | |
| Montgomery College | 247,610 | 247,610 | 232,538 | (15,072) |
| Total Transfers In - Component Units | 247,610 | 247,610 | 232,538 | (15,072) |
| Transfers (Out): | | | | |
| Special Revenue Fund: | | | | |
| Recreation | (1,009,700) | (1,009,700) | (1,009,700) | - |
| Urban Districts | (1,038,090) | (1,038,090) | (1,038,090) | - |
| Mass Transit | (531,310) | (531,310) | (531,310) | - |
| Noise Abatement Districts | - | (363) | (363) | - |
| Consolidated Fire Tax District | (250,000) | (250,000) | (408,200) | (158,200) |
| Housing Activities | (15,589,247) | (15,589,247) | (15,589,247) | - |
| Economic Development | (4,995,050) | (9,155,050) | (9,155,050) | - |
| Grants | - | (158,200) | (514,931) | (356,731) |
| Total Special Revenue Funds | (23,413,397) | (27,731,960) | (28,246,891) | (514,931) |
| Internal Service Fund: | | | | |
| Motor Pool | (1,466,225) | (1,532,488) | (1,597,958) | (65,470) |
| Total Internal Service Funds | (1,466,225) | (1,532,488) | (1,597,958) | (65,470) |
| Enterprise Funds: | | | | |
| Community Use of Public Facilities | (259,300) | (259,300) | (259,300) | - |
| Parking Lot Districts | (55,728) | (136,069) | (28,349) | 107,720 |
| Solid Waste Activities | (1,431,670) | (1,431,670) | (1,431,670) | - |
| Permitting Services | (1,153,770) | (1,153,770) | (1,153,770) | - |
| Total Enterprise Funds | (2,900,468) | (2,980,809) | (2,873,089) | 107,720 |
| Debt Service Fund | (258,193,030) | (258,278,926) | (252,311,377) | 5,967,549 |
| Capital Projects Fund | - | (72,873,252) | (45,695,781) | 27,177,471 |
| Total Transfers (Out) | (285,973,120) | (363,397,435) | (330,725,096) | 32,672,339 |
| Transfers (Out) - Component Units / Joint Ventures: | | | | |
| Montgomery County Public Schools - Operating | (1,420,971,292) | (1,420,971,292) | (1,420,971,292) | - |
| Montgomery County Public Schools - Capital | - | (27,459,718) | (16,501,093) | 10,958,625 |
| Total Montgomery County Public Schools | (1,420,971,292) | (1,448,431,010) | (1,437,472,385) | 10,958,625 |
| Montgomery College - Operating | (96,663,605) | (96,663,605) | (96,663,605) | - |
| Montgomery College - Capital | - | (14,537,727) | (6,965,266) | 7,572,461 |
| Total Montgomery College | (96,663,605) | (111,201,332) | (103,628,871) | 7,572,461 |
| Housing Opportunities Commission - Operating | (5,583,230) | (5,583,230) | (5,588,102) | (4,872) |
| Housing Opportunities Commission - Capital | - | (3,892,659) | - | 3,892,659 |
| Total Housing Opportunities Commission | (5,583,230) | (9,475,889) | (5,588,102) | 3,887,787 |
| Maryland National Capital Park and Planning - Operating | (849,000) | (1,099,000) | (1,099,000) | - |
| Total Transfers (Out) - Component Units / Joint Ventures | (1,524,067,127) | (1,570,207,231) | (1,547,788,358) | 22,418,873 |
| Total Other Financing Sources (Uses) | (1,748,316,467) | (1,861,416,933) | (1,806,340,987) | 55,075,946 |
| Excess of Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses | 48,738,645 | (76,767,910) | 63,045,462 | 139,813,372 |
| Fund Balance - Beginning of Year | 161,184,867 | 115,332,683 | 231,475,601 | 116,142,918 |
| Fund Balance - End of Year | $ 209,923,512 | $ 38,564,773 | $ 294,521,063 | $ 255,956,290 |

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, 2013
**RSI-2**

| | **Budget** | | | **Variance** |
|---|---|---|---|---|
| | **Original Budget** | **Final Budget** | **Actual** | **Positive (Negative)** |
| Revenues: | | | | |
| Taxes - transfer | $ 5,165,500 | $ 5,165,500 | $ 10,319,181 | $ 5,153,681 |
| Investment Income: | | | | |
| Pooled investment income | 500,000 | 500,000 | 287 | (499,713) |
| Other interest income | - | - | 3,052,400 | 3,052,400 |
| Total Investment Income | 500,000 | 500,000 | 3,052,687 | 2,552,687 |
| Miscellaneous: | | | | |
| Property rentals, MPDU and other contributions | 394,776 | 394,776 | 784,797 | 390,021 |
| Total Miscellaneous | 394,776 | 394,776 | 784,797 | 390,021 |
| Total Revenues | 6,060,276 | 6,060,276 | 14,156,665 | 8,096,389 |
| Expenditures: | | | | |
| Personnel | 1,540,363 | 1,540,363 | 1,517,784 | 22,579 |
| Operating | 53,084,595 | 53,675,485 | 22,210,334 | 31,465,151 |
| Total Expenditures | 54,624,958 | 55,215,848 | 23,728,118 | 31,487,730 |
| Excess of Revenues over (under) Expenditures | (48,564,682) | (49,155,572) | (9,571,453) | 39,584,119 |
| Other Financing Sources (Uses): | | | | |
| Transfers In (Out): | | | | |
| From Capital Projects Fund | 34,857,355 | 34,857,355 | 34,857,355 | - |
| From General Fund | 15,589,247 | 15,589,247 | 15,589,247 | - |
| To Capital Projects | - | - | (8,657,597) | (8,657,597) |
| To General Fund | (202,560) | (202,560) | (202,560) | - |
| To Debt Service Fund | (5,643,610) | (5,643,610) | (4,476,343) | 1,167,267 |
| Mortgage repayment | 2,500,000 | 2,500,000 | 9,297,607 | 6,797,607 |
| Sale of property | 1,250,000 | 1,250,000 | 1,814,418 | 564,418 |
| Total Other Financing Sources (Uses) | 48,350,432 | 48,350,432 | 48,222,127 | (128,305) |
| Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses | (214,250) | (805,140) | 38,650,674 | 39,455,814 |
| Fund Balance - Beginning of Year | (3,725,536) | (3,725,536) | (3,725,536) | - |
| Fund Balance - End of Year | $ (3,939,786) | $ (4,530,676) | $ 34,925,138 | $ 39,455,814 |

**Reconciliation of budgetary schedule to GAAP basis 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 | $ 38,650,674 |
| Reconciling items: | |
| Elimination of encumbrances outstanding | 233,064 |
| Increase in mortgages receivable | (1,086,661) |
| GAAP - Net Change in Fund Balance | $ 37,797,077 |

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, 2013
**RSI-3**

| | Budget | | | Variance |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Positive (Negative) |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal grants | $ 61,000,969 | $ 62,020,716 | $ 80,500,142 | $ 18,479,426 |
| State grants | 46,064,501 | 120,684,587 | 23,540,171 | (97,144,416) |
| Other non-state and non-federal reimbursements | 95,000 | 2,667,187 | 1,524,421 | (1,142,766) |
| Total Intergovernmental | 107,160,470 | 185,372,490 | 105,564,734 | (79,807,756) |
| Investment income: | | | | |
| Other principal and interest income | 1,000,000 | 753,912 | 1,418,577 | 664,665 |
| Total Investment Income | 1,000,000 | 753,912 | 1,418,577 | 664,665 |
| Miscellaneous | - | 348,291 | 724,414 | 376,123 |
| Total Revenues | 108,160,470 | 186,474,693 | 107,707,725 | (78,766,968) |
| Expenditures: | | | | |
| General Government: | | | | |
| Circuit Court: | | | | |
| Personnel costs | 2,198,541 | 582,338 | 582,338 | - |
| Operating | 182,941 | 527,721 | 119,876 | 407,845 |
| Totals | 2,381,482 | 1,110,059 | 702,214 | 407,845 |
| Office of State's Attorney: | | | | |
| Personnel costs | 195,691 | 689,753 | 231,797 | 457,956 |
| Operating | - | 32,650 | 32,650 | - |
| Totals | 195,691 | 722,403 | 264,447 | 457,956 |
| Office of the County Executive: | | | | |
| Personnel costs | 111,740 | 489,199 | 114,364 | 374,835 |
| Operating | 14,880 | 257,478 | 22,215 | 235,263 |
| Totals | 126,620 | 746,677 | 136,579 | 610,098 |
| Regional Service Centers: | | | | |
| Operating | - | 9,015 | - | 9,015 |
| Totals | - | 9,015 | - | 9,015 |
| Intergovernmental Relations: | | | | |
| Operating | 30,670 | 61,344 | 30,664 | 30,680 |
| Totals | 30,670 | 61,344 | 30,664 | 30,680 |
| Community Engagement Cluster: | | | | |
| Personnel costs | 60,190 | 156,726 | 57,551 | 99,175 |
| Operating | - | 29,329 | 24,846 | 4,483 |
| Totals | 60,190 | 186,055 | 82,397 | 103,658 |
| General Services: | | | | |
| Operating | - | 280,735 | 1,985 | 278,750 |
| Totals | - | 280,735 | 1,985 | 278,750 |
| Department of Technology Services: | | | | |
| Operating | - | 1,266,057 | 35,735 | 1,230,322 |
| Totals | - | 1,266,057 | 35,735 | 1,230,322 |
| Total General Government | 2,794,653 | 4,382,345 | 1,254,021 | 3,128,324 |
| Public Safety: | | | | |
| Department of Corrections and Rehabilitation: | | | | |
| Personnel costs | - | 26,349 | 10,394 | 15,955 |
| Operating | - | 157,772 | 83,905 | 73,867 |
| Totals | - | 184,121 | 94,299 | 89,822 |
| Department of Fire and Rescue Services: | | | | |
| Personnel costs | 130,200 | 5,037,566 | 3,472,618 | 1,564,948 |
| Operating | - | 9,865,734 | 4,989,858 | 4,875,876 |
| Totals | 130,200 | 14,903,300 | 8,462,476 | 6,440,824 |
| Department of Police: | | | | |
| Personnel costs | 248,630 | 2,298,036 | 989,548 | 1,308,488 |
| Operating | - | 6,383,381 | 3,976,122 | 2,407,259 |
| Totals | 248,630 | 8,681,417 | 4,965,670 | 3,715,747 |
| Office of the County Sheriff: | | | | |
| Personnel costs | 498,520 | 1,897,346 | 922,525 | 974,821 |
| Operating | 164,480 | 905,802 | 314,196 | 591,606 |
| Totals | 663,000 | 2,803,148 | 1,236,721 | 1,566,427 |
| Office of Emergency Management & Homeland Security: | | | | |
| Personnel costs | 171,707 | 3,347,466 | 1,165,912 | 2,181,554 |
| Operating | - | 1,484,679 | 1,484,679 | - |
| Totals | 171,707 | 4,832,145 | 2,650,591 | 2,181,554 |
| Total Public Safety | 1,213,537 | 31,404,131 | 17,409,757 | 13,994,374 |
| Transportation: | | | | |
| Department of Transportation: | | | | |
| Personnel costs | 1,776,115 | 8,934,326 | 1,852,093 | 7,082,233 |
| Operating | 2,947,569 | 2,184,148 | 2,184,148 | - |
| Total Transportation | 4,723,684 | 11,118,474 | 4,036,241 | 7,082,233 |
| Department of Economic Development: | | | | |
| Personnel costs | - | 1,558,573 | - | 1,558,573 |
| Operating | 2,742,854 | 3,806,185 | 3,491,068 | 315,117 |
| Total Economic Development | 2,742,854 | 5,364,758 | 3,491,068 | 1,873,690 |

(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, 2013
**RSI-3**

| | **Budget** | | | **Variance** |
|---|---|---|---|---|
| | **Original Budget** | **Final Budget** | **Actual** | **Positive (Negative)** |
| Health and Human Services: | | | | |
| Department of Health and Human Services: | | | | |
| Personnel costs | $ 42,197,670 | $ 49,632,336 | $ 43,028,646 | $ 6,603,690 |
| Operating | 29,009,227 | 50,967,548 | 30,245,983 | 20,721,565 |
| Total Health and Human Services | 71,206,897 | 100,599,884 | 73,274,629 | 27,325,255 |
| Culture and Recreation: | | | | |
| Department of Libraries: | | | | |
| Personnel costs | 40,290 | 52,848 | 40,527 | 12,321 |
| Operating | 12,000 | 25,197 | 11,603 | 13,594 |
| Total Libraries | 52,290 | 78,045 | 52,130 | 25,915 |
| Department of Recreation: | | | | |
| Personnel costs | 71,195 | 102,845 | 65,596 | 37,249 |
| Operating | - | 55,903 | - | 55,903 |
| Total Recreation | 71,195 | 158,748 | 65,596 | 93,152 |
| Total Culture and Recreation | 123,485 | 236,793 | 117,726 | 119,067 |
| Housing: | | | | |
| Department of Housing and Community Affairs: | | | | |
| Personnel costs | 1,697,739 | 2,495,972 | 1,761,661 | 734,311 |
| Operating | 3,657,621 | 18,978,470 | 6,889,732 | 12,088,738 |
| Total Housing and Community Affairs | 5,355,360 | 21,474,442 | 8,651,393 | 12,823,049 |
| Environment: | | | | |
| Department of Environmental Protection: | | | | |
| Personnel costs | - | 6,338 | - | 6,338 |
| Operating | - | 146,965 | 146,964 | 1 |
| Total Environmental Protection | - | 153,303 | 146,964 | 6,339 |
| Department of Liquor Control: | | | | |
| Personnel costs | - | 23,802 | 3,992 | 19,810 |
| Operating | - | 14,245 | 819 | 13,426 |
| Total Liquor Control | - | 38,047 | 4,811 | 33,236 |
| Nondepartmental: | | | | |
| NDA Historical Activities - Operating | 20,000,000 | 12,855,607 | 330,220 | 12,525,387 |
| Future Grants - Personnel | - | - | - | - |
| Total Nondepartmental | 20,000,000 | 12,855,607 | 330,220 | 12,525,387 |
| Total Expenditures | 108,160,470 | 187,627,784 | 108,716,830 | 78,910,954 |
| Excess of Revenues over (under) Expenditures | - | (1,153,091) | (1,009,105) | (143,986) |
| Other Financing Sources (Uses): | | | | |
| Transfers In: | | | | |
| General Fund | - | 158,200 | 514,932 | 356,732 |
| Mass Transit Special Revenue Fund | - | 803,000 | 265,518 | (537,482) |
| Fire Tax District Special Revenue Fund | - | 828,761 | 865,525 | 36,764 |
| Total Transfers In | - | 1,789,961 | 1,645,975 | (143,986) |
| Transfers Out - General Fund | - | (636,870) | (636,870) | - |
| Total Transfers Out | - | (636,870) | (636,870) | - |
| Total Other Financing Sources (Uses) | - | 1,153,091 | 1,009,105 | (143,986) |
| Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses | - | - | - | - |
| Fund Balance - Beginning of Year | - | - | - | - |
| Fund Balance - End of Year | $ - | $ - | $ - | $ - |

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

| | **Revenues** | **Expenditures & Encumbrances** | **Other Financing Sources (Uses)** | **Effect on Fund Balance** |
|---|---|---|---|---|
| As reported - Budgetary basis | $ 107,707,725 | $ 108,716,830 | $ 1,009,105 | $ - |
| Reconciling items: | | | | |
| Loan expenditures | (4,673,749) | (4,673,749) | - | - |
| Indirect costs | (932,405) | (932,405) | - | - |
| Pass-through expenditures | 5,870,668 | 5,870,668 | - | - |
| As reported - GAAP basis | $ 107,972,239 | $ 108,981,344 | $ 1,009,105 | $ - |

## REQUIRED SUPPLEMENTARY INFORMATION

## CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

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

### SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2008 | $ 35,279,000 | $ 1,161,222,000 | $ 1,125,943,000 | 3.0 % | $ 667,400,000 | 168.7 % |
| 6/30/2010 | 47,962,000 | 1,859,450,000 | 1,811,488,000 | 2.6 | 694,040,000 | 261.0 |
| 6/30/2012 | 92,610,000 | 1,403,693,000 | 1,311,083,000 | 6.6 | 618,227,000 | 212.1 |

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

### SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIE'S CONTRIBUTIONS

| Fiscal Year Ended June 30 | Annual Required Contributions | Percentage Contributed | | Net OPEB Obligation |
|---|---|---|---|---|
| | | Employers | Other Contributing Entities | |
| 2008 | $ 102,320,000 | 38.6 % | 4.1 % | $ 58,598,791 |
| 2009 | 111,677,000 | 51.0 | 1.2 | 113,534,939 |
| 2010 | 107,397,000 | 37.5 | 2.1 | 180,712,589 |
| 2011 | 147,582,000 | 28.7 | 1.1 | 287,497,491 |
| 2012 | 147,327,000 | 44.4 | 1.6 | 380,693,810 |
| 2013 | 123,152,000 | 71.8 | 1.7 | 429,058,044 |

# INDEX

## I N D E X



(Continued)

## I N D E X, Concluded



* POEB = Pension and Other Employee Benefits

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