Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

January 22, 2004

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Steven Silverman	*President*
Thomas Perez	*Vice President*
Phil Andrews	
Howard A. Denis	
Nancy Floreen	
Michael Knapp	
George Leventhal	
Marilyn J. Praisner	
Michael L. Subin	

The terms of the County Executive and all County Council members expire in December 2006.

APPOINTED OFFICIALS

Bruce Romer	*Chief Administrative Officer*
Timothy L. Firestine	*Director, Department of Finance*
Beverley Swaim-Staley	*Director, Office of Management and Budget*
Charles W. Thompson, Jr.	*County Attorney*
Mary A. Edgar	*Clerk of the County Council*

BOND COUNSEL

Venable LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG, LLP
Washington, D.C.

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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

ANNUAL INFORMATION STATEMENT
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement ("the AIS"), dated January 22, 2004, has been prepared by Montgomery County, Maryland ("the County"), to provide, as of its date, certain general information concerning the County and its operations. Included is information on the 1) County government, organizational structure and services, 2) County financial reporting, 3) County budget, 4) results of fiscal years 1999-2003, 5) County retirement system, 6) County property taxes, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

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

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

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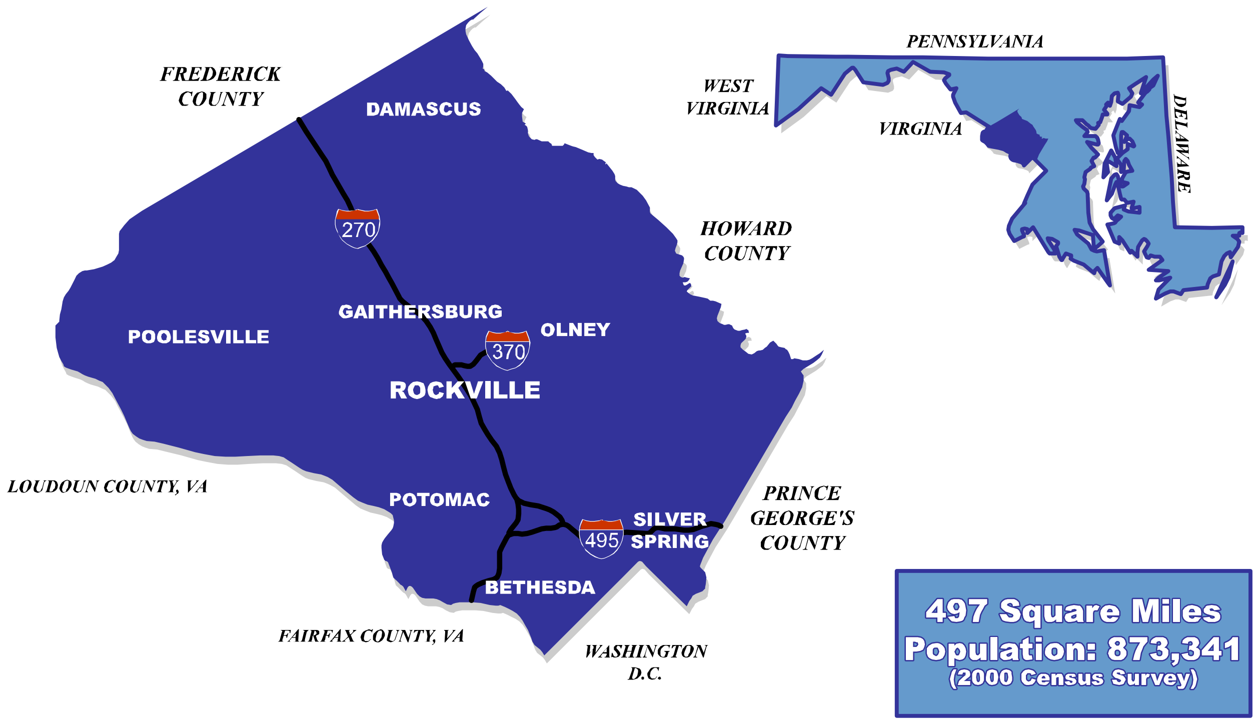

ORIENTATION TO THE COUNTY, ITS HISTORY, AND GOVERNMENT

Location

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 497 square miles of land area. The topography is rolling with small hills. Elevations range from 52 feet above sea level at the junction of the Potomac River and the District Line, to 850 feet in the northern portion of the County near Damascus. Bordering the County are Howard County to the northeast, Prince George's County to the southeast, Frederick County to the northwest, the District of Columbia to the south, and Virginia to the southwest.

History

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

Government

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

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

County Officials

County Executive - Douglas M. Duncan

Douglas M. Duncan was elected Montgomery County's fifth County Executive on November 8, 1994. He was re-elected to his third term on November 5, 2002, and sworn in on December 2, 2002. A lifelong Rockville resident, Mr. Duncan graduated from St. John's College High School. He went on to attend Columbia University and, in three years, earned a Bachelor of Arts degree, with a double major in Psychology and Political Science (1976). Mr. Duncan worked for the County's Criminal Justice Coordinating Commission before joining AT&T in 1981. He held several positions during his 13-year career at the company, culminating with his assignment as National Account Manager for AT&T Integrated Solutions.

Mr. Duncan's political career began with his election in 1982 to the Rockville City Council, where he served three two-year terms. In 1987, he was elected Mayor of Rockville, a post he maintained for three two-year terms. During Mr. Duncan's tenure as Mayor of Rockville, the City won national and regional awards for governmental excellence, fiscal responsibility, community policing, and environmental achievements. Mr. Duncan bypassed a run for a fourth term as Rockville Mayor in order to pursue his successful bid for the County Executive post in 1994.

President, County Council – Steven Silverman

Steven Silverman was first elected as an At-Large member to the Montgomery County Council in November 1998, and was recently named Council president by his colleagues for the second time. He chairs the Council's Planning, Housing and Economic Development Committee and is also a member of the Health and Human Services Committee.

Prior to his election to the Council, Mr. Silverman, an attorney, represented condominium and homeowners associations for 15 years, served as president of the Greater Silver Spring Chamber of Commerce, and was a leader in Silver Spring redevelopment efforts. He is a graduate of American University and George Washington University Law School.

Chief Administrative Officer - Bruce Romer

Bruce Romer has served as Chief Administrative Officer since 1995. Prior to Mr. Romer's appointment, he served for six years as City Manager for Rockville, Maryland. His 35 years in professional local government management include city management positions in Davenport, Iowa; Sidney, Ohio; Brighton, Michigan; and suburban Philadelphia, Pennsylvania.

Mr. Romer holds a Bachelor of Arts Degree in Political Science and Business Administration from Wittenberg University, and a Master of Government Administration Degree from The Wharton Graduate School, University of Pennsylvania. He is a past president of the International City/County Management Association (ICMA), and is a past president, and a member of the Board of Directors, of the Metropolitan Washington Council of Governments. Mr. Romer is Vice-Chair of the Board of Directors of the District of Columbia Water and Sewer Authority, and is a member of the Steering Committee of Public Technology, Inc.

Director, Department of Finance - Timothy L. Firestine

Timothy L. Firestine was appointed Director, Department of Finance on July 24, 1991 and confirmed on August 6, 1991. Prior to his appointment, Mr. Firestine served as Chief of the Budgets Division, Chief of Interagency Analysis and Review, Budget and Planning Program Manager, and Senior Management and Budget Specialist in the County Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine received his Bachelor of Arts Degree from Albright College and his Master of Public Administration Degree from the University of Pittsburgh. Mr. Firestine is a member of the Board of Investment Trustees for the Employees' Retirement System of Montgomery County. He is a member of the Government Finance Officers

Association and serves on its Committee on Debt and Fiscal Policy. Mr. Firestine is currently the President-elect of the Maryland Government Finance Officers Association and recently served on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland.

Director, Office of Management and Budget – Beverley K. Swaim-Staley

Beverley K. Swaim-Staley was appointed Director of the Office of Management and Budget on May 27, 2003. Prior to her appointment, she served as the Deputy Secretary of the Maryland Department of Transportation for four years, and as the Chief Financial Officer for five years. From 1983 to 1993, Ms. Swaim-Staley was a budget analyst for the Maryland General Assembly.

Ms. Swaim-Staley holds Bachelor of Arts and Master of Arts Degrees from Hood College in Frederick, Maryland. She serves on the Board of Investment Trustees for the Employees' Retirement System of Montgomery County, and the Criminal Justice Coordinating Commission.

County Attorney - Charles W. Thompson, Jr.

Charles W. Thompson, Jr. was appointed County Attorney on February 9, 1995, and confirmed on March 7, 1995. For the prior 17 years, Mr. Thompson served as County Attorney for Carroll County, Maryland. From 1975 to 1978, Mr. Thompson was an assistant state's attorney in Carroll County.

Mr. Thompson received a Bachelor's degree in history from Virginia Military Institute and earned his Juris Doctor from the University of Baltimore School of Law. In addition to serving as president of the Carroll County Bar Association, Mr. Thompson is active with the Montgomery County Bar Association and the Maryland State Bar Association.

GENERAL INFORMATION ABOUT COUNTY GOVERNMENT AND SERVICES

Culture and Recreation

The County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, teen, senior citizen and therapeutic programs. The Department operates 17 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. An additional 12 program sites serve select senior populations. Four new community centers are proposed for development within the next six years. The Department also operates the Charles W. Gilchrist Center for Cultural Diversity, and funds the Gaithersburg Senior Center and the Takoma Park Community Center through significant grants. There are presently seven large public outdoor swimming pools and three regional indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs.

The Strathmore Hall Arts Center, located in the historic Corby Mansion, houses the Strathmore Hall Foundation. The Center has undergone a $3 million addition and renovation, and is used for art shows, concerts, and dramatic readings. Significant improvements are underway at the Center with the construction of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The Arts Education facility will house a full range of complementary arts education classes for children and adults. It will combine studio, classroom, rehearsal, and performance space for students. The performance hall will be capable of supporting large-scale (2,000 seat) musical presentations including major choral, orchestral, and popular entertainments. Both facilities are expected to open in 2004.

As part of the Silver Spring Redevelopment project, the historic Silver Theatre was restored, with two additional theatres constructed on the same site. The County selected the American Film Institute to operate the Silver Theatre. Located on an adjacent site is the Round House Theatre School, which provides both theatrical and educational programs. Additional cultural opportunities are available at Montgomery College. The College operates a Summer Dinner Theatre, and its Performing Arts Series features theatre, dance, and music performances.

Economic Development

Department of Economic Development

The mission of the Montgomery County Department of Economic Development (DED) is to develop strategies and implement programs that will maintain and expand the County's economic base, promote business growth, generate employment opportunities, and increase tax revenues.

To achieve this mission, DED provides services to help existing businesses expand, new businesses to locate in the County, small and minority-owned businesses grow, promote high technology development, attract foreign investments, expand the County's export base, preserve farmland, and enhance the viability of the agricultural industry. DED's responsibilities also include initiatives to enhance the presence of higher education in the County, to further develop the County-owned biotechnology research park, the Shady Grove Life Sciences Center, and to operate and expand the County technology business incubator, the Maryland Technology Development Center. In addition, DED oversees the County training and employment programs through its Division of Workforce Investment Services, tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau, and the small business services offered by Montgomery County's Business Resource Center.

Economic Development Services and Programs

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), information on zoning, comparative tax data, socioeconomic statistics, and permit expediting. In addition, DED teamed up with the Small Business Development Center (SBDC) in 1993 to provide specialized counseling services and seminars to assist small and start-up businesses in the County. The SBDC is a joint partnership among the State of Maryland, the County, and the Small Business Administration.

Economic Development Fund and Other Financial Incentives

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

As of November 1, 2003, 118 of 173 offers for grants and loans totaling $19.18 million were accepted under the Economic Development Fund Grant/Loan Program. The economic impact of these transactions is estimated to include: 30,030 jobs retained or gained; over $1.32 billion in private investment; and an annual net revenue return of over $33.2 million.

In addition to the original Economic Development Fund program, three other financial incentive programs were added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. The Program is aimed at leveraging private sector financing and State Challenge and Equity Investment funds. Since the beginning of the TGP in 1999, 19 companies received funding for a total of $1.2 million. The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program, six small businesses received loans totaling $390,000. The Demolition Loan Program is administered by the Department of Housing and Community Affairs. This innovative program provides assistance to owners of obsolete, underutilized commercial buildings to demolish buildings and clear the land to ready it for redevelopment. Through these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, and frequently leverages additional offers of assistance from State sources.

Economic Advisory Council (EAC)

This 30-member blue ribbon group advises the County government on important economic development policies, as well as on fiscal, budgetary, and management issues. Comprised of business, education, and community group representatives, the EAC helps DED evaluate economic trends and develop strategies related to the County's employment base and the attraction, retention, and expansion of businesses. This past year the EAC developed a strategic plan for economic development, a visionary blueprint for the future.

Shady Grove Life Sciences Center

The Shady Grove Life Sciences Center (the "Center") is a 300-acre advanced research and technology park exclusively oriented to the needs of the biotechnology and healthcare industries. The Center is owned, developed, and operated by the County, with the Department of Economic Development taking the lead responsibility for the Center's promotion and management.

The Center was developed in the early-to-mid 1980's in response to the cancer research and gene therapy advances developed in County-based Federal agencies such as the National Institutes of Health. Many of the government scientists most responsible for this research would use their skills and knowledge to form their own private biotechnology companies. Montgomery County recognized the growth potential of the biotechnology industry and quickly developed the concept of the Life Sciences Center to provide these new entrepreneurs with the facilities and resources necessary to stimulate the rapid growth of their new companies.

The Center, located along the Interstate 270 "Technology Corridor" in Rockville, developed around a core of existing healthcare facilities, including Shady Grove Adventist Hospital. The Center's first biotechnology tenants were Otsuka America Pharmaceutical, Inc., and BioReliance, both of which entered the Center in 1985. Otsuka currently has a 55,000 square foot R&D facility in the Center, along with a 90,000 square foot office building off-site. BioReliance continues to have a major presence in the Center with an 80,000 square foot R&D and manufacturing facility, along with a 50,000 square foot corporate office building. Additional major biotech organizations currently in the Center include Human Genome Sciences, The Institute for Genomic Research, and EntreMed.

In addition to the core of biotechnology companies, the Center also features university campuses for both Johns Hopkins University and the Universities at Shady Grove, a part of the University of Maryland system. Both of these universities' curricula feature a wide range of biotechnology and life sciences courses and programs. Also present in the Center is the 120,000 square foot Center for Advanced Research in Biotechnology (CARB). CARB, created by a joint effort among the National Institute of Standards and Technology (NIST), the University of Maryland Biotechnology Institute (UMBI), and Montgomery County, provides a unique forum for collaborative biotechnology research among academic, government, and industry scientists.

Another unique feature of the Center is the Maryland Technology Development Center (MTDC). Opened in 1998, the MTDC is a 55,000 square foot incubator facility for start-up biotech and information technology companies. The MTDC is managed by Montgomery County and has been fully occupied since it opened. A number of start-up companies "graduated" from the MTDC and moved into larger office and laboratory space elsewhere in Montgomery County.

The success of the Center resulted in significant growth of adjacent research campuses. The Belward Research Campus, an extension of the Center, is a 30-acre campus site jointly developed by Montgomery County and Johns Hopkins University. Both Human Genome Sciences and Automated Precision Instruments constructed research and manufacturing facilities on the campus, which can hold about 500,000 square feet of development. An additional 100 acres of the Belward Campus is programmed for future development. The Traville site, also adjacent to the Center, will soon be the location for Human Genome Sciences' one million square foot consolidated headquarters, R&D, and manufacturing campus. This project broke ground in the summer of 2001 and will be completed in the spring of 2004.

The success of the Life Sciences Center allowed it to continue to grow and expand. Three significant construction and expansion projects commenced in 2003, including the fifth building for The Institute for Genomic Research. This four-story, 120,000 square foot building is scheduled to be completed in early 2004 and will feature wet and dry lab space and administrative office space. In addition, the third building on the campus of Johns Hopkins University broke ground in September of 2003. The new building will have 155,000 square feet, 50,000 square feet of which will be classrooms, computer labs, and related academic space. The additional space will be used to attract additional high tech companies with whom Johns Hopkins will establish academic and research collaborations. This facility is scheduled for a fall 2004 delivery. Finally, the Center for Advanced Research in Biotechnology (CARB) is undergoing a significant expansion. A second CARB building (known as CARB II) broke ground in September 2003 and will feature 140,000 square feet of state-of-the-art laboratories, key core facilities, and training centers that will address the workforce needs of Maryland's biotechnology industry. This $48 million facility should deliver in late 2004 or early 2005.

Education

The 2000 Census indicated that County residents, on average, continue to be highly educated. The proportion of County residents 25 years old or over completing four or more years of college continued to increase, from 33.2 percent in 1970, to 51.9 percent in 1990, to 54.6 percent in 2000. Advanced degrees are held by 27.5 percent of the adult population. High school graduates account for 90.3 percent of the County population aged 25 and over, considerably above the 79.5 percent proportion in 1970, and the 87.3 percent in 1980.

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

Table 1
Secondary Education

School	Student Enrollment	Types of Degrees Offered
American University	11,571	4-year, professional
Catholic University	5,740	4-year, professional
Hood College	1,693	4-year, professional
Howard University	11,210	4-year, professional
Johns Hopkins University	19,097	4-year, professional
Montgomery College	21,805*	2-year**
University of Maryland	54,299	4-year, professional

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

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 191 elementary and secondary schools. The operating budget is $1.501 billion for FY04, a 6.3 percent increase over the prior year, and the FY03-08 capital improvements budget is $637.1 million. The emphasis that County residents place on education is reflected in per pupil operating expenditures of $10,659 in FY04, and in the high percentage of high school graduates who continue formal education. In FY04, projected enrollment is 140,861 students, 1.5 percent above the previous year.

Libraries

There are 22 libraries located throughout the County. In addition, two bookmobiles provide limited book selections to numerous small communities, and a library is also operated at the County Detention Center. During FY03 over 435,000 registered patrons used library facilities, and the collection was approximately 2.96 million volumes; total circulation was almost 11.9 million. Per capita circulation of 13.1 books is among the highest in Maryland and nationally.

Liquor Control

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide prohibition, giving the board monopoly power for the issuance of liquor, wine, and beer licensees in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Section 159 of Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department was assigned the wholesale and retail control powers of the previous Liquor Control Board as defined in State Code. The Montgomery County Board of License Commissioners, which was created as a separate entity at the same time, assumed the authority to issue licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption.

Today, the Department of Liquor Control's responsibilities include the operation of 24 County retail stores, and a County warehouse that distributes beverage alcohol to the County stores and to approximately 870 licensees, including beer and wine stores, restaurants, and clubs. The Department is a self-supporting business enterprise, with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the General Fund to finance other governmental operations.

Parks

The Maryland-National Capital Park and Planning Commission administers more than 32,100 acres of parkland in the County. This includes 12 developed and four undeveloped regional and recreational parks, each typically consisting of over 200 acres, and featuring more than 630 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake, and Pine Lake. There are also more than 370 smaller park and open space areas which serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Also, several municipalities within the County, including Rockville, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

Public Safety

Fire and Rescue Service

The Montgomery County Fire and Rescue Service (MCFRS) manages all components of the County's emergency medical services and fire suppression systems, including planning, field emergency medical services, fire suppression, apparatus, operations, evaluation and research. The Department is served by 959 uniformed career employees and approximately 900 volunteers, operates 33 fire and rescue stations, and has over 42 worksites. MCFRS is a combination system which includes 19 local volunteer departments and a large complement of career firefighters.

MCFRS is adding two new stations in the Germantown area and one new station in the Clarksburg area in response to increasing calls for service and population growth. A new fire station is planned in downtown Silver Spring to replace an existing undersized and obsolete facility. A similar project is also planned in Takoma Park. The Fire and Rescue Service is an active partner in the Public Safety Communication System (PSCS), a multi-departmental effort to create a mobile and wireless architecture and framework system to gather, process, analyze, synthesize and disseminate "real time" information for operational and management functions. The simultaneous integration of computer-aided dispatch, mapping, automatic vehicle locators and route planning systems, pre-incident location planning, computer accessibility in the apparatus, and access to the Office of Emergency Management's hazardous materials database are cornerstones of this project. MCFRS is actively planning for additional resources based on population growth, call demand and demographic changes in the County. This proactive support and commitment to the future of fire and rescue services in Montgomery County is intended to provide the infrastructure where and when it is needed, with staffing by trained career and volunteer staff.

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit-system force of 1,111 sworn officers and 545 civilian staff. MCPD operates over 30 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies. In coordination with other County agencies, the Department is a major participant in the County's Public Safety Communication System (PSCS) project. This $148 million effort is aimed at developing a complete mobile data system for the participating agencies, and includes laptop computers in public safety vehicles, an upgraded computer aided dispatch system, and a new 800 MHz radio system. The project also includes a record management system, an automated vehicle location system, and mapping features. This system became operational in the summer of 2003. A new Emergency Communications Center was established to house the major components of the PSCS system.

The Department has two major capital projects involving the renovation of existing facilities: the 4th District Police Station in Wheaton (currently in progress), and the Public Safety Training Academy (planned for in 2004). Several new facilities are planned for the department including a new facility at the Abandoned Vehicle Lot which includes a forensics garage, two new district stations (3rd and 6th Districts), a new police substation in downtown Silver Spring, and a new Animal Shelter.

In 2003, the Department initiated the Educational Facilities Officer (EFO) program with the hiring of 12 officers. Ultimately the program will support 32 police officers who will be assigned to the school clusters throughout the County. These officers will perform a variety of safety related duties as described in a Memorandum of Understanding with the Montgomery County Public Schools (MCPS).

Department of Correction and Rehabilitation

The Department of Correction and Rehabilitation consists of over 530 correctional officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates three facilities for incarceration and intensive community reentry planning: the Montgomery County Detention Center, the Montgomery County Correctional Facility, and the Pre-Release Center. The Department also operates pretrial and diversion programs that supervise over 1,500 defendants in the community on a daily basis. The Montgomery County Detention Center, located in Rockville, is a 200-bed, 72-hour holding facility for detainees who are subject to an initial court appearance, and handles all arrest booking, initial assessment of arrestees, maintenance of all inmates records, and release of all inmates. The Circuit Court Commissioners who handle bail and bond hearings are also housed in that facility. The Montgomery County Correctional Facility (MCCF), a 1,029-bed facility located in Clarksburg, houses and provides programs for adult men and women serving sentences up to 18 months or awaiting trial or sentencing.

In FY04, the local inmate average daily population is approximately 130 at the Detention Center and 610 at MCCF. A combined population of approximately 80 federal inmates is being held as well. The average population is over 135 residents at the Pre-Release Center and over 25 in the non-residential, pre-release Community Accountability, Reintegration, and Treatment (CART) program. The average local inmate population is projected to grow to over 1,000 by the year 2020. To meet this need, the County spent approximately $94 million under its Capital Improvements Program (including State funding) for the construction of the MCCF. The architectural and engineering phase for the renovation and reuse of the Detention Center is underway.

Public Works

The Division of Operations, in the Department of Public Works and Transportation, ensures the safe and convenient movement of pedestrians and vehicles on County roads, operates the traffic system in a safe and efficient manner, and maintains the County's road system, bridges, storm drains, sidewalks, curbs, gutters, alleys, bikeways, streetlights, traffic signals, facilities and related equipment. The Division's services include bridge maintenance, road resurfacing, roadway and related maintenance, snow removal and storm services, trail maintenance, tree maintenance, urban streetscaping, facility engineering, facility maintenance and operations, County security, parking, street lighting, traffic planning, traffic and pedestrian safety, traffic signs and marking, traffic signals and the Advanced Transportation Management System, and transportation management and operations. Administrative services include document duplication, archiving and mail operations, recycling, warehousing, food services, and moving services. For FY04 the Division has a General Fund operating budget of $44.4 million and staff of 441; an Internal Services Fund budget of $4.4 million and staff of 28; and a Parking Activities budget of $19.0 million and staff of 48.

Solid Waste Management

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

The County continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2003, the program included County-provided separate curbside collection from 201,240 single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is a 42-acre composting facility located in the northwest part of the County which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste. The second is a Materials Recovery Facility, located mid-County, and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). During early FY03, the County completed equipment improvements in the MRF, at a capital outlay cost of $1.7 million. To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

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

Transportation

Ride-On Bus System

The County Ride-On bus system, designed to complement the service provided by other transit operators in the County, operates on 82 routes. All of those routes serve one or more of the 11 Metrorail Red Line Stations in the County. In FY03, approximately 23 million passenger trips took place on the County system. The entire fleet consists of 241 buses owned and operated by the County, and 96 smaller buses owned by the County and operated by a contractor.

Parking Districts

There are four parking lot districts in the major commercial areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial property located within each district to service debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County issued parking revenue bonds in the amount of $81 million for land acquisition, construction, repair and renovation of parking facilities. The four districts collectively have 17 garages with a total of approximately 15,000 parking spaces; 20 surface lots with 2,235 spaces; and 2,277 on-street metered spaces. Two new parking garages, totaling 3,200 new spaces, are under construction in Silver Spring and are planned to open in late FY04.

Airports

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metro's Red Line (via a transfer to either the Yellow or Blue Lines). In the wake of the terrorist attacks of September 11, 2001, operations at Reagan National were substantially curtailed for many months. In 2002, the airport served nearly 12.9 million passengers on commercial, general aviation and commuter flights, an 18.9 percent reduction from 2000. Formerly a "short-haul" airport only, Reagan National now offers a limited number of non-stop flights to destinations in the western United States.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties, Virginia, and offers commercial, general aviation and commuter service. Passenger traffic increased 56 percent from 1996 to 2000, but declined 14.3 percent between 2000 and 2002. Dulles served over 17.2 million passengers in 2002, with nearly 4.1 million of those passengers on international flights. The 16 mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Beltway. A six-year, $3.4 billion improvement program began in 2000, and will add two parking garages, a fourth runway, a new concourse, pedestrian walkways, and an airport train system.

Baltimore-Washington International Airport (BWI) is located in Anne Arundel County, Maryland. Passenger traffic at BWI increased over 30 percent from 1998 to 2000, rose another 3.9 percent in 2001, but declined by 6.7 percent in 2002. More than 19 million passengers used the airport in 2002. Currently in the midst of a $1.8 billion expansion program, BWI is accessible from the County via the Beltway and either Interstate 95 or the Baltimore/Washington Parkway.

Metrorail Transit System

Metrorail, which was completed in January, 2001, is a 103-mile regional network connecting Washington, D.C. with the expanding Maryland and Virginia suburbs. It includes 38.3 miles of rapid transit services in the District of Columbia, 35.3 miles in Maryland and 29.4 miles in Virginia.

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are eleven rapid rail stations with 12,000 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, there are now 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County. In response to Metro parking demands, 2,900 additional parking spaces have either recently opened or are under construction in the County.

Metrobus

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

MARC Rail

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

Water and Sewer Service

Operation and maintenance of the public water and sewer systems in the County (exclusive of the City of Rockville and the Town of Poolesville) is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission (WSSC). WSSC operates under State law and is governed by a six-member Commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY04 approved operating budget for WSSC totals $448.6 million; the approved capital budget totals $210.4 million.

The Potomac and Patuxent Rivers are WSSC's two major sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day (MGD). Two reservoirs, Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River, and Little Seneca Lake near Boyds on Little Seneca Creek can supplement flows to Potomac River water users, including WSSC and Rockville, with approximately 17 billion gallons of raw water, if needed during low flow periods. An approved expansion of the Patuxent Filtration Plant will increase normal capacity there from 56 MGD to 72 MGD, and emergency capacity from 72 MGD to 120 MGD.

Most of the sewage collected by WSSC's systems is conveyed for treatment at the Blue Plains Wastewater Treatment Plant ("Blue Plains") in Washington, D.C. Blue Plains, owned and operated by the District of Columbia Water and Sewer Authority (DC WASA), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC WASA Board. WSSC's expansion of the Seneca Creek Wastewater Treatment Plant, completed in 2003, increases treatment capacity in the Seneca basin from 5 MGD to 20 MGD. This facility, located in southern Germantown, treats wastewater flows from Gaithersburg, Germantown, and Clarksburg previously treated at Blue Plains. WSSC also operates treatment plants in the county which serve the communities of Damascus and Hyattstown.

WSSC maintains a contract program for annually cleaning, removing debris from, and mortar lining of several miles of water main. There is a routine fire hydrant inspection program, and an extensive, expanding preventive maintenance effort is currently under way. The Commission will expand its sewerage system rehabilitation and reconstruction program over the next several years, addressing rehabilitation needs through a series of sanitary sewer evaluation studies which will focus on each major sewershed in the two counties.

The City of Rockville operates its own water and wastewater system, which serves approximately 90 percent of the City. The City's Sandy Landing Road Water Treatment Plant in Potomac draws raw water from the Potomac River.

Rockville is investing $10 million to upgrade its Water Treatment System to meet three objectives: rehabilitate the 40-year old plant, including raw and finished water pumps, to reduce maintenance requirements; upgrade the treatment process to meet stricter environmental standards; and expand the production capability to meet future demand. The construction program began in the early 1990s and will be completed by 2005. The State approved the City's request for a rated capacity expansion of the plant from 8.0 MGD to 12.1 MGD to serve projected growth. The City's sewage flows through the WSSC system for treatment at Blue Plains. The City's allotted capacity at Blue Plains is 9.3 MGD, which is included in WSSC's total allocation of 170 MGD. Rockville initiated a sanitary sewer evaluation study program for the Cabin John sewershed in 2003.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by nine groundwater wells, with an average daily demand of approximately 0.6 MGD. The Town's own wastewater treatment plant operates at a treatment capacity of 0.625 MGD. The Town is proceeding with the drilling of new wells to supplement its existing supply; designs for a tenth well are underway. The Town received a new discharge permit from the State for an expansion of its wastewater treatment capacity to 0.725 MGD to serve planned growth in the community and facility upgrades to improve the treatment process.

Financial Institutions

The State of Maryland has 149 FDIC insured financial institutions, which in turn operate 1,689 branch banking locations with an estimated $78 billion in deposit holdings. Montgomery County accommodates 30 of these institutions and dominates the majority market share of these deposits with an estimated $19 billion in deposit holdings. The County's financial institutions, comprised of 21 commercial and national banks with 204 branch locations and 9 federal savings and loan banks with 80 branch locations, represent 16.8% of the total branch locations within the State of Maryland. In addition to these FDIC institutions, the County has 25 national credit unions with an estimated $1.9 billion in deposit holdings and a membership base of over 329,000.

Table 2
Summary of Market Share
By County
As of June 30, 2003

County	Number of Branch Offices	Deposits (000)	Market Share
Montgomery	284	$19,644,069	25%
Baltimore City	135	13,136,806	17%
Baltimore	276	11,878,154	15%
Anne Arundel	161	5,750,839	7%
Prince Georges	133	5,111,422	6%

Table 3
FDIC Institutions Market Share
As of June 30, 2003

Institution Name	Number of Branch Offices	Deposits (000)	Market Share
Chevy Chase	61	$4,652,699	24%
Bank of America	31	2,996,471	15%
Suntrust	41	2,708,892	14%
Wachovia	13	2,514,238	13%

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

Healthcare

There are five accredited hospitals located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital, near Gaithersburg, and Montgomery General Hospital in Olney. One military hospital, Bethesda Naval Hospital, has a facility in the County, and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. Also accessible to the County are Frederick Memorial Hospital in Frederick County; Laurel Regional Hospital and Prince George's Hospital Center, in Prince George's County; Walter Reed Army Medical Center, and eight other hospitals in the District of Columbia; and ten hospitals in Northern Virginia.

Travel and Tourism

Travel and tourism generated over $1.041 billion in related expenditures, $325 million in payroll, and 14,700 jobs in the County during 2001. Average annual employment in tourism that year was 14 percent of the State's total tourism employment. Average local tax receipts in 2001 were in excess of $40 million; state tax receipts generated were over $56 million.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a $200,000 advertising campaign annually, and manages a Visitors Information Center minutes off the I-270 corridor. The Bureau was instrumental in helping to establish the Bethesda North Marriott Hotel & Conference Center, an executive-level, state-of-the-art meeting facility to be located adjacent to the White Flint Metro station. This facility is slated to open in the Fall of 2004.

Utilities

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas distributes this natural gas.

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

Through November 2003, only PEPCO had taken advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets. PEPCO sold these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system.

County Employees

The County government employs approximately 8,099 full- and part-time employees. Approximately 6,069 employees are in bargaining unit positions and are represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

Table 4
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,005	June 30, 2004
Office, Professional & Technical (MCGEO)	3,131	June 30, 2004
Police officers (FOP)	1,018	June 30, 2004
Firefighters/Rescuers (IAFF)	915	June 30, 2005

The County commenced bargaining with the Municipal and County Government Employees Organization, United Food and Commercial Workers Local 1994 (MCGEO), and the Fraternal Order of Police, Lodge #35, Inc. (FOP) for new agreements that will take effect on July 1, 2004. This year, the County will also be bargaining with the Montgomery County Career Fire Fighters Association, IAFF Local 1664 over retirement issues.

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 20,682 full- and part-time employees. This number includes 189 non-represented employees, and 20,493 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are three bargaining units, which are comprised of teachers, professional/administrative and support/maintenance employees, as presented in the table below.

Table 5
Board of Education Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Teachers (MCEA)	11,559	June 30, 2004
Professional/Administrative (MCAASP)	585	June 30, 2006
Support Services (MCCSSE)	8,349	June 30, 2005

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DEBT SUMMARY

Overview

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

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

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

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

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

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

A summary statement of direct and overlapping debt for Montgomery County is provided in Table 6 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

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Table 6
Statement of Direct and Overlapping Debt
As of June 30, 2003

Direct Debt:		
General Obligation Bonds Outstanding *	$1,288,293,054	
Short-Term BANs/Commercial Paper Outstanding	125,000,000	
Long-Term Notes Payable	1,341,206	
Revenue Bonds Outstanding	78,680,000	
Total Direct Debt		$1,493,314,260
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	982,620,956	
Housing Opportunities Commission	660,826,260	
Montgomery County Revenue Authority	57,248,845	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	51,679,913	
Kingsview Village Center Development District	2,380,000	
West Germantown Development District	15,915,000	
Towns, Cities and Villages within Montgomery County	58,482,990	
Total Overlapping Debt		1,829,153,964
Total Direct and Overlapping Debt		3,322,468,224
Less Self-Supporting Debt:		
County Government Revenue Bonds	78,680,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	982,620,956	
Housing Opportunities Commission	660,826,260	
Montgomery County Revenue Authority	57,248,845	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	15,829,691	
Total Self-Supporting Debt		(1,795,205,752)
Net Direct and Overlapping Debt		$1,527,262,472
Ratio of Debt to June 30, 2003 Assessed Valuation of (100% Assessment):		$86,635,192,231
Direct Debt		1.72%
Net Direct Debt **		1.63%
Direct and Overlapping Debt		3.84%
Net Direct and Overlapping Debt		1.76%
Ratio of Debt to June 30, 2003 Market Value of:		$97,660,210,217
Direct Debt		1.53%
Net Direct Debt **		1.45%
Direct and Overlapping Debt		3.40%
Net Direct and Overlapping Debt		1.56%

* Excludes effects of GO Refunding Bonds ($49,505,000) dated May 1, 2003 and issued July 3, 2003.

** Net Direct Debt of $1,414,634,260 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Debt Affordability

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

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

The Annotated Code of Maryland, Article 25A, Section 5(P), authorizes borrowing of funds and issuance of bonds up to a maximum of the sum of six percent of the assessed valuation of all real property and 15 percent of the assessed valuation of all personal property within the County. Article 25A, Section 5(P) provides that obligations having a maturity not in excess of 12 months shall not be subject to, or be included in, computing the County's legal debt limitation. However, the County includes its BANs/commercial paper in such calculation because it intends to repay such notes with the proceeds of long-term debt to be issued in the near future. The results of the County's legal debt limit computation are displayed in Table 7 below.

Table 7
Statement of Legal Debt Margin
As of June 30, 2003

June 30, 2003 Assessed Valuation – Real Property		$82,407,337,831
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 4,944,440,270
June 30, 2003 Assessed Valuation – Personal Property		$4,227,854,400
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 634,178,160
Total Assessed Valuation – Real and Personal Property		$86,635,192,231
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$5,578,618,430
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding *	$1,288,293,054	
Short-Term BANs/Commercial Paper	125,000,000	
Long Term Notes Payable	1,341,206	
Net Direct Debt		1,414,634,260
Legal Debt Margin		$4,163,984,170
Net Direct Debt as a Percentage of Assessed Valuation		1.63%

* Excludes effects of GO Refunding Bonds ($49,505,000) dated May 1, 2003 and issued July 3, 2003.

Direct Debt

General Obligation Bonds

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

Over the past three decades the composition of County general obligation debt has changed. As more general County bonding was shifted towards schools and roads, a related shift occurred away from general County facilities, parks, and mass transit. In addition, in recent years general obligation debt has not been issued to finance parking lot district or solid waste projects. Such projects are financed with revenue bonds or current revenues.

The General Obligation Bonded Debt Ratios displayed below measure the burden of the County's net direct debt, which consists primarily of general obligation bonds and outstanding BANs/commercial paper, and debt service payments on such. As with the calculation of the Legal Debt Limit, the County includes its BANs/commercial paper in these ratio calculations because it intends to repay such notes with the proceeds of general obligation debt to be issued in the near future. The ratios are as follows: 1) net direct debt as a percentage of full (market) value of taxable property; 2) debt service on outstanding general obligation bonds as a percentage of General Fund expenditures and transfers out; 3) net direct debt per capita; 4) net direct debt per capita as a percentage of per capita income; and 5) rate of replacement of general obligation bond principal (payout ratio) in ten years. The results of these indicators are displayed in Table 8 below.

Table 8
General Obligation Bonded Debt Ratios
1994 – 2003

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt Service to General Fund Expenditures	Net Direct Debt Per Capita*	Net Direct Debt Per Capita to Per Capita Income**	GO Bond Payout Ratio
1994	1.46%	9.74%	$ 1,264	3.40%	69.00%
1995	1.34	9.96	1,159	3.02	70.00
1996	1.62	10.04	1,384	3.50	70.52
1997	1.47	10.22	1,277	3.14	71.39
1998	1.66	9.71	1,433	3.32	72.58
1999	1.56	9.66	1,374	3.02	72.33
2000	1.64	9.17	1,481	3.11	72.06
2001	1.57	8.72	1,473	2.97	71.83
2002	1.55	8.32	1,516	3.03	71.32
2003	1.45	8.47	1,541	2.90	71.10

* Amounts restated due to restatement of population data.
** Figures restated due to restatement of Actual Income in May 2001.

The County's general obligation indebtedness by issue is presented in Table 9. Annual debt service payments for the County's debt is displayed in Table 10. Table 11 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2003.

Table 9
General Obligation Debt of the County
As of June 30, 2003*

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC**	Maturity	Principal Outstanding June 30, 2003
GO Bonds	06/01/84	$ 55,000,000	9.00-9.75	9.3989	1985-04	$ 2,750,000
GO Bonds	05/01/85	65,000,000	7.60-8.60	8.2205	1986-05	6,500,000
GO Bonds	04/01/86	50,000,000	5.80-6.30	6.0956	1987-06	7,500,000
GO Refunding Bonds	07/01/92	273,038,054	2.75-5.80	5.7431	1993-10	149,793,054
GO Bonds	10/01/92	115,000,000	5.00-5.75	5.4740	1993-03	5,750,000
GO Refunding Bonds	08/15/93	60,005,000	2.50-5.00	4.9908	1994-11	55,605,000
GO Bonds	10/01/93	100,000,000	4.40-4.90	4.6899	1994-13	10,000,000
GO Bonds	10/01/94	100,000,000	5.20-6.125	5.7958	1995-08	15,000,000
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-08	24,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-17	46,000,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	69,175,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	74,750,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	90,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	58,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	126,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	146,375,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	152,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	93,595,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	155,000,000
Total						$1,288,293,054

* Excludes effects of GO Refunding Bonds ($49,505,000) dated May 1, 2003 and issued July 3, 2003.
** True Interest Cost.

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Table 10
Summary of General Obligation Bond
Debt Service Requirements by Fiscal Year*
As of June 30, 2003

Fiscal	General Obligation Bonds		
Year	Principal	Interest	Total
2004	$ 110,715,000	$ 60,033,845	$ 170,748,845
2005	109,585,000	54,523,537	164,108,537
2006	103,405,000	49,125,477	152,530,477
2007	103,395,000	44,174,615	147,569,615
2008	103,180,000	39,222,323	142,402,323
2009	83,401,683	47,023,745	130,425,428
2010	80,332,086	39,088,004	119,420,090
2011	77,374,285	30,112,167	107,486,452
2012	72,880,000	23,926,096	96,806,096
2013	69,465,000	20,415,120	89,880,120
2014	63,485,000	17,306,249	80,791,249
2015	58,420,000	14,442,686	72,862,686
2016	53,195,000	11,797,112	64,992,112
2017	47,020,000	9,362,719	56,382,719
2018	41,250,000	7,078,725	48,328,725
2019	35,480,000	5,084,563	40,564,563
2020	29,460,000	3,316,138	32,776,138
2021	22,750,000	2,080,000	24,830,000
2022	15,750,000	1,020,000	16,770,000
2023	7,750,000	310,000	8,060,000
Total	$1,288,293,054	$479,443,121	$1,767,736,175

* Excludes effects of GO Refunding Bonds ($49,505,000) dated May 1, 2003 and issued July 3, 2003.

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Table 11
General Obligation Bonds Authorized – Unissued
As of June 30, 2003

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	19	1998	$113,400,000	$ 8,390,000
Consolidated Fire Tax District	18	1999	33,500,000	33,500,000
	22	2000	78,300,000	78,300,000
	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
			265,100,000	160,090,000
Road & Storm Drainage	22	2000	77,600,000	73,010,000
	17	2001	10,630,000	10,630,000
	21	2002	34,800,000	34,800,000
			123,030,000	118,440,000
Public Schools and	17	2001	159,755,000	70,768,000
Community College	21	2002	104,800,000	104,800,000
			264,555,000	175,568,000
Mass Transit	22	2000	1,400,000	1,005,000
	17	2001	6,700,000	6,700,000
	21	2002	1,600,000	1,600,000
			9,700,000	9,305,000
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
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$681,330,000	$477,103,000

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1984, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

Current Revenue Substitution for General Obligation Bonds (PAYGO)

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This "pay-as-you-go" approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County's debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past eight years, and planned for substitution over the seven years beginning FY04, are displayed below.

Table 12
PAYGO Substitutions
(Actual FY96-03, Budgeted FY04-10)

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1996	$ 7,000,000	2004	$ 6,240,000
1997	3,925,000	2005	72,788,000
1998	13,000,000	2006	60,807,000
1999	13,400,000	2007	42,500,000
2000	24,600,000	2008	39,900,000
2001	40,705,000	2009	40,700,000
2002	40,155,000	2010	42,000,000
2003	17,374,000		

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days, under a program that matures on June 30, 2005. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2002 through June 30, 2003 are presented in Table 13 below.

Table 13
Bond Anticipation Notes Outstanding
As of June 30, 2003

Issue	Balance July 1, 2002	BANs Issued	BANs Retired	Balance June 30, 2003
BAN Series 2002-A	$125,000,000	$ --	$125,000,000	$ --
BAN Series 2002-B	--	75,000,000	30,000,000	45,000,000
BAN Series 2002-C	--	80,000,000	--	80,000,000
Total	$125,000,000	$155,000,000	$155,000,000	$125,000,000

Long-Term Notes

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF) pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Annotated Code of Maryland. The loan was approved by the Maryland State Department of Business and Economic Development. In accordance with the terms of the loan, the proceeds of the loan were reloaned to a private corporation, for purposes of relocation to and renovation of facilities in the County. As a result of certain conditions having been met, $150,000 of the loan was converted to a State grant. Although it is expected that the loan will be repaid by payments made by the private user, the loan is a full faith and credit obligation of the County.

Revenue Bonds

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

County revenue bonds are used in the Bethesda and Silver Spring Parking Districts, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. County revenue bond indebtedness by issue is presented in Table 14. Annual debt service payments for the County's revenue bond debt are displayed in Table 15. Table 16 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2003.

Table 14
Revenue Bond Debt of the County
As of June 30, 2003

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2003
Parking Refunding Revenue Bonds (Bethesda PLD)	05/01/02	$ 14,560,000	3.00%-5.00%	3.1941%	2003-09	$ 12,435,000
Parking Refunding Revenue Bonds (Silver Spring PLD)	05/01/02	12,130,000	3.00%-5.00%	3.1398%	2003-09	10,180,000
Parking Revenue Bonds (Bethesda PLD)	06/01/02	26,000,000	3.00%-4.75%	4.4231%	2003-21	24,990,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	31,075,000
Total						$ 78,680,000

* True Interest Cost.

Table 15
Summary of Revenue Bond Debt Service Charges by Fiscal Year
As of June 30, 2003

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2004	$ 7,765,000	$ 3,353,698	$ 11,118,698
2005	8,260,000	2,871,541	11,131,541
2006	8,530,000	2,618,691	11,148,691
2007	8,820,000	2,346,165	11,166,165
2008	6,535,000	1,958,415	8,493,415
2009	6,810,000	1,713,365	8,523,365
2010	4,620,000	1,410,478	6,030,478
2011	4,800,000	1,234,228	6,034,228
2012	4,995,000	1,042,228	6,037,228
2013	4,045,000	805,527	4,850,527
2014	1,425,000	615,517	2,040,517
2015	1,490,000	554,955	2,044,955
2016	1,560,000	489,767	2,049,767
2017	1,635,000	421,127	2,056,127
2018	1,715,000	347,552	2,062,552
2019	1,800,000	268,662	2,068,662
2020	1,890,000	184,062	2,074,062
2021	1,985,000	94,287	2,079,287
Total	$ 78,680,000	$ 22,330,265	$101,010,265

Table 16
Revenue Bonds Authorized - Unissued
As of June 30, 2003

Purpose	Resolution No.	Year	Amount	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 42,088,000
	14-921	2001	35,000,000	9,000,000
			86,163,000	51,088,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total Revenue Bonds			$143,098,000	$ 57,343,000

Overlapping Debt

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

Washington Suburban Sanitary Commission

The Washington Suburban Sanitary Commission (WSSC) issues general construction bonds to finance construction of small diameter water distribution and sewage collection lines, and required support facilities in Montgomery and Prince George's Counties. Generally, these are considered general obligation bonds because they are payable from unlimited ad valorem taxes upon all the assessable property in the WSSC district. They are actually paid through assessments on properties being provided service and are considered to be overlapping debt rather than direct debt of the County. WSSC Water Supply and Sewage Disposal Bonds, which finance major system improvements, including large diameter water distribution and sewage collection lines, are paid from non-tax sources including user charges collected through water and sewer rates, which also cover all system operating costs. They are backed by unlimited ad valorem taxes upon all the assessable property within the WSSC district in addition to mandated rates, fees, and charges sufficient to cover debt service. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland (1997 Replacement Volume and 2000 Cumulative Supplement), the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC waived such guarantee requirement with respect to all outstanding WSSC bonds.

Housing Opportunities Commission

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County implemented the guarantee.

Montgomery County Revenue Authority

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

Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission (M-NCPPC) issues general obligation debt for the acquisition and development of local parks and certain special parks and advance land acquisition, with debt limited to that supportable within mandatory tax rates. The Commission also issues revenue bonds funded by its enterprise operations. Pursuant to Section 6-101 of Article 28 of the Annotated Code of Maryland (1997 Replacement Volume and 2000 Supplement), the County must guarantee payment of principal and interest on the debt of M-NCPPC that is not self-supporting.

Towns, Cities, and Villages

The Towns of Brookeville, Poolesville, and Washington Grove, the Cities of Rockville and Takoma Park, and the Village of Chevy Chase are located wholly within Montgomery County and issued long-term obligations to fund various public amenities such as road and sewer improvements.

Special Taxing Districts

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

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

In December 1999, the County issued $2.41 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 $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

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

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County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $9,419,000 for FY03. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY04:

Payee	Location	Use	Total Rent For FY04
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	$2,956,700
Eldrige, Inc.	255 Rockville Pike, Rockville	Various Agencies	2,918,264
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,413,255
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	1,815,550
Montgomery County Revenue Authority	Rockville Pike at White Flint Metro	Conference Center	1,581,768
BP Gude LLC	7300 Calhoun Place, Derwood	Juvenile Assessment Center	1,085,972
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	783,678
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	636,390
Argo Orchard Ridge, LC	101 Orchard Ridge Dr., Gaithersburg	DPWT Operations	592,189
Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	511,825
The Gudelsky Corp.	8630 Fenton Street, Silver Spring	Health Center	413,099
Williams Knolls Joint Venture	12500 Ardennes Avenue, Rockville	Corrections	369,418
WWG 401 North Washington	401 N. Washington Street, Rockville	Commission for Women	334,615
Scott Group, Inc.	110 N. Washington Street, Rockville	Various Agencies	316,920
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	299,826
McShea Gaither Road Ltd. Partnership	9125 Gaither Road, Rockville	Police/S.O.D.	252,101
Shady Grove Associates II	9210 Corporate Boulevard, Rockville	Police/S.I.D.	232,607
SJS Realty Management, Inc.	18749 Frederick Road, Gaithersburg	Police/District 6	200,800
Milford Mill Limited Partnership	19627 Fisher Avenue, Poolesville	Poolesville Library	165,269
Robert Sugar & Helen Rea	8435 Georgia Ave., Silver Spring	Regional Services Center	164,764
Pavilion Partners, Inc.	199 E. Montgomery Ave., Rockville	Sheriff's Office	163,500
Betty B. Casey Trust	8536 Anniversary Circle, Rockville	Records Center	162,309
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities	157,230
Investment Properties, Inc.	11 N. Washington St., Rockville	Board of Investment Trustees	155,601
Wheaton Knolls Venture	11319 Elkin Street, Wheaton	Gilchrist Cultural Diversity Center	143,310
Douglas Development	8715 Colesville Rd., Silver Spring	Police/Silver Spring Station	131,147
Spring Street Assoc. Limited Partnership	1109 Spring Street, Silver Spring	Various Agencies	130,720
Halcyon Associates	8663 Grovemont Circle, Gaithersburg	Fire & Rescue/Bomb Squad	126,245

Other Operating Payment Agreements

Lease Revenue Bonds – Metrorail Garage Projects

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

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

Certificates of Participation – Equipment Acquisition Program

The County entered into a conditional purchase agreement dated June 1, 2001 with Wachovia Bank (formerly First Union National Bank of Maryland) for the purpose of borrowing $54,660,000 to purchase radio and mobile data equipment for use in the County's public safety programs and buses for use in the County's Ride-On Bus System. The County's obligation to make purchase installments under the agreement in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate moneys to make such purchase installments in any fiscal year, the County is required to return the equipment to the seller without any additional financial liability. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

State Assumption - Certain Mass Transit Capital Costs

The regional Metro Rapid Rail System, operated by the Washington Metropolitan Area Transit Authority (WMATA) and recently completed, is a 103-mile system of subway, surface and elevated tracks embracing Washington, D.C. and the Maryland and Virginia suburbs. The system includes 18.4 miles and 11 stations within Montgomery County, all of which are now in service.

As a result of a succession of State legislative actions between 1972 and 1998, all County obligations for allocable costs of WMATA's capital construction, debt service, and capital equipment replacement programs are now met by the State of Maryland, relieving the County of all such obligations.

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FINANCIAL INFORMATION

Accounting System

The 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 its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Montgomery County Comprehensive Annual Financial Reports (CAFR) for all fiscal years since 1972, and as early as 1951, were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the FY03 CAFR continues to meet the Certificate of Achievement Programs requirements and has submitted it to the GFOA to determine its eligibility for another certificate.

Reporting Entity

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery Community College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2003).

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

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

ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 22, 2003 the County Council approved the FY04 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $2.629 billion. This budgetary level represents an increase of 6.3 percent over the adopted budget for FY03.

The FY04 operating budget provides the greatest share (52.9 percent) of total resources to Montgomery County Public Schools, including funding necessary for an estimated 1,970 new students in grades K-12. Funds for Montgomery College are included for an increase greater than enrollment growth. In addition, public safety and criminal justice, health and human services, public works, and transit are funded for important improvements in FY04, as well as compensation improvements.

The approved FY04 budget provided for an undesignated surplus of $46.8 million in the General Fund and $57.8 million across all tax supported funds. For FY04, the estimated effective property tax rate for the County declined to $1.073 per $100 of assessed valuation from the actual effective property tax rate of $1.080 per $100 of assessed valuation in FY03.

Capital Budget/Capital Improvements Program

The County Council approved the FY04 Capital Budget and Amendments to the FY03-08 Capital Improvements Program for the County government and the required agencies, except for WSSC, aggregating $1.849 billion for FY03-08. This approved program provided for County bond funding aggregating $1.017 billion over the amended six-year period FY03-08. The Council approved a Capital Improvements Program for WSSC totaling $518.6 million for FY04-09.

Legal Framework for Budgeting

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

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

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

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

The County Council must hold public hearings on the proposed budgets and six-year programs commencing not earlier than 21 days following their receipt. The County Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council also approves the budget, as amended, and appropriates the funds not later than June 1 of the year in which it is submitted. By June 30th of each year the County Council makes the tax levies deemed necessary to finance the budgets for the ensuing fiscal year beginning July 1. Pursuant to a Charter amendment adopted in the November 1990 general election, the County Council may not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals any increase in the Consumer Price Index unless approved by the affirmative vote of seven Council members. This limit does not apply to revenue from 1) newly constructed property, 2) newly rezoned property, 3) property that, because of a change in State law, is assessed differently than it was assessed in the previous tax year, 4) property that has undergone a change in use, and 5) any development district tax used to fund capital improvement projects.

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely petition of five percent of the County's registered voters. The cost criterion for projects in the FY04 Capital Budget and the amended FY03-08 CIP is $10,342,000. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

Major Sources of Revenue

The local property tax remains the largest revenue source when measured by all Funds, and is the second largest source of revenue when measured by General Fund revenues. For FY03, the General County property tax levies were based on full cash value for all assessable property in the County at the rate of $1.885 per $100 of assessed personal property, and $0.754 per $100 of assessed real property valuation. The levies generated $695.4 million, or approximately 37.6 percent, of the total County General Fund operating requirements – down from a 41.5 percent share six years ago.

For FY03, the largest revenue source in the General Fund was the local income tax. This tax, which is levied by the County Council and administered by the State, generated $788.0 million in FY03, or 42.6 percent of the total County General Fund operating revenue requirements – up from a 41.2 percent share six years ago, but down from the 47.2 percent share in FY02. The decrease in share from last year was due to weak economic activity in the Washington metropolitan region and in the County, no growth in private-sector employment, and a weak stock market.

Status of the General Fund

Montgomery County concluded the fiscal year ending June 30, 2003, with an undesignated balance in the General Fund of $34.6 million, a decrease of $38.3 million from the balance ending in FY02. Total balance in the fund is $126.4 million at the end of FY03. The Revenue Stabilization Fund (RSF), including related investment income, grew to $87.2 million at the close of FY02. Following the mandatory contribution requirement, half of actual General Fund receipts from the (i) income tax, (ii) transfer tax, (iii) recordation tax, and (iv) investment income above the budget estimate must be transferred to the RSF. With the exception of the receipts from the recordation and transfer taxes, receipts from the income tax and investment income were lower than expected and the deficit from these two sources was not offset by the higher recordation and transfer tax receipts. Since actual revenues did not exceed estimated revenues in FY03, there was no mandatory contribution made to the RSF. Therefore, the amount in the fund remained at $87.2 million at the end of FY03.

General Fund Revenues

On a budgetary basis, revenues for the General Fund totaled $1,850.9 million and were 0.5 percent below the budget estimate for the fiscal year but grew 0.5 percent from the prior fiscal year. The three largest contributors to the variance between the budget estimate and actual revenues were the property tax, followed by the recordation tax, and finally, the transfer tax which were $10.4 million, $26.1 million, and $14.5 million, respectively, above the budget estimates. Revenues from the income tax came in below target at $788.0 million. The effects of a weak economy, the war on terrorism, and the sniper incident during the fall of 2002 had an effect on the Washington area hospitality industry during FY03. While actual revenue from the County's hotel-motel room tax was 7.6 percent above actual revenue during FY02, a year affected greatly by 9/11, it was 4.4 percent lower than the budget estimate. The effects of the uneven economic recovery during FY03 contributed to a weaker performance in the telephone and admissions and amusement revenues. In total, actual revenues from those taxes were 6.5 percent below FY02 revenues and 7.6 percent below the budget estimate. While low interest rates, particularly low mortgage rates and the resulting mortgage refinancing and transfer activities, were a boon to the transfer and recordation tax receipts, they had a negative effect on revenues from the County's investments. Investment income was $7.1 million below the budget estimate. Other non-tax sources of revenue came in below budget estimates. Such sources included intergovernmental revenues (-2.7 percent), licenses and permits (-0.6 percent), charges for services (-7.0 percent), fines and forfeitures (-49.9 percent), and miscellaneous sources (-32.5 percent).

The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at $788.0 million represented 46.3 percent of total tax revenues for the General Fund and 42.6 percent of total revenues in FY03. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains since FY98. With the recent decline in capital gains and employment growth in the County, revenues decreased 9.1 percent in FY03 compared to the 6.7 percent growth in FY02. There are a number of factors that contributed to the decline in income tax revenues. First, total payroll employment grew 0.7 percent during calendar year (CY) 2002, and wages and salaries, expressed in real terms, declined 0.1 percent in calendar year 2002. Second, capital gains continued to decline during CY02. Other factors that exacerbated the decline in FY03 were the sharp drop in the amount of revenue from additional filings and late filings pertaining to tax year 2001, which decreased $73.3 million compared to FY02; fiduciary returns, which decreased $1.6 million compared to FY02; and penalties and interest, which decreased $200,000 compared to FY02. FY03 receipts coming in the midst of weak economic and financial market conditions continued to reflect a sharp slowdown. Total quarterly distributions for withholding and estimated payments decreased 0.1% (FY03) compared to +1.1% (FY02), +6.1% (FY01), +8.0% (FY00), +10.6% (FY99), and +10.3% (FY98).

While real wages decreased in CY02, weak employment conditions in the County contributed to the slowdown in the growth rate of returns from withholding and declarations. During CY02, the total number of payroll jobs averaged approximately 453,000. When compared to CY01, the number of payroll jobs increased slightly, by less than 3,300 jobs or 0.7 percent. The growth is attributed to gains in federal and local government employment of almost 3,200.

With the downward trend in capital gains during CY02, income tax collections were $788.0 million or 4.8 percent below the budget estimate. However, with the continued economic recovery and expansion in CY03, payroll employment in Montgomery County is expected to experience modest growth compared to CY02. Income tax receipts in FY04 are expected to continue to moderate to levels that are significantly lower than what was experienced during the past four fiscal years.

Property tax collections in the General Fund amounted to $695.4 million in FY03, which were 1.5 percent higher than the budget estimate and 7.9 percent above actual revenues in FY02. Property taxes, excluding penalty and interest, were $691.3 million in FY03 – an increase of 7.8 percent over last year. However, collections from penalty and interest were $4.1 million, an increase of 22.8 percent compared to FY02, but in line with the recent four-year historical collection trend of approximately $3.7 million annually.

The increase in property tax collections was the result of a 6.2 percent increase in the assessable base for real property from FY02 to FY03. This was the largest increase in over seven years. New construction, which added $1.6 billion to the base in FY03, was 8.4 percent greater than FY02. The dramatic increase in the reassessment rate from 2.7 percent to 21.8 percent for cycle two reassessments of the County's real property, which followed an increase in the rate from 1.1 percent to 13.5 percent for cycle one reassessments in FY02, also contributed significantly to the increase in property tax collections. Because of the dramatic increases in the reassessment rates, $3.4 billion was added to the assessable base. As a result, the 7.9 percent increase in actual property tax revenues in FY03 over FY02 was significantly higher than in the previous six fiscal years.

After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, and only 0.6 percent in FY03. Assessments of real property continued their growth with an increase of 4.7 percent in FY02 and 6.2 percent in FY03. As a result of continued growth in both real and personal property, the total assessable base grew 5.9 percent in FY03.

The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $169.6 million, 31.5 percent above the budget estimate and 28.4 percent above FY02. Collections from transfer and recordation taxes continue to reach record highs. The amount collected from these taxes increased $118.4 million since FY98, almost a threefold increase.

Following a four-year period of decline in tax collections from transfer and recordation taxes ending in FY98 that reflected a weak real estate market in the County, receipts began their historical rise in FY99, jumping 81.7 percent, moderating in FY00 and FY01, then accelerating another 29.0 percent in FY02 and 28.4 percent in FY03. Collections from recordation taxes exhibited the larger increase in FY03, 63.0 percent, compared to transfer taxes, which increased 6.5 percent. The larger increase was attributed to a 57 percent rate increase in the recordation tax from $2.20 per $500 of assessed value to $3.45 per $500 of assessed value, effective in FY03. Additional factors that contributed to the increase in collections were the strong housing market and mortgage refinancing.

Revenues from the transfer tax were also exceptionally strong in FY03 with total collections at $86.2 million, a record high. Revenues from the residential sector were $75.6 million, an increase 7.7 percent over FY02, and revenues from the non-residential sector were $10.6 million, an increase of 10.0 percent. Although revenues from the transfer tax were exceptionally strong in FY03, they follow a dramatic increase of 25.1 percent in FY02. The continued surge of real estate activity in FY03 attributed to historic low mortgage interest rates was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY03.

A closer examination of the trend in the transfer tax from FY98 to FY02 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. For example, tax collections increased 26.5 percent in FY98, 25.4 percent in FY99, 10.8 percent in FY00, and 27.3 percent in FY02. In FY01 and FY03, the growth rates were below 10 percent, but still remained positive. Because of such exceptional increases, the amount collected in FY03, $75.6 million, was a record. The average transfer tax also increased during this period from $2,254 in FY98 to $3,310 in FY03, representing a 47 percent growth rate and indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County.

In contrast to the residential sector, the commercial or non-residential sector did not experience the same exceptional performance. Moreover, non-residential construction starts were very volatile during the FY98-FY03 period. While the amount of collections from the commercial sector doubled in FY98, the growth rates declined over the next three fiscal years until FY02, when receipts increased 14 percent. In FY03, collections at $10.6 million were an increase of one percent over FY02. The cause of the decline in the growth rates is attributed to the decline in the number of transfers from FY99 to FY01. The number of transfers for commercial property declined from 795 in FY99 to 282 in FY02. In FY03, the number of transfers increased by 7.8 percent. The average tax decreased from approximately $37,200 in FY02 to $34,900 in FY03, a decline of 6.2 percent, but not enough of a decrease to offset the increase in the number of transfers, resulting in an increase in tax collections.

As the economy continues to expand and as corporate earnings increase in FY04, the demand for non-residential real estate is expected to improve. However, such an increase is dependent on the current capacity of commercial space, currently at 10 percent, declining to historical levels. This scenario suggests that the number of transfers will not experience the growth rate observed during FY98-00 period, because most corporations are unlikely to be aggressive in looking to expand the current supply of office space. Also, with the current weak employment situation in the County, the number of residential transfers may not experience the exceptional growth recorded during the same FY98-00 period.

The remaining tax sources, consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes, totaled $47.6 million and were approximately $320,000, or -0.7 percent, below the budget estimate. The sluggish economic recovery coupled with ongoing efforts against international terrorism and the sniper incident had an effect on revenues from the hotel/motel industry (4.4 percent below budget estimate) during FY03. The sluggish economy also affected revenues from the admissions (-1.2 percent) and the telephone (-18.3 percent) taxes. Because of the harsh winter, there was a significant increase in the consumption of home heating oil and natural gas. Such increases led to a greater than expected increase in revenues from fuel/energy taxes (+7.1 percent above budget estimate).

In the General Fund, investment income fell 62.2 percent from $8.2 million in FY02 to $3.3 million in FY03, 72.6 percent below the budget estimate. The dramatic decline in investment income follows declines in FY01 and FY02, and is the result of the continuation of an accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since that time, the FOMC cut the federal funds rate thirteen times from 6.5 percent down to 1.0 percent in June 2003. Because of this unprecedented series of rate cuts, other short-term interest rates declined dramatically as well, hence the average yield on cash equity for the County decreased from 2.61 percent in FY02 to 1.59 percent in FY03. Total pooled investment income on a budgetary basis, which includes all funds and outside participants, and excluding unrealized gains or losses, was $11.2 million or 46.4 percent below last fiscal year. The average daily portfolio balance decreased from $794.2 million in FY02 to $696.4 million in FY03.

General Fund Appropriations and Transfers

FY03 expenditure savings amounted to $4.4 million. Savings occurred in both departmental expenditures ($4.0 million) and non-departmental expenditures ($0.4 million). Even though all departmental and most non-departmental units recognized savings this year, the majority of the savings occurred in lower than projected operating costs for the Department of Environmental Protection ($0.4 million), the Department of Health and Human Services ($0.9 million), and the Police Department ($1.5 million).

County law requires that half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the Revenue Stabilization Fund. However, because of lower than expected receipts from the income tax and investment income, the combined actual receipts were less than budget estimates. Hence, there was no mandatory contribution to the Revenue Stabilization Fund in FY03.

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Table 17
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual(1)				Fiscal Year Budget
	2000	2001	2002	2003	2004
Revenues:					
Taxes:					
Property, including interest & penalty	$ 610,403,414	$ 623,819,661	$ 644,523,032	$ 695,354,478	$ 729,635,740
Transfer tax and recordation tax	99,771,486	102,381,412	132,085,074	169,583,507	141,140,000
County income tax	761,148,755	812,352,208	866,996,269	787,997,740	837,660,000
Other taxes	43,312,655	46,768,742	43,704,476	47,630,238	118,124,249
Total Taxes	1,514,636,310	1,585,322,023	1,687,308,851	1,700,565,963	1,826,559,989
Licenses and permits	4,508,738	4,631,314	4,857,707	8,728,837	9,230,730
Intergovernmental revenue	98,051,154	102,932,299	115,791,737	111,611,635	107,797,850
Charges for services	7,904,754	8,961,699	7,262,727	10,389,923	14,609,720
Fines and forfeitures	4,550,638	6,195,417	7,143,920	7,383,288	18,996,070
Investment income	21,831,424	16,998,296	8,270,355	3,310,147	8,363,000
Miscellaneous	8,300,775	9,596,381	10,598,490	8,929,585	9,148,800
Total Revenues	1,659,783,793	1,734,637,429	1,841,233,787	1,850,919,378	1,994,706,159
Expenditures (including encumbrances):					
General County:					
General government[3]	152,711,792	156,635,507	161,204,882	166,156,273	173,458,412
Public safety	163,575,547	172,137,027	188,059,119	212,829,090	215,389,154
Transportation and public works	35,155,518	36,326,517	32,518,389	41,130,164	35,669,061
Health and human services	130,598,688	145,121,009	149,134,783	157,251,684	159,062,762
Culture and recreation	37,032,110	37,985,645	44,090,316	43,455,404	41,987,700
Housing and community development	4,104,510	4,256,355	3,632,055	6,305,950	6,617,380
Environment	3,549,047	4,502,897	4,349,786	3,557,247	3,612,251
Total Expenditures	526,727,212	556,964,957	582,989,330	630,685,812	635,796,720
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	10,117,342	10,283,760	12,850,550	12,555,270	13,148,740
Enterprise Funds	17,248,580	19,679,903	33,378,200	29,877,080	26,442,710
Internal Service Funds	--	--	500,000	--	--
Component Units	192,696	644,650	612,754	626,360	328,420
Total Transfers In	27,558,618	30,608,313	47,341,504	43,058,710	39,919,870
Transfers Out:					
Special Revenue Funds	(15,719,842)	(25,516,861)	(28,275,375)	(22,374,913)	(15,939,582)
Debt Service Fund	(134,767,348)	(143,528,192)	(157,010,129)	(168,474,195)	(182,484,010)
Capital Projects Fund	(38,907,827)	(52,079,521)	(61,368,324)	(15,012,594)	(49,208,275)
Enterprise Funds	(5,988,835)	(4,326,035)	(3,143,120)	(2,368,780)	(2,498,630)
Internal Service Funds	(615,290)	(1,581,897)	(471,622)	(79,734)	(92,410)
Component Units[2,3]	(938,162,658)	(1,036,644,903)	(1,117,630,064)	(1,163,343,950)	(1,220,195,657)
Total Transfers Out	(1,134,161,800)	(1,263,677,409)	(1,367,898,634)	(1,371,654,166)	(1,470,418,564)
Net Transfers In (Out)	(1,106,603,182)	(1,233,069,096)	(1,320,557,130)	(1,328,595,456)	(1,430,498,694)
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out	26,453,399	(55,396,624)	(62,312,673)	(108,361,890)	(71,589,255)
Fund Balances, July 1 as previously stated	211,266,962	255,964,974	230,423,758	195,161,927	109,601,952
Adjustment for previous year encumbrances[4]	18,244,613	29,855,408	27,050,842	22,801,915	16,745,467
Fund Balances, July 1 restated	229,511,575	285,820,382	257,474,600	217,963,842	126,347,419
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30[2,3]	$ 255,964,974	$ 230,423,758	$ 195,161,927	$ 109,601,952	$ 54,758,164

(1) Audited amounts.

(2) FY00 fund balance restated to comply with Governmental Accounting Standards Board Statement Number 33.

(3) FY01 fund balance restated for Component Unit Capital transfers and Silver Spring land adjustment.

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

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

Table 18
General Fund
Schedule of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above[1,2]	$255,964,974	$230,423,758	$195,161,927	$109,601,952
Plus encumbrances outstanding	33,029,310	29,312,780	25,357,214	16,783,091
Adjustment for prior year encumbrances	(2,381,042)	(3,173,902)	(2,261,938)	(2,555,941)
Unrealized investment gain (loss)	1,169,668	142,060	(1,973,055)	1,752,108
Net differences between beginning fund balances	745,760	3,123,811	2,973,976	842,960
GAAP Fund Balance as Reported[1,2]	$288,528,670	$259,828,507	$219,258,124	$126,424,170
Elements of GAAP Fund Balance:				
Reservations	$ 36,225,684	$ 32,711,557	$ 29,201,708	$ 22,540,476
Designated for CIP Transfers	36,001,151	54,234,669	55,822,587	51,936,828
Designated for subsequent years expenditures[1,2]	140,856,091	116,684,146	61,325,631	17,300,037
Unreserved / Undesignated[2]	75,445,744	56,198,135	72,908,198	34,646,829
	$288,528,670	$259,828,507	$219,258,124	$126,424,170

(1) FY00 fund balance restated to comply with Governmental Accounting Standards Board Statement Number 33.
(2) FY01 fund balance restated for Component Unit Capital transfers and Silver Spring land adjustment.
Note: All amounts are audited, and are for fiscal years ended June 30.

REVENUE STABILIZATION FUND

The State of Maryland, during the 1992 State legislative session, enacted legislation authorizing political subdivisions in Maryland to establish “rainy day” or reserve funds to accommodate future funding shortfalls. Pursuant to this State law, the County established a Revenue Stabilization Fund effective July 1, 1994.

The Revenue Stabilization Fund (the “Fund”) supplements the reserve or operating margin the County annually sets aside. The County’s Charter, Section 310, sets a five percent annual limit on General Fund surplus. The State law authorizing counties to set up rainy day funds expressly prevails over any contrary County charter provision. Revenues in the Fund are allowed to go as high as ten percent of the aggregate revenue from certain sources in the preceding three fiscal years. This equates to four percent of General Fund revenues above the five percent maximum in the Charter (a total of nine percent of General Fund revenues). The Revenue Stabilization Fund provides a mechanism to level out the revenue stream and adjusts for year-to-year fluctuations beyond a certain baseline level. County law requires that 50 percent of the growth above the average of the six preceding fiscal years in certain taxes (income, property transfer, recordation, but not the property tax) and General Fund investment income, be set aside in a restricted fund. Also, 50 percent of the annual revenue from these sources in excess of the Council’s original projection in the budget resolution go to the Fund.

The Council, acting on the Executive’s recommendation, may release up to half the balance in the Fund only if certain recessionary economic conditions occur. Two of the following three conditions must be met: l) the Director of Finance estimates that total General Fund revenues will fall more than 2 percent below the original projected revenues; 2) resident employment in the County has declined for six consecutive months compared to the same period in the previous year; and 3) a local index of leading economic indicators has declined for three consecutive months. Amounts released from the Fund can only be used for appropriations that have become unfunded.

Primarily as the result of lower than estimated income tax revenues and investment income, no mandatory transfer was made to the Fund at the end of FY03. The income tax was the primary source for the overall growth in the Fund up to that point. Prior to FY03, mandatory transfers were made in FY97 ($18.7 million), FY98 ($21.4 million), FY99 ($5.5

million), FY00 ($8.4 million), FY01 ($8.9 million), and FY02 ($7.7 million) as well as the discretionary transfers made in FY95 ($10 million) and FY96 ($4.5 million). With earned interest, the Revenue Stabilization Fund reached its maximum allowable size of $87.2 million at the close of FY02. Since the Fund reached more than half of its maximum size, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY03 was $1.3 million; similar transfers were made in FY98 ($1.9 million), FY99 ($3.0 million), FY00 ($3.4 million), FY01 ($4.8 million), and FY02 ($2.2 million).

CASH AND INVESTMENT MANAGEMENT

Montgomery County maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet County financial obligations, and maximization of the investment yield on the County's short-term working capital.

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policy, as approved by the County Council. The County is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an act of Congress, or in repurchase agreements that any of the foregoing listed obligations secure. Cited statutes also authorize investments in bankers acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, and in money market funds whose portfolio is operated consistent with Securities and Exchange Commission Rule 2a-7. The County requires that these money market funds invest only in obligations of a Federal agency or instrumentality issued in accordance with an act of Congress, and repurchase agreements collateralized by an obligation of the United States, its agencies, or instrumentalities. The average maturity of the working capital portfolio is generally less than six months.

At June 30, 2003, the investment balance of the County's portion of the consolidated portfolios was $571.3 million. During FY03 the County earned investment income of $11.1 million.

RISK MANAGEMENT

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

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

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

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, and others. From time to time, commercial excess liability insurance was purchased. However, beginning October 16, 2002, as a result of the volatile insurance market, it was determined that this coverage could not be purchased at affordable rates.

A summary of FY03 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$26,297
Interest on investments	908
Recovered losses	1,069
Other income	0
Total Revenues	28,274
Expenses:	
Claims expense	26,533
Claims administration, loss control, external insurance, and other administrative expenses	8,487
Total Expenses	35,020
Net income (loss)	(6,746)
Retained earnings, July 1, 2002	(3,527)
Equity balance, June 30, 2003	($10,273)

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

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY03 operations for these two elements of the insurance program are not reflected above.

EMPLOYEES' RETIREMENT SYSTEMS

The Employees' Retirement Systems (Systems) consist of two pension programs sponsored by the County: a single-employer defined benefit plan and a defined contribution plan (initiated in FY95). Other agencies or political subdivisions have the right to elect participation. Substantially all employees of the Montgomery County Government, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the Systems. The Systems, established under Chapter 33 of the County Code, are contributory plans with employees contributing a percentage of their base annual salary depending on their group classification, which determines retirement eligibility. The payroll for employees covered by the Systems for the year ended June 30, 2003 was approximately $424.8 million. The total payroll for Montgomery County Government was $478.4 million.

All covered full-time employees of the County and participating agencies must become members of the Systems as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis. Non-public safety employees hired on or after October 1, 1994 enroll in the defined contribution plan. All other employees enroll in the defined benefit plan. At FY03 year-end, the defined benefit plan covered approximately 5,876 active participants and 4,744 retirees and inactive participants, with total liabilities amounting to approximately $2.41 billion. At FY03 year-end, the defined contribution plan had 3,206 participants with liabilities totaling $40.2 million.

Legislation enacted by the County Council in November 1999 required the Chief Administrative Officer to establish Deferred Retirement Option Plans, or DROP plans, that allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire", but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP 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. These DROP plans became effective during FY00.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employees' Retirement Systems. Investments in the defined benefit plan amounted to $1.959 billion as of June 30, 2003. The defined benefit plan assets are invested in a diversified portfolio of equities, bonds, real estate and short-term instruments. The defined contribution plan assets are invested in a diversified group of mutual funds pursuant to participant direction.

For additional information concerning the County's retirement plan, see Appendix A, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations.

PROPERTY TAX INFORMATION

The County levies real and personal property taxes on all taxable property within its boundaries. Annual payments of taxes are due in full on July 1 and become delinquent on the following October 1. The initial semi-annual property tax payment system allowed for semi-annual payments of real property taxes (due September 30 and January 31) for certain residents of owner-occupied residential real estate. While this system was optional for eligible residents through FY00, legislation in Maryland made semi-annual payments the standard in FY01, unless taxpayers elected to remain in the annual payment cycle. Additionally, effective FY01, the second payment is due December 31, instead of January 31, as required under the initial semi-annual system. Finally, also effective FY01, the service charge for handling the semi-annual payment schedule, which included interest and an administrative fee, was eliminated. Property tax bills issued after September 30 may be paid within 30 days without interest or penalty. Tax sales to recover delinquent real property taxes are held on the second Monday in June in the fiscal year taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

Property Tax Assessments

The assessment of all real and tangible personal property for purposes of property taxation by State and local governmental units is the responsibility of the State Department of Assessments and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. Real property is valued at market value (full cash value) and assessed in each year at a percentage of market value. Since July 1, 1991, real property was assessed at 40 percent of its full cash value. Legislation adopted by the State Legislature in 2000 changed the taxable assessment methodology from 40 percent to 100 percent of the assessed value of real property during FY01. Because property tax rates in effect for FY01 were determined at the beginning of the fiscal year – when the law required a 40 percent taxable assessment method – the rate reflected the "old" method. Effective FY02, all real property in Maryland is assessed at the full 100 percent, with a concomitant decrease in the appropriate tax rate. One-third of the real property base is physically inspected and reassessed each year. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline in assessed valuation becomes fully effective in the first year.

Because of growth in new construction and improved value of properties, the real property taxable base increased 21 percent in the last five years, measured through 2003. Due to an expanding economy and growing number of taxable accounts, and despite the negative impact of several tax law changes, growth in the personal property base increased 16 percent in the last six years, bringing the overall increase in the aggregate property base also to 21 percent during this period.

Table 19
Assessed Value of All Taxable Property
By Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2003	$82,407,337,831	$4,227,854,400	$86,635,192,231	5.94%	88.71%
2002	77,574,947,550	4,201,344,590	81,776,292,140	4.57	92.48
2001	74,122,532,195	4,077,848,090	78,200,380,285	3.49	94.10
2000	71,686,384,553	3,879,302,990	75,565,687,543	2.78	95.91
1999	69,765,199,990	3,758,546,555	73,523,746,545	2.34	97.72

Note: During FY01 the taxable assessment method for real property changed from 40 percent to 100 percent of the assessed property value. Fiscal Years 1999 and 2000 have been restated at 100% of assessed value on this schedule for comparison purposes.

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

Tax-exempt properties are excluded from the above figures. In FY03, such exemptions for real property owned by Federal, State, County, and other governmental units, religious institutions, schools, fraternal organizations, cemeteries, disabled veterans, and the blind totaled $9.2 billion. Tax-exempt real property constitutes 10.4 percent of the total gross real property base, with 76.2 percent of the tax-exempt property in the combined Federal, State, Local government sectors. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law.

The ratio of total assessed value to total full market value is based on studies conducted by the State Department of Assessments and Taxation. Based on recent data (June 2003) from 226,000 residential properties, the overall average County assessment per improved residential account of $298,530 equates to an estimated market value of $338,500.

Table 20
Tax Levies and Revenue

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr. Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2003	$697,317,162	$695,293,144	99.71%	$(3,999,325)	$691,293,819	99.14%	$29,698,063	4.26%
2002	650,352,383	646,920,262	99.47	2,843,239	649,753,501	99.91	21,377,781	3.29
2001	621,488,986	616,106,377	99.13	(83,736)	616,022,641	99.12	20,788,899	3.34
2000	606,243,611	600,716,466	99.09	6,119,221	606,835,687	100.10	20,077,125	3.31
1999	596,405,657	587,029,606	98.43	3,949,630	590,979,236	99.09	20,219,046	3.39

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Table 21
Tax Rates and Tax Levies, By Purpose

Fiscal Year	General County (including Education) Rate	General County (including Education) Levy	Transit Rate	Transit Levy	State Rate	State Levy	Total Rate	Total Levy
2003	$0.754	$697,317,162	$.038	$35,124,792	$.084	$69,531,736	$0.876	$801,973,690
2002	0.741	650,352,383	.050	43,984,425	.084	65,703,036	0.875	760,039,844
2001	1.857	621,488,986	.100	33,566,329	.210	62,605,672	2.167	717,660,983
2000	1.863	606,243,611	.102	33,074,129	.210	61,359,955	2.175	700,677,695
1999	1.923	596,405,657	.102	32,297,945	.210	60,227,585	2.235	688,931,187

Note: Rates are per $100 of assessed value. For FY02-03, tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was $1.885 in FY03 and $1.852 in FY02; the personal property rate for Transit was $.095 in FY03 and $.125 in FY02 (the State does not tax personal property). For Fiscal Years 99-01, real property was assessed at 40% of full cash value, and for those fiscal years the real property and personal property rates were the same.

Table 22
Ten Highest Commercial Property Taxpayers' Assessable Base

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	$ 831,750,280	$ 6,282,220	$ 825,468,060	0.96%
Verizon/Bell Atlantic	704,318,184	27,221,510	677,096,674	0.81
Montgomery Mall	221,842,146	221,541,566	300,580	0.26
Mirant Mid-Atlantic LLC	210,666,756	69,671,466	140,995,290	0.24
Washington Gas Light Co.	186,819,170	--	186,819,170	0.22
7501 Wisconsin Ave. LLC	155,000,000	155,000,000	--	0.18
Bryant F. Foulger, Trustee	150,827,832	150,827,832	--	0.17
Camalier, Anne D et al, Trustee	139,303,652	139,303,652	--	0.16
Democracy Associates	132,000,000	132,000,000	--	0.16
Marbeth Partnership	129,350,000	129,350,000	--	0.15
Total	$ 2,861,878,020	$1,031,198,246	$1,830,679,774	3.31%
Assessable Base (June 30, 2003)	$86,635,192,231			

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

Impact Tax

Significant development is occurring in outlying geographic areas placing great demands on the County for provision of major highways, public schools and other public facilities. Pursuant to Sections 52-47 through 52-59 of Chapter 49A, "Development Impact Taxes for Major Highways" of the Montgomery County Code, two impact fee areas were established in Germantown and Eastern Montgomery County. These impact fee (now impact tax) areas are a means of transferring a share of the costs of additional major highway improvements to the new development that is primarily responsible for creating this need. Presently, unprogrammed major highways (not in the Capital Improvements Program or in the State Consolidated Transportation Program) are funded through a combination of County general obligation bonds and development impact taxes in these areas. The tax is imposed prior to the issuance of a building permit. Impact taxes in the two areas yielded $1.47 million in FY94, $1.20 million in FY95, $0.84 million in FY96, $1.28 million in FY97, $1.02 million in FY98, $1.40 million in FY99, $0.99 million in FY00, and $3.1 million in FY01. Effective August 13, 2001, the County Council created a third impact tax area for Clarksburg. Impact taxes in the three areas yielded $1.99 million in FY02 and $1.79 million in FY03.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

The population of the County, according to the 2000 Census, was 873,341, an increase of 15.4 percent since the 1990 Census. The Maryland-National Capital Park and Planning Commission (M-NCPPC) revised population estimate shows 995,000 for the County by January 1, 2010. The population data include approximately 5,000 from the Takoma Park section in Prince George's County, which transferred to Montgomery County on July 1, 1997.

Table 23
Households and Population

	Households	Population	Population Percent Change from Prior Census
2010 (M-NCPPC est.)	370,000	995,000	13.9%
2003 (M-NCPPC est.)	337,500	918,000	5.1
2002 (M-NCPPC est.)	333,000	903,000	3.4
2001 (M-NCPPC est.)	328,700	886,000	1.5
2000 (U.S. Census)	324,565	873,341	15.4
1990 (U.S. Census)	282,228	757,027	30.7
1980 (U.S. Census)	207,195	579,053	10.8
1970 (U.S. Census)	156,674	522,809	53.3
1960 (U.S. Census)	92,433	340,928	107.4
1950 (U.S. Census)	45,264	164,401	--

Note: Data are for total population, with forecasts for households and population in 2010 derived from the Demographic Forecast Model from M-NCPPC (Round 6.3 Revised).

Table 24
Median Age

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

Sources: U. S. Bureau of the Census and M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center, revised May 2001.

Employment

The County's economic structure reveals a diversified economy with a strong service sector and a greater reliance on the private sector. For example, the share of public-sector employment declined from 18.8 percent to 17.6 percent during the past decade. The service sector (services, finance, insurance, real estate and retail trade) employed 71.8 percent of the total workforce in 2002, the latest annual data. The following tables present the County's employment by industrial sector.

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Table 25
Payroll Employment

	1990	2000	2002	Difference 2002/1990 Number	Difference 2002/1990 Percent
TOTAL PRIVATE SECTOR	307,490	370,078	370,171	62,681	20.4%
PUBLIC SECTOR EMPLOYMENT:					
Federal	42,713	39,615	41,181	(1,532)	-3.6
State	1,634	1,100	1,109	(525)	-32.1
Local	27,011	33,084	36,734	9,723	36.0
TOTAL PUBLIC SECTOR	71,358	73,799	79,024	7,666	10.7%
GRAND TOTAL	378,848	443,877	449,195	70,347	18.6%

Notes: Payroll employment represents the total number of jobs covered by the Maryland unemployment insurance program.

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

The Bureau of Labor Statistics, U.S. Department of Labor converted the industrial classification scheduled from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) in 2001. As a result, there is no breakout of the private sector because such data are not comparable for 2000 and 2002.

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

Table 26
Payroll Employment Shares by Industry

	1990	2000	2002
TOTAL PRIVATE SECTOR	81.2	83.4	82.4
PUBLIC SECTOR EMPLOYMENT:			
Federal	11.3	8.9	9.2
State	0.4	0.2	0.2
Local	7.1	7.5	8.2
TOTAL PUBLIC SECTOR	18.8	16.6	17.6
GRAND TOTAL	100.0%	100.0%	100.0%

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

Due to reclassification by the Bureau of Labor Statistics, U. S. Department of Commerce, of private-sector industrial categories from the U. S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2001 and 2002 based on the new classification system.

Table 27
Payroll Employment
(NAICS Series)

	2001	2002	Difference	Percent Change
TOTAL PRIVATE SECTOR	370,096	370,171	75	0.0%
GOODS-PRODUCING	47,319	46,709	(610)	-1.3
Natural Resources and Mining	508	516	8	1.6
Construction	28,007	28,795	788	2.8
Manufacturing	18,804	17,398	(1,406)	-7.5
SERVICE PROVIDING	321,045	322,548	1,503	0.5
Trade, Transportation, and Utilities	66,138	66,019	(119)	-0.2
Information	16,681	15,908	(773)	-4.6
Financial Activities	33,743	33,722	(21)	-0.1
Professional and Business Services	95,984	95,707	(277)	-0.3
Education and Health Services	49,968	52,260	2,292	4.6
Leisure and Hospitality	37,559	37,504	(55)	-0.1
Other Services	20,972	21,428	456	2.2
UNCLASSIFIED	1,732	914	(818)	-47.2
PUBLIC SECTOR EMPLOYMENT	75,807	79,024	3,217	4.2
Federal Government	40,424	41,181	757	1.9
State Government	1,096	1,109	13	1.2
Local Government	34,287	36,734	2,447	7.1
GRAND TOTAL	445,903	449,195	3,292	0.7

During 2002 and the first eleven months of 2003, the County's unemployment rate averaged 2.8 percent and 2.5 percent, respectively. The following table presents the County's labor force, employment and unemployment for the years 1997 through the first eleven months of 2003.

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

	Labor Force	Employment	Unemployment	Unemployment Rate
2003*	508,100	495,200	12,900	2.5%
2002	503,584	489,673	13,911	2.8
2001	489,166	477,701	11,465	2.3
2000	482,985	473,902	9,083	1.9
1999	476,811	468,030	8,781	1.8
1998	467,741	456,846	10,895	2.3
1997	466,500	454,375	12,125	2.6

Source: State of Maryland, Department of Labor, Licensing and Regulation.
Note: * First eleven months of 2003.

Federal Government Employment

The County is home to 23 Federal agencies in which nearly 60,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. These agencies comprise a virtual "Who's Who" list of prestigious Federal research facilities. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's great centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2002.

Department of Health and Human Services	34,600
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	13,030
David Taylor Research Center	
Naval Medical Command	
Defense Mapping Agency	
Army Laboratory Center	
Walter Reed Army Medical Center/Institute of Research	
Other	
Department of Commerce	6,500
National Institute of Standards & Technology	
National Oceanic & Atmospheric Administration	
Nuclear Regulatory Commission	2,000
Department of Energy	2,350
Department of Treasury	662
Consumer Product Safety Commission	335
Department of Justice	271
Other Federal employees in leased space	228

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2002 data).

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Private Sector Employment

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

Name of Firm	Est. No. of Employees
Adventist Healthcare*	6,000
Giant Food Corporation	4,900
Verizon	4,700
Chevy Chase Bank	4,700
Lockheed Martin	3,896
Marriott International, Inc. (Headquarters)	3,500
Hughes Network Systems	3,200
IBM	3,150
Sodexho Marriott Services	3,000
Holy Cross Health	2,700
Sears Roebuck & Co.	2,100
Discovery Communications, Inc.	1,900
BAE Systems (Marconi)	1,820
Montgomery General Hospital	1,750
ACS Government Solutions, Inc. (CDSI)	1,700
Safeway Stores, Inc.	1,700
Government Employees Insurance Company (GEICO)	1,641
Aspen Systems	1,600
Bureau of National Affairs	1,600
Suburban Hospital	1,550
CSC Professional Services	1,500
Kaiser Foundation Health Plan	1,430
National Association of Securities Dealers	1,330
CTA, Inc.	1,250
Mid-Atlantic Medical Services, Inc.	1,200
GE Global Exchange Services	1,100
Medimmune	1,000
Miller & Long	1,000
Human Genome Sciences	1,000

*Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the 4th quarter of 2003 from various sources, including first-hand research by the County's Department of Economic Development, the Montgomery County Department of Park and Planning Research and Technology Center, CoStar Tenant, and company Internet websites.

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PERSONAL INCOME

Actual personal income of County residents approached $46 billion in 2001 and is estimated to total approximately $48.8 billion in 2003. Income in calendar year 2001 experienced strong growth and exceeded the performance of the national and state economies. By contrast, growth in 2002 and 2003 is estimated to have moderated to 3.1 and 3.8 percent, respectively, due to the sluggish economic recovery in the County. Weak private-sector employment during 2002 and the first quarter of 2003, the latest date for which data are available, is the primary reason for the slowdown in personal income growth.

The County, which accounts for just over 16 percent of the State's population, accounts for almost 24 percent of the State's total personal income, a share that has grown during this decade.

Table 29
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2003 (est.)	$48,800	$204,845	$9,160,563	23.8%
2002 (est.)	47,000	197,156	8,891,093	23.9
2001	45,574	190,015	8,677,490	24.0
2000	43,113	180,941	8,398,871	23.8
1999	39,152	167,360	7,779,521	23.4
1998	36,703	158,501	7,418,497	23.2
1997	33,703	148,826	6,928,545	22.6
1996	32,543	140,809	6,538,103	23.1
1995	31,221	135,115	6,192,235	23.1
1994	29,867	129,849	5,873,362	23.0

Notes: (1) Actual data from U.S. Department of Commerce, Bureau of Economic Analysis, revised July 2003 (U.S. and Maryland); and on May 6, 2003 (County).
(2) Estimates for Montgomery County (2002-2003) by Montgomery County Department of Finance.
(3) Estimates for Maryland and United States (2003) by State of Maryland, Bureau of Revenue Estimates.

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Average Household and Per Capita Personal Income

The County's estimated per capita income ranks ninth nationwide, and third in the Washington metropolitan area, among counties with total population of at least 175,000. The County's estimated average household income ranks eleventh nationwide.

Table 30
Estimated Per Capita and Average Household Income, 2003

County	Per Capita Income	County	Average Household Income
Fairfield, CT	$64,059	Fairfield, CT	$174,408
Marin, CA	63,396	Morris, NJ	172,076
Morris, NJ	62,599	Westchester, NY	163,138
Westchester, NY	59,407	Fairfax, VA	160,545
Fairfax, VA	58,237	Marin, CA	155,900
Bergen, NJ	54,959	Lake, IL	153,567
Arlington, VA	54,441	Nassau, NY	147,893
Somerset, NJ	53,570	Bergen, NJ	146,769
MONTGOMERY, MD	**53,160**	San Mateo, CA	146,430
San Mateo, CA	52,039	Somerset, NJ	146,419
Lake, IL	51,445	**MONTGOMERY, MD**	**144,590**
Chester, PA	50,993	Chester, PA	138,650
Middlesex, MA	49,814	Santa Clara, CA	133,019
Norfolk, MA	49,792	Montgomery, PA	129,706
Montgomery, PA	49,739	Middlesex, MA	128,885
Arapahoe, CO	49,662	Norfolk, MA	128,774
Nassau, NY	49,584	Arapahoe, CO	127,201
Oakland, MI	47,261	DuPage, IL	123,781
DuPage, IL	44,751	Arlington, VA	119,734
Santa Clara, CA	44,266	Oakland, MI	118,241

(1) A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 175,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

(2) Estimates of 2002 per capita income were based on trending forwarding experience during 2000-2001.

(3) Estimated average 2003 household income was derived by multiplying the estimated 2003 per capita income by the average number of persons per household in 2003.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2003, for personal income data; Sales and Marketing Management, "2003 Survey of Buying Power" for household data.

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NEW CONSTRUCTION

Between FY96 and FY00, the number of new construction projects improved each year with an average annual growth rate of 11.7 percent, caused mainly by the dramatic increase of 33.5 percent in FY00. New construction in FY00 was exceptionally strong in the multifamily housing sector. Single and multifamily new residential construction in FY00 jumped to the highest level since FY90, while the combined commercial and industrial sector in FY00 continued to moderate from its peak in FY98. However, such increases in new construction in the residential sector, particularly multifamily units, could not remain sustainable. In fact, data for FY01 show considerable retrenchment, especially the number of construction projects for apartments and condominiums, which declined almost 30 percent. Because of such declines, the growth in additional real property tax base slowed to just 1.1 percent. It is clear from the data that the modest growth was the result of continued strength in the non-residential sector offsetting the decline in multifamily construction, with the addition to the property tax base from the commercial and industrial sector which rebounded in FY01 with an 18 percent growth rate.

In FY02 and FY03, the number of new construction projects for residential and non-residential reversed the decline in FY01, increasing 7.5 percent in FY02, and another 1.7 percent in FY03. During the most recent two-year construction cycle, new single-family units experienced a dramatic construction boom between FY02 and FY03 with a growth in the assessable base of over 14 percent, compared to a modest 2 percent in FY02. The construction boom that occurred in non-residential property during FY02 moderated in FY03 but was, nevertheless, higher than in the previous six years, excluding FY02.

Table 31
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Number*	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2003	15,969	$1,023.5	$49.9	$133.2	$426.9	1.2	$1,634.7
2002	15,696	896.1	19.4	70.8	520.7	1.3	1,508.3
2001	14,599	878.5	53.7	88.2	276.0	4.4	1,300.8
2000	20,205	843.4	93.8	108.4	233.6	7.5	1,286.7
1999	15,130	787.4	11.0	55.9	287.1	24.5	1,165.9
1998	14,162	743.1	1.9	48.9	330.8	27.6	1,152.3
1997	13,837	725.9	7.9	56.0	182.9	6.0	978.7
1996	12,677	764.5	25.2	51.6	116.2	53.9	1,011.4
8-Year Summary		$6,662.4	$262.8	$613.0	$2,374.2	$126.4	$10,038.8
Categories as Percent of Total		66.4%	2.6%	6.1%	23.6%	1.3%	100.0%

NOTE:
* Indicates total number of all types of building permits.

Source: Montgomery County Department of Permitting Services (*), and Maryland State Department of Assessments and Taxation.

Note: Property assessed at full cash value in FY2002 and prior years adjusted to full cash value.

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Development Districts

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

As a result of a petition by property owners and the subsequent review and analysis of the feasibility of the proposed development district, the County Council, in January 1998, created the County's first development district, West Germantown. Encompassing approximately 671 acres in an unincorporated area of Montgomery County, the district consists of two residential developments, which provide for the construction of 1,291 single-family and 102 multi-family units. A second district, Kingsview Village Center, was created on July 28, 1998. This district consists of a 112,000 square foot retail shopping center, and 236 multi-family housing units.

In separate actions in September 2000 and October 2001, the County Council approved resolutions initiating evaluation of three proposed new development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark. The Clarksburg Town Center development district was created on March 4, 2003. Bonds have not yet been issued for Town Center. Upon completion of the three districts in Clarksburg, the proposed developments will consist of approximately 5,200 residential units, 100,000 square feet of commercial office space, and 260,000 square feet of retail space.

ECONOMIC DEVELOPMENT INITIATIVES

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

Technology Corridors

The I-270 Technology Corridor, recently named "DNA Alley" by *Time* magazine, is a nationally known high technology center. It is home to over 500 biotechnology and information technology companies, including Celera Genomics, Human Genome Sciences, Lockheed Martin, Medimmune, IBM, and Hughes Network Systems. The corridor continues to grow with over 30 million square feet of additional commercial and industrial development in the pipeline. The U.S. Route 29 corridor in eastern Montgomery County is another emerging high technology and business center with nearly 100 major employers, featuring companies such as Choice Hotels, Verizon Communications, Kaiser Permanente, and Softmed Systems.

Central Business Districts

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

Silver Spring

In 1998, Maryland and Montgomery County together invested nearly $165 million for the redevelopment of downtown Silver Spring, and today the return on this investment is taking shape. Downtown Silver Spring is being transformed into a vibrant business, retail and entertainment hub.

The redevelopment project will ultimately comprise 500,000 square feet of retail, restaurant and entertainment space, some 240,000 square feet of office space, a hotel, a community facility, and two new parking garages. The first phase was completed in 2000, and features some 100,000 square feet of retail space, including Fresh Fields

Whole Foods Market, Strosniders Hardware, and a Sprint PCS Store. Last year, the project was expanded to include Baja Fresh, Hollywood Video, Next Day Blinds, MotoPhoto and Family Dry Cleaners.

Phases B and C broke ground in the fall of 2002, and will offer a wide range of new dining choices, including Red Lobster, Panera Bread, Austin Grill, and Macaroni Grill. Additionally, there will be a new 20 screen megaplex movie theater, and Borders Books.

Corporate announcements and relocation plans spawned other initiatives in the Central Business District. Discovery Communications moved into their new 550,000 square foot, $150 million corporate headquarters early in 2003. Additionally, Discovery Communications completed renovation of the 150,000 square foot Discovery Creativity and Technology Center in the southern part of downtown Silver Spring in early 2001.

The decision to locate these facilities in downtown Silver Spring was spurred by the relocation of the American Film Institute (AFI) from Washington, D.C. to Silver Spring. AFI, based in Los Angeles, still operates a small theater at the Kennedy Center in Washington, D.C., but in April 2003 began to operate and fully program the historic Silver Theatre, capping off the County's $25 million investment for restoration and expansion efforts. The new construction at the AFI Silver Theatre added two additional screening rooms to create a complete "east coast campus". A month later the Round House Theatre opened a "black box" theater adjacent to the AFI Silver Theater, which serves as its second Montgomery County location for live performances.

Elsewhere in downtown Silver Spring, the Takoma Park Campus of Montgomery College is undergoing an $88 million expansion that will extend the campus into the heart of south Silver Spring along the Georgia Avenue corridor. The project marks the single largest capital venture for the College since the creation of the Germantown Campus in the 1970s, and is widely seen as a vital component of the revitalization of downtown Silver Spring. The expansion will proceed in three phases over the next six years. Construction on Phase I, the 98,000 square foot Health Sciences Center, began in the fall of 2002 and will be completed by 2004. Phase II, the Student Life Center and Pedestrian Bridge, will begin construction in 2004, with an anticipated completion date of 2006. Phase III, the Cultural Arts Center, will begin construction in 2006, with completion expected by 2008. The 180,000 square foot Giant bakery building was acquired in 2002 for future expansion; conversion to house an expanded Art department and art studios is being planned.

A new $162 million Transit Center mixed-use development project, including retail, residential, hotel, and restaurants alongside an inter-modal transportation hub linking bus, rail, and other transportation services, is also planned for downtown Silver Spring.

The State of Maryland's designation of Silver Spring as an Enterprise Zone provides special financial incentives for new investment and job creation in the CBD. During 2002, six companies received more than $17 million in development and renovation property tax credits, and five companies received income tax credits for adding 74 new employees.

Wheaton

Substantial progress is being achieved in transforming Wheaton into a vibrant downtown center with a balanced mix of residential, office, and retail uses typical of an urban environment. Development activity was initiated by the private sector on seven key gateway sites that at completion will create nearly two million square feet of new development and generate over $280 million in private capital investment. These developments will create 744 residential units, nearly 600,000 square feet of new retail and 300,000-400,000 square feet of new office space in the downtown. Pedestrian improvements, new safety measures and a Clean and Safe Program are being utilized to make the downtown a more attractive and friendly environment.

Westfield Corporation, owners of Westfield Shoppingtown Wheaton, secured Macy's as its fourth anchor store. Macy's will open a full-line 180,000 square foot two-story department store. In addition to Macy's, Westfield is adding a second level with another 100,000 square feet and 50 new specialty stores to its existing 850,000 square foot mall. Opening of the new Macy's and the expanded and renovated mall is targeted for March 2005. The County tentatively committed to construct a new public parking garage to support this private sector investment estimated at nearly $100 million. Additionally, a new 60,000 square foot Giant grocery store was just recently constructed on a stand alone site on Westfield property. Target department store opened in July 2002 as the Mall's third anchor store, replacing a former Ward's store. Target's first year sales are substantially above initial expectations.

There are several major residential projects that began construction in early 2003. Eakin/Youngentob and Bozzuto Group are constructing the Montgomery and the Brownstones at Wheaton Metro, a 318-unit residential project adjacent to the Metro station. This project will include 243 luxury rental apartments, 75 luxury townhouses along with a new parking garage, and is expected to be available starting in Spring 2004. The townhouse project is already more than 50% sold, with many of the units selling in the low- to mid-$500,000 range. This joint development project was awarded a $500,000 State of Maryland Smart Growth Grant, and the apartment complex was named the Best New Location for a Suburban Maryland Apartment Community for 2002 by the Mid-Atlantic Apartment Industry. The County is considering funding to support some of the open space amenities for this large project. Pulte Homes began construction in early 2003 with Clairmont at Wheaton Metro, consisting of 42 luxury townhouses, one single family house and a pocket park on the former Wheaton Lumber site. Prices for these townhouses were initially offered in the low- to mid-$400,000 range. These townhouses, which will begin to be available in Spring 2004, are nearly sold out.

Bozutto Group, the development partner for The Washington Metropolitan Area Transit Authority (WMATA), will also be developing the residential Metro Air Rights project along Georgia Avenue. This project will include the Montgomery County Housing Opportunities Commission as a development partner, and involve the construction of approximately 175 residential units, slated to begin in 2004. John Laing Homes and Centex Homes are planning to redevelop the Good Counsel High School site, north of the downtown business district, into approximately 201 residential units. The site is rezoned and development is proposed to begin in 2006.

The second Metro Air Rights Development project will be developed by Bozutto Group and Oxford Development into a 300,000-400,000 square foot commercial office center, and 15,000 square feet of retail space above the current Metro Bus Bay area on the west side of Georgia Avenue. Construction is expected to start on this project in 2005.

Facilitating the Wheaton redevelopment and revitalization initiatives are investments by the Federal, State and County Governments. The Federal Government provided the County with over $1,000,000 in funding for streetscape and façade improvements, and a small business computer technology training center. The State provided over $800,000 in Smart Growth and Community Legacy Grant funds for transit-related and streetscape improvements. The County established a Redevelopment Office in Wheaton in mid-2000 to oversee the redevelopment and revitalization activities, established a Clean and Safe Program to enhance the downtown's appearance, and established the Charles W. Gilchrist Center for Cultural Diversity. The County is also currently assessing additional local public support to help facilitate new private investment. Business incentives such as Enterprise Zone tax credits and a Green Tape permit expediting program are also provided by the County to make downtown Wheaton more attractive as a location to expand or relocate.

Bethesda

Downtown Bethesda has become a major urban business and entertainment center in the Washington region, due to the presence of almost 200 restaurants along with the density of both high-rise office and residential buildings. Federal Realty Investment Trust is in the process of completely renovating and reconstructing the streetscape of a seven-block area called Bethesda Row, greatly increasing the mix of retail offerings in Bethesda. The Bethesda Row area continues to flourish and maintain its reputation as the center for nightlife in Montgomery County. The most recent addition to this area is the Landmark Row Cinemas, an "art house" type theater that features mostly independent films. The major office component of Bethesda Row is a 135,000 square foot office and retail building at 7255 Woodmont Avenue. This building delivered in 2001 and is fully leased to Opnet Technologies and AMI Capital, Inc. This facility also features a number of popular street-level restaurants and shops, including Jaleo, Cosi, and Mon Ami Gabi. Additionally, the final phases of Bethesda Row are becoming reality with the relocation and construction of a new gourmet Giant Supermarket, and the addition of several luxury apartments and condominiums.

The rest of downtown Bethesda continued to see new additions in 2003. Most notably was the announcement by Nederlander Worldwide Entertainment that it would establish its east coast headquarters in the former Bethesda Theater Café building. The theater has undergone over $6 million in renovations in preparation for Nederlander's arrival. The company will be producing off-Broadway productions in the theater starting in 2004. Additionally, a number of luxury townhomes have been built above the theater along with a 345-space County parking garage.

In the downtown Bethesda office market, the major reinvestment program that changed the skyline of the Bethesda CBD is nearing completion. A comprehensive planning program for the CBD was completed in 1984 with a focus on the Bethesda Metro Center station, and all of the development associated with that program was constructed. The final major projects completed in the plan were the 306,000 square foot Francis G. Newlands building which was delivered in September 1999, and the 700,000 square foot Chevy Chase Bank headquarters building at 7501 Wisconsin Avenue that was delivered in September 2001. The Chevy Chase Bank building features two 15-story towers and will be the new corporate headquarters for Chevy Chase Bank, which occupies 450,000 square feet. The facility also includes a Chevy Chase Bank branch, a restaurant, retail shops, and a 400-seat performing arts theater. A number of other tenants signed leases in the building, including Profunds Advisors, GMAC, Green Park Financial, and Global Reliance Technology.

Other new prominent office tenants to sign leases in downtown Bethesda in 2003 include America's Most Wanted, Fannie Mae, and GE Capital Corporation.

Downtown Bethesda also features the Capital Crescent Trail, an abandoned railway right-of-way that was purchased by the County and turned into a popular recreational hiker-biker trail running from Silver Spring to the Georgetown area of Washington, D.C.

Friendship Heights

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

The Friendship Heights area saw the approval of a major development project in 2003. In April, the County's Planning Board approved New England Development Corporation's plan to construct Wisconsin Place, which will be located at the Hecht Company site on the corner of Wisconsin and Western Avenues. This project will include 305,000 square feet of Class A office space, a 265,000 square foot retail center (including a new Hecht's building and supermarket), a 20,500 square foot Community Center, 433 moderately-priced housing units, 1,749 new parking spaces, and two parks, all of which will be connected by a system of pedestrian walkways.

The approval of Wisconsin Place will account for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. This Plan concentrates new growth in the Metro-served area while preserving the surrounding neighborhoods. The plan originally allowed for a total of over 1.4 million additional square feet of office and retail space and housing opportunities for an estimated 635 dwelling units on the Hecht's and adjacent Geico properties. One of the first major projects constructed in this plan was the Chase Tower, a 240,000 square foot retail and office building that delivered in November 2001. This luxury Class A tower is now home to the new corporate headquarters for Ritz Carlton. Other tenants in this building include Capital Trust, Capital Source, and the JBG Companies.

Existing Office/R&D Space

As of October 22, 2003, Montgomery County has just over 87 million square feet of office and flex space (the total of Classes A, B, and C buildings), an increase of three million square feet from October 2002. The weighted vacancy rate for the County has risen slightly during the same period, but is still at a healthy 9.14%.

Most of Montgomery County's office space is located along two "Technology Corridors" – the I-270 corridor and the Route 29 corridor. The I-270 corridor includes the Bethesda, Rockville, Gaithersburg, and Germantown markets and features over 65 million square feet of office space. Notable buildings along the I-270 corridor include the 700,000 square foot Chevy Chase Bank headquarters in Bethesda and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 15 million square feet of office space. Discovery Communications' new 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the Westech Business Park, which will eventually include over three million square feet of office, R&D, light industrial, and retail development.

Table 32
Office/Flex Space Availability by Submarket
As of October 22, 2003

Montgomery County Office Market	Total Inventory (Square Feet)	Total Vacant (Square Feet)	Vacancy Rate w/Sublet	Vacancy Rate w/o Sublet
Bethesda/Chevy Chase	12,120,532	1,432,589	15.68%	11.82%
Gaithersburg	13,236,719	751,365	7.44	5.68
Germantown	5,104,236	1,065,643	26.15	20.88
Kensington/Wheaton	1,908,780	82,350	4.49	4.31
North Bethesda/Potomac	12,139,085	950,683	11.20	7.83
North Rockville	16,335,176	1,362,585	11.47	8.34
North Silver Spring/Rt 29	5,403,245	423,167	8.62	7.83
Rockville	12,250,246	1,003,670	10.26	8.19
Silver Spring	8,709,967	898,545	11.53	10.32
Total County	87,207,986	7,970,597	11.77%	9.14%

Note: These figures are provided by CoStar Property, the County's source for commercial real estate information.

AGRICULTURE

Agriculture in Montgomery County is a diverse industry that occupies about one-third, or 93,000 acres, of the County land area. The County's agriculture industry contributes nearly $240 million to the local economy. Over $84 million comes from the County's thriving equine industry, about $125 million from horticulture, and $29 million from traditional agriculture. There are more than 500 farms and 350 horticultural enterprises in the County. The majority of farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents.

Preservation of rural land for agricultural use is a high priority in Montgomery County. Farmland preservation efforts consist of a variety of strategic programs offered by the County and State. Montgomery County received a total of $16.9 million in Rural Legacy Program grant awards over the past five years.

Development of farmland is controlled within the 93,000 acre Agricultural Reserve since its creation in 1980. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Over 58,000 acres of farmland – more acreage than in any other county in the nation – are protected through easements.

Farmers and landowners can choose from seven separate agricultural land preservation programs. Each of these programs places an easement on the property that prevents future commercial, residential or industrial development of the land. These programs include:

Montgomery County Agricultural Easement Program (AEP)
Maryland Agricultural Land Preservation Foundation (MALPF)
Maryland Environmental Trust (MET), and other private trust organizations
Montgomery County Transfer of Development Rights Program (TDR)
Montgomery County Rural Legacy Program (RLP)
Montgomery County Legacy Open Space (LOS)
Conservation Reserve Enhancement Program (CREP)

The Department also supports retail agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing.

OFFICE/INDUSTRIAL PROJECTS

Public/Private Projects

In response to the success of the Shady Grove Life Sciences Center, in 2003 Montgomery County announced plans to develop three additional strategic Science and Technology Centers throughout the County. In addition, with the success of the Maryland Technology Development Center (MTDC), the County began construction on its second high technology incubator facility, the Silver Spring Innovation Center in downtown Silver Spring. Details on these four projects appear below.

East County Center for Science and Technology (ECCST)

The East County Center for Science and Technology (ECCST) is a public-private partnership among Montgomery County, the Washington Suburban Sanitary Commission (WSSC), and Republic Properties Corporation. Under the proposed arrangement, a 115-acre site owned by WSSC located off Route 29 in eastern Montgomery County will be conveyed to the County, with the goal of developing and constructing a science and technology park modeled after the County-owned Shady Grove Life Sciences Center in Rockville. Republic Properties of Washington, D.C. was selected by the County to serve as the County's private development partner in the project. Republic is charged with developing a plan that focuses on eastern Montgomery County's needs for biotechnology and high technology development, along with public amenity needs in the area. Republic's preliminary plan calls for 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter building, built-to-suit sites, and a daycare center. The County is currently negotiating the land transfer and development agreements with both WSSC and Republic. Once these agreements are in place, planning, entitlement, and site plan work will continue throughout 2004 with the goal of initial groundbreaking in 2005. The entire project is likely to take ten years to reach full build-out.

Montgomery College-Germantown Science and Technology Park

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property will be combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot science and technology center will be constructed. The purchase of the 20-acre site was made possible by a total of $6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the science and technology center calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown campus. As part of the County's investment in the purchase of the land, the County will be granted a five-acre site on the property to construct and manage a high technology incubator for start-up companies. The plan also calls for facilities for incubator "graduates" as well as space for mature biotech and high technology companies. Once built-out, the center could be home to nearly 4,000 employees. The College, through a contract administered through the County, retained the services of a real estate development consultant to assist in the College's efforts to receive proposals from and ultimately select a development partner for the project. The College plans to have a developer in place by mid-2004 and hopes to begin construction on the project in 2005.

Cabin Branch/Clarksburg

The Cabin Branch/Clarksburg project will be a unique partnership agreement between Montgomery County and Adventist Healthcare. The Cabin Branch property in Clarksburg is a 535-acre property that will become a mixed-use development of residential, retail, and commercial use. The parcel is currently owned by four groups, one of which is Adventist, which owns nearly 200 acres. The preliminary plan for the partnership between the County and Adventist calls for Montgomery County to acquire approximately 30-40 acres of the Adventist-owned land on the Cabin Branch property. The County will acquire this land from Adventist through a unique land swap arrangement, whereby Adventist will be able to convert several of their land leases of County-owned property in the Shady Grove Life Sciences Center into fee simple ownership interests in exchange for giving the County the land on the Cabin Branch property. While no formal development plans are proposed for the County land on the site, it will likely include a mix of high tech office, R&D, and biotech laboratory space.

Silver Spring Innovation Center

In September 2003, a groundbreaking ceremony was held for the Silver Spring Innovation Center (SSIC), the County's second high technology business incubator. The 20,000 square foot facility will provide low cost office space and services for start-up information technology companies when it delivers in the spring of 2004. The SSIC is being built by The JBG Companies and will be owned and operated by Montgomery County. The facility will cost $2.5 million to construct, with the funding coming from a $1 million investment from the County, a $1 million grant from the Maryland Technology Corporation (TEDCO), and a $500,000 investment from the State of Maryland.

Private Real Estate Projects

Irvington Center (King Farm)

Office and commercial activity continues to be strong in the 430-acre King Farm urban village in Rockville. The newest office building, Four Irvington Centre, is under construction and will feature 200,000 square feet of space and a 120 person conference room when it delivers in early 2004. No tenants have signed deals for this building yet, but there is significant pre-leasing interest. Three Irvington Center broke ground in August 2000 and delivered in April 2002. The 217,000 square foot building has experienced significant leasing activity, most notably a 75,000 square foot lease by Dental Benefit Provider, a 24,000 square foot lease by Hilb, Rogal, and Hamilton Company, and a 11,000 square foot lease by Mason Dixon Funding. The 165,000 square foot building at Two Irvington Center delivered in December 2000 and includes as tenants Wolpoff and Abramson, Avendra, and Client Network Services Inc. One Irvington Center, the first office building completed on the campus, is almost completely leased to companies such as Aronson and Company, Artesia Technologies, and Quest Software, Inc. This building also includes the upscale restaurant Nick's Chophouse. Additional amenities were also added and proposed for the Irvington Centre site in 2003. The Goddard School, offering daycare, pre-school, and kindergarten services, opened a location on the site. Also, a proposal was submitted to the City of Rockville to allow construction of a 175,000 square foot full service hotel on the site. The entire Irvington Center campus is comprised of over 90 acres and will ultimately include over three million square feet of office commercial, retail, and hotel space.

Rock Spring Centre

Construction began in 2003 on Rock Spring Centre, a 53-acre mixed-use development in Bethesda at the intersection of Interstate 270 and Old Georgetown Road. This project will create a "town-center" feel in North Bethesda's prominent Rock Spring Office Park, which features almost 20,000 employees in nearly five million square feet of office space, and includes the corporate headquarters for Marriott International and Lockheed Martin. Rock Spring Center will contain up to one million square feet of Class A office space, 225,000 square feet of upscale retail space, and 1,200 luxury apartment units. The retail and restaurant component of the Centre is expected to open in summer 2005.

Seneca Meadows Corporate Center

Seneca Meadows Corporate Center features nearly 500,000 square feet of Class A office and flex space on 156 acres on the east side of Interstate 270 in Germantown. Two buildings totaling 150,000 square feet delivered in 2003. The park is ultimately approved for a total of 1.6 million square feet of office space which will be used for high tech, biotech, and light industrial users. Current tenants in the park include Smiths Aerospace, Large Scale Proteomics, Roberts Home Medical, Advancis Pharmaceuticals, and Avalon Pharmaceuticals.

Silver Triangle Office Center/Downtown Silver Spring

Discovery Communications' new 550,000 square foot corporate headquarters, which will be home to 2,000 employees, is near completion in downtown Silver Spring. The facility, scheduled to open in early 2003, is expected to be a key catalyst in the continuing redevelopment of the downtown Silver Spring area. Already a number of prominent retailers opened locations or committed to locating in downtown Silver Spring, including Fresh Fields, Strosniders Hardware, Borders Books, TGI Friday's, Austin Grill, and Macaroni Grill. In addition, over 3.5 million square feet of additional office space, retail establishments, restaurants, and theaters is planned for downtown Silver Spring.

Rockville Town Center/Rockville Metro Plaza

Plans were announced in 2003 for the redevelopment of more than 60 acres in downtown Rockville. The $300 million mixed-use project will include two new office buildings at the Rockville Metro Plaza site totaling 400,000 square feet. The first Rockville Metro Plaza building is a 230,000 square foot Class A facility that delivered in October 2002. Software developer SAS Institute is the lead tenant in this building. In addition to the office component, the new Rockville Town Center will include the Rockville Regional Library, a new town square, 144,000 square feet of retail space, 488 apartments, 173 condominiums, and three public parking garages. Construction on the first phase of the redevelopment (the library and the first parking garage) will begin in early 2004 and be completed in the fall of 2005. The project will be funded with $219 million in private investment and $97.5 million in public investment from various state, county, and city sources. The existing retail portion of Rockville Center continued to thrive in 2003, featuring a number of restaurants like California Tortilla, Tara Asia, Ben & Jerry's, and Pot Belly's within the 120,000 square foot retail building. This building is anchored by a Regal Cinemas movie theater.

Tower Oaks Corporate Park

This 200-acre site is prominently located just off I-270 in Rockville. The 180,000 square foot building located at the Preserve at Tower Oaks is now fully leased with the 2003 additions of Capital Management Strategic Financial Services and Paradigm Solutions Corporation. The primary tenant in this building continues to be Legato Systems (formerly OTG Software). Booz Allen and Hamilton is the most recent tenant in the dramatic 260,000 square foot Tower Building located on Wootton Parkway, signing a lease for 40,000 square feet in March 2003. This building also includes the U.S. Department of Health and Human Services, Telenor Satellite Holdings, and HHS Ventures. The 30,000 square foot Oak Plaza delivered in March 2002 and is fully leased, and includes Sun Control Systems and Ronald Cohen Investments as lead tenants. A Clyde's Oak Lodge restaurant opened in the park in 2002, representing the first retail establishment to locate in the development. The entire Tower Oaks Corporate Park is planned for over two million square feet of office, retail, restaurant, and hotel space.

Washingtonian Center

Washingtonian Center continued to grow and expand in 2003. This 210-acre mixed-use development project in Gaithersburg has a "Town Center" feel with a mix of office, retail, restaurant, residential, and entertainment centers, all located within walking distance. Two office buildings broke ground in 2003, including a 150,000 square foot building at Washingtonian South which will be home to Marriott International and a 105,000 square foot building at the Washingtonian Lakefront. Both buildings are scheduled for delivery in 2004. Additional office space proposed includes nearly one million square feet of space at Washingtonian North and 320,000 square feet of space at

Washingtonian South. A number of mixed-use projects at the Washingtonian Lakefront made significant progress in 2003. A 1,000 space parking garage that will serve a new Courtyard by Marriott hotel broke ground in early 2003. In addition to the hotel and new garage, the Lakefront has been approved for high-end retail use and up to five restaurant pads. This new retail development will complement the current list of retailers and restaurants in the Center, which includes Target, Galyans, Kohl's, Barnes & Noble, The Corner Bakery, Rio Grande, Joe's Crab Shack, and Macaroni Grill.

Westech Business Park

Located at U.S. Route 29 and Randolph Road in eastern Montgomery County, this 247-acre site is zoned for up to three million square feet of mixed-use development. A 32,000 square foot flex building in the park broke ground in 2003, with an expected delivery date of March 2004. This building is in addition to two new 75,000 square foot office buildings, TecHill One and TecHill Two. TecHill Two delivered in early 2002 and is entirely leased to Softmed Systems. TecHill One, which delivered in 2000, had significant leasing activity in 2002 with the additions of Children's Hospital and American Bank. The latest development opportunity at Westech was submitted to Montgomery County planners as two different options for the same property. Oakridge Office Center would be a 560,000 square foot Class A office campus; Oakridge Flex Center would consist of three flex buildings totaling 240,000 square feet. The ultimate development option for this site will be based on market conditions. The full build out of the Westech Business Park is expected to generate more than $200 million in capital investment and more than 12,000 jobs. Current corporate tenants located in the original buildings constructed in the park include Nextel and Kaiser Permanente.

NEW BUSINESS ADDITIONS AND EXPANSIONS

Silver Spring was the focal point of Montgomery County's new business activity in 2003. The County's $400 million effort to revitalize downtown Silver Spring made significant strides in 2003, as a number of major companies and organizations made announcements that they would be relocating to and expanding in Silver Spring. These organizations include Discovery Communications, the American Film Institute, United Therapeutics, The American Nurses Association, and Union Labor Life Insurance Company (ULLICO). Details of these projects are described in more detail below.

Discovery Communications

Discovery Communications, best known for such cable television networks such as The Discovery Channel, Animal Planet, The Travel Channel, and TLC, opened its new 600,000 square foot corporate headquarters in downtown Silver Spring in April 2003. The new building is to be home to over 1,500 employees and is considered the cornerstone project for the revitalization of downtown Silver Spring. This unique facility features a conference center with several multi-purpose rooms and lobby featuring a 13-foot dinosaur replica and a "kinetic" sculpture and video wall. A number of shops, restaurants, and movie theaters have since located in Silver Spring around Discovery's new headquarters.

American Film Institute

The American Film Institute relocated from the Kennedy Center in Washington, D.C. to downtown Silver Spring in April 2003. The AFI Silver Theater and Cultural Center opened in impressive fashion in the first week of April as many of Hollywood's elite, including Clint Eastwood, were on hand to screen classic American films. The new AFI Theater was formerly the historic Silver Theater, which was built in 1938 and extensively renovated. The facility now is a 49,000 square foot complex with three theaters, a café, a film-based retail outlet, office and meeting spaces, and exhibition areas. The $20 million renovation project is the "crown jewel" of Montgomery County's effort to transform Silver Spring into an arts and entertainment destination.

United Therapeutics

In October 2003, United Therapeutics announced plans to construct a state-of-the-art 40,000 square foot ovarian cancer lab in downtown Silver Spring. The $15 million facility will house 25 new employees by 2005. This facility will be crucial for the approval of the drug OvaRex, the company's drug for the treatment of ovarian cancer. OvaRex is in the final phases of human trials, and upon the FDA's inspection and validation of the new lab facility, the drug will be approved for use by the public. With this approval, United Therapeutics will become just the second homegrown Montgomery County biotechnology company to have two drugs available to the public. The first drug, Remodulin, is a treatment for pulmonary arterial hypertension.

American Nurses Association

In April 2003, ground was broken for the new headquarters for the American Nurses Association (ANA). ANA will be relocating their headquarters from Washington, D.C. to Silver Spring, bringing another 200 employees into Montgomery County. The new building at 8515 Georgia Avenue will feature 150,000 square feet of office space and 30,000 square feet of retail space when it opens in the late summer of 2004. In addition to ANA, which will be occupying 50,000 square feet, this new building will be occupied by a Bank of America branch and the Red Rock Canyon Grill.

Union Labor Life Insurance Company (ULLICO)

Another boost to the redevelopment of downtown Silver Spring's business district was received when ULLICO announced plans to lease 90,000 square feet at the Silver Spring Metro Plaza building. The company, which provides insurance, investments, and third-party administration services to labor unions, will be moving about 350 employees from its Washington, D.C. office when it relocates to Silver Spring in early 2004. ULLICO was attracted to downtown Silver Spring in part by the cost-effective rents and the Enterprise Zone tax incentives available to businesses expanding in downtown Silver Spring.

Other Business Additions and Expansions

Human Genome Sciences (HGS)

HGS continues to rapidly expand in and around the Shady Grove Life Sciences Center (SGLSC) in Rockville. The company is currently constructing the first phase of a new corporate and research and development campus which will consist of three buildings and a parking garage. This phase is scheduled for an early 2004 delivery. Final plans for this new corporate campus, which is located across the street from the SGLSC, call for a total of one million square feet of development spread over seven buildings. HGS is also constructing a new large scale manufacturing plant on the nearby Belward Research Campus, and renovating and expanding its 240,000 square foot research center. Total cost for all of these projects is estimated at $526 million.

MedImmune

The Gaithersburg-based drug development company began the first phase of an expansion project in 2002, and construction continued throughout 2003. A groundbreaking ceremony for its 150,000 square foot corporate headquarters and 75,000 square foot R&D facility was held in June 2002. The facility, located at the intersection of Great Seneca Highway and Quince Orchard Road in Gaithersburg, will cost over $100 million and is scheduled for an early 2004 completion. The buildings will be home to over 500 employees.

The Institute for Genomic Research (TIGR)

Construction commenced in 2003 on the fifth building for TIGR in the Shady Grove Life Sciences Center in Rockville. This four-story, 120,000 square foot building is scheduled to be completed in early 2004 and will feature wet and dry lab space and administrative office space. This facility will cost nearly $40 million to complete.

Advancis Pharmaceuticals

Gaithersburg-based Advancis Pharmaceutical, a developer of products that help prevent infections, moved into to a new $15 million facility in the Seneca Meadows office park in Germantown in 2003. The 66,875 square foot building, which delivered in December 2002, includes office, wet lab, and production space. The company has grown to over 100 employees, with future expansion imminent as a result of over $80 million in venture capital and IPO funding raised in 2003.

Macy's

In addition to downtown Silver Spring, downtown Wheaton is in the midst of a major $275 million revitalization. Wheaton received a huge boost in January 2003 with the announcement that Macy's will be opening a store at the Westfield Shoppingtown Wheaton (formerly Wheaton Plaza). This announcement culminated the County's three year effort to attract the upscale retailer into downtown Wheaton's Enterprise Zone. In addition to the 180,000 square foot, $32 million store, a new 900 space parking garage is under construction at the mall to serve the new customers Macy's is expected to attract. As an incentive to locate in downtown Wheaton, Macy's will be receiving $2.6 million in Enterprise Zone tax credits over the next 10 years. Macy's is expected to open its doors in Wheaton in early 2005 and will have nearly 200 employees at this store.

Capital Technology Information Services (CTIS)

In June 2003, CTIS expanded to nearly 43,000 square feet of newly constructed office space at One Research Court in Rockville. CTIS provides information technology products and services to government, commercial, and academic medical institutes involved in the clinical trial process, with an impressive list of clients including the National Institutes of Health (NIH) and the National Cancer Institute. The company has an annual revenue grown rate of 35% since 1997, and as of October 2003 has 100 employees, including 35 new employees in 2003 alone. The company expects to have over 200 employees within the next three years.

Booz Allen and Hamilton

This international consulting and business services firm significantly increased its presence in Montgomery County in 2003, when the company leased and occupied 38,000 square feet in the Tower Building in Rockville. The company expects to have 125 employees in this building, with the goal of supporting the growing needs of clients along the I-270 Corridor.

FEDERAL SPENDING

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

The importance of federal spending in the Washington metropolitan region and in Montgomery County in particular is exhibited in the percent of total federal spending targeted to the Washington MSA. While total federal spending in 2002 amounted to $1,917.6 billion nationwide, the Washington MSA received $87.4 billion – a 4.6 percent share – and Montgomery County received $11.9 billion – a 0.6 percent share, or $13,200 per person. Even though the overall share of regional compared to national spending has grown modestly to over 4 percent, some categories of spending growth are far more significant. For example, the region receives over 13 percent of total federal spending on (i) salaries and wages, and (ii) services and goods in the private sector through the procurement process. While growth in total federal spending is robust for all categories, by far the strongest growth is in procurement. As the table below shows, this category grew 7.0 percent annually nationwide since 1997, but 11.1 percent for the Washington MSA and 9.3 percent for the County. These data also show that federal procurement spending in Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole.

The more than $11.0 billion in total federal spending in Montgomery County is estimated to represent approximately 30 percent of the gross county product as the federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County reached $5.0 billion in FY02, an increase of 28.2 percent, which was the highest level for the County in recent history.

Table 33
Federal Procurement Trends
1997 - 2002
($ billions)*

Fiscal Year	Montgomery County	Washington MSA	U.S.
2002	$5.0	$37.3	$271.0
2001	3.9	32.3	246.2
2000	3.8	29.2	223.3
1999	3.4	26.2	208.1
1998	3.5	24.4	209.3
1997	3.2	22.0	193.0
Average Annual Percent Change 1997-2002	9.3%	11.1%	7.0%

* Amounts shown in current dollars (not adjusted for inflation).
Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FY 1997-2002.

RETAIL SALES

Reflecting improved economic conditions, retail sales, measured by sales tax data collected for the first nine months of 2003, show modest growth in Maryland, but a significant increase in Montgomery County. Compared to the prior year, when retail sales in the County grew only 0.9 percent, sales growth increased 7.0 percent during the first nine months of 2003 compared to the first nine months of 2002. The County's growth in retail sales during that period is significantly greater than the national trend, where retail sales grew 5.3 percent in the first nine months of 2003 compared to the same period in 2002. With consumer confidence improving in the region, retail sales are traditionally one of the first indicators to reflect such increasing confidence.

Retail sales in Montgomery County reflect a slightly different spending pattern compared to the State. After retail sales in the County improved at a solid pace in the past few years, growing 6 percent (1999) and 7 percent (2000), with growth in 2000 reaching a six-year high, the growth rate declined to 3.8 percent in 2001, and to 0.9 percent in 2002. The dramatic decline in the growth rate during 2002 was attributed to a decrease in sales for apparel, furniture and appliances, and hardware and machinery products, while sales of automotive and building and industry products grew at a lesser rate compared to 2001. Retail sales through September 2003 rebounded significantly with the County's growth rate (7.0%) ahead of the State's (2.1%), reflecting a strong overall growth in the purchases of durable goods. A closer inspection of the numbers reveals that some sectors picked up during the first nine months of 2003, especially furniture and appliances (3.6%), and hardware, machinery and equipment products (5.8%). Because of the unusually harsh winter of 2002-2003, utilities and transportation increased dramatically as well.

Table 34
Sales & Use Tax Receipts
By Principal Business Activity

	Montgomery County						Maryland	
	2001		2002		Jan.-Sept. 2003		Jan.-Sept. 2003	
	Growth(1)	Share of Total	Growth(2)	Share of Total	Growth(3)	Share of Total	Growth(3)	Share of Total
Food and Beverages	10.5%	23.0%	3.3%	23.6%	3.5%	24.0%	2.0%	20.7%
Apparel	18.2	7.3	-4.8	6.9	-0.4	6.5	0.4	4.7
General Merchandise	-0.1	17.7	0.1	17.6	4.0	16.3	5.4	17.0
Automotive	5.4	8.1	3.9	8.3	2.6	8.6	0.8	7.7
Furniture & Appliances	-7.6	13.0	-4.2	12.3	3.6	12.4	-0.7	11.3
Building & Industrial Supplies	10.6	9.6	5.8	10.1	-1.8	10.2	1.5	13.8
Utilities & Transportation	10.1	6.3	7.7	6.7	18.7	7.7	2.5	8.1
Hardware, Machinery & Equipment	-18.4	1.7	-4.8	1.6	5.8	1.7	2.3	2.7
Miscellaneous	0.7	12.3	1.2	12.3	-0.4	12.0	1.6	13.3
Other	66.3	1.0	-40.6	0.6	8.3	0.6	16.8	0.7
Total Retail Sales Tax	3.8%	100.0%	0.9%	100.0%	7.0%	100.0%	2.1%	100.0%

Notes: (1) Growth between 2000 and 2001.
(2) Growth between 2001 and 2002.
(3) Growth between the period January through September 2003, and the same period in 2002.
Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

MAJOR RETAIL CENTERS

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

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features 162 stores including four major department stores: Hecht Company, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery, formerly known as Montgomery Mall, which opened in 1968, covers 1.6 million square feet of space. It features Nordstrom, Hecht Company, and Sears Roebuck & Co. department stores, 119 other stores, and three parking garages, and is served by a Montgomery County Transit Center.

Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton CBD. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. Department stores include Hecht Company, JC Penney, and a Target. Macy's will be opening a 180,000 square foot, $32 million store in the mall. In addition to Macy's, Westfield is adding a second level with another 100,000 square feet and 50 new specialty stores to its existing 850,000 square foot mall. Opening of the new Macy's and the expanded and renovated mall is targeted for March 2005. Also, a new 900 space parking garage is under construction.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels and luxury department stores such as Lord & Taylor and Bloomingdale's. The 900,672 square foot mall also features a five-auditorium cinema and Border's Bookstore.

APPENDIX A

BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
Of Montgomery County, Maryland:

We have audited the accompanying 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, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 63% and 91%, respectively, of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 11, 2003

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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 year's financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY03 by $1,584.2 million. That amount is net of a $443.3 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $809.2 million at June 30, 2003. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets $365.9 million.

- The County's total government-wide net assets decreased by $80.8 million.

- As of the close of FY03, the County's governmental funds reported combined ending fund balances of $380.3 million, a decrease of $138.5 million over the prior year's ending fund balances. Of the total ending fund balances, $78.0 million is available for spending at the County's discretion.

- At the end of FY03, unreserved undesignated fund balance for the General Fund was $34.6 million, or 4.2 percent of total General Fund expenditures.

- The County's government-wide long-term debt increased by $49.1 million during FY03. The key factors in this increase are:
  - The issuance of: $155.0 million in general obligation (GO) bonds, $93.6 million in GO refunding bonds, $31.1 million in revenue refunding bonds, and $11.8 million in capital leases.
  - The retirement of: $202.9 million in GO bonds (including $95.8 million refunded), $39.2 million in revenue bonds (including $31.8 million refunded), and $12.0 million in certificates of participation.

  GO and revenue bonds were refunded in order to save $6.7 million ($4.4 million GO and $2.3 million revenue bonds) in future debt service payments.

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 19.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 22 to 25.

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 26 to 38.

Component Units
Provides information on the County's component units.
Pages 39 to 40.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 41 to 100.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds – Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

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

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

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

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

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2003 and 2002:

Summary of Net Assets *
June 30, 2003 and 2002

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	$ 969,369,323	$ 1,129,469,059	$ 172,415,638	$ 182,521,905	$ 1,141,784,961	$ 1,311,990,964
Capital assets, net	2,250,576,672	2,140,484,901	176,919,027	165,197,141	2,427,495,699	2,305,682,042
Total Assets	3,219,945,995	3,269,953,960	349,334,665	347,719,046	3,569,280,660	3,617,673,006
Liabilities:						
Long-term liabilities outstanding	1,575,665,607	1,517,636,253	106,358,950	115,275,773	1,682,024,557	1,632,912,026
Other liabilities	268,707,511	287,255,835	34,364,029	32,505,893	303,071,540	319,761,728
Total Liabilities	1,844,373,118	1,804,892,088	140,722,979	147,781,666	1,985,096,097	1,952,673,754
Net assets:						
Invested in capital assets, net of related debt	1,584,549,157	1,492,551,254	98,603,512	78,523,152	1,683,152,669	1,571,074,406
Restricted	253,868,311	302,725,910	90,462,462	105,554,109	344,330,773	408,280,019
Unrestricted (deficit)	(462,844,591)	(330,215,292)	19,545,712	15,860,119	(443,298,879)	(314,355,173)
Total Net Assets	$ 1,375,572,877	$ 1,465,061,872	$ 208,611,686	$ 199,937,380	$ 1,584,184,563	$ 1,664,999,252

* Primary Government

The County's current and other assets decreased by $170.2 million over FY02. Of that amount, a $129.8 decrease in equity in pooled cash and investments resulted primarily from the FY03 change (loss) in net assets of $80.8 million; a $27.5 decrease in income taxes receivable relates to recent declines in capital gains and meager employment growth in the County.

The County's assets exceeded its liabilities at the close of FY03 by $1,584.2 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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 $809.2 million at June 30, 2003. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets $365.9 million.

An additional portion of the County's net assets ($344.3 million or 22%) represents resources that are subject to restrictions on how they may be used. This amount includes $87.2 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2003 and 2002:

Summary of Changes in Net Assets *
For the Fiscal Years Ended June 30, 2003 and 2002

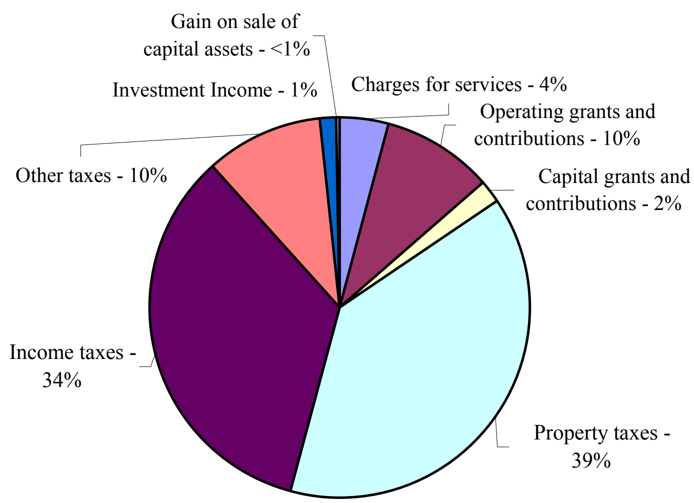
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program Revenues:						
Charges for services	$ 93,376,278	$ 84,952,926	$ 292,575,741	$ 277,711,514	$ 385,952,019	$ 362,664,440
Operating grants and contributions	210,945,105	201,490,713	51,154	65,680	210,996,259	201,556,393
Capital grants and contributions	37,716,052	48,019,121	-	-	37,716,052	48,019,121
General revenues:						
Property taxes	856,439,593	811,516,655	7,096,856	7,018,979	863,536,449	818,535,634
Income taxes	757,486,559	837,501,501	-	-	757,486,559	837,501,501
Other taxes	222,860,308	180,643,185	-	-	222,860,308	180,643,185
Investment Income	31,489,144	40,816,420	3,069,224	3,889,793	34,558,368	44,706,213
Gain (loss) on sale of capital assets	5,433,151	(4,471,925)	58,750	394,162	5,491,901	(4,077,763)
Total Revenues	2,215,746,190	2,200,468,596	302,851,725	289,080,128	2,518,597,915	2,489,548,724
EXPENSES						
Governmental Activities:						
General government	206,410,568	192,514,175	-	-	206,410,568	192,514,175
Public safety	348,701,601	309,564,731	-	-	348,701,601	309,564,731
Public works and transportation	157,009,091	151,932,007	-	-	157,009,091	151,932,007
Health and human services	208,820,841	197,263,408	-	-	208,820,841	197,263,408
Culture and recreation	86,021,724	78,147,724	-	-	86,021,724	78,147,724
Community development and housing	19,602,595	15,894,054	-	-	19,602,595	15,894,054
Environment	6,672,833	7,331,145	-	-	6,672,833	7,331,145
Education	1,225,921,559	1,219,512,074	-	-	1,225,921,559	1,219,512,074
Interest on long-term debt	66,928,923	65,756,461	-	-	66,928,923	65,756,461
Business-type Activities:						
Liquor control	-	-	135,890,772	128,793,258	135,890,772	128,793,258
Solid waste disposal and collection	-	-	90,633,907	89,048,708	90,633,907	89,048,708
Parking lot districts	-	-	19,662,075	18,488,414	19,662,075	18,488,414
Permitting services	-	-	17,866,311	17,041,912	17,866,311	17,041,912
Community use of public facilities	-	-	5,931,243	5,640,334	5,931,243	5,640,334
Total Expenses	2,326,089,735	2,237,915,779	269,984,308	259,012,626	2,596,074,043	2,496,928,405
Increase (Decrease) in Net Assets						
Before Special Item and Transfers	(110,343,545)	(37,447,183)	32,867,417	30,067,502	(77,476,128)	(7,379,681)
Special items:						
Settlement of interfund balances	-	1,966,187	-	(1,966,187)	-	-
Loss on disposal of capital assets	-	-	(3,938,026)	-	(3,938,026)	-
Depreciation adjustment	-	-	599,465	-	599,465	-
Transfers	20,854,550	36,515,563	(20,854,550)	(36,515,563)	-	-
Increase (Decrease) in Net Assets	(89,488,995)	1,034,567	8,674,306	(8,414,248)	(80,814,689)	(7,379,681)
Net Assets as of July 1, 2002	1,465,061,872	1,464,027,305	199,937,380	208,351,628	1,664,999,252	1,672,378,933
Net Assets as of June 30, 2003	$ 1,375,572,877	$ 1,465,061,872	$ 208,611,686	$ 199,937,380	$ 1,584,184,563	$ 1,664,999,252

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $2,215.7 million for FY03. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2003



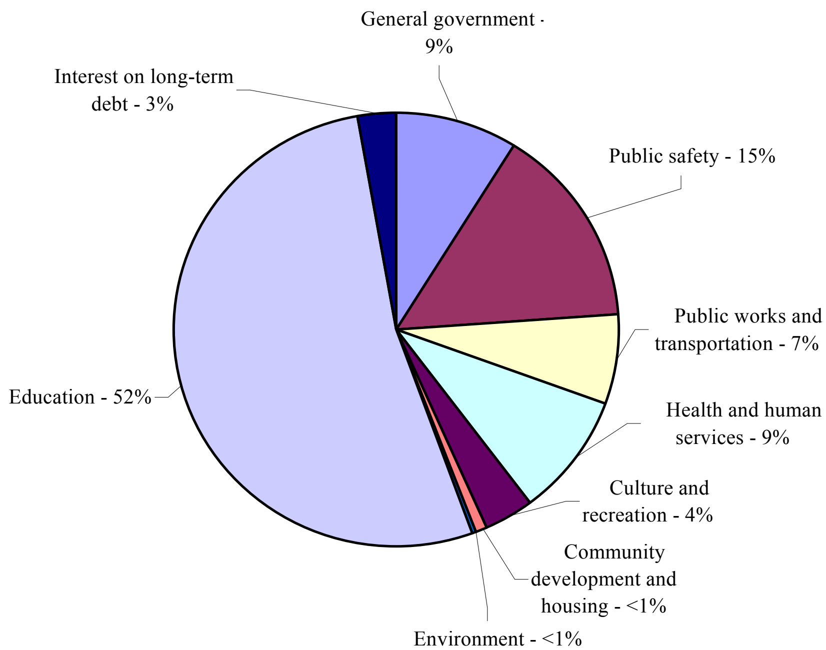
- Taxes constitute the largest source of County revenues, amounting to $1,836.8 million for FY03. Property and local income tax combined comprise 73 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.95 percent of the State taxable income for calendar years 2002 and 2003. 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 ($110.1 million or 52%), public works and transportation ($56.7 million or 27%) and public safety ($22.2 million or 11%).

A more detailed discussion of the County's revenue results for FY03 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 FY03 was $2,326.1 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.2 billion. Public safety expenses totaled $348.7 million, while health and human services, the third largest expense for the County, totaled $208.8 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2003



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

Net Cost of County's Governmental Activities
For the Fiscal Years Ended June 30, 2003 and 2002

	Expenses		Revenues		Net Cost of Services	
	2003	2002	2003	2002	2003	2002
Education	$ 1,225,921,559	$ 1,219,512,074	$ -	$ -	$ 1,225,921,559	$ 1,219,512,074
Public safety	348,701,601	309,564,731	40,534,761	46,804,524	308,166,840	262,760,207
Health and human services	208,820,841	197,263,408	117,823,577	111,130,897	90,997,264	86,132,511
General government	206,410,568	192,514,175	45,261,534	32,646,349	161,149,034	159,867,826
Public works and transportation	157,009,091	151,932,007	84,346,430	90,914,717	72,662,661	61,017,290
Culture and recreation	86,021,724	78,147,724	31,240,009	30,522,140	54,781,715	47,625,584
Other	93,204,351	88,981,660	22,831,124	22,444,133	70,373,227	66,537,527
Total	$ 2,326,089,735	$ 2,237,915,779	$ 342,037,435	$ 334,462,760	$ 1,984,052,300	$ 1,903,453,019

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($93.4 million) and other governments and organizations that subsidized certain programs with grants and contributions ($248.7 million). Of the $1,984.1 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was $1,836.8 million.

Business-type Activities

Highlights of the County's business-type activities for FY03 are as follows:

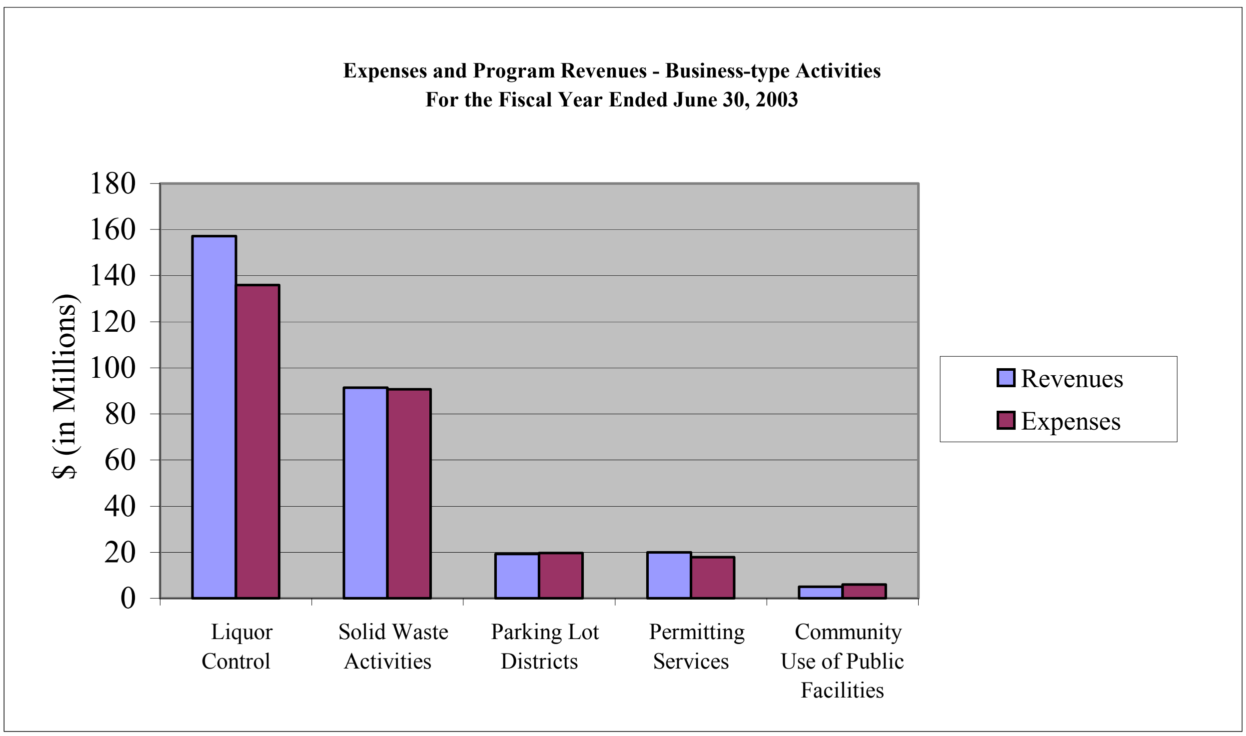
- Business-type activities experienced an increase in net assets of $8.7 million for FY03. However, this amount is reported net after total transfers of $20.9 million, $19.0 million of which represents FY03 Liquor Enterprise Fund profits transferred to the General Fund. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

- Charges for services to users comprise 96% of revenues, with $157.1 million (54% of charges for services revenue) attributable to liquor control operations and $91.4 million (31%) attributable to solid waste disposal and collection 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 $7.1 million is the second largest source of revenue at only 2 percent.

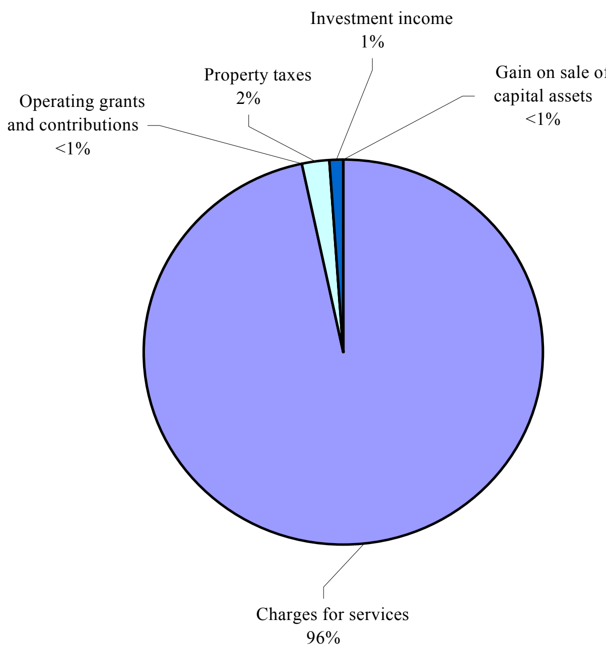
- Investment income of $3.1 million reflects a decrease of .8 million (21%), because of the significant drop in interest rates during the year.

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



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

Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2003



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 FY03, the County's governmental funds reported combined ending fund balances of $380.3 million, a decrease of $138.5 million from the end of FY02. Of the total ending fund balances, $78.0 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $302.3 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 FY03, unreserved and undesignated fund balance of the General Fund was $34.6 million, while total fund balance was $126.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 1.7 percent of the total General Fund expenditures and transfers out, while total fund balance represents 6.3 percent of the same amount.

The fund balance of the County's General Fund decreased by $92.8 million during FY03, primarily due to:

- Use of beginning fund balance to fund the County's FY03 operating budget; and

- Supplemental and special appropriations approved by the County Council during the fiscal year for both operating and capital projects. Approximately one-third ($8.3 million) of these mid-year appropriation increases were for costs associated with excess snow removal and storm cleanup. Other significant increases include $6.2 million related to transportation initiatives under the Go Montgomery! Program, $3.7 million related to public safety programs, and $2.1 related to developmental disability programs.

The Capital Projects Fund has a total fund balance of $47.8 million, which represents authorized and funded projects that are not completed. The unreserved deficit in this fund results primarily from fund balance encumbrances and legal restrictions on debt proceeds on hand.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain a fund balance.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY03 amounted to $19.9 million, and operating income was $21.3 million. After a subsidy transfer to the General Fund of $19.0 million, the fund ended FY03 with an increase in net assets of $2.3 million.

The Solid Waste Disposal and Collection Fund total net assets amounted to $61.6 million, of which the unrestricted net assets were $21.5 million. Restricted net assets of $34.6 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to $12.0 million in FY03, resulting in total ending net assets of $120.2 million. Of this amount, $85.9 million (71%) is invested in capital net of related debt; $5.6 million (5%) is restricted for debt service on, and unspent bond proceeds relating to, revenue bonds; and $28.7 million (24%) is unrestricted. Of the $12.0 million increase in net assets, $7.9 million relates to transactions involving garages entered into as part of the redevelopment of downtown Silver Spring. A significant portion of one garage was demolished, resulting in a loss on disposal of $3.9 million. In its place, the County is acquiring under capital lease a new garage, currently under construction. The lease is a general governmental obligation, and the asset is reflected in the Silver Spring Parking Lot District (SSPLD), as required by law. The SSPLD therefore reflects a transfer in from the General Fund of $11.8 million, the value of construction-in-progress at year-end.

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 $16.6 million, the majority of which related to County Council approved supplemental and special appropriations. Major components of the appropriation increases include the following:

- $8.3 million for costs associated with excess snow removal and storm cleanup;
- $2.1 million to replace Federal funding for developmental disability service providers that was lost due to a change in the State's developmental disability payment system;
- $1.5 million for police department leave payouts related to the Discontinued Service Retirement Program;
- $1.2 million for additional police recruits; and
- $1.0 million related to the sniper-homicide investigation.

The Council also approved a supplemental appropriation of $.7 million in the General Fund, and $6.2 million in the Mass Transit Special Revenue Fund (funded by a transfer from the General Fund) for operating and capital costs associated with the Go Montgomery! Program. The majority of the funds were used for the acquisition of 15 additional buses.

Actual revenues were less than budget amounts by $8.9 million, while actual expenditures and net transfers out were less than final budget by $4.4 million and $56.3 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2003, include the following:

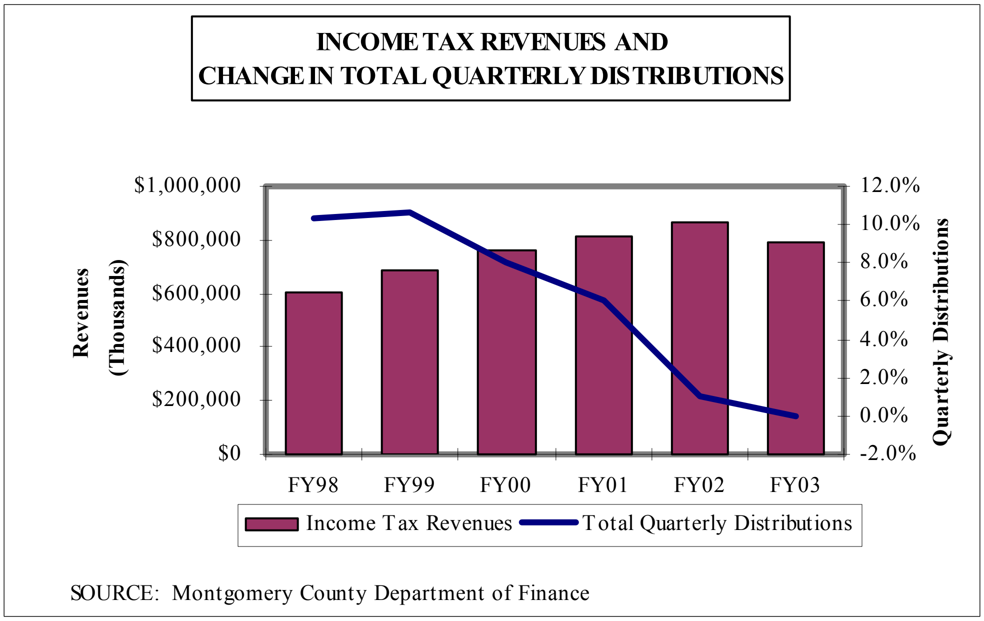
- Actual expenditures of $630.7 million were $4.4 million less than the final budget due primarily to a savings plan instituted in FY03 in anticipation of FY04 revenue shortfalls, in order to conserve resources so they would be carried forward to FY04.

- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $51.3 million. This is due both to the multi-year nature of capital projects, and to time delays encountered for certain projects.

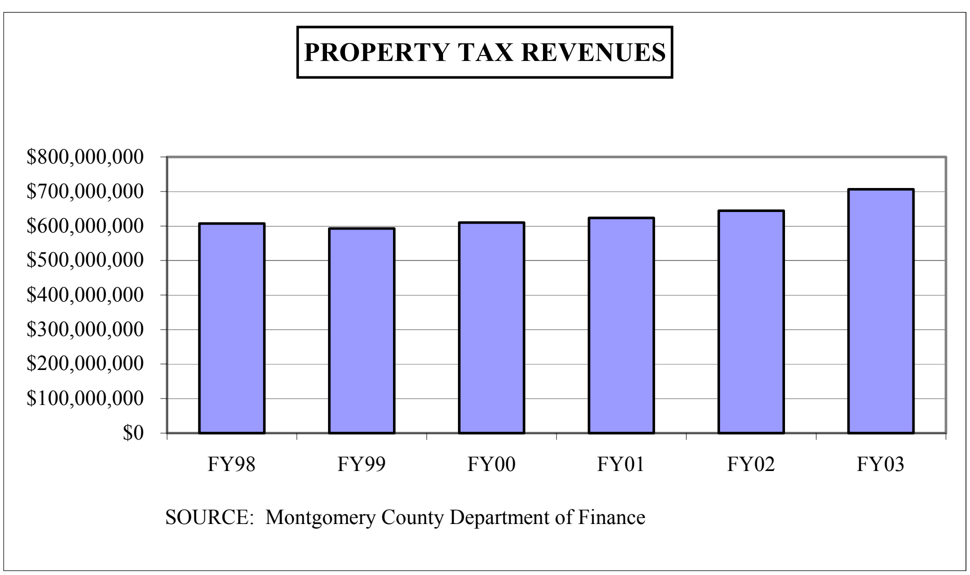
A more detailed comparison of final budget to actual figures for revenues is presented below:

- The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at $788.0 million represented 46.3 percent of total tax revenues for the General Fund and 42.6 percent of total revenues in FY03.

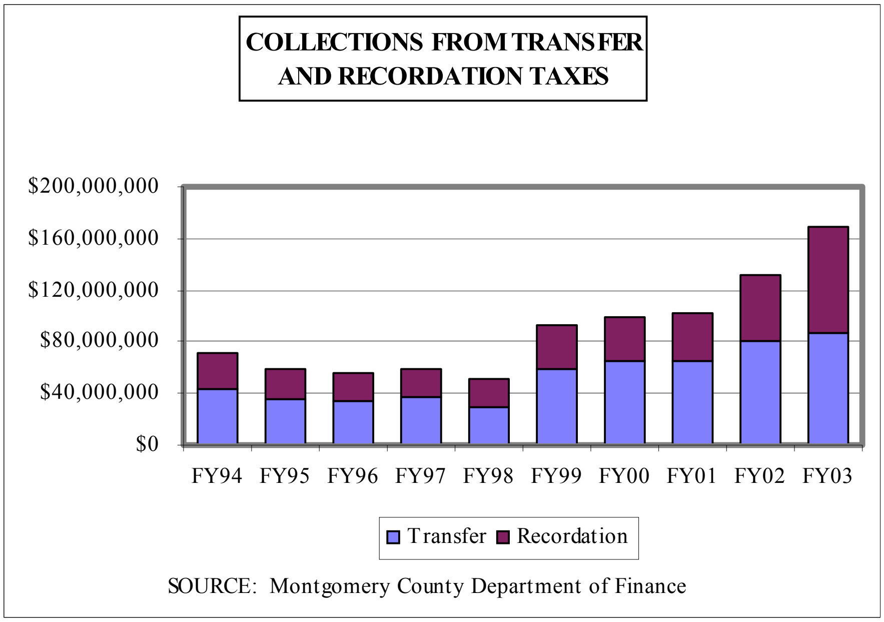
  Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The significant shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains since FY98. With the recent decline in capital gains and meager employment growth in the County, revenues decreased 9.1 percent in FY03 compared to the 6.7 percent growth in FY02. There are a number of factors that contributed to the decline in income tax revenues. First, total payroll employment grew 0.7 percent during calendar year (CY) 2002, and wages and salaries, expressed in real terms, declined 0.1 percent in CY02. Second, capital gains continued their downward spiral during CY02. Other factors that contributed to the decline in FY03 were the sharp drop in the amount of revenue from additional filings and late filings pertaining to tax year 2001, which decreased $73.3 million over FY02, fiduciary returns, which decreased $1.6 million over FY02, and penalties and interest, which decreased $200,000 over FY02. FY03 receipts coming in the midst of weak economic and financial market conditions continued to reflect a sharp slowdown. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 0.1% (FY03) compared to +1.1% (FY02), +6.1% (FY01), +8.0% (FY00), +10.6% (FY99), and +10.3% (FY98).



- Property tax collections in the General Fund amounted to $695.4 million in FY03, which were 1.5 percent higher than the budget estimate and 7.9 percent above actual revenues in FY02. Property taxes, excluding penalty and interest, were $691.3 million in FY03 – an increase of 7.8 percent over last year. However, collections from penalty and interest were $4.0 million, an increase of 22.8 percent compared to FY02, but in line with the recent four-year historical collection trend of approximately $3.7 million annually. The increase in property tax collections was the result of a 6.2 percent increase in the assessable base for real property from FY02 to FY03 (assessments of personal property increased only 0.6 percent). This was the largest increase in over seven years. New construction, which added $1.6 billion to the base in FY03, was 8.4 percent greater than FY02. The significant increase in the reassessment rate from 2.7 percent to 21.8 percent for Cycle Two reassessments (based on triennial reassessment cycles by geographic area performed by the State Department of Assessments and Taxation) of the County's real property, which followed an increase in the rate from 1.1 percent to 13.5 percent for Cycle One reassessments in FY02, also contributed significantly to the increase in property tax collections. Because of the significant increases in the reassessment rates, $3.4 billion was added to the assessable base. As a result, the 7.9 percent increase in actual property tax revenues in FY03 over FY02 was significantly higher than in the previous six fiscal years.



- The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $169.6 million, which was 31.5 percent above the budget estimate and 28.4 percent above FY02. Collections from transfer and recordation taxes continue to reach record highs. As the accompanying chart illustrates, the amount collected from these taxes increased $118.4 million since FY98 or almost a threefold increase.



Following a four-year period of decline in tax collections from transfer and recordation taxes ending in FY98 that reflected a weak real estate market in the County, receipts began their historical rise in FY99 jumping 81.7 percent in FY99, moderating in FY00 and FY01, then accelerating another 29.0 percent in FY02 and 28.4 percent in FY03. Collections from recordation taxes exhibited the larger increase in FY03, 63.0 percent, compared to transfer taxes, which increased 6.5 percent. The larger increase was attributed to a 57 percent rate increase in the recordation tax from $2.20 per $500 of assessed value to $3.45 per $500 of assessed value in FY02. Additional factors that contributed to the increase in collections were the strong housing market and mortgage refinancing.

Revenues from the transfer tax were also exceptionally strong in FY03 with total collections at $86.2 million for an all time record high. Revenues from the residential sector were $75.6 million, an increase of 7.7 percent over FY02, and revenues from the non-residential sector were $10.6 million, an increase of 10.0 percent. Although revenues from the transfer tax were exceptionally strong in FY03, they follow a significant increase of 25.1 percent in FY02. The average transfer tax increased from $2,254 in FY98 to $3,310 in FY03, representing a 47 percent growth rate, and is indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County. The continued surge of real estate activity in FY03 attributed to historic low mortgage interest rates was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY03.

- The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $47.6 million and were approximately $320,000, or -0.7 percent, below the budget estimate. The sluggish economic recovery coupled with ongoing efforts against international terrorism and the sniper incident had an effect on revenues from the hotel/motel industry (-4.4% percent below budget estimate) during FY03. The sluggish economy also affected revenues from the admissions (-1.2 percent) and the telephone (-18.3 percent) taxes. Because of the harsh winter, there was a significant increase in the consumption of home heating oil and natural gas. Such increases led to a greater than expected increase in revenues from fuel/energy (+7.1 percent above budget estimate) taxes.

- Fines and forfeitures revenue of $7.4 million came in $7.1 million or 49.1 percent under the budget estimate. This shortfall relates primarily to the photo red light program, where budget estimates were based on a larger number of cameras coming on-line during the year than actually occurred.

- In the General Fund, investment income fell 37.8 percent from $8.2 million in FY02 to $3.1 million in FY03. Investment income was 62.2 percent below the budget estimate. The significant decline in investment income follows declines in FY01 and FY02 and is the result of the continuation of an accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since that time, the FOMC cut the federal funds rate thirteen times from 6.5 percent down to 1.0 percent in June 2003. Because of this unprecedented series of rate cuts, other short-term interest rates declined significantly as well, hence the average yield on cash equity for the County decreased from 2.61 percent in FY02 to 1.59 percent in FY03. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $11.2 million or 45.9 percent below last fiscal year. The decline in revenues without an offsetting decline in spending is reflected in the daily portfolio balance, which decreased from $794.2 million in FY02 to $696.4 million in FY03.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2003, amounted to $2,427.5 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2003

	Governmental Activities	Business-type Activities	Total FY03	Total FY02 *
Land	$ 468,610,493	$ 52,833,368	$ 521,443,861	$ 486,035,528
Buildings	312,494,466	83,135,517	395,629,983	302,350,215
Improvements other than buildings	23,329,704	18,018,648	41,348,352	40,092,210
Furniture, fixtures, equipment and machinery	115,241,249	7,451,473	122,692,722	13,162,755
Automobiles and trucks	74,644,520	1,246,747	75,891,267	75,837,616
Infrastructure	1,035,920,382	-	1,035,920,382	966,616,472
Other assets	4,904,960	-	4,904,960	6,700,702
Construction in progress	215,430,898	14,233,274	229,664,172	414,886,543
Total	$ 2,250,576,672	$ 176,919,027	$ 2,427,495,699	$ 2,305,682,041

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

Changes in the County's capital assets for FY03 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total FY03	Total FY02
Beginning Balance	$ 2,140,484,901	$ 165,197,140	$ 2,305,682,041	$ 2,136,044,091
Additions*	186,931,322	24,982,290	211,913,612	242,815,458
Retirements, net*	2,983,517	4,079,793	7,063,310	8,406,489
Depreciation expense	73,856,034	9,180,610	83,036,644	64,771,019
Ending Balance	$ 2,250,576,672	$ 176,919,027	$ 2,427,495,699	$ 2,305,682,041

* 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:

- As part of a multi-project effort by Montgomery County to support retail-oriented redevelopment of the Silver Spring Central Business District (CBD), the County invested an additional $20.8 million including the stabilization and renovation of the Silver Theatre and the construction of a new theatre for the Round House Theatre School.
- The County contributed an additional $11.7 million towards the Public Safety 2000 projects, which were placed in service this fiscal year.
- Roads, including underlying land, valued at $18.6 million were transferred to the County by various developers.
- In order to provide a multi-disciplinary education and performance center, the County invested $30 million to add an Arts Education facility and a Concert Hall to the existing Strathmore Hall facility.
- In order to provide congestion relief and improve safe turning movement onto Montrose Road as well as reduce neighborhood cut-through traffic in neighborhoods abutting Montrose Road, $7.3 million was spent to construct the Montrose Parkway West. This will be a new four-lane road from Montrose Road traveling east to 'old' Old Georgetown Road.
- To further support the redevelopment of the Silver Spring CBD, the County has entered into a capital lease agreement as lessee for two new parking garages. Construction-in-progress has increased by $11.8 million in the Silver Spring Parking Lot District for the costs incurred for these garages through year-end.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2003:

Long-Term Debt
June 30, 2003

	Governmental Activities	Business-type Activities	Total FY03	Total FY02
General obligation bonds	$ 1,288,100,672	$ 192,382	$ 1,288,293,054	$ 1,242,553,054
Bond anticipation notes	125,000,000	-	125,000,000	125,000,000
Revenue bonds	-	78,680,000	78,680,000	86,835,000
Lease revenue bonds	37,880,000	-	37,880,000	37,880,000
Equipment notes payable	1,088,738	-	1,088,738	-
Notes payable	1,341,206	800,000	2,141,206	2,208,951
Certificates of participation	31,570,000	-	31,570,000	43,530,000
Due to Component Units - HOC loan	2,550,000	-	2,550,000	-
Capital leases	31,201,945	-	31,201,945	19,940,589
Compensated absences	45,745,947	3,388,911	49,134,858	47,244,296
Claims and judgements	6,974,000	-	6,974,000	3,150,000
Landfill closure costs	-	23,854,523	23,854,523	24,687,900
Total	$ 1,571,452,508	$ 106,915,816	$ 1,678,368,324	$ 1,633,029,790

At June 30, 2003, the County had outstanding general obligation (GO) bonds of $1,288.3 million and outstanding bond anticipation notes (BANs) of $125 million. Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. 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 FY93, the County sold general obligation bond issues of up to $160 million. Over the last ten fiscal years, the County's annual issues averaged $125.5 million.

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

As of June 30, 2003, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

<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. 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 1 – 3, 6, 7, and 13 - 17.

Significant bond-related debt activities during FY03 were:

- <u>General Obligation Bonds</u> – This latest installment of the County's annual issue on May 14, 2003 funds capital expenditures for roads, schools, and government facilities. This new money sale also included a refunding component that resulted in net present value savings to the County of $4.2 million. By conducting a bifurcated bond sale, new money and refunding bonds, the County saved on issuance costs. Notable with this sale was that the true interest cost on the new money bonds was the lowest cost of funds in over 30 years.

- <u>Bond Anticipation Notes (BANs)</u> - In July 2002, the County's 1995 Series BAN program expired and was replaced by the 2002 Series BAN program. The new program is initially authorized at the same level ($200 million) as the 1995 Series. During FY03, the County issued BANs in the amounts of $75 million in December and $80 million in June. Proceeds are being used to fund the County's capital program.

- <u>Solid Waste Refunding Bonds</u> - In March, the County issued Solid Waste System refunding bonds in the amount of $31.1 million. These refunding bonds replaced bonds issued in 1993 to fund certain capital costs of the County's solid waste system. The refunding resulted in net present value savings to the County of $1.9 million.

Significant debt activity relating to capital lease agreements that the County entered into during FY03 were:

- <u>Montgomery County Revenue Authority (MCRA) Conference Center Project</u> – This issue was sold to fund, in part, the Conference Center Project at White Flint. MCRA bonds were sold on the same schedule as the bonds sold by the Maryland Stadium Authority to fund its contribution to the project. MCRA bonds are lease revenue bonds and are secured by the County's lease payments to MCRA which are sufficient to pay the debt service on the bonds.

- <u>Maryland Economic Development Corp. (MEDCO) Silver Spring Garages</u> – These two issues were sold in September and October of 2002, to fund the construction of the Town Square and Wayne Avenue garages in Silver Spring. The bonds were issued by MEDCO and the proceeds are being used to construct the garages. The County will make lease payments to MEDCO sufficient to pay the debt service on the bonds.

The County also managed two debt transactions during FY03, which were outside the County's typical bonding activity. Below is a brief description.

- Notes Payable – During FY03, the County on three occasions used its Master Lease program, accounted for as notes payable in the accompanying financial statements, to fund the $1.1 million purchase of 11 ambulances for the County's Fire and Rescue Service. Payments are made on a semi-annual basis over five years from the dates of the initial draws. Security for the leases is the ambulances.

- Conduit Debt – In December 2002, the County issued on behalf of the Institute for Genomic Research (TIGR) economic development revenue/conduit bonds in the amount of $42.9 million for the construction of a new headquarters and to refinance construction bonds issued in 1994. The bonds are backed by TIGR and a letter of credit issued by the Bank of America.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY04 budget:

- The County's economic projections in the FY04 budget assumes a modest recovery in FY04 with the County's economy experiencing low unemployment but meager growth in payroll employment, inflation slightly above the national average, and personal income growing above CY02 and CY03 rates.

- The economy in the County avoided a recession in FY02 and FY03. This is attributed to the presence of the federal government spending in the County either through direct employment or procurement. The federal government contributes 30 percent to the County's economy and because of that proportion, it helps the County avoid major economic downturns that are experienced at the national level.

- The forecast assumes that personal income will increase 4.5 percent on average between FY04 and FY09. That average is slightly above the forecast for FY03 which was 4.4 percent.

- Resident employment is expected to increase 1.6 percent on average between FY04 and FY09. That average is slightly above the forecast for FY03 which was 1.5 percent.

- High energy prices, particularly gasoline prices, reached record highs during FY03, but are expected to ease in FY04. Because of the expected decline in gasoline prices, the consumer prices are expected to remain between 2.3 percent and 2.4 percent between FY04 and FY09.

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://montgomerycountymd.gov (see county services, finance, financial reports).

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BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2003
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 389,806,435	$ 95,008,625	$ 484,815,060	$ 39,465,311
Cash with fiscal agents	49,569,577	140,801	49,710,378	22,397,823
Cash	187,965	35,575	223,540	12,373,823
Investments-cash equivalents	-	-	-	75,922,607
Investments	7,173,294	-	7,173,294	2,804,851
Receivables (net of allowances for uncollectibles):				
Income taxes	225,446,049	-	225,446,049	-
Property taxes	36,297,043	1,261,878	37,558,921	-
Capital leases	35,509,041	-	35,509,041	19,101,173
Accounts	15,343,902	5,467,171	20,811,073	17,028,172
Special assessments	73,148	-	73,148	-
Notes	3,615,572	-	3,615,572	38,355
Parking violations	827,259	1,823,271	2,650,530	-
Mortgages	68,055,767	-	68,055,767	255,664,332
Interest	105,227	-	105,227	3,988,630
Other	70,814	-	70,814	6,571,757
Net internal balance	2,129,204	(2,129,204)	-	-
Due from primary government	-	-	-	36,327,073
Due from component units	61,238,137	60,272	61,298,409	-
Due from other governments	58,388,277	309,186	58,697,463	32,897,859
Inventory of supplies	6,279,087	28,283,744	34,562,831	9,537,023
Prepaids	6,165,743	491,966	6,657,709	1,684,958
Deferred charges	3,087,782	1,318,303	4,406,085	743,556
Other assets	-	93,599	93,599	22,179,052
Restricted assets:				
Equity in pooled cash and investments	-	37,096,899	37,096,899	12,008,003
Cash	-	-	-	178,377
Cash with fiscal agents	-	-	-	13,172,502
Investments-cash equivalents	-	-	-	120,478,787
Investments	-	3,153,552	3,153,552	188,706,806
Capital assets:				
Nondepreciable assets	684,041,391	67,066,642	751,108,033	298,107,527
Depreciable assets, net	1,566,535,281	109,852,385	1,676,387,666	1,497,073,761
Total Assets	$ 3,219,945,995	$ 349,334,665	$ 3,569,280,660	$ 2,688,452,118

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2003
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 47,053,687	$ 21,799,563	$ 68,853,250	$ 77,358,063
Interest payable	19,384,706	479,323	19,864,029	15,355,404
Retainage payable	15,722,209	1,105,061	16,827,270	8,257,716
Accrued liabilities	38,004,005	7,883,745	45,887,750	4,030,448
Claims payable	66,564,246	-	66,564,246	20,955,038
Deposits	1,175,418	485,892	1,661,310	8,080,078
Due to primary government	-	-	-	61,384,388
Due to component units	35,696,967	630,106	36,327,073	-
Due to other governments	14,544,603	1,249,942	15,794,545	-
Deferred revenue	30,561,670	730,397	31,292,067	24,044,904
Other liabilities	-	-	-	9,579,489
Noncurrent liabilities:				
Due within one year	292,520,000	11,937,935	304,457,935	78,184,901
Due in more than one year	1,283,145,607	94,421,015	1,377,566,622	858,038,372
Total Liabilities	1,844,373,118	140,722,979	1,985,096,097	1,165,268,801
NET ASSETS				
Invested in capital assets, net of related debt	1,584,549,157	98,603,512	1,683,152,669	1,447,684,426
Restricted for:				
Capital projects	47,771,695	-	47,771,695	311,576
Nonexpendable permanent fund - housing	7,694,770	-	7,694,770	-
General government	100,267,143	-	100,267,143	-
Public safety	11,117,517	-	11,117,517	-
Public works and transportation	8,433,604	90,462,462	98,896,066	-
Recreation	9,724,940	-	9,724,940	-
Community development and housing	68,858,642	-	68,858,642	-
Debt service	-	-	-	64,374,685
Other purposes	-	-	-	5,735,167
Unrestricted (deficit)	(462,844,591)	19,545,712	(443,298,879)	5,077,463
Total net assets	$ 1,375,572,877	$ 208,611,686	$ 1,584,184,563	$ 1,523,183,317

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 206,410,568	$ 33,920,013	$ 11,341,521	$ -
Public safety	348,701,601	15,840,488	22,243,268	2,451,005
Public works and transportation	157,009,091	15,945,337	56,656,946	11,744,147
Health and human services	208,820,841	5,970,156	110,092,143	1,761,278
Culture and recreation	86,021,724	18,772,657	3,623,100	8,844,252
Community development and housing	19,602,595	154,869	6,988,127	6,716,471
Environment	6,672,833	2,772,758	-	6,198,899
Education	1,225,921,559	-	-	-
Interest on long-term debt	66,928,923	-	-	-
Total governmental activities	2,326,089,735	93,376,278	210,945,105	37,716,052
Business-type activities:				
Liquor control	135,890,772	157,059,202	-	-
Solid waste disposal and collection	90,633,907	91,426,301	-	-
Parking lot districts	19,662,075	19,233,041	-	-
Permitting services	17,866,311	19,954,424	-	-
Community use of public facilities	5,931,243	4,902,773	51,154	-
Total business-type activities	269,984,308	292,575,741	51,154	-
Total primary government	$ 2,596,074,043	$ 385,952,019	$ 210,996,259	$ 37,716,052
Component units:				
General government (BUPI)	$ 2,533,481	$ 2,205,683	$ 185,063	-
Culture and recreation (MCRA)	13,245,221	10,529,269	-	38,544
Community development and housing (HOC)	162,223,661	101,682,670	66,130,607	3,900,740
Education:				
Elementary and secondary education (MCPS)	1,573,488,788	29,810,860	124,705,678	31,504,220
Higher education (MCC)	164,373,640	51,832,401	15,092,583	2,353,031
Total component units	$ 1,915,864,791	$ 196,060,883	$ 206,113,931	$ 37,796,535

General revenues:
Property taxes
County income taxes
Real property transfer taxes
Recordation taxes
Fuel energy taxes
Hotel-motel taxes
Telephone taxes
Other taxes
Grants and contributions not restricted to specific programs
Investment income
Gain (loss) on sale of capital assets
Special items:
Loss on disposal capital assets
Depreciation adjustment
Transfers
Total general revenues, special item, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (161,149,034)	$ -	$ (161,149,034)	$ -
(308,166,840)	-	(308,166,840)	-
(72,662,661)	-	(72,662,661)	-
(90,997,264)	-	(90,997,264)	-
(54,781,715)	-	(54,781,715)	-
(5,743,128)	-	(5,743,128)	-
2,298,824	-	2,298,824	-
(1,225,921,559)	-	(1,225,921,559)	-
(66,928,923)	-	(66,928,923)	-
(1,984,052,300)	-	(1,984,052,300)	-
-	21,168,430	21,168,430	-
-	792,394	792,394	-
-	(429,034)	(429,034)	-
-	2,088,113	2,088,113	-
-	(977,316)	(977,316)	-
-	22,642,587	22,642,587	-
(1,984,052,300)	22,642,587	(1,961,409,713)	-
-	-	-	(142,735)
-	-	-	(2,677,408)
-	-	-	-
-	-	-	9,490,356
-	-	-	-
-	-	-	(1,387,468,030)
-	-	-	(95,095,625)
-	-	-	(1,475,893,442)
856,439,593	7,096,856	863,536,449	-
757,486,559	-	757,486,559	-
86,157,330	-	86,157,330	-
83,426,177	-	83,426,177	-
26,168,427	-	26,168,427	-
11,903,550	-	11,903,550	-
6,555,800	-	6,555,800	-
8,649,024	-	8,649,024	-
-	-	-	1,519,484,980
31,489,144	3,069,224	34,558,368	2,284,581
5,433,151	58,750	5,491,901	3,577
-	(3,938,026)	(3,938,026)	-
-	599,465	599,465	-
20,854,550	(20,854,550)	-	-
1,894,563,305	(13,968,281)	1,880,595,024	1,521,773,138
(89,488,995)	8,674,306	(80,814,689)	45,879,696
1,465,061,872	199,937,380	1,664,999,252	1,477,303,621
$ 1,375,572,877	$ 208,611,686	$ 1,584,184,563	$ 1,523,183,317

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 80,418,537	$ 1,835,636	$ 95,227,036	$ 143,237,795	$ 320,719,004
Cash with fiscal agents	-	31,616,982	17,952,595	-	49,569,577
Cash	152,465	-	-	35,200	187,665
Investments	-	-	-	7,173,294	7,173,294
Receivables (net of allowances for uncollectibles):					
Income taxes	225,446,049	-	-	-	225,446,049
Capital leases	-	35,509,041	-	-	35,509,041
Property taxes	29,698,063	-	-	6,598,980	36,297,043
Accounts	11,447,300	35,458	1,321,487	2,418,659	15,222,904
Special assessments	-	73,148	-	-	73,148
Notes	-	-	-	3,553,588	3,553,588
Parking violations	827,259	-	-	-	827,259
Mortgages	212,116	-	-	67,843,651	68,055,767
Interest	-	-	-	105,227	105,227
Other	-	404	7,203	61,397	69,004
Due from other funds	104,379,316	-	-	1,615,497	105,994,813
Due from component units	6,698,211	-	30,682,311	23,106,317	60,486,839
Due from other governments	17,454,230	-	25,841,173	14,867,261	58,162,664
Inventory of supplies	3,886,208	-	667,692	-	4,553,900
Prepaids	709,953	-	4,284,189	506,192	5,500,334
Total Assets	$ 481,329,707	$ 69,070,669	$ 175,983,686	$ 271,123,058	$ 997,507,120
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 11,123,350	$ 98,502	$ 21,925,106	$ 11,206,905	$ 44,353,863
Retainage payable	78,013	-	15,644,196	-	15,722,209
Accrued liabilities	26,651,901	-	440,282	5,040,026	32,132,209
Deposits	-	1,000,000	-	175,418	1,175,418
Due to other funds	4,752,051	31,610,184	74,473,748	1,832,713	112,668,696
Due to component units	29,575,442	-	4,837,052	1,236,565	35,649,059
Due to other governments	6,797,518	-	2,150,997	5,585,784	14,534,299
Deferred revenue	275,927,262	36,361,983	8,740,610	39,907,579	360,937,434
Total Liabilities	354,905,537	69,070,669	128,211,991	64,984,990	617,173,187
Fund balances:					
Reserved for:					
Encumbrances	16,783,091	-	129,472,223	12,987,888	159,243,202
Legal debt restrictions	-	-	48,196,201	-	48,196,201
Long-term receivables	-	-	10,594,746	62,958,394	73,553,140
Inventory and prepaids	4,596,161	-	4,951,881	503,682	10,051,724
Fire-Rescue Grant	-	-	-	1,455,830	1,455,830
Donor-specified purposes	-	-	-	970,098	970,098
Other purposes	1,161,224	-	-	7,694,770	8,855,994
Total Reserved	22,540,476	-	193,215,051	86,570,662	302,326,189
Unreserved:					
Designated for subsequent years' expenditures	17,300,037	-	-	15,866,177	33,166,214
Designated for transfers to Capital Projects Fund	51,936,828	-	-	3,379,994	55,316,822
Undesignated (deficit), reported in:					
General Fund	34,646,829	-	-	-	34,646,829
Capital Projects Fund	-	-	(145,443,356)	-	(145,443,356)
Special Revenue Funds	-	-	-	100,321,235	100,321,235
Total Unreserved	103,883,694	-	(145,443,356)	119,567,406	78,007,744
Total Fund Balances	126,424,170	-	47,771,695	206,138,068	380,333,933
Total Liabilities and Fund Balances	$ 481,329,707	$ 69,070,669	$ 175,983,686	$ 271,123,058	$ 997,507,120

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
Exhibit A-4

Total fund balance - governmental funds		$ 380,333,933
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 468,587,987	
Construction in progress	215,430,898	
Depreciable capital assets:		
Buildings	486,933,161	
Improvements other than buildings	43,873,299	
Furniture, fixtures, equipment and machinery	151,318,541	
Automobiles and trucks	86,819,947	
Infrastructure	1,324,726,085	
Other capital assets	7,058,182	
Total capital assets:	2,784,748,100	
Less accumulated depreciation	(557,476,168)	2,227,271,932
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,288,100,672)	
Bond anticipation notes payable	(125,000,000)	
Lease revenue bonds payable	(37,880,000)	
Certificates of participation	(31,570,000)	
Accrued interest payable	(19,384,706)	
Capital leases payable	(31,201,945)	
Notes payable	(2,429,944)	
Other long-term debt payable	(2,550,000)	
Compensated absences	(44,604,183)	
Claims and judgments	(6,974,000)	(1,589,695,450)
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	(20,968,441)	
Deferred amount on refunding	16,755,342	
Deferred issuance costs	3,087,782	(1,125,317)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current assets	75,627,992	
Capital assets	63,274,184	
Less accumulated depreciation	(39,969,444)	
Liabilities	(72,525,437)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,932,877	28,340,172
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	224,809,353	
Property taxes	39,375,643	
Intergovernmental revenue	15,943,683	
Other revenue	50,318,928	330,447,607
Net assets of governmental activities		$ 1,375,572,877

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 1,700,565,963	$ -	$ 1,788,564	$ 164,600,838	$ 1,866,955,365
Licenses and permits	8,728,837	-	-	1,346,497	10,075,334
Intergovernmental	111,611,635	-	30,653,627	100,516,550	242,781,812
Charges for services	11,308,963	4,882	2,207,618	30,964,716	44,486,179
Fines and forfeitures	7,383,288	-	-	1,551,194	8,934,482
Investment income	5,062,255	3,456,173	309,704	4,264,490	13,092,622
Miscellaneous	7,013,999	-	1,546,089	2,640,183	11,200,271
Total Revenues	1,851,674,940	3,461,055	36,505,602	305,884,468	2,197,526,065
EXPENDITURES					
Current:					
General government	161,740,334	-	-	11,914,248	173,654,582
Public safety	211,327,730	-	-	121,323,472	332,651,202
Public works and transportation	40,757,623	-	-	71,698,869	112,456,492
Health and human services	155,720,877	-	-	51,048,967	206,769,844
Culture and recreation	36,984,304	-	-	26,666,170	63,650,474
Community development and housing	10,862,615	-	-	7,958,101	18,820,716
Environment	3,436,834	-	-	971,107	4,407,941
Education	1,158,785,134	-	-	-	1,158,785,134
Debt Service:					
Principal retirement:					
General obligation bonds	-	106,665,149	-	-	106,665,149
Bond anticipation notes	-	155,000,000	-	-	155,000,000
Other notes	-	115,119	-	-	115,119
Interest:					
General obligation bonds	-	60,643,413	-	-	60,643,413
Bond anticipation notes	-	1,829,315	-	-	1,829,315
Other notes	-	51,150	-	-	51,150
Leases and other obligations	-	19,004,067	-	-	19,004,067
Issuing costs	-	2,013,285	-	-	2,013,285
Capital Projects	-	-	275,561,794	-	275,561,794
Total Expenditures	1,779,615,451	345,321,498	275,561,794	291,580,934	2,692,079,677
Excess (Deficiency) of Revenues over (under) Expenditures	72,059,489	(341,860,443)	(239,056,192)	14,303,534	(494,553,612)
OTHER FINANCING SOURCES (USES)					
Transfers in	41,054,600	183,839,212	25,818,277	26,770,129	277,482,218
Transfers (out)	(217,724,988)	(1,342,360)	(88,772)	(36,375,045)	(255,531,165)
Sale of property	-	-	4,782,081	2,031,991	6,814,072
Financing under notes and leases payable	11,776,945	-	-	1,136,112	12,913,057
Payment to refunded bond escrow agent	-	(103,307,499)	-	-	(103,307,499)
Debt Issued:					
General obligation bonds	-	159,079,103	-	-	159,079,103
Bond anticipation notes	-	-	155,000,000	-	155,000,000
General obligation refunding bonds	-	103,591,987	-	-	103,591,987
Total Other Financing Sources (Uses)	(164,893,443)	341,860,443	185,511,586	(6,436,813)	356,041,773
Net Change in Fund Balances	(92,833,954)	-	(53,544,606)	7,866,721	(138,511,839)
Fund Balances - Beginning of Year	219,258,124	-	101,316,301	198,271,347	518,845,772
Fund Balances - End of Year	$ 126,424,170	$ -	$ 47,771,695	$ 206,138,068	$ 380,333,933

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

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-6

Net change in fund balances - total governmental funds		$ (138,511,839)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	$ 191,000,777	
Depreciation expense	(69,687,004)	121,313,773
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(1,380,921)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		18,559,256
Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:		
Income taxes	(30,511,181)	
Property taxes	(273,814)	
Intergovernmental revenues	3,577,319	
Other revenues	3,211,280	(23,996,396)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(159,079,103)	
General obligation refunding bonds	(103,591,987)	
Bond anticipation notes	(155,000,000)	
Capital lease financing	(11,776,945)	
Notes payable	(1,136,112)	
Other	(2,550,000)	
Less issuance costs	2,013,285	
Principal repayments:		
General obligation bonds	106,665,149	
Bond anticipation notes	155,000,000	
Certificates of participation	11,960,000	
Capital leases	515,589	
Notes payable	115,119	
Payment to escrow agent for refunding	103,307,499	(53,557,506)
Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Accrued interest payable	2,108,644	
Compensated absences	(1,521,011)	
Claims and judgments	(3,824,000)	
Amortization of issuance costs	(93,711)	(3,330,078)
The current year loss for certain activities of internal service funds is reported with governmental activities.		(8,585,284)
Change in net assets of governmental activities		$ (89,488,995)

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

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Revenues:							
Taxes:							
Property	$ -	$ 682,345,880	$ 682,345,880	$ -	$ 682,345,880	$ 691,293,819	$ 8,947,939
Property - penalty and interest	-	2,577,530	2,577,530	-	2,577,530	4,048,913	1,471,383
Other	-	-	-	-	-	11,746	11,746
Total Property Tax	-	684,923,410	684,923,410	-	684,923,410	695,354,478	10,431,068
County Income Tax	-	827,330,000	827,330,000	-	827,330,000	787,997,740	(39,332,260)
Other Local Taxes:							
Real property transfer	-	71,630,000	71,630,000	-	71,630,000	86,157,330	14,527,330
Recordation	-	57,350,000	57,350,000	-	57,350,000	83,426,177	26,076,177
Fuel energy	-	24,440,000	24,440,000	-	24,440,000	26,168,427	1,728,427
Hotel - motel	-	12,450,000	12,450,000	-	12,450,000	11,903,550	(546,450)
Telephone	-	8,020,000	8,020,000	-	8,020,000	6,555,800	(1,464,200)
Other	-	3,040,000	3,040,000	-	3,040,000	3,002,461	(37,539)
Total Other Local Taxes	-	176,930,000	176,930,000	-	176,930,000	217,213,745	40,283,745
Total Taxes	-	1,689,183,410	1,689,183,410	-	1,689,183,410	1,700,565,963	11,382,553
Licenses and Permits:							
Business	-	7,944,150	7,944,150		7,944,150	8,049,220	105,070
Non business	-	837,000	837,000		837,000	679,617	(157,383)
Total Licenses and Permits	-	8,781,150	8,781,150	-	8,781,150	8,728,837	(52,313)
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	39,261,840	39,261,840	-	39,261,840	36,897,307	(2,364,533)
Highway user revenue	-	31,700,000	31,700,000	-	31,700,000	30,280,938	(1,419,062)
Police protection	-	12,972,000	12,972,000	-	12,972,000	13,009,239	37,239
Health and human services programs	-	5,694,980	5,694,980	-	5,694,980	5,509,098	(185,882)
Public libraries	-	3,882,160	3,882,160	-	3,882,160	3,618,716	(263,444)
911 Emergency	-	3,000,000	3,000,000	-	3,000,000	2,788,070	(211,930)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,299,930	2,299,930	-	2,299,930	1,121,380	(1,178,550)
Total State Aid and Reimbursements	-	101,576,910	101,576,910	-	101,576,910	95,990,301	(5,586,609)
Federal Reimbursements:							
Federal financial participation	-	7,392,650	7,392,650	-	7,392,650	11,799,270	4,406,620
Other	-	2,040,260	2,040,260	-	2,040,260	2,563,330	523,070
Total Federal Reimbursements	-	9,432,910	9,432,910	-	9,432,910	14,362,600	4,929,690
Other Intergovernmental	-	3,598,780	3,598,780	75,249	3,674,029	1,258,734	(2,415,295)
Total Intergovernmental Revenue	-	114,608,600	114,608,600	75,249	114,683,849	111,611,635	(3,072,214)
Charges for Services:							
General government	-	1,785,130	1,785,130	-	1,785,130	1,510,458	(274,672)
Public safety	-	7,948,960	7,948,960	-	7,948,960	7,266,383	(682,577)
Health and human services	-	1,197,000	1,197,000	-	1,197,000	1,343,247	146,247
Culture and recreation	-	5,000	5,000	-	5,000	4,495	(505)
Environment		100,000	100,000	-	100,000	189,360	89,360
Public works and transportation:	-	140,000	140,000	-	140,000	75,980	(64,020)
Total Charges for Service	-	11,176,090	11,176,090	-	11,176,090	10,389,923	(786,167)
Fines and Forfeitures	-	14,513,150	14,513,150	-	14,513,150	7,383,288	(7,129,862)
Investment Income:							
Pooled investment income	-	12,035,000	12,035,000	-	12,035,000	3,072,670	(8,962,330)
Other interest income	-	40,000	40,000	-	40,000	237,477	197,477
Total Investment Income	-	12,075,000	12,075,000	-	12,075,000	3,310,147	(8,764,853)
Miscellaneous Revenue:							
Property rentals	-	4,384,000	4,384,000	-	4,384,000	5,189,366	805,366
Sundry	-	5,020,150	5,020,150	12,349	5,032,499	3,740,219	(1,292,280)
Total Miscellaneous Revenues:	-	9,404,150	9,404,150	12,349	9,416,499	8,929,585	(486,914)
Total Revenues	-	1,859,741,550	1,859,741,550	87,598	1,859,829,148	1,850,919,378	(8,909,770)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	5,983,360	5,983,360	(148,600)	5,834,760	5,834,755	5
Operating	33,768	674,300	708,068	(19,518)	688,550	525,174	163,376
Totals	33,768	6,657,660	6,691,428	(168,118)	6,523,310	6,359,929	163,381
Board of Appeals:							
Personnel	-	421,760	421,760	5,730	427,490	427,481	9
Operating	-	58,700	58,700	1,950	60,650	60,641	9
Totals	-	480,460	480,460	7,680	488,140	488,122	18
Legislative Oversight:							
Personnel	-	637,300	637,300	2,190	639,490	604,774	34,716
Operating	633	99,750	100,383	(633)	99,750	50,228	49,522
Totals	633	737,050	737,683	1,557	739,240	655,002	84,238
Merit System Protection Board:							
Personnel	-	98,970	98,970	-	98,970	97,826	1,144
Operating	-	12,640	12,640	-	12,640	9,321	3,319
Totals	-	111,610	111,610	-	111,610	107,147	4,463

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Zoning and Administrative Hearings:							
Personnel	$ -	$ 203,350	$ 203,350	$ (3,590)	$ 199,760	$ 199,755	$ 5
Operating	-	187,240	187,240	36,200	223,440	223,437	3
Totals	-	390,590	390,590	32,610	423,200	423,192	8
Inspector General:							
Personnel	-	407,980	407,980	4,760	412,740	397,292	15,448
Operating	2,676	115,630	118,306	(2,676)	115,630	93,388	22,242
Totals	2,676	523,610	526,286	2,084	528,370	490,680	37,690
People's Counsel:							
Personnel	-	192,410	192,410	300	192,710	192,684	26
Operating	-	30,230	30,230	(300)	29,930	15,482	14,448
Totals	-	222,640	222,640	-	222,640	208,166	14,474
Circuit Court:							
Personnel	-	6,397,660	6,397,660	(292,180)	6,105,480	6,105,472	8
Operating	469,676	1,336,700	1,806,376	57,253	1,863,629	1,863,619	10
Totals	469,676	7,734,360	8,204,036	(234,927)	7,969,109	7,969,091	18
State's Attorney:							
Personnel	-	7,861,860	7,861,860	409,120	8,270,980	8,270,970	10
Operating	450	541,880	542,330	(54,650)	487,680	463,656	24,024
Totals	450	8,403,740	8,404,190	354,470	8,758,660	8,734,626	24,034
County Executive:							
Personnel	-	3,866,480	3,866,480	(20,325)	3,846,155	3,779,909	66,246
Operating	2,092	250,880	252,972	4,901	257,873	257,869	4
Totals	2,092	4,117,360	4,119,452	(15,424)	4,104,028	4,037,778	66,250
Commission for Women:							
Personnel	-	725,300	725,300	2,820	728,120	722,449	5,671
Operating	-	123,140	123,140	-	123,140	103,032	20,108
Totals	-	848,440	848,440	2,820	851,260	825,481	25,779
Regional Service Centers:							
Personnel	-	2,366,300	2,366,300	38,170	2,404,470	2,404,467	3
Operating	56,412	420,480	476,892	106,401	583,293	528,630	54,663
Totals	56,412	2,786,780	2,843,192	144,571	2,987,763	2,933,097	54,666
Ethics Commission:							
Personnel	-	161,410	161,410	(16,140)	145,270	126,310	18,960
Operating	-	27,070	27,070	16,140	43,210	43,177	33
Totals	-	188,480	188,480	-	188,480	169,487	18,993
Intergovernmental Relations:							
Personnel	-	437,810	437,810	(20,000)	417,810	386,811	30,999
Operating	4,610	151,080	155,690	(161)	155,529	122,484	33,045
Capital outlay	-	-	-	20,000	20,000	18,358	1,642
Totals	4,610	588,890	593,500	(161)	593,339	527,653	65,686
Board of Liquor License Commissioners:							
Personnel	-	734,470	734,470	1,460	735,930	735,922	8
Operating	501	90,670	91,171	18,430	109,601	109,601	-
Totals	501	825,140	825,641	19,890	845,531	845,523	8
Public Information:							
Personnel	-	1,007,560	1,007,560	(110)	1,007,450	1,007,446	4
Operating	44,704	101,400	146,104	69,267	215,371	215,361	10
Totals	44,704	1,108,960	1,153,664	69,157	1,222,821	1,222,807	14
Board of Elections:							
Personnel	-	1,698,350	1,698,350	411,350	2,109,700	2,109,695	5
Operating	5,359	2,332,580	2,337,939	113,362	2,451,301	2,451,295	6
Totals	5,359	4,030,930	4,036,289	524,712	4,561,001	4,560,990	11
County Attorney:							
Personnel	-	3,802,080	3,802,080	(75,030)	3,727,050	3,690,413	36,637
Operating	4,836	492,520	497,356	72,594	569,950	569,946	4
Totals	4,836	4,294,600	4,299,436	(2,436)	4,297,000	4,260,359	36,641
Management and Budget:							
Personnel	-	3,202,470	3,202,470	(174,900)	3,027,570	3,027,568	2
Operating	41,984	184,100	226,084	-	226,084	170,915	55,169
Totals	41,984	3,386,570	3,428,554	(174,900)	3,253,654	3,198,483	55,171
Finance:							
Personnel	-	6,977,830	6,977,830	(206,080)	6,771,750	6,771,748	2
Operating	343,959	958,170	1,302,129	66,997	1,369,126	1,368,810	316
Totals	343,959	7,936,000	8,279,959	(139,083)	8,140,876	8,140,558	318
Human Resources:							
Personnel	-	3,934,440	3,934,440	34,200	3,968,640	3,937,099	31,541
Operating	333,270	2,130,540	2,463,810	(14,013)	2,449,797	2,300,119	149,678
Totals	333,270	6,064,980	6,398,250	20,187	6,418,437	6,237,218	181,219
Technology Services:							
Personnel	-	12,245,140	12,245,140	(485,190)	11,759,950	11,759,940	10
Operating	6,022,096	7,892,840	13,914,936	(244,354)	13,670,582	13,585,986	84,596
Capital outlay	80,243	313,950	394,193	76,624	470,817	470,636	181
Totals	6,102,339	20,451,930	26,554,269	(652,920)	25,901,349	25,816,562	84,787
Procurement:							
Personnel	-	2,029,280	2,029,280	9,590	2,038,870	2,037,186	1,684
Operating	21,091	163,720	184,811	(3,147)	181,664	133,826	47,838
Totals	21,091	2,193,000	2,214,091	6,443	2,220,534	2,171,012	49,522
Corrections and Rehabilitation:							
Personnel	-	35,120,540	35,120,540	1,412,080	36,532,620	36,532,612	8
Operating	219,550	6,505,850	6,725,400	1,133,866	7,859,266	7,859,264	2
Totals	219,550	41,626,390	41,845,940	2,545,946	44,391,886	44,391,876	10

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Human Relations Commission:							
Personnel	$ -	$ 1,729,610	$ 1,729,610	$ (11,360)	$ 1,718,250	$ 1,689,628	$ 28,622
Operating	1,060	107,810	108,870	19,040	127,910	90,549	37,361
Totals	1,060	1,837,420	1,838,480	7,680	1,846,160	1,780,177	65,983
Police:							
Personnel	-	120,346,520	120,346,520	8,751,210	129,097,730	129,097,729	1
Operating	1,357,143	21,601,850	22,958,993	(1,468,474)	21,490,519	20,082,395	1,408,124
Totals	1,357,143	141,948,370	143,305,513	7,282,736	150,588,249	149,180,124	1,408,125
Sheriff:							
Personnel	-	11,276,170	11,276,170	(298,140)	10,978,030	10,921,484	56,546
Operating	55,714	1,373,820	1,429,534	10,665	1,440,199	1,386,632	53,567
Totals	55,714	12,649,990	12,705,704	(287,475)	12,418,229	12,308,116	110,113
Public Works and Transportation:							
Personnel	-	29,406,280	29,406,280	287,490	29,693,770	29,693,760	10
Operating	4,826,361	26,926,960	31,753,321	7,790,514	39,543,835	39,505,694	38,141
Capital outlay	76,762	52,160	128,922	(74,512)	54,410	15,800	38,610
Totals	4,903,123	56,385,400	61,288,523	8,003,492	69,292,015	69,215,254	76,761
Health and Human Services:							
Personnel	-	84,619,080	84,619,080	504,565	85,123,645	84,867,808	255,837
Operating	2,224,512	63,151,810	65,376,322	2,726,555	68,102,877	67,492,120	610,757
Totals	2,224,512	147,770,890	149,995,402	3,231,120	153,226,522	152,359,928	866,594
Libraries:							
Personnel	-	23,600,290	23,600,290	(492,140)	23,108,150	23,108,149	1
Operating	1,428,493	6,925,860	8,354,353	(22,308)	8,332,045	8,332,037	8
Totals	1,428,493	30,526,150	31,954,643	(514,448)	31,440,195	31,440,186	9
Housing and Community Affairs:							
Personnel	-	6,026,310	6,026,310	(193,550)	5,832,760	5,832,753	7
Operating	604,631	682,340	1,286,971	(601,915)	685,056	684,684	372
Totals	604,631	6,708,650	7,313,281	(795,465)	6,517,816	6,517,437	379
Economic Development:							
Personnel	-	2,708,500	2,708,500	34,830	2,743,330	2,743,326	4
Operating	151,511	2,489,880	2,641,391	(11,160)	2,630,231	2,499,553	130,678
Totals	151,511	5,198,380	5,349,891	23,670	5,373,561	5,242,879	130,682
Environmental Protection:							
Personnel	-	2,696,520	2,696,520	17,670	2,714,190	2,697,910	16,280
Operating	599,852	1,155,500	1,755,352	(361,087)	1,394,265	1,053,879	340,386
Totals	599,852	3,852,020	4,451,872	(343,417)	4,108,455	3,751,789	356,666
Total Departments	19,013,949	532,587,440	551,601,389	18,952,051	570,553,440	566,570,729	3,982,711
Nondepartmental:							
State retirement contribution - operating	-	698,610	698,610	-	698,610	698,603	7
Retirees group insurance - operating	-	13,970,000	13,970,000	-	13,970,000	13,970,000	-
State positions supplement - personnel	-	242,800	242,800	-	242,800	241,054	1,746
Judges special pension contribution - personnel	-	38,860	38,860	-	38,860	36,205	2,655
Compensation adjustment - personnel	-	1,210,170	1,210,170	(1,072,430)	137,740	125,309	12,431
Compensation adjustment - operating	-	117,840	117,840	-	117,840	92,525	25,315
Municipal tax duplication - operating	-	5,015,550	5,015,550	-	5,015,550	5,015,544	6
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	400,130	400,130	24,870	425,000	424,995	5
Rebate - Takoma Park library - operating	-	86,140	86,140	-	86,140	84,590	1,550
Homeowners' association roadways - operating	-	306,340	306,340	-	306,340	306,340	-
Contribution to risk management - operating	-	6,709,000	6,709,000	(414,310)	6,294,690	6,294,683	7
Support for the arts - operating	3,877,095	1,082,500	4,959,595	194,343	5,153,938	5,153,933	5
Historical activities - operating	-	297,060	297,060	-	297,060	297,060	-
Conference and Visitors Bureau - operating	174,338	435,750	610,088	(11,993)	598,095	598,095	-
Arts Council - operating	-	1,109,920	1,109,920	-	1,109,920	1,076,539	33,381
Community grants - operating	1,080,414	4,472,740	5,553,154	(93,406)	5,459,748	5,447,687	12,061
Conference Center	-	200,000	200,000	-	200,000	40,000	160,000
County associations - operating	-	54,100	54,100	-	54,100	54,097	3
Metropolitan Washington C O G - operating	-	615,690	615,690	-	615,690	615,689	1
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	52,976	270,000	322,976	(29,476)	293,500	293,500	-
Prisoner medical services - operating	-	20,000	20,000	-	20,000	4,644	15,356
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	4,187	813
Charter Review Commission - operating	-	400	400	-	400	-	400
Closing costs assistance - operating	-	215,060	215,060	-	215,060	208,600	6,460
Working families income supplement - operating	-	5,018,000	5,018,000	(422,130)	4,595,870	4,595,860	10
Information technology initiatives - operating	406,290	110,660	516,950	(28)	516,922	441,262	75,660
Interagency technology, policy and coordinating committee - personnel	-	128,900	128,900	-	128,900	103,233	25,667
Interagency technology, policy and coordinating committee - operating	-	38,310	38,310	-	38,310	28,212	10,098
Inauguration & Transition - operating	-	9,000	9,000	1,050	10,050	10,050	-
Inauguration & Transition - personnel	-	-	-	250	250	248	2
Desktop computer modernization - operating	342,714	6,174,050	6,516,764	(421,096)	6,095,668	6,095,661	7
Utilities - operating	410,079	11,407,720	11,817,799	(116,626)	11,701,173	11,701,166	7
Total - Nondepartmental	6,343,906	60,515,820	66,859,726	(2,360,982)	64,498,744	64,115,083	383,661
Total Expenditures	25,357,855	593,103,260	618,461,115	16,591,069	635,052,184	630,685,812	4,366,372
Excess of Revenues over (under) Expenditures	(25,357,855)	1,266,638,290	1,241,280,435	(16,503,471)	1,224,776,964	1,220,233,566	(4,543,398)

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	$ -	$ 120,750	$ 120,750	$ -	$ 120,750	$ 120,750	$ -
Recreation	-	3,304,560	3,304,560	-	3,304,560	3,304,560	-
Mass Transit	-	4,931,910	4,931,910	-	4,931,910	4,931,910	-
Water Quality Protection	-	540,560	540,560	-	540,560	540,560	-
Urban Districts	-	191,680	191,680	-	191,680	191,680	-
Housing Activities	-	13,430	13,430	-	13,430	13,430	-
Cable TV	-	3,452,380	3,452,380	-	3,452,380	3,452,380	-
Total Special Revenue Funds	-	12,555,270	12,555,270	-	12,555,270	12,555,270	-
Enterprise Funds:							
Liquor	-	18,985,890	18,985,890	-	18,985,890	18,985,890	-
Parking Lot Districts	-	521,220	521,220	-	521,220	521,220	-
Solid Waste Activities	-	1,524,960	1,524,960	-	1,524,960	1,524,960	-
Community Use of Public Facilities	-	269,520	269,520	-	269,520	269,520	-
Permitting Services	-	8,575,490	8,575,490	-	8,575,490	8,575,490	-
Total Enterprise Funds	-	29,877,080	29,877,080	-	29,877,080	29,877,080	-
Total Transfers In	-	42,432,350	42,432,350	-	42,432,350	42,432,350	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	522,610	522,610	-	522,610	522,610	-
Housing Opportunities Commission	-	103,750	103,750	-	103,750	103,750	-
Total Transfers In - Component Units	-	626,360	626,360	-	626,360	626,360	-
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,059,080)	(1,059,080)	-	(1,059,080)	(1,059,080)	-
Urban Districts	-	(1,160,140)	(1,160,140)	(230,710)	(1,390,850)	(1,390,850)	-
Mass Transit	-	(993,100)	(993,100)	(6,216,000)	(7,209,100)	(7,209,100)	-
Housing Activities	-	(11,937,810)	(11,937,810)	-	(11,937,810)	(11,937,810)	-
Economic Development	-	(94,400)	(94,400)	(250,000)	(344,400)	(344,400)	-
Grants	-	-	-	(465,071)	(465,071)	(433,673)	31,398
Total Special Revenue Funds	-	(15,244,530)	(15,244,530)	(7,161,781)	(22,406,311)	(22,374,913)	31,398
Internal Service Fund:							
Motor Pool	-	(32,000)	(32,000)	(58,082)	(90,082)	(79,734)	10,348
Total Internal Service Funds	-	(32,000)	(32,000)	(58,082)	(90,082)	(79,734)	10,348
Enterprise Funds:							
Community Use of Public Facilities	-	(178,380)	(178,380)	-	(178,380)	(178,380)	-
Parking Lot Districts	(612,596)	-	(612,596)	-	(612,596)	-	612,596
Solid Waste Activities	-	(1,155,580)	(1,155,580)	-	(1,155,580)	(1,155,580)	-
Permitting Services	-	(1,034,820)	(1,034,820)	-	(1,034,820)	(1,034,820)	-
Total Enterprise Funds	(612,596)	(2,368,780)	(2,981,376)	-	(2,981,376)	(2,368,780)	612,596
Debt Service Fund	-	(172,550,170)	(172,550,170)	-	(172,550,170)	(168,474,195)	4,075,975
Capital Projects Fund	(38,812,908)	(16,435,490)	(55,248,398)	7,476,491	(47,771,907)	(15,012,594)	32,759,313
Total Transfers (Out)	(39,425,504)	(206,630,970)	(246,056,474)	256,628	(245,799,846)	(208,310,216)	37,489,630
Transfers (Out) - Component Units:							
Montgomery County Public Schools - operating	-	(1,066,260,268)	(1,066,260,268)	-	(1,066,260,268)	(1,066,260,268)	-
Montgomery County Public Schools - capital	(11,973,549)	(19,871,000)	(31,844,549)	(4,875,000)	(36,719,549)	(24,912,435)	11,807,114
Total Montgomery County Public Schools	(11,973,549)	(1,086,131,268)	(1,098,104,817)	(4,875,000)	(1,102,979,817)	(1,091,172,703)	11,807,114
Montgomery Community College - operating	-	(61,803,955)	(61,803,955)	-	(61,803,955)	(61,803,955)	-
Montgomery Community College - capital	(4,127,264)	(8,366,000)	(12,493,264)	-	(12,493,264)	(5,808,476)	6,684,788
Total Montgomery Community College	(4,127,264)	(70,169,955)	(74,297,219)	-	(74,297,219)	(67,612,431)	6,684,788
Housing Opportunity Commision - operating	-	(4,384,570)	(4,384,570)	-	(4,384,570)	(4,185,562)	199,008
Housing Opportunity Commision - capital	(296,270)	(150,000)	(446,270)	-	(446,270)	(373,254)	73,016
Total Housing Opportunity Commision	(296,270)	(4,534,570)	(4,830,840)	-	(4,830,840)	(4,558,816)	272,024
Total Transfers (Out) - Component Units	(16,397,083)	(1,160,835,793)	(1,177,232,876)	(4,875,000)	(1,182,107,876)	(1,163,343,950)	18,763,926
Total Other Financing Sources (Uses)	(55,822,587)	(1,324,408,053)	(1,380,230,640)	(4,618,372)	(1,384,849,012)	(1,328,595,456)	56,253,556
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(81,180,442)	(57,769,763)	(138,950,205)	(21,121,843)	(160,072,048)	(108,361,890)	51,710,158
Fund Balance - Beginning of Year	81,180,442	139,339,340	220,519,782	(2,555,940)	217,963,842	217,963,842	-
Fund Balance - End of Year	$ -	$ 81,569,577	$ 81,569,577	$ (23,677,783)	$ 57,891,794	$ 109,601,952	$ 51,710,158

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	Activities - Internal Service Funds
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 4,741,479	$ 51,246,595	$ 27,742,305	$ 11,278,246	$ 95,008,625	$ 69,087,431
Cash with fiscal agent	-	109,740	31,061	-	140,801	-
Cash	32,375	3,000	150	50	35,575	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,261,878	-	1,261,878	-
Accounts	2,297,676	3,163,802	5,693	-	5,467,171	120,998
Notes	-	-	-	-	-	61,984
Parking violations	-	-	1,823,271	-	1,823,271	-
Due from other funds	-	5,165	-	-	5,165	2,989,772
Due from component units	-	13,775	46,497	-	60,272	751,298
Due from other governments	-	115,822	193,364	-	309,186	225,613
Inventory of supplies	28,283,744	-	-	-	28,283,744	1,725,187
Prepaids	473,788	5,500	11,276	1,402	491,966	665,409
Other assets	93,599	-	-	-	93,599	-
Total Current Assets	35,922,661	54,663,399	31,115,495	11,279,698	132,981,253	75,627,992
Noncurrent Assets:						
Restricted equity in pooled cash and investments	-	31,483,785	5,613,114	-	37,096,899	-
Restricted investments	-	3,153,552	-	-	3,153,552	-
Restricted Assets	-	34,637,337	5,613,114	-	40,250,451	-
Unamortized bond costs	-	606,901	711,402	-	1,318,303	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,517,183	-	52,833,368	22,506
Improvements other than buildings	-	72,111,664	33,088,619	-	105,200,283	268,565
Buildings	7,388,354	23,527,159	112,400,530	-	143,316,043	315,732
Furniture, fixtures, equipment, and machinery	5,636,556	9,395,786	236,049	4,195,201	19,463,592	3,912,748
Automobiles and trucks	3,040,123	472,163	91,763	-	3,604,049	58,754,633
Construction in progress	-	-	14,233,274	-	14,233,274	-
Subtotal	16,546,463	123,341,527	194,567,418	4,195,201	338,650,609	63,274,184
Less: Accumulated depreciation	9,691,888	86,746,822	61,546,886	3,745,986	161,731,582	39,969,444
Total Capital Assets (net of accumulated depreciation)	6,854,575	36,594,705	133,020,532	449,215	176,919,027	23,304,740
Total Noncurrent Assets	6,854,575	71,838,943	139,345,048	449,215	218,487,781	23,304,740
Total Assets	42,777,236	126,502,342	170,460,543	11,728,913	351,469,034	98,932,732
LIABILITIES						
Current Liabilities:						
Accounts payable	13,307,286	6,996,292	1,392,644	103,341	21,799,563	2,699,824
Interest payable	-	321,184	158,139	-	479,323	-
Retainage payable	-	63,957	1,041,104	-	1,105,061	-
Deposits	421,278	-	64,614	-	485,892	-
Claims payable	-	-	-	-	-	66,564,246
Accrued liabilities	1,439,182	715,140	295,618	7,760,325	10,210,265	2,705,885
Due to other funds	148,725	61,506	21,151	185,274	416,656	139,985
Due to component units	-	-	-	630,106	630,106	47,908
Due to other governments	393,043	840,570	6,460	9,869	1,249,942	10,304
Deferred revenue	-	-	55,019	675,378	730,397	71,844
General obligation bonds payable	-	84,251	-	-	84,251	-
Revenue bonds payable	-	2,555,000	5,210,000	-	7,765,000	-
Landfill closure costs	-	1,547,000	-	-	1,547,000	-
Total Current Liabilities	15,709,514	13,184,900	8,244,749	9,364,293	46,503,456	72,239,996
Noncurrent Liabilities:						
Notes payable	-	800,000	-	-	800,000	-
General obligation bonds payable	-	108,131	-	-	108,131	-
Revenue bonds payable	-	28,378,152	41,979,981	-	70,358,133	-
Landfill closure costs	-	22,307,523	-	-	22,307,523	-
Compensated absences	306,385	133,149	64,116	343,578	847,228	285,441
Total Noncurrent Liabilities	306,385	51,726,955	42,044,097	343,578	94,421,015	285,441
Total Liabilities	16,015,899	64,911,855	50,288,846	9,707,871	140,924,471	72,525,437
NET ASSETS						
Invested in capital, net of related debt	6,854,575	5,469,171	85,830,551	449,215	98,603,512	23,304,740
Restricted for debt service	-	34,637,337	5,613,114	-	40,250,451	-
Unrestricted	19,906,762	21,483,979	28,728,032	1,571,827	71,690,600	3,102,555
Total net assets	$ 26,761,337	$ 61,590,487	$ 120,171,697	$ 2,021,042	210,544,563	$ 26,407,295
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,932,877)	
Net assets of business-type activities					$ 208,611,686	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-9

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	$ 157,039,359	$ -	$ -	$ -	$ 157,039,359	$ -
Charges for services	15,115	91,278,438	13,398,038	6,581,427	111,273,018	152,373,740
Licenses and permits	-	10,145	-	18,174,345	18,184,490	-
Fines and penalties	-	57,835	5,675,067	101,425	5,834,327	-
Claim recoveries	-	-	-	-	-	1,135,437
Total Operating Revenues	157,054,474	91,346,418	19,073,105	24,857,197	292,331,194	153,509,177
OPERATING EXPENSES						
Cost of goods sold	112,091,755	-	-	-	112,091,755	-
Personnel costs	15,198,483	8,941,780	2,759,562	16,056,101	42,955,926	14,744,716
Postage	46,231	109,115	2,808	-	158,154	1,602,864
Self-insurance incurred and estimated claims	-	-	-	-	-	80,688,803
Insurance	474,333	72,470	40,310	8,070	595,183	32,813,330
Supplies and materials	469,247	234,904	297,163	354,353	1,355,667	11,864,451
Contractual services	1,538,216	74,249,023	4,191,763	3,573,656	83,552,658	9,227,892
Communications	228,817	187,945	117,814	318,250	852,826	152,190
Transportation	352,260	253,577	156,162	391,048	1,153,047	107,451
Public utility service	393,516	92,247	900,053	435,930	1,821,746	490,907
Rentals	3,177,498	20,763	1,254,601	1,199,584	5,652,446	356,163
Maintenance	666,691	441,024	1,976,119	809,104	3,892,938	7,189,118
Depreciation and amortization	719,893	3,093,559	5,549,220	519,498	9,882,170	5,126,008
Landfill closure expense	-	298,000	-	-	298,000	-
Other	366,166	469,254	111,416	81,035	1,027,871	512,381
Total Operating Expenses	135,723,106	88,463,661	17,356,991	23,746,629	265,290,387	164,876,274
Operating Income (Loss)	21,331,368	2,882,757	1,716,114	1,110,568	27,040,807	(11,367,097)
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	7,096,856	-	7,096,856	-
Intergovernmental	-	-	-	51,154	51,154	-
Gain (loss) on disposal of capital assets	-	58,750	-	-	58,750	277,825
Investment income	-	2,231,742	625,466	212,016	3,069,224	1,200,847
Interest expense	-	(2,120,598)	(2,262,131)	-	(4,382,729)	-
Other revenue	4,728	79,883	1,903,312	-	1,987,923	34,971
Total Nonoperating Revenues (Expenses)	4,728	249,777	7,363,503	263,170	7,881,178	1,513,643
Nonoperating Income (Loss)	21,336,096	3,132,534	9,079,617	1,373,738	34,921,985	(9,853,454)
Special Item:						
Depreciation adjustment	-	241,534	-	357,931	599,465	956,978
Loss on disposal of capital asset	-	-	(3,938,026)	-	(3,938,026)	-
Total Special Item	-	241,534	(3,938,026)	357,931	(3,338,561)	956,978
Income (Loss) before Transfers	21,336,096	3,374,068	5,141,591	1,731,669	31,583,424	(8,896,476)
Transfers In (Out):						
Transfers in	-	-	11,776,945	-	11,776,945	646,873
Transfers out	(19,078,037)	(1,524,960)	(4,926,864)	(8,845,010)	(34,374,871)	-
Total Transfers In (Out)	(19,078,037)	(1,524,960)	6,850,081	(8,845,010)	(22,597,926)	646,873
Change in Net Assets	2,258,059	1,849,108	11,991,672	(7,113,341)	8,985,498	(8,249,603)
Total Net Assets - Beginning of Year	24,503,278	59,741,379	108,180,025	9,134,383		34,656,898
Total Net Assets - End of Year	$ 26,761,337	$ 61,590,487	$ 120,171,697	$ 2,021,042		$ 26,407,295
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(311,192)	
Change in net assets of business-type activities					$ 8,674,306	

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, 2003
Exhibit A-10

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 160,106,687	$ 89,987,951	$ 20,853,209	$ 23,900,291	$ 294,848,138	$ 152,654,003
Payments to suppliers	(126,290,071)	(75,011,841)	(10,435,846)	(6,812,292)	(218,550,050)	(67,673,865)
Payments to employees	(14,949,349)	(8,894,364)	(2,746,220)	(15,930,239)	(42,520,172)	(14,551,620)
Internal activity - payments from other funds	-	1,155,580	-	1,034,820	2,190,400	-
Claims paid	-	-	-	-	-	(72,268,726)
Other revenue	4,728	79,883	159,936	399,116	643,663	-
Net Cash Provided (Used) by Operating Activities	18,871,995	7,317,209	7,831,079	2,591,696	36,611,979	(1,840,208)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	7,115,018	-	7,115,018	-
Operating subsidies and transfers to other funds	(19,078,037)	(1,524,960)	(4,926,864)	(8,845,010)	(34,374,871)	-
Intergovernmental revenue	-	-	-	51,154	51,154	-
Net Cash Provided (Used) by Noncapital Financing Activities	(19,078,037)	(1,524,960)	2,188,154	(8,793,856)	(27,208,699)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	-	58,750	-	-	58,750	335,085
Purchases of capital assets	(469,793)	(2,998,563)	(7,749,445)	(102,403)	(11,320,204)	(4,733,240)
Principal paid on capital debt	-	(2,409,851)	(5,435,000)	-	(7,844,851)	-
Interest paid on capital debt	-	(1,086,790)	(2,155,509)	-	(3,242,299)	-
Proceeds from notes receivable	-	-		-	-	21,666
Internal activity - payments from other funds	-	-	-	-	-	646,873
Net Cash Provided (Used) by Capital and Related Financing Activities	(469,793)	(6,436,454)	(15,339,954)	(102,403)	(22,348,604)	(3,729,616)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	-	1,548,455	624,579	212,016	2,385,050	1,197,357
Investment income from nonpooled investments	-	224,270	887	-	225,157	3,490
Net Cash Provided (Used) by Investing Activities	-	1,772,725	625,466	212,016	2,610,207	1,200,847
Net Increase (Decrease) in Cash and Cash Equivalents	(675,835)	1,128,520	(4,695,255)	(6,092,547)	(10,335,117)	(4,368,977)
Balances - Beginning of Year	5,449,689	81,714,600	38,081,885	17,370,843	142,617,017	73,456,708
Balances - End of Year	$ 4,773,854	$ 82,843,120	$ 33,386,630	$ 11,278,296	$ 132,281,900	$ 69,087,731
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 21,331,368	$ 2,882,757	$ 1,716,114	$ 1,110,568	$ 27,040,807	$ (11,367,097)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	719,893	3,093,559	5,549,220	519,498	9,882,170	5,126,008
Other revenue	4,728	79,883	159,936	-	244,547	34,971
Changes in assets and liabilities:						
Receivables, net	(388,369)	(202,887)	1,776,476	-	1,185,220	(664,073)
Inventories, prepaids and other assets	(3,343,878)	1,000	3,628	-	(3,339,250)	(441,536)
Accounts payable and other liabilities	335,744	1,441,564	(1,380,899)	410,311	806,720	5,160,159
Accrued expenses	212,509	21,333	6,604	551,319	791,765	311,360
Net Cash Provided (Used) by Operating Activities	$ 18,871,995	$ 7,317,209	$ 7,831,079	$ 2,591,696	$ 36,611,979	$ (1,840,208)
Noncash investing, capital and financing activities:						
Refunding of revenue bonds	$ -	$ 31,825,000	$ -	$ -	$ 31,825,000	$ -
Revenue bonds issued as a result of refunding	-	31,075,000	-	-	31,075,000	-
Capital asset disposals	-	-	3,938,026	-	3,938,026	-
Assets aquired through transfers from governmental activities	-	-	13,563,825	-	13,563,825	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 2,392,498	$ 24,071,770	$ 2,512,432	$ 37,790,559
Cash	-	-	-	79,717
Investments	2,195,285,888	-	-	-
Receivables:				
Property taxes	-	-	-	6,963,783
Accounts	6,948	-	-	32,543
Other	108,324	-	-	377,013
Due from other funds	4,237,685	-	-	-
Due from component units	85,979	-	-	-
Due from other governments	19,677	-	-	-
Prepaids	705	-	75,000	-
Total Current Assets	2,202,137,704	24,071,770	2,587,432	45,243,615
Noncurrent Assets:				
Capital Assets:				
Furniture, fixtures, equipment, and machinery	111,375	-	-	-
Less: Accumulated depreciation	111,375	-	-	-
Total Capital Assets (net of accumulated depreciation)	-	-	-	-
Total Assets	2,202,137,704	24,071,770	2,587,432	$ 45,243,615
LIABILITIES				
Current Liabilities:				
Accounts payable	235,386,015	-	5,776	7,100
Accrued liabilities	192,007	-	-	-
Deposits	-	-	-	646,349
Due to other funds	2,098	-	-	-
Due to other governments	-	-	-	1,506,431
Uncollected property taxes due to other governments	-	-	-	6,963,783
Undistributed taxes and refunds	-	-	-	11,159,424
Deferred revenue	159,404	-	-	-
Tax sale surplus and redemptions payable	-	-	-	4,090,226
Other liabilities	-	-	-	20,870,302
Total Current Liabilities	235,739,524	-	5,776	45,243,615
Noncurrent Liabilities:				
Compensated absences	49,560	-	-	-
Total Liabilities	235,789,084	-	5,776	$ 45,243,615
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	$ 1,966,348,620	$ 24,071,770	$ 2,581,656	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 62,004,408	$ -	$ -
Members	39,582,146	-	861,186
Share purchases	-	9,275,076	-
Total Contributions	101,586,554	9,275,076	861,186
Investment income	96,418,292	436,372	28,201
Less: investment expenses	7,796,767	-	-
Net Investment Income	88,621,525	436,372	28,201
Other income - forfeitures	179,273	-	-
Total Additions, net	190,387,352	9,711,448	889,387
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	77,008,990	-	-
Survivors	4,811,473	-	-
Disability	18,559,929	-	-
Total Benefits	100,380,392	-	-
Share redemptions	-	9,754,000	-
Member refunds	12,709,731	-	-
Program expenses	-	-	560,408
Administrative expenses	2,234,691	-	-
Total Deductions	115,324,814	9,754,000	560,408
Net Increase (Decrease)	75,062,538	(42,552)	328,979
Net Assets - Beginning of Year	1,891,286,082	24,114,322	2,252,677
Net Assets - End of Year	$ 1,966,348,620	$ 24,071,770	$ 2,581,656

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2003
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 9,220,435	$ 7,071,745	$ 23,173,131	$ 39,465,311
Cash with fiscal agents	50,645	22,347,178	-	22,397,823
Cash	9,820,243	17,203	2,536,377	12,373,823
Investments - cash equivalents	16,841,483	27,458,601	31,622,523	75,922,607
Investments	2,804,851	-	-	2,804,851
Receivables (net of allowances for uncollectables):				
Capital leases	-	-	19,101,173	19,101,173
Accounts	12,433,477	2,855,935	1,738,760	17,028,172
Notes	-	38,355	-	38,355
Mortgages	-	255,664,332	-	255,664,332
Interest	-	3,988,630	-	3,988,630
Other	1,497,143	3,611,375	1,463,239	6,571,757
Due from primary government	30,182,264	1,222,722	4,922,087	36,327,073
Due from other governments	27,592,032	1,156,406	4,149,421	32,897,859
Inventory of supplies	7,584,685	521,066	1,431,272	9,537,023
Prepaids	200,624	1,286,900	197,434	1,684,958
Deferred charges	-	-	743,556	743,556
Other assets	-	21,994,542	184,510	22,179,052
Restricted Assets:				
Equity in pooled cash and investments	-	12,008,003	-	12,008,003
Cash with fiscal agents	-	13,172,502	-	13,172,502
Cash	-	-	178,377	178,377
Investments - cash equivalents	-	102,802,245	17,676,542	120,478,787
Investments	-	188,706,806	-	188,706,806
Capital assets:				
Nondepreciable assets	167,656,789	67,001,881	63,448,857	298,107,527
Depreciable assets, net	1,085,576,093	275,556,747	135,940,921	1,497,073,761
Total Assets	1,371,460,764	1,008,483,174	308,508,180	2,688,452,118
LIABILITIES				
Accounts payable	61,127,171	8,943,260	7,287,632	77,358,063
Interest payable	14,540	14,529,062	811,802	15,355,404
Retainage payable	7,269,905	-	987,811	8,257,716
Accrued liabilities	-	3,564,288	466,160	4,030,448
Claims payable	20,955,038	-	-	20,955,038
Deposits	-	8,013,086	66,992	8,080,078
Due to primary government	22,086,306	35,900,457	3,397,625	61,384,388
Deferred revenue	5,491,702	14,374,454	4,178,748	24,044,904
Other liabilities	-	9,511,169	68,320	9,579,489
Noncurrent liabilities:				
Due within one year	16,715,050	58,129,857	3,339,994	78,184,901
Due in more than one year	88,375,949	685,781,698	83,880,725	858,038,372
Total Liabilities	222,035,661	838,747,331	104,485,809	1,165,268,801
NET ASSETS				
Invested in capital assets, net of related debt	1,229,332,240	47,971,825	170,380,361	1,447,684,426
Restricted for:				
Capital projects	-	-	311,576	311,576
Debt Service	-	58,683,709	5,690,976	64,374,685
Other purposes	187,201	3,586,461	1,961,505	5,735,167
Unrestricted (deficit)	(80,094,338)	59,493,848	25,677,953	5,077,463
Total net assets	$ 1,149,425,103	$ 169,735,843	$ 204,022,371	$ 1,523,183,317

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-14

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**MCPS**	**HOC**	**Nonmajor Component Units**	**Total**
Component Units:								
General government	$ 2,533,481	$ 2,205,683	$ 185,063	$ -	$ -	$ -	$ (142,735)	$ (142,735)
Culture and recreation	13,245,221	10,529,269	-	38,544	-	-	(2,677,408)	(2,677,408)
Community development and housing	162,223,661	101,682,670	66,130,607	3,900,740	-	9,490,356	-	9,490,356
Education:								
Secondary education	1,573,488,788	29,810,860	124,705,678	31,504,220	(1,387,468,030)	-	-	(1,387,468,030)
Higher education	164,373,640	51,832,401	15,092,583	2,353,031	-	-	(95,095,625)	(95,095,625)
Total component units	$ 1,915,864,791	$ 196,060,883	$ 206,113,931	$ 37,796,535	(1,387,468,030)	9,490,356	(97,915,768)	(1,475,893,442)
General revenues:								
Grants and contributions not restricted to specific programs					1,397,294,717	-	122,190,263	1,519,484,980
Investment Income					388,332	1,219,446	676,803	2,284,581
Gain on sale of capital assets					-	-	3,577	3,577
Total general revenues					1,397,683,049	1,219,446	122,870,643	1,521,773,138
Change in net assets					10,215,019	10,709,802	24,954,875	45,879,696
Net assets - beginning					1,139,210,084	159,026,041	179,067,496	1,477,303,621
Net assets - ending					$ 1,149,425,103	$ 169,735,843	$ 204,022,371	$ 1,523,183,317

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

Discretely Presented Component Units

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

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

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

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

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

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

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery Community College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4th Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

Joint Ventures

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

Complete financial statements can be obtained at the joint ventures' administrative offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 8720 Georgia Avenue, Suite 904 Silver Spring, MD 20910
Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002	Northeast Maryland Waste Disposal Authority 25 South Charles Street, Suite 2105 Baltimore, MD 21201-3330

B) Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes the final fiscal year quarterly distribution (which is normally received in August or September after the fiscal year-end), and amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Most deferred revenue is 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.

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

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

Financial Statement Presentation

The County reports the following major governmental funds:

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

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

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

The County reports the following major enterprise funds:

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

Solid Waste Disposal and Collection Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County.

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

Additionally, the County reports the following fund types:

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

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

The County reports the following fiduciary fund types:

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

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

Private-Purpose Trust Funds - These funds are used to account for funds whose principal and interest are legally held in trust and must be expended in accordance with their designated purposes.

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

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

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

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

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

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

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

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a Primary Government fund) are stated at fair value.

Proprietary Fund Types – The Solid Waste Disposal and Collection Enterprise Fund investment is a U.S. Government security which is stated at fair value.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The Employees' Retirement System Pension and Other Employee Benefit Trust Fund (System) invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY03, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, the County has defined "cash equivalents" as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," and "Restricted Equity in pooled cash and investments."

2) Receivables and Payables

Due from/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are current and are referred to as "due to/from other funds." All other outstanding balances between funds are also reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

3) Inventories and Prepaids

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

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

4) Restricted Assets

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

5) Capital Assets

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

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

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

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

Assets	Years
Buildings and structures	20 – 40
Parking garages	30
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Machinery and equipment	3 – 20
Office furniture and fixtures	3 – 15
Automobiles and trucks	2 – 15

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, 75% and 25% of such accrued leave is classified as current and long-term, respectively. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) Fund Equity

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2003, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to $809,194,115. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $346,349,524.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the "available" criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. Designations of fund balance represent tentative management plans that are subject to change.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY03. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate did not exceed the Charter limit for FY03.

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. Effective July 2000, owner-occupied residential property owners began paying their tax on a semi-annual schedule; the first and second installments for FY02 were due September 30, 2001 and December 31, 2001, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30th.

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 1st or in the case of a semi-annual schedule, January 1st.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

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

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

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note IV-H1), such encumbrances are reserved as part of the current fiscal year's fund balance. 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 FY03, the County Council increased the operating budget through supplemental and special appropriations by $47.7 million. In addition, supplemental appropriations decreased the CIP budget by $26.3 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.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

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

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 1,850,919,378	$ 630,685,812	$ (1,328,595,456)	$ (108,361,890)
Reconciling items:				
Cancellation of prior year encumbrances	(2,555,940)	-	-	(2,555,940)
Elimination of encumbrances outstanding	-	(16,783,091)	-	16,783,091
Unrealized gains (losses)	1,752,107	-	-	1,752,107
Elimination of certain grant activity	13,995	-	(6,607)	7,388
Financing under capital lease	-	-	11,776,945	11,776,945
Transfer to Silver Spring Parking Lot District	-	-	(11,776,945)	(11,776,945)
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	919,040	-	(919,040)	-
Public agency permits	-	1,034,820	1,034,820	-
Solid waste tipping fees	-	1,155,580	1,155,580	-
Community use of public facilities for elections	-	178,380	178,380	
Water Quality Protection loan repayment	-	-	(458,710)	(458,710)
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	626,360	-	(626,360)	-
Component Units - Transfer out	-	1,163,343,950	1,163,343,950	-
As reported - GAAP basis	$ 1,851,674,940	$ 1,779,615,451	$ (164,893,443)	$ (92,833,954)

B) Deficit Fund Equity

Internal Service Fund – The $10,273,483 unreserved deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the year, and in incurred but not reported claims as determined by the actuary. The deficit will be recovered by charging participating agencies higher insurance premium rates in future years.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Authorization and Balances

The Montgomery County reporting entity total cash and investments as of June 30, 2003, totaled $3,331,814,477, of which $2,844,305,587 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 551,582,319	$ 39,465,311	$ 591,047,630
Cash with fiscal agents	49,710,378	22,397,823	72,108,201
Cash	303,257	12,373,823	12,677,080
Investments - cash equivalents	-	75,922,607	75,922,607
Investments	2,202,459,182	2,804,851	2,205,264,033
Restricted equity in pooled cash and investments	37,096,899	12,008,003	49,104,902
Restricted cash with fiscal agents	-	13,172,502	13,172,502
Restricted cash	-	178,377	178,377
Restricted investments - cash equivalents	-	120,478,787	120,478,787
Restricted investments	3,153,552	188,706,806	191,860,358
Total	$ 2,844,305,587	$ 487,508,890	$ 3,331,814,477
Deposit and Investment Summary:			
Deposits	$ 28,880,088	$ 18,604,816	$ 47,484,904
Investments	2,765,411,864	321,703,890	3,087,115,754
Cash on hand, fiscal agents, safe deposit escrow	50,013,635	147,200,184	197,213,819
Total	$ 2,844,305,587	$ 487,508,890	$ 3,331,814,477

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

Government-wide	$ 582,172,723
Fiduciary funds	2,262,132,864
Total	$ 2,844,305,587

PRIMARY GOVERNMENT

External Investment Pool - 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. 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, money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7, and the Maryland Local Government Investment Pool (MLGIP). The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months.

These same statutes require that securities underlying certificates of deposit and repurchase agreements have a market value of at least 102 percent of the cost of the investment. A third party custodian holds the collateral underlying all repurchase agreements. 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 in a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits throughout the fiscal year were fully insured or collateralized. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The County's external investment pool is not subject to regulatory oversight by the SEC. However, the pool is subject to oversight by the County's investment committee.

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 sold and redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

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

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for FY03 related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) has been recorded in the General Fund, since this amount is not material.

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	$ 551,582,319	$ 11,485,768	$ 563,068,087
Restricted equity in pooled cash and investments	37,096,899	-	37,096,899
Total	$ 588,679,218	$ 11,485,768	$ 600,164,986
Deposit and Investment Summary:			
Deposits	$ 28,880,088	$ -	$ 28,880,088
Investments	559,799,130	11,485,768	571,284,898
Total	$ 588,679,218	$ 11,485,768	$ 600,164,986

A summary of investments is as follows:

Investment Type:	Fair Value	Principal	Maturity Range	Interest Rate Range
Repurchase agreements	$ 179,948,151	$ 180,000,000	07/03	.98 - 1.27%
U.S. Government securities	68,902,050	69,108,689	07/03 - 05/04	1.00 - 1.50%
Commercial paper	26,983,550	26,966,038	07/03	1.12 - 1.35%
Bankers' acceptances	154,700,728	154,443,294	07/03 - 12/03	1.01 - 1.28%
Money market funds	140,750,419	140,750,419	N/A	1.10 - 1.14%
Total	$ 571,284,898	$ 571,268,440		

During FY03, the County's external investment pool participated in the MLGIP; as of year-end, the County is no longer a participant in the MLGIP**.** The County's pension trust securities lending transactions, as described below, also participated in an external investment pool.

<u>Securities Lending Transactions</u> – Montgomery County Code and Maryland State statutes allow the Employees' Retirement System of Montgomery County, Maryland (MCERS) to participate in securities lending transactions, and MCERS has, via a Securities Lending Authorization Agreement, authorized The Northern Trust Company (Northern) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During FY03, Northern lent, at the direction of the Board of Investment Trustees, MCERS' securities and received cash (both United States and foreign currency), United States government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell those collateral securities delivered unless there was a borrower default. Borrowers were required for each loan to deliver collateral amounting to 102 percent and 105 percent of the market value of the securities plus any accrued interest on the United States and foreign securities, respectively. MCERS did not impose any restriction during FY03 on the amount of loans that Northern made on its behalf. Northern 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 failures by any borrowers to return loaned securities or pay distributions thereon during FY03. Moreover, there were no losses during FY03 resulting from default of the borrowers or Northern. During FY03, MCERS and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral was invested at the direction of MCERS in the cash collateral fund of the Northern Core USA Collateral Section (the "Fund"). The Fund is accounted for on an amortized cost basis. The majority of the investments of the Fund consist of money market instruments which mature within one year. The Fund is not registered with the Securities and Exchange Commission but the Fund complies with a substantial majority of the requirements of SEC Rule 2a-7. Northern and consequently the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Illinois Commissioner of Banks and Real Estate. The Fund sponsor believes that the value of a participant's investment in the Fund determined by valuing the underlying assets at amortized cost is approximately equal to the value of the investment if the underlying assets are valued at fair value.

The average duration of such investment pool as of June 30, 2003, was 38 days and the average weighted maturity was 171 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2003, MCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for MCERS as of June 30, 2003, were $283,428,437 and $274,876,655, respectively. Cash collateral held, amounting to $233,445,083, is included as an asset and corresponding liability in the accompanying financial statements at year-end.

COMPONENT UNITS

MCPS - The Annotated Code of Maryland requires that MCPS funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority or municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized. The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an Act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2a-7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The MCPS Employee Benefit Plan Internal Service Fund is authorized to invest in domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, money market funds and pooled real estate investments. Fixed income investments are to be made primarily in issues rated "A" or better by Moody's and "A" or better by Standards and Poor's rating agencies.

HOC - Investments of HOC's General Fund, Public Fund, and Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. government and federal agencies, bankers' acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the MLGIP, commercial paper, and investments in the Montgomery County investment pool. Investments of the HOC Multi-Family Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by HOC providing for the issuance of bonds.

2) Credit and Market Risk

Deposit Collateral:

	Carrying Amount	Bank Balance	Total Collateral **
Primary Government:			
Montgomery County *	$ 28,880,088	$ 43,653,477	$ 43,653,477
Component Units:			
MCPS	8,420,327	16,184,414	16,184,414
MCC	1,289,466	3,311,373	3,311,373
MCRA	1,195,899	2,496,249	2,496,249
HOC	7,514,687	7,514,687	7,514,687
BUPI	184,437	206,710	174,205
Total Component Units	18,604,816	29,713,433	29,680,928
Total Reporting Entity	$ 47,484,904	$ 73,366,910	$ 73,334,405

* County deposits are the same as external investment pool deposits.
** For those entities with fully collateralized deposits, total actual collateral equals or exceeds the amounts listed.

Deposits include bank accounts and non-negotiable certificates of deposit. The County's bank balances, and therefore the external investment pool's balances, were insured or collateralized with securities held by the County's agent in the County's name. Of the component unit bank balances, $17,000,839 was insured or collateralized with securities held by the component units' agents in the component units' names, $12,680,089 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names, and $32,505 was uncollateralized.

Investments by Category of Risk:

Primary Government:	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Pension Investments:					
Short-term investments	$ 117,775,423	$ -	$ -	$ 117,775,423	$ 117,775,423
Asset-backed securities	23,090,640	-	-	23,090,640	23,090,640
Collateralized mortgage obligations	6,984,377	-	-	6,984,377	6,984,377
Commercial mortgage-backed securities	3,689,495	-	-	3,689,495	3,689,495
Municipal/provincial bonds	3,214,422	-	-	3,214,422	3,214,422
Convertible corporate bonds	110,801	-	-	110,801	110,801
Corporate bonds:					
Not on securities loan	141,220,623	-	-	141,220,623	141,220,623
On securities loan for securities collateral	2,407,337	-	-	2,407,337	2,407,337
U.S. Government obligations:					
Not on securities loan	40,211,561	-	-	40,211,561	40,211,561
On securities loan for securities collateral	41,195,562	-	-	41,195,562	41,195,562
Common and preferred stock:					
Not on securities loan	718,631,863	-	-	718,631,863	718,631,863
On securities loan for securities collateral	4,995,405	-	-	4,995,405	4,995,405
Subtotal Pension Investments	1,103,527,509	-	-	1,103,527,509	1,103,527,509
Other Investments:					
U.S. Government securities	10,326,846			10,326,846	10,326,846
	$ 1,113,854,355	$ -	$ -	1,113,854,355	1,113,854,355
Pooled investments held in:					
Montgomery County external investment pool *				559,799,130	559,799,130
Pension Investments:					
Mutual and commingled funds				623,543,343	623,543,343
Securities lending short-term collateral investment pool				233,445,083	233,445,083
Investments held by broker dealers under securities loans with cash collateral:					
Common and preferred stock				110,112,970	110,112,970
Corporate bonds				39,963,934	39,963,934
Government obligations				76,201,453	76,201,453
Real estate				7,410,841	7,410,841
Alternative investment				1,080,755	1,080,755
Subtotal Pension Investments				1,091,758,379	1,091,758,379
Subtotal Pooled Investments				1,651,557,509	1,651,557,509
Total Investments				$ 2,765,411,864	$ 2,765,411,864

Component Units:	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase agreements	$ 5,964,188	$ -	$ 273,836	$ 6,238,024	$ 6,238,024
U.S. Government securities	202,013,445	12,152,481	18,432,089	232,598,015	232,603,194
Bankers' acceptances	-	18,440,659	-	18,440,659	18,447,892
Corporate stocks and bonds	-	749	-	749	749
	$ 207,977,633	$ 30,593,889	$ 18,705,925	257,277,447	257,289,859
Pooled investments held in:					
Montgomery County external investment pool *				11,485,768	11,485,768
Maryland local government investment pool				34,369,856	34,369,856
Mutual funds				18,570,819	18,570,819
Total Investments				$ 321,703,890	$ 321,716,302

MCC short-term investments with original maturities of less than 90 days in U.S. Government securities and bankers' acceptances are carried at amortized cost.

* The Primary Government and Component Units' participation in the Montgomery County external investment pool is presented as pooled investments and not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form. The County, as sponsor of the pool, has disclosed the risk categorization of external pool investments below.

External Investment Pool:	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase agreements	$ 179,948,151	$ -	$ -	$ 179,948,151	$ 179,948,151
U.S. Government securities	68,902,050	-	-	68,902,050	68,902,050
Commercial paper	26,983,550	-	-	26,983,550	26,983,550
Bankers' acceptances	154,700,728	-	-	154,700,728	154,700,728
	$ 430,534,479	$ -	$ -	430,534,479	430,534,479
Pooled investments held in:					
Money market funds				140,750,419	140,750,419
Total Investments				$ 571,284,898	$ 571,284,898

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category "1" includes investment securities that are insured or registered or held by the entity or its agent in the entity's name. Category "2" includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in the entity's name. Category "3" includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in the entity's name. Investment amounts included as Category "3" did not significantly fluctuate during the fiscal year. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year.

Cash on hand, with fiscal agents, and in safe deposit escrow:

	Primary Government	Component Units	Total Reporting Entity
Cash with fiscal agents	$ 49,710,378	$ 147,120,377	$ 196,830,755
Petty cash/safe deposit escrow	303,257	79,807	383,064
	$ 50,013,635	$ 147,200,184	$ 197,213,819

Primary Government cash with fiscal agents of $31,610,184 is held for approximately one day in U.S. Government obligations that are not in the County's name or in bank accounts that are collateralized with U.S. Government obligations that are not in the County's name (Category 3), while $18,100,194 is held in money market funds. Component units' cash with fiscal agents of $147,069,732 is held in money market mutual funds, while $50,645 is held for approximately one day in U.S. Government obligations that are not in the component unit's name (Category 3).

3) External Investment Pool Condensed Financial Statements

The condensed financial statements of the County's external investment pool at June 30, 2003, are as follows:

Statement of Net Assets
June 30, 2003

Assets:		
Investment in securities, at fair value		$ 571,284,898
Cash		28,880,088
Total assets and net assets		$ 600,164,986
Net assets consist of:		
Internal participants' units outstanding ($1.00 par)		$ 576,093,216
External participants' units outstanding ($1.00 par)		24,071,770
Net assets		$ 600,164,986
Participants net asset value, offering price and redemption price per share ($600,164,986 / 599,929,709 units)		$ 1.00

Statement of Changes in Net Assets
Year Ended June 30, 2003

Investment Income *		$ 12,932,437
Distributions to participants:		
Distributions paid and payable		(12,932,437)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$ 8,240,647,814	
Redemption of units	(8,381,627,300)	
Net increase in net assets and shares resulting from share transactions		(140,979,486)
Total increase in net assets		(140,979,486)
Net assets, July 1, 2002		741,144,472
Net assets, June 30, 2003		$ 600,164,986

* The pool has no expenses.

B) Receivables

1) Accounts Receivable

The total allowance for doubtful accounts at June 30, 2003, amounted to:

Enterprise Funds:	
Liquor	$ 446,985
Solid Waste Disposal and Collection Activities	48,358
Parking Lot Districts	2,426,919
	$ 2,922,262

2) Due from/to Component Units

The balances at June 30, 2003, were:

Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 1,970,780	$ 2,250,000	$ 1,098,690	$ 1,378,741	$ -	$ 6,698,211
Bethesda Urban District Special Revenue					433	433
Housing Initiative Special Revenue	-	-	-	17,788,667	-	17,788,667
Grants Special Revenue		-	-	5,234,932	-	5,234,932
Capital Projects	20,087,565	-	-	10,594,746	-	30,682,311
Solid Waste Disposal Enterprise	11,696	1,006	-	1,073	-	13,775
Bethesda Parking Lot District Enterprise	-	-	-	46,497	-	46,497
Motor Pool Internal Service	16,265	5,506	-	26,826	-	48,597
Central Duplicating Internal Service		-	272	2,666	-	2,938
Employee Health Benefits Self-Insurance Internal Service	-	-	30,393	669,370	-	699,763
Employees' Retirement System Pension Trust	-	-	8,200	41,594	-	49,794
Employees' Retirement Savings Plan Pension Trust	-	-	3,125	33,060	-	36,185
HOC Treasury Bonds Permanent	-	-	-	82,285	-	82,285
Total Due to Primary Government per Combined Balance Sheet	$ 22,086,306	$ 2,256,512	$ 1,140,680	$ 35,900,457	$ 433	$ 61,384,388

Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 28,476,463	$ 45,551	$ -	$ 1,053,428	$ -	$ 29,575,442
Recreation	17,549	-	-	-	-	17,549
Silver Spring Urban District Special Revenue	-	-	-	-	3,718	3,718
Wheaton Urban District Special Revenue	-	-	-	-	1,573	1,573
Mass Transit Special Revenue	-	-	-	-	28,333	28,333
Housing Initiative Special Revenue	-	-	-	48,536	-	48,536
Grants Special Revenue	1,010,238	42,999	-	83,619	-	1,136,856
Capital Projects	-	4,799,913	-	37,139	-	4,837,052
Community Use of Public Facilities Enterprise	630,106	-	-	-	-	630,106
Liability and Property Coverage Self-Insurance Internal Servi	-	-	-	-	-	-
Central Duplicating Internal Service	47,908	-	-	-	-	47,908
Total Due from Primary Government per Combined Balance Sheet	$ 30,182,264	$ 4,888,463	$ -	$ 1,222,722	$ 33,624	$ 36,327,073

In the nonmajor governmental funds, $17,788,667 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans. During FY03, approximately $264,000 in loans to HOC were forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2003, was comprised of the following:

	General	Capital Projects	Solid Waste Disposal and Collection	Parking Lot Districts	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 2,340,864	$ 1,123	$ -	$ 9,289,456	$ -	$ -	$ 11,631,443
State of Maryland	17,147,417	22,997,807	3,216	-	5,383,232	21,119	12,351	45,565,142
Other	306,813	502,502	111,483	193,364	194,573	204,494	7,326	1,520,555
Total	$ 17,454,230	$ 25,841,173	$ 115,822	$ 193,364	$ 14,867,261	$ 225,613	$ 19,677	$ 58,717,140

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C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002 *	Increases	Decreases	Balance June 30, 2003
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 433,202,160	$ 36,990,683	$ 1,582,350	$ 468,610,493
Construction in progress	406,654,144	136,827,327	328,050,573	215,430,898
Total Nondepreciable Capital Assets	839,856,304	173,818,010	329,632,923	684,041,391
Depreciable Capital Assets:				
Buildings	386,227,005	102,119,560	1,097,672	487,248,893
Improvements other than buildings	41,346,203	2,805,985	10,324	44,141,864
Furniture, fixtures, equipment and machinery	26,072,995	129,902,258	743,964	155,231,289
Automobiles and trucks	142,014,055	9,801,704	6,241,179	145,574,580
Infrastructure	1,228,191,707	96,534,378	-	1,324,726,085
Other assets	8,747,651	-	1,689,469	7,058,182
Total Capital Assets being Depreciated	1,832,599,616	341,163,885	9,782,608	2,163,980,893
Less Accumulated Depreciation for:				
Buildings	163,228,251	12,456,918	930,742	174,754,427
Improvements other than buildings	19,501,459	1,317,908	7,207	20,812,160
Furniture, fixtures, equipment and machinery	18,350,642	22,317,144	677,746	39,990,040
Automobiles and trucks	67,268,483	9,658,831	5,997,254	70,930,060
Infrastructure	261,575,235	27,230,468	-	288,805,703
Other assets	2,046,949	874,765	768,492	2,153,222
Total Accumulated Depreciation	531,971,019	73,856,034	8,381,441	597,445,612
Total Depreciable Assets, net	1,300,628,597	267,307,851	1,401,167	1,566,535,281
Governmental Activities Capital Assets, net	$ 2,140,484,901	$ 441,125,861	$ 331,034,090	$ 2,250,576,672
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,833,368	$ -	$ -	$ 52,833,368
Construction in progress	8,232,399	13,662,087	7,661,212	14,233,274
Total Nondepreciable Capital Assets	61,065,767	13,662,087	7,661,212	67,066,642
Depreciable Capital Assets:				
Buildings	136,660,448	12,500,905	5,845,310	143,316,043
Improvements other than buildings	103,708,315	2,907,056	1,415,088	105,200,283
Furniture, fixtures, equipment and machinery	16,997,478	3,222,654	756,540	19,463,592
Automobiles and trucks	3,291,799	350,800	38,550	3,604,049
Total Capital Assets being Depreciated	260,658,040	18,981,415	8,055,488	271,583,967
Less Accumulated Depreciation for:				
Buildings	57,308,987	4,785,867	1,914,328	60,180,526
Improvements other than buildings	85,460,849	2,987,063	1,266,277	87,181,635
Furniture, fixtures, equipment and machinery	11,557,076	1,211,583	756,540	12,012,119
Automobiles and trucks	2,199,755	196,097	38,550	2,357,302
Total Accumulated Depreciation	156,526,667	9,180,610	3,975,695	161,731,582
Total Depreciable Assets, net	104,131,373	9,800,805	4,079,793	109,852,385
Business-Type Activities Capital Assets, net	$ 165,197,140	$ 23,462,892	$ 11,741,005	$ 176,919,027

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

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

Governmental activities:	
General government	$ 7,560,249
Public safety	17,385,298
Public works and transportation	42,622,121
Health and human services	1,085,184
Culture and recreation	3,664,213
Community development and housing	1,349,889
Environment	189,080
Total depreciation expense-governmental activities	$ 73,856,034
Business-type activities:	
Liquor	$ 719,893
Solid waste disposal and collection	2,749,930
Parking lot districts	5,549,220
Permitting services	124,430
Community use of public facilities	37,137
Total depreciation expense-business-type activities	$ 9,180,610

Construction commitments as of June 30, 2003, are as follows:

General Government	$ 13,439,623
Public Safety	15,513,538
Public Works and Transportation	33,863,403
Culture and Recreation	51,013,500
Community Development and Housing	13,374,056
Environment	2,268,103
Total	$ 129,472,223

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,253,232,882 at June 30, 2003, are significant in relation to the total component unit capital assets.

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 65,220,412	$ 1,063,154	$ 76,147	$ 66,207,419
Construction in progress	68,344,439	67,666,059	34,561,128	101,449,370
Total nondepreciable capital assets	133,564,851	68,729,213	34,637,275	167,656,789
Depreciable capital assets:				
Buildings and improvements	1,375,238,475	42,882,593	7,185,341	1,410,935,727
Site improvements	102,879,982	2,813,005	-	105,692,987
Vehicles and equipment	109,543,237	5,981,265	1,226,251	114,298,251
Total depreciable capital assets	1,587,661,694	51,676,863	8,411,592	1,630,926,965
Less accumulated depreciation for:				
Buildings and improvements	443,825,137	32,668,975	5,205,265	471,288,847
Site improvements	17,247,792	2,391,220	-	19,639,012
Vehicles and equipment	51,959,526	9,223,623	1,200,086	59,983,063
Total accumulated depreciation	513,032,455	44,283,818	6,405,351	550,910,922
Total depreciable capital assets, net	1,074,629,239	7,393,045	2,006,241	1,080,016,043
Government activities capital assets, net	$1,208,194,090	$ 76,122,258	$ 36,643,516	1,247,672,832
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	17,831
Vehicles and equipment	17,115,260	436,303	1,380,000	16,171,563
Total depreciable capital assets	17,133,091	436,303	1,380,000	16,189,394
Less accumulated depreciation for:				
Buildings	4,458	1,783	-	6,241
Vehicles and equipment	10,758,826	1,058,033	1,193,756	10,623,103
Total accumulated depreciation	10,763,284	1,059,816	1,193,756	10,629,344
Business-type activities capital assets, net	$ 6,369,807	$ (623,513)	$ 186,244	5,560,050
Total MCPS government-wide capital assets				$ 1,253,232,882

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

Governmental activities:	
Regular instruction	$ 35,985,183
Special education	170,982
School administration	27,835
Student transportation	6,291,135
Operation of plant	193,458
Maintenance of plant	427,355
Administration	1,187,870
Total depreciation expense -governmental activities	$ 44,283,818
Business-type activities:	
Food services	$ 1,054,818
Real estate management	4,998
Total depreciation expense - business type activities	$ 1,059,816

D) <u>Interfund Receivables, Payables, and Transfers</u>

The composition of interfund receivables and payables as of June 30, 2003, is as follows:

	Due From Fund					
Due To Fund	General	Solid Waste Disposal	Non-major Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 630	$ 450	$ 1,894,867	$ 2,856,104	$ 4,752,051
Debt Service	30,344,472	-	1,265,712	-	-	31,610,184
Capital Projects	74,034,844		349,335	47,292	42,277	74,473,748
Liquor	-	3,516	-	78,793	66,416	148,725
Solid Waste Activities	-	-	-	27,715	33,791	61,506
Parking Lot Districts	-	1,019	-	10,284	9,848	21,151
Nonmajor Governmental	-	-	-	774,184	1,058,529	1,832,713
Nonmajor Enterprise	-	-	-	80,165	105,109	185,274
Internal Service	-	-	-	74,662	65,323	139,985
Fiduciary	-	-	-	1,810	288	2,098
Total	$ 104,379,316	$ 5,165	$ 1,615,497	$ 2,989,772	$ 4,237,685	$ 113,227,435

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY04:

- $74.0 million to the Capital Projects Fund to cover construction payments, due to the delayed issuance of debt; and
- $30.3 million to the Debt Service Fund relating to a FY04 debt service payment that must be remitted to the County’s fiscal agent one working day prior to the debt service due date.

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

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfers Out Fund	Transfers In Fund: General	Debt Service	Capital Projects	Parking Lot Districts	Nonmajor Governmental	Internal Service	Total
General	$ -	$ 168,474,195	$ 15,012,594	$ 11,776,945	$ 22,381,520	$ 79,734	$ 217,724,988
Debt Service	-	-	1,342,360	-	-	-	1,342,360
Capital Projects	-	88,772	-	-	-	-	88,772
Liquor	18,985,890	-	92,147	-	-	-	19,078,037
Solid Waste Activities	1,524,960	-	-	-	-	-	1,524,960
Parking Lot Districts	521,220	-	90,376	-	4,315,268	-	4,926,864
Nonmajor Governmental	11,177,520	15,276,245	9,280,800	-	73,341	567,139	36,375,045
Nonmajor Enterprise	8,845,010	-	-	-	-	-	8,845,010
Total	$ 41,054,600	$ 183,839,212	$ 25,818,277	$ 11,776,945	$ 26,770,129	$ 646,873	$ 289,906,036

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is $11,937,810 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program. Also included above is $11,776,945 transferred by the General Fund to the Silver Spring Parking Lot District Enterprise Fund in the form of two garages currently under construction (see Note III-E3).

E) Leases

1) Operating Leases

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $9,419,000 for FY03. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2004	$ 10,631,000
2005	8,759,000
2006	7,088,000
2007	6,180,000
2008	6,099,000
2009 - 2013	21,671,000
2014 - 2016	3,439,000
Total	$ 63,867,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. The lease has a term of 22 years ending on June 1, 2024.

Construction of the Shady Grove garage is complete; however, WMATA has not yet formally taken possession of the asset.

Construction of the Grosvenor garage is not yet complete. The receivable for the Grosvenor garage has been recorded in the amount of $16,654,271, which is the extent of the bond funded costs incurred at year-end. Therefore, the receivable reflected in the accompanying financial statements is less than the net investment in direct financing leases disclosed below.

The composition of the capital lease receivable when construction of the garages is complete is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 31,739,514	$28,954,482	$ 60,693,996
Unearned lease income	(12,884,744)	(9,929,252)	(22,813,996)
Net investment in direct financing leases	$ 18,854,770	$19,025,230	$ 37,880,000

At June 30, 2003, the minimum future lease payments due under the direct financing capital lease are as follows:

Fiscal Year Ending June 30	
2004	$ 1,682,005
2005	2,882,005
2006	2,948,005
2007	2,948,961
2008	2,946,711
Later years	47,286,309
Total minimum lease payments	$ 60,693,996

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 through capital leases are as follows:

Land	$ 13,449,033
Land improvements	182,516
Buildings	26,547,179
Furniture, fixtures, equipment and machinery	159,291
Subtotal	40,338,019
Less accumulated depreciation	(12,141,900)
Total asset value under capital leases	$ 28,196,119

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

Fiscal Year Ending June 30	
2004	$ 2,514,900
2005	2,834,659
2006	2,799,872
2007	2,769,420
2008	2,748,386
2009-2013	9,926,569
2014-2018	2,561,289
Total minimum lease payments	$ 26,155,095
Less: amount representing interest	(6,730,095)
Present value of minimum lease payments	$ 19,425,000

The County has also entered into a lease agreement as lessee with the MCRA to lease from MCRA the Montgomery County Conference Center. The construction of the Conference Center will be funded through the issuance of lease revenue bonds by MCRA. The Maryland Stadium Authority will also participate in financing the construction through the issuance of long-term debt. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term. No asset or liability for this transaction has been recorded since, as of year end, no bond funded construction costs have been incurred.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

Fiscal Year Ending June 30	
2004	$ 1,021,057
2005	995,253
2006	994,853
2007	993,853
2008	997,253
2009-2013	4,975,350
2014-2018	4,976,010
2019-2023	4,979,198
Total minimum lease payments	$ 19,932,827
Less: amount representing interest	(8,097,827)
Present value of minimum lease payments	$ 11,835,000

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law. This transaction has been reflected as a transfer from the General Fund (where it is offset by other financing sources – financing under capital lease) to the SSPLD, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

Bond funded costs incurred as of year-end totaling $11,776,945 are recorded as construction-in-progress in the SSPLD. Since construction is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2004	$ 2,419,701	$ 2,956,700	$ 5,376,401
2005	2,488,101	3,739,600	6,227,701
2006	2,485,201	3,373,788	5,858,989
2007	2,485,804	3,376,563	5,862,367
2008	2,482,246	3,108,763	5,591,009
2009-2013	12,356,404	15,460,819	27,817,223
2014-2016	9,788,877	12,410,755	22,199,632
Total minimum lease payments	$ 34,506,334	$ 44,426,988	$ 78,933,322
Less: amount representing interest	(7,966,334)	(11,866,988)	(19,833,322)
Present value of minimum lease payments	$ 26,540,000	$ 32,560,000	$ 59,100,000

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

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

General obligation bonds that are reported in the enterprise funds (Bethesda Parking, Silver Spring Parking, and Solid Waste Disposal) are payable first from revenues of those funds.

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

On December 12, 2002, Montgomery County Government issued $93,595,000 in general obligation refunding bonds dated November 15, 2002. These bonds were issued with a true interest cost of 3.26%, to advance refund $95,750,000 of general obligation (GO) bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	10/1/93	1994-13	4.6899	100,000,000	2005-13	45,000,000
GO Bonds	10/1/94	1995-14	5.7958	100,000,000	2006-08	15,000,000
GO Bonds	3/15/96	1997-16	5.2946	120,000,000	2008	6,000,000
GO Bonds	4/15/97	1998-17	5.3226	115,000,000	2010	5,750,000
GO Bonds	4/1/98	1999-18	4.7607	115,000,000	2011-12	11,500,000
GO Bonds	4/1/99	2000-19	4.4760	120,000,000	2013	6,000,000
GO Bonds	1/1/00	2001-20	5.4850	130,000,000	2013	6,500,000
Total				$ 800,000,000		$ 95,750,000

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $7,557,499. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the refunded debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2003	$ 2,418,969	$ 1,728,774	$ 690,195
2004	4,837,937	4,477,400	360,537
2005	4,837,938	4,477,400	360,538
2006	9,725,438	6,787,225	2,938,213
2007	14,354,812	14,353,381	1,431
2008	19,832,938	19,832,088	850
2009	12,992,312	12,991,587	725
2010	13,351,063	13,348,963	2,100
2011	12,797,625	12,794,838	2,787
2012	12,272,312	12,271,831	481
2013	18,497,000	18,496,475	525
2014	5,122,500	5,119,875	2,625
Total	$ 131,040,844	$ 126,679,837	$ 4,361,007

The present value of the above debt service savings (or economic gain) is $3,888,398.

In January 1998, $64,500,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. In November 2001, $143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2003, $30,000,000, and $122,250,000, respectively, in general obligation bonds referred to above is considered to be defeased.

General obligation bond issues outstanding as of June 30, 2003, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2003	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2003
06/01/84	1985-04	9.0 - 9.75	$ 55,000,000	$ 2,750,000	$ -	$ -	$ 2,750,000
05/01/85	1986-05	7.6 - 8.6	65,000,000	6,500,000	-	-	6,500,000
04/01/86	1987-06	5.8 - 6.3	50,000,000	7,500,000	-	-	7,500,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	149,793,054	-	-	149,793,054
10/01/92	1993-06	5.0 - 5.75	115,000,000	5,750,000	-	-	5,750,000
08/15/93 *	1994-11	2.5 - 5.0	60,005,000	55,605,000	-	-	55,605,000
10/01/93	1994-13	4.4 - 4.9	100,000,000	10,000,000	-	-	10,000,000
10/01/94	1995-08	5.2 - 6.125	100,000,000	15,000,000	-	-	15,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	24,000,000	-	-	24,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	46,000,000	-	-	46,000,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	69,175,000	-	-	69,175,000
04/01/98	1999-18	4.875	115,000,000	74,750,000	-	-	74,750,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	90,000,000	-	-	90,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	58,500,000	-	-	58,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	126,000,000	-	-	126,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	146,375,000	7,721,948	(9,892,125)	144,204,823
02/01/02	2003-22	3.0 - 5.0	160,000,000	152,000,000	2,635,473	-	154,635,473
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	93,595,000	9,078,597	(6,863,217)	95,810,380
05/01/03	2004-23	1.5 - 4.0	155,000,000	155,000,000	1,386,137	-	156,386,137
Total			$ 2,182,523,054	$ 1,288,293,054	$ 20,822,155	$ (16,755,342)	$ 1,292,359,867

* Issue represents refunding bonds.

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

Changes in general obligation bonds during FY03 are as follows:

	Balance July 1, 2002	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2003
Governmental Activities:					
General County	$ 178,997,850	$ 22,427,134	$ 14,711,936	$ 8,797,500	$ 177,915,548
Roads and Storm Drainage	324,965,330	61,489,412	30,436,989	21,985,000	334,032,753
Parks	37,158,080	4,656,883	3,674,351	1,537,500	36,603,112
Public Schools	627,786,710	144,687,994	50,984,179	59,535,000	661,955,525
Community College	34,454,221	10,699,486	2,568,229	2,250,000	40,335,478
Consolidated Fire Tax District	16,858,575	3,450,844	1,330,982	950,000	18,028,437
Mass Transit	20,100,682	1,183,247	2,707,248	695,000	17,881,681
Public Housing	1,599,373	-	251,235	-	1,348,138
	1,241,920,821	248,595,000	106,665,149	95,750,000	1,288,100,672
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	282,233	-	89,851	-	192,382
Parking Lot Districts:					
Bethesda Parking Lot District	250,000	-	250,000	-	-
Silver Spring Parking Lot District	100,000	-	100,000	-	-
	632,233	-	439,851	-	192,382
Total	$ 1,242,553,054	$ 248,595,000	$ 107,105,000	$ 95,750,000	$ 1,288,293,054

For the general obligation bonds carried in the enterprise funds, $84,251 from the Solid Waste Disposal and Collection Activities Fund is classified as a current liability.

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

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2004	$ 110,715,000	$ 60,033,845	$ 170,748,845
2005	109,585,000	54,523,537	164,108,537
2006	103,405,000	49,125,477	152,530,477
2007	103,395,000	44,174,615	147,569,615
2008	103,180,000	39,222,323	142,402,323
2009-2013	383,453,054	160,565,132	544,018,186
2014-2018	263,370,000	59,987,491	323,357,491
2019-2023	111,190,000	11,810,701	123,000,701
Total	$1,288,293,054	$479,443,121	$1,767,736,175

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6% of the assessable basis of real property and 15% of the assessable basis of personal property and operating real property. The legal debt margin as of June 30, 2003, is $4,163,984,170.

General obligation bonds authorized and unissued as of June 30, 2003, are as follows:

Purpose	Authority			Amount
	Chapter	Act	Amount	Unissued
General County, Parks, and	19	1998	$ 113,400,000	$ 8,390,000
Consolidated Fire Tax District	18	1999	33,500,000	33,500,000
	22	2000	78,300,000	78,300,000
	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
			265,100,000	160,090,000
Roads and Storm Drainage	19	2000	77,600,000	73,010,000
	17	2001	10,630,000	10,630,000
	21	2002	34,800,000	34,800,000
			123,030,000	118,440,000
Public Schools and	17	2001	159,755,000	70,768,000
Community College	21	2002	104,800,000	104,800,000
			264,555,000	175,568,000
Mass Transit	22	2000	1,400,000	1,005,000
	17	2001	6,700,000	6,700,000
	21	2002	1,600,000	1,600,000
			9,700,000	9,305,000
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
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$ 681,330,000	$ 477,103,000

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) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District, the Silver Spring Parking Lot District, and the Solid Waste Disposal activities. These revenue bonds are secured by pledges of the respective funds.

On April 3, 2003, Montgomery County Government issued $31,075,000 of Solid Waste Disposal System Refunding Revenue Bonds 2003 Series A. The Bonds were issued with a true interest cost of 3.5982%, for a current refunding of $31,825,000 of Solid Waste System Revenue Bonds 1993 Series A.

The reacquisition price exceeded the net carrying value of the old debt by $1,713,610. This amount is being netted against the new debt and amortized over the new debt's life.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2003	$ 801,909	$ (18,917)	$ 820,826
2004	4,048,819	3,904,370	144,449
2005	4,049,344	3,905,687	143,657
2006	4,049,864	3,905,637	144,227
2007	4,049,539	3,903,037	146,502
2008	4,050,339	3,907,787	142,552
2009	4,046,152	3,900,087	146,065
2010	4,046,682	3,902,337	144,345
2011	4,051,051	3,904,086	146,965
2012	4,048,376	3,902,086	146,290
2013	(247,554)	(394,913)	147,359
Total	$ 36,994,521	$ 34,721,284	$ 2,273,237

The present value of the above debt service savings (or economic gain) is $2,031,770.

Revenue bond issues outstanding as of June 30, 2003, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2003	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2003
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	14,560,000	12,435,000	223,750	(463,302)	12,195,448
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	10,180,000	222,298	(372,878)	10,029,420
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	24,990,000	(24,887)	-	24,965,113
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	31,075,000	1,496,437	(1,638,285)	30,933,152
Total				$ 83,765,000	$ 78,680,000	$ 1,917,598	$ (2,474,465)	$ 78,123,133

Changes in revenue bond principal during FY03 are as follows:

`	Balance July 1, 2002	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2003
Bethesda Parking Lot District	$ 40,560,000	$ -	$ 3,135,000	$ -	$ 37,425,000
Silver Spring Parking Lot District	12,130,000	-	1,950,000	-	10,180,000
Solid Waste Disposal	34,145,000	31,075,000	2,320,000	31,825,000	31,075,000
Total	$ 86,835,000	$ 31,075,000	$ 7,405,000	$ 31,825,000	$ 78,680,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending	Bethesda Parking Lot District		Silver Spring Parking Lot District	
June 30	Principal	Interest	Principal	Interest
2004	$ 3,190,000	$ 1,509,278	$ 2,020,000	$ 388,387
2005	3,315,000	1,386,603	2,110,000	307,588
2006	3,430,000	1,282,103	2,180,000	244,288
2007	3,550,000	1,168,028	2,265,000	173,437
2008	2,595,000	1,043,778	780,000	60,187
2009-2013	7,845,000	3,920,389	825,000	30,937
2014-2018	7,825,000	2,428,918	-	-
2019-2021	5,675,000	547,011	-	-
Total	$37,425,000	$ 13,286,108	$ 10,180,000	$ 1,204,824

Fiscal Year Ending	Solid Waste Disposal		Total Revenue Bond Requirements		
June 30	Principal	Interest	Principal	Interest	Total
2004	$ 2,555,000	$ 1,456,033	$ 7,765,000	$ 3,353,698	$ 11,118,698
2005	2,835,000	1,177,350	8,260,000	2,871,541	11,131,541
2006	2,920,000	1,092,300	8,530,000	2,618,691	11,148,691
2007	3,005,000	1,004,700	8,820,000	2,346,165	11,166,165
2008	3,160,000	854,450	6,535,000	1,958,415	8,493,415
2009-2013	16,600,000	2,254,500	25,270,000	6,205,826	31,475,826
2014-2018	-	-	7,825,000	2,428,918	10,253,918
2019-2022	-	-	5,675,000	547,011	6,222,011
Total	$31,075,000	$ 7,839,333	$ 78,680,000	$ 22,330,265	$ 101,010,265

Revenue bonds authorized and unissued as of June 30, 2003, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 42,088,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			$143,098,000	$ 57,343,000

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	$ 857,329	$ 1,063,729	$ -
Debt Service Account - Used to pay debt service on bonds	387,023	200,699	-
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	3,153,552
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,016,500
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	20,588,675
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	8,878,610
Total	$ 2,744,352	$ 2,764,428	$ 34,637,337

The remaining balance of Parking Lot District Activities restricted assets of $104,334 represents unspent bond proceeds on hand at year-end.

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.

3) 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 FY03 are as follows:

	Balance July 1, 2002	BANs Issued	BANs Retired	Balance June 30, 2003
BAN Series 2002-A	$ 125,000,000	$ -	$ 125,000,000	$ -
BAN Series 2002-B	-	75,000,000	30,000,000	45,000,000
BAN Series 2002-C	-	80,000,000	-	80,000,000
Total	$ 125,000,000	$ 155,000,000	$ 155,000,000	$ 125,000,000

BAN Notes, Series 2002-A, totaling $125,000,000 were retired on May 29, May 30, and June 10, 2003 in the amounts of $105,400,000, $17,600,000 and $2,000,000 respectively with proceeds from general obligation bonds dated May 1, 2003. A portion of BAN Notes, Series 2002-B, totaling $75,000,000 was retired on May 29, 2003 in the amount $30,000,000 with proceeds from general obligation bonds dated May 1, 2003.

The interest rate changes based on market conditions. During FY03, the rate of interest varied from .85 to 1.85 percent. Interest earned on BAN proceeds totaled $680,701 during FY03, which was accounted for in the Debt Service Fund.

BANs totaling $155 million were issued during FY03 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY04, and intends to use the proceeds to replace a portion of the $125 million in BANs outstanding at June 30, 2003. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2002, with Toronto-Dominion Bank, acting through its Houston agency, under which the County may borrow, on a revolving basis, up to $200 million to pay the principal on the notes, and up to $14.8 million to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, and Resolution No. 14-1374 dated July 16, 2002, the amount of BANs authorized and unissued as of June 30, 2003, is $80,695,000.

4) Certificates of Participation

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of $54.66 million. The certificates represent proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and First Union National Bank, as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. The CPA 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 may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. 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 a charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4 to 4.5 percent and have a maturity schedule as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2004	$ 12,355,000	$ 1,335,287	$ 13,690,287
2005	9,435,000	841,087	10,276,087
2006	9,780,000	440,100	10,220,100
Total	$ 31,570,000	$ 2,616,474	$ 34,186,474

5) Lease Revenue Bonds

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

Lease Revenue Bonds outstanding as of June 30, 2003, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2003	Unamortized Premium	Carrying Value June 30, 2003
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 37,880,000	$ 146,286	$ 38,026,286

Lease Revenue Bonds debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bonds Requirements Principal	Interest	Total
2004	$ -	$ 1,682,005	$ 1,682,005
2005	1,200,000	1,682,005	2,882,005
2006	1,305,000	1,643,005	2,948,005
2007	1,350,000	1,598,961	2,948,961
2008	1,395,000	1,551,711	2,946,711
2009-2013	7,860,000	6,888,529	14,748,529
2014-2018	9,760,000	5,069,500	14,829,500
2019-2023	12,395,000	2,567,530	14,962,530
2024	2,615,000	130,750	2,745,750
Total	$ 37,880,000	$ 22,813,996	$ 60,693,996

6) <u>State MICRF Loan</u>

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, $150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2003, for this loan is $1,341,206.

7) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

Governmental Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$ 1,241,920,821	$ 248,595,000	$ (202,415,149)	$ 1,288,100,672	$ 110,630,749
Bond anticipation notes	125,000,000	155,000,000	(155,000,000)	125,000,000	125,000,000
Equipment notes payable	-	1,136,112	(47,374)	1,088,738	215,570
Lease revenue bonds	37,880,000	-	-	37,880,000	-
State MICRF loan	1,408,951	-	(67,745)	1,341,206	70,221
Subtotal	1,406,209,772	404,731,112	(357,530,268)	1,453,410,616	235,916,540
Add remaining original issue premium	11,620,152	11,405,472	(2,057,183)	20,968,441	-
Less deferred amount on refundings	(10,944,672)	(7,557,499)	1,746,829	(16,755,342)	-
Total Bonds and Notes Payable	1,406,885,252	408,579,085	(357,840,622)	1,457,623,715	235,916,540
Other Liabilities:					
Certificates of participation	43,530,000	-	(11,960,000)	31,570,000	12,355,000
Due to Component Units - HOC loan	-	2,550,000	-	2,550,000	-
Compensated absences	44,130,412	33,875,695	(32,260,160)	45,745,947	34,309,460
Capital leases	19,940,589	11,776,945	(515,589)	31,201,945	4,465,000
Claims and judgments	3,150,000	3,824,000	-	6,974,000	5,474,000
Total Other Liabilities	110,751,001	52,026,640	(44,735,749)	118,041,892	56,603,460
Governmental Activities Long-Term Liabilities	$ 1,517,636,253	$ 460,605,725	$ (402,576,371)	$ 1,575,665,607	$ 292,520,000
Business-Type Activities					
General Obligation Bonds:					
Bethesda PLD Enterprise Fund	$ 250,000	$ -	$ (250,000)	$ -	$ -
Silver Spring PLD Enterprise Fund	100,000	-	(100,000)	-	-
Solid Waste Disposal Enterprise Fund	282,233	-	(89,851)	192,382	84,251
Revenue Bonds:					
Parking revenue refunding bonds	26,690,000	-	(4,075,000)	22,615,000	4,225,000
Parking revenue bonds	26,000,000	-	(1,010,000)	24,990,000	985,000
Solid waste disposal revenue bonds	34,145,000	-	(34,145,000)	-	-
Solid waste disposal revenue refunding bonds	-	31,075,000	-	31,075,000	2,555,000
Subtotal	87,467,233	31,075,000	(39,669,851)	78,872,382	7,849,251
Add remaining original issue premium	601,847	1,565,241	(224,603)	1,942,485	-
Less remaining original issue discount	(268,406)	-	243,519	(24,887)	-
Less deferred amount on refundings	(1,126,685)	(1,713,610)	365,830	(2,474,465)	-
Total Bonds and Notes Payable	86,673,989	30,926,631	(39,285,105)	78,315,515	7,849,251
Other Liabilities:					
Compensated absences	3,113,884	275,028	-	3,388,912	2,541,684
Notes payable	800,000	-	-	800,000	-
Landfill closure costs	24,687,900	-	(833,377)	23,854,523	1,547,000
Total Other Liabilities	28,601,784	275,028	(833,377)	28,043,435	4,088,684
Business-Type Activities Long-Term Liabilities	$ 115,275,773	$ 31,201,659	$ (40,118,482)	$ 106,358,950	$ 11,937,935

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $1,141,764 ($856,323 due within one year, and $285,441 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

8) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003, there were 40 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 29 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2003, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $221,937,000. The principal amount payable at June 30, 2003, for bonds issued after July 1, 1996, totaled $155,481,666.

9) Special Taxing Districts

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

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

In December 1999, the County issued $2.41 million in special obligation bonds on behalf of the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds on behalf of the West Germantown Development District. The County issued $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

The County has been petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark. These districts are still in the evaluation phase.

10) Due to Component Unit – HOC Loan

On March 31, 2003, with the assistance of the Housing Opportunities Commission (HOC), the County acquired the former Econo Lodge in Gaithersburg. The property will be converted to a facility providing housing for eligible families and individuals. A portion of the funding for the acquisition, $2.55 million, came from the HOC MPDU/Property Acquisition Fund. The County used this interim financing source until a permanent financing source can be identified. The County will repay HOC, and therefore the Fund, by April 1, 2005.

COMPONENT UNITS

At June 30, 2003, HOC's noncurrent liabilities are comprised of the following:

Revenue bonds payable	$ 627,338,995
Capital leases payable	19,981,118
Notes payable	96,591,442
Total	$ 743,911,555

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	$ 369,301,033
Single Family Mortgage Purchase Program Fund	258,037,962
Total	$ 627,338,995

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 3.5 to 11.25 percent and 3.614 to 8.875 percent, respectively, as of June 30, 2003.

Pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2004	$ 255,000	$ 585,955	$ 840,955
2005	265,000	576,010	841,010
2006	275,000	576,010	851,010
2007	290,000	565,542	855,542
2008	300,000	554,542	854,542
2009-2013	1,700,000	2,582,818	4,282,818
2014-2018	790,000	2,201,998	2,991,998
2019-2023	2,880,000	1,803,071	4,683,071
2024-2028	-	1,371,065	1,371,065
2029-2033	5,430,000	274,213	5,704,213
Total	$ 12,185,000	$ 11,091,224	$ 23,276,224

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
2004	$ 52,495,714	$ 25,841,117	$ 78,336,831
2005	10,570,000	25,787,191	36,357,191
2006	11,045,000	26,026,051	37,071,051
2007	12,260,000	24,729,832	36,989,832
2008	11,895,000	24,300,441	36,195,441
2009-2013	61,780,000	113,799,108	175,579,108
2014-2018	69,415,000	102,209,930	171,624,930
2019-2023	66,426,341	92,126,894	158,553,235
2024-2028	79,192,973	84,805,753	163,998,726
2029-2033	165,172,636	37,421,522	202,594,158
2034-2038	33,580,000	12,782,161	46,362,161
2039-2043	10,395,000	7,046,700	17,441,700
2044-2046	48,385,000	775,468	49,160,468
Unamortized Bond Discount	(5,273,669)	-	(5,273,669)
Total	$ 627,338,995	$ 577,652,168	$ 1,204,991,163

Changes in the HOC revenue bonds during FY03 are as follows:

Purpose	Balance July 1, 2002	Bonds Issued *	Bonds Retired	Balance June 30, 2003
Multi-Family Mortgage Purchase Program Fund	$ 314,736,124	$ 88,414,909	$ 33,850,000	$ 369,301,033
Single Family Mortgage Purchase Program Fund	297,739,230	73,739,792	113,441,060	258,037,962
Total	$ 612,475,354	$ 162,154,701	$ 147,291,060	$ 627,338,995

* Includes accretions and bond discounts.

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.

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, 2002	$ 339,969,285
Redemptions during the year	(24,813,404)
New issuances during the year	-
Bonds outstanding, June 30, 2003	$ 315,155,881

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 Disposal and Collection 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, 2003, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 53,522,540	$ 5,233,350	$ 20,458,033
Due from component units	13,775	-	46,497
Other assets	35,244,238	2,883,454	3,441,062
Capital assets	36,580,206	51,394,919	74,628,550
Total Assets	125,360,759	59,511,723	98,574,142
LIABILITIES			
Current liabilities	12,622,846	2,879,606	5,092,168
Due to other funds	55,504	9,403	9,505
Long-term liabilities	51,691,446	8,038,272	34,000,597
Total Liabilities	64,369,796	10,927,281	39,102,270
NET ASSETS			
Invested in capital assets, net of related debt	5,454,672	41,365,499	37,467,989
Restricted for debt service	34,637,337	2,764,428	2,848,686
Unrestricted	20,898,954	4,454,515	19,155,197
Total Net Assets	$ 60,990,963	$ 48,584,442	$ 59,471,872

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

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 85,932,194	$ 4,859,503	$ 7,943,266
Licenses and permits	10,145	-	-
Fines and penalties	57,835	1,112,783	4,262,084
Total Operating Revenues (pledged against bonds)	86,000,174	5,972,286	12,205,350
Depreciation and amortization expense	3,089,596	2,144,510	3,093,682
Other operating expenses	80,007,807	5,923,323	4,929,120
Operating Income (Loss)	2,902,771	(2,095,547)	4,182,548
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	3,261,597	3,443,038
Gain on disposal of capital assets	58,750	-	-
Investment income	2,192,984	127,407	407,108
Interest expense	(2,120,598)	(523,250)	(1,738,881)
Other revenue	79,883	1,809,261	94,051
SPECIAL ITEM			
Depreciation adjustment	241,534	-	-
Loss on disposal of capital asset	-	(3,938,026)	-
TRANSFERS:			
Transfers in	-	11,776,945	-
Transfers out	(1,381,410)	(677,756)	(3,211,864)
Change in Net Assets	1,973,914	9,740,631	3,176,000
Beginning Net Assets	59,017,049	38,843,811	56,295,872
Ending Net Assets	$ 60,990,963	$ 48,584,442	$ 59,471,872

Condensed Statements of Cash Flows

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 7,329,986	$ 876,184	$ 6,717,048
Noncapital financing activities	(1,381,410)	2,677,850	173,825
Capital and related financing activities	(6,436,454)	(3,624,633)	(11,446,948)
Investing activities	1,733,968	127,407	407,108
Net Increase (Decrease)	1,246,090	56,808	(4,148,967)
Beginning Cash and Cash Equivalents	80,431,515	6,479,325	25,862,753
Ending Cash and Cash Equivalents	$ 81,677,605	$ 6,536,133	$ 21,713,786

H) Fund Equity

1) Federal and State Grant Programs

Included in the financial statements are expenditures and revenues related to Federal and State grant programs for which the County is the grantee. The reserve for encumbrances in the governmental fund types does not include $10,268,495 of encumbrances related to these grants, since appropriation and spending on such grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available. The County believes that inclusion of such encumbrances as reserved fund balance would distort the unreserved fund balance.

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, 2003:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,066,260,268	$ 24,912,435	$1,091,172,703	$ 53,063,082	$1,144,235,785
MCC	61,803,955	5,808,476	67,612,431	14,073,342	81,685,773
HOC	4,185,562	373,254	4,558,816	-	4,558,816
Total	$1,132,249,785	$ 31,094,165	$1,163,343,950	$ 67,136,424	$1,230,480,374

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

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

2) Other Transactions

BUPI charges for services revenue includes $2,112,315 earned under contracts with the County. For capital leases with MCRA, see Note III-E2. For mortgages receivable due from HOC, see Note III-B2.

J) Special Items

1) Depreciation Adjustment

During FY03, in conjunction with the implementation of a capital assets system, the County changed its depreciation method for substantially all proprietary funds to straight line based on the month placed in service. Prior to FY03, various other generally accepted methods were used. The new method is determined to more accurately report depreciation. The cumulative effect of this change, reported as a special item in the accompanying financial statements, is a reduction of depreciation expense as follows:

Solid Waste Disposal and Collection Activities	$ (241,534)
Nonmajor Enterprise	(357,931)
Internal Service	(956,978)
Total cumulative effect	$ (1,556,443)

2) **Loss on Disposal of Capital Asset**

During FY03, as part of the redevelopment of downtown Silver Spring, the County demolished a significant portion of a garage located in the Silver Spring Parking Lot District, in order to allow for construction of the new Wayne Avenue garage. The new garage, under construction at year-end, is being leased from the Maryland Economic Development Corporation (see Note III-E3). The loss on disposal of the old garage of $3,938,026, representing its net book value, has been reported as a special item in the accompanying financial statements.

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 the Montgomery County Public Schools, the Montgomery Community College, the Maryland-National Capital Park and Planning Commission, the City of Rockville, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Bethesda Urban Partnership, Inc., the Village of Drummond, and the City of Takoma Park. The liability for claims with respect to all participants transfers to the self-insurance fund, except for the Maryland-National Capital Park and Planning Commission which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, dental, and life insurance. The Washington Suburban Transit Commission, the Bethesda Urban Partnership, Inc., Montgomery Community Television, the Strathmore Hall Foundation, Inc., 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 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. 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 either 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 FY03 and FY02 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2001	$ 44,018,000	$ 6,692,511
Claims and changes in estimates	23,045,585	74,555,694
Claim payments *	(17,038,585)	(72,950,251)
Balance June 30, 2002	50,025,000	8,297,954
Claims and changes in estimates	26,112,574	84,674,426
Claim payments *	(18,401,574)	(84,144,134)
Balance June 30, 2003 **	$ 57,736,000	$ 8,828,246

* Includes non-monetary settlements.

** Includes incurred but not reported claims of $28,040,000 and $8,828,246, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $53,045,000, which has been fully accrued through June 30, 2003. Of the total amount accrued, $28,059,100 in actual costs has been paid out in prior years, and $1,131,377 was paid in FY03, resulting in a net liability of $23,854,523 at June 30, 2003. The current and non-current portions of the adjusted liability at year-end are estimated at $1,547,000 and $22,307,523 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $10,874,000. Of this amount, $6,974,000 has been reflected as a liability in the accompanying governmental activities financial statements, as the County's liability on certain claims appears to be probable.

3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2003, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2003, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 35,730	$ -	$ 7,599,188	$ 7,634,918
Solid Waste Disposal and Collection:				
Disposal operations	3,066,526	1,236,714	-	4,303,240
Collection operations	55,066	-	-	55,066
Parking Lot Districts:				
Silver Spring	282,889	1,270,064	-	1,552,953
Bethesda	315,659	1,948,400	-	2,264,059
Wheaton	124,353	171,868	-	296,221
Montgomery Hills	8,610	-	-	8,610
Subtotal	3,888,833	4,627,046	7,599,188	16,115,067
Nonmajor Funds:				
Permitting Services	42,786	-	-	42,786
Community Use of Public Facilities	1,158	-	-	1,158
Subtotal	43,944	-	-	43,944
Total Enterprise Funds	3,932,777	4,627,046	7,599,188	16,159,011
Internal Service Funds:				
Motor Pool	4,424,515	-	4,097,096	8,521,611
Central Duplicating	104,212	-	-	104,212
Liability and Property Coverage Self-Insurance	116,689	-	-	116,689
Employee Health Benefits Self-Insurance	131,663	-	-	131,663
Total Internal Service Funds	4,777,079	-	4,097,096	8,874,175
Total Proprietary Funds	$ 8,709,856	$ 4,627,046	$ 11,696,284	$ 25,033,186

As of June 30, 2003, the County has $470,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 8, 2003, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional $118,600,000, effective November 6, 2003.

Commercial paper bond anticipation notes (BANs) amounting to $75,000,000 were issued on December 1, 2003.

The County issued $49,505,000 in general obligation refunding bonds on May 1, 2003, the proceeds of which, along with premium and accrued interest, will refund $51,905,000 in outstanding general obligation bonds. The bonds were delivered on July 3, 2003. After adjustments, the true interest cost to the County was 2.29 percent and savings of over $4.2 million will be realized, primarily in fiscal years 2004 and 2005.

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, 2003, M-NCPPC had outstanding notes payable and bonds payable in the amount of $170,268,258, of which $10,851,668 was self-supporting. Of the total amount payable, $13,656,711 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, 2003, is $41,616,590, 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, 2003, WSSC had outstanding notes payable and bonds payable in the amount of $1,481,675,341, of which $1,475,185,341 was self-supporting. Of the total amount payable, $218,532,000 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, 2003, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $67,832 to WSTC during FY03. The FY03 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. WMATA's primary function is to plan, develop, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rapid Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rapid Rail System. The County's share of the cost of construction of the Metro Rapid Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover 100 percent of the combined operating deficit of WMATA and County Ride-On operations assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues. The 40 percent criteria will revert to 50 percent effective in FY05 unless permanently set at 40 percent by the State legislature prior to FY05.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY03, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 24,696,792
Rail operating subsidy	26,247,047
ADA Service	10,116,434
Metrobus and Metrorail capital replacement	28,624,828
Debt service on WMATA revenue bonds	4,867,500
Local bus program	28,127,005
Total	$122,679,606

At June 30, 2003, WMATA had outstanding debt of $216,384,000, of which $16,415,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental organization in which local governments unite to solve area-wide problems. The County is a participant in COG along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted chairs on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 20 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 FY03 membership dues amounting to $615,689.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following seven member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, the Authority refinanced $205,078,908 of the 1993 bonds. At June 30, 2003, NEMWDA had outstanding bonds payable in the amount of $303,910,000, of which $13,880,000 represented debt due within one year. All of these outstanding bonds are related to this Project and 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 Disposal and Collection Enterprise Fund during FY03 amounted to $42,706,420.

E) Employee Benefits

1) Deferred Compensation

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (the Plan). The purpose of the Plan is to extend to employees a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. During FY99, in accordance with Federal legislation, the assets of the Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees. The Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. Under the Plan, contributions are sent to contracted 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, which are not significant to the 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. Sick leave earned but not taken by June 30, 2003, totaling 4,883,062 hours approximates $156,469,106 based on the salary scale in effect at that date. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY03, the County and its employees contributed $50,397,821 and 13,791,665, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $234,281, $2,320,065, and $32,594 for these component units, respectively, for FY03.

4) Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance cost share. Currently, 3,900 retirees meet those eligibility requirements for postemployment benefits.

Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were $13,970,000 for FY03; retired employee contributions were $6,390,248.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation.

The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of nine 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 obtained by writing the Board of Investment Trustees, Montgomery County Government, 11 N. Washington Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, 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 Chapter 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

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

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. During FY03, total disbursements under these DROP Plans amounted to $5,785,024.

Derivatives - At June 30, 2003, direct investments in derivatives represented 1 percent of the total fair value of the System's portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual funds which hold derivative financial instruments.

Concentrations – The System does not have any investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

Funding Policy - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY03 were based on an actuarial valuation as of June 30, 2001, 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 FY03 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2001	$ 43,345,296	100 %	$ -
2002	39,168,622	100	-
2003	55,205,855	100	-

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

2) Defined Contribution Plan

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

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. 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 made to this Plan for FY03 were $6,798,553 and $3,750,518, respectively.

3) <u>Other</u>

The County contributed $698,603 during FY03 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.