Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

February 10, 2003

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

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

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*
Joseph F. Beach	*Acting Director, Office of Management and Budget*
Charles W. Thompson, Jr.	*County Attorney*
Mary A. Edgar	*Clerk of the County Council*

BOND COUNSEL

Venable, Baetjer and Howard, 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 February 10, 2003, 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 1998-2002, 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@co.mo.md.us.

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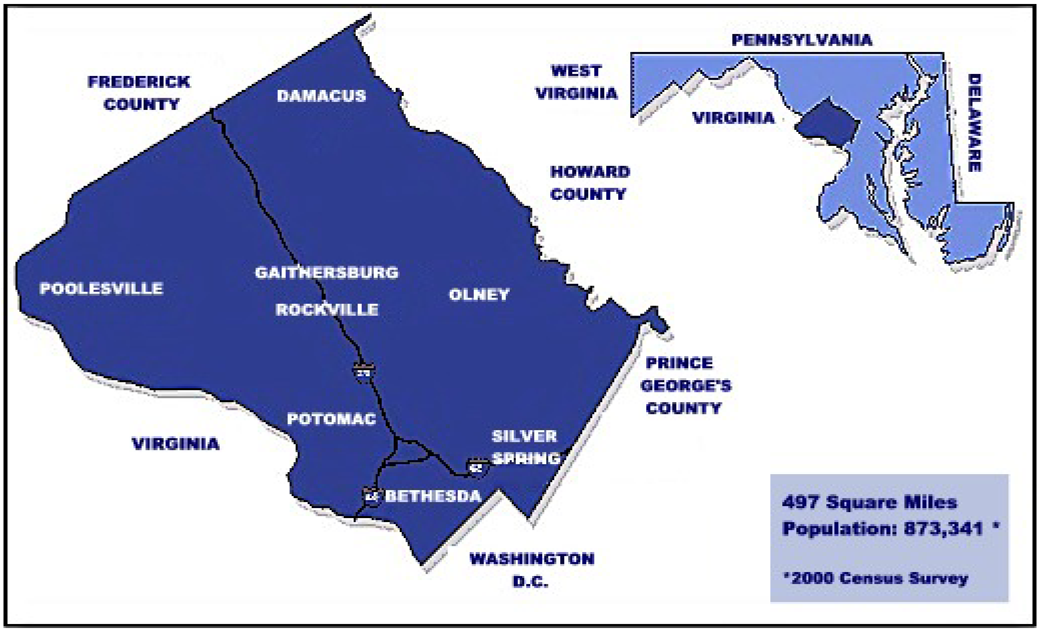

ORIENTATION TO THE COUNTY, ITS HISTORY, AND GOVERNMENT

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 composed 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 – Michael L. Subin

Michael L. Subin was first elected to the Montgomery County Council in 1986, and was recently named Council President by his colleagues. He is Chair of the Council's Education Committee and a member of the Public Safety Committee.

Mr. Subin received a Bachelor of Arts Degree in International Affairs and Master's Degrees in Public Administration and Legislative Affairs from the George Washington University. He received his Juris Doctor from the Washington College of Law at American University in 1998. Mr. Subin was admitted to the Maryland Bar and to the United States Court for the District of Maryland in 1999. He also serves on the boards of directors of numerous community social service agencies and organizations, and is a Captain in the United States Naval Reserve.

Chief Administrative Officer - Bruce Romer

Bruce Romer has served as Chief Administrative Officer since January 17, 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 Wittenburg 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 also serves on the Board of Directors of the District of Columbia Water and Sewer Authority, and is a member of the Urban Consortium Steering Committee of Public Technology.

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 Treasurer of the Maryland Government Finance Officers Association and recently served on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland.

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. In the mid-seventies, Mr. Thompson served as a law clerk for the Honorable Kenneth C. Proctor, Associate Judge, Circuit Court, Baltimore County. He was also an administrative specialist with the Maryland Real Estate Commission. Prior to that time he was an administrator for the Maryland State Board of Censors where he managed the administrative and inspections staff of the Maryland Board of Motion Picture Censors.

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. He is a member of the Board of Directors, and Treasurer of the International Municipal Lawyers Association, served as Chairman of the Board of the State and Local Government Law Section of the Maryland State Bar Association from 1981 – 1997, and served as Chairman and as a member of the Committee on Ethics from 1998 - 1999. Mr. Thompson also served on the Board of Directors and as president of the County Civil Attorneys group in the Maryland Association of Counties. He is currently serving as an adjunct professor at the George Washington University, teaching State and Local Government Law.

GENERAL INFORMATION ABOUT COUNTY GOVERNMENT AND SERVICES

Culture and Recreation

The County Department of Recreation provides a wide range of programs for children and youth, including teen programs, youth and adult sports, camps, summer playgrounds, 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 funds the Gaithersburg Senior Center and the Takoma Park Community Center through significant grants. There are presently six large public outdoor swimming pools and a seventh outdoor pool is scheduled to open in the summer of 2003. In addition, there are three regional indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs. These complexes provide swimming and diving pools, as well as weight and exercise rooms, meeting rooms, and changing facilities. The Recreation Department also sponsors a number of major special events drawing thousands of residents, such as the International Festival, an Oktoberfest, a 4th of July celebration, community concerts, and a variety of community festivals.

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 is currently being restored, with two additional theatres being constructed on the same site. The County selected the American Film Institute to operate the Theatre. On an adjacent site, a theatre is being constructed for the Round House Theatre School; this facility will operate 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, 2002, 114 of 187 offers for grants and loans totaling $13.14 million were accepted. The economic impact of these transactions is estimated to include: 29,249 jobs retained or gained; over $1.17 billion in private investment; and an annual net revenue return of over $31.3 million.

In addition to the original Economic Development Fund program, three new financial incentive programs were added. The Technology Growth Program was developed to facilitate the growth of 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. The Small Business Revolving Loan Program will augment a grant from the Maryland Industrial Land Act to finance economic development projects that cannot be financed from traditional private and public sources due to non-priority industry sectors and/or transaction site. Through these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, and frequently leveraging additional offers of assistance from State sources. 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.

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. In October 2001, the County Executive appointed an Economic Impact Panel, comprised of representatives from the EAC as well as other business and civic leaders from within the County, to assess the impact of the events of September 11 on our local business community and economy, and make recommendations to the County Executive on immediate and long-term programs and policies to address these issues.

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 companies 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. In addition, the campus at the

Universities at Shady Grove was approved for expansion with the addition of a third University building and a second CARB building. These buildings will be constructed within the next three years.

There is also a great deal of expansion within the Life Sciences Center currently underway. The fifth building for The Institute for Genomic Research is under construction. This four-story building is scheduled to be completed in September 2003 and will feature wet and dry lab space and administrative office space. Plans are also in place to add a third building on the campus of Johns Hopkins University. The new building will be up to 130,000 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. Construction on this building will begin in the spring of 2003 and should be completed in time for the 2004-2005 academic year.

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	10,714	4-year, professional
Catholic University	5,510	4-year, professional
Hood College	1,607	4-year, professional
Howard University	11,126	4-year, professional
Johns Hopkins University	18,000	4-year, professional
Montgomery College	45,000	2-year*
University of Maryland	52,582	4-year, professional

* 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 190 elementary and secondary schools. The operating budget is $1.412 billion for FY03, a 6.7 percent increase over the prior year, and the FY03-08 capital improvements budget is $627.8 million. The emphasis that County residents place on education is reflected in per pupil operating expenditures of $10,175 in FY03, and in the high percentage of high school graduates who continue formal education. In FY03, projected enrollment is 138,794 students, 1.4 percent above the previous year.

Facilities and Services

The Division of Facilities and Services, in the Department of Public Works and Transportation, provides facility and administrative services to all departments of the County government. Facility services include design and construction management for capital improvements, leasing support, space planning and alterations, maintenance and operations, physical security, facility engineering support, and parking operations. Administrative services include document duplication and mail operations, recycling, warehousing, food services, and archives. In FY03 the Division has a General Fund operating budget of $25.6 million and staff of 202; and an internal services fund budget of $3.7 million and staff of 27.

Libraries

There are 23 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 FY02 nearly 489,000 registered patrons used library facilities, and the collection was approximately 2.95 million volumes; total circulation was almost 11.3 million. Per capita circulation of 12.6 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.

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 845 licensees, including beer and wine stores, restaurants, and clubs. The Department, with 222 full-time and 56 part-time employees, is a self-supporting business enterprise. All operating requirements are included in the Department's annual budget, and 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 31,000 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 Departments

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 947 uniformed career employees and approximately 800 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 2000 system, 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 is a highly-trained merit-system force of 1,079 sworn officers, 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 2000 project. This $140 million effort is aimed at developing a complete mobile data system for the participating agencies and includes lap-top 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 other mapping features. This system is expected to be operational early in 2003. A new Emergency Communications Center was established to house the major components of the PS 2000 system.

In January 2002, the Juvenile Assessment Center was opened. Created in conjunction with other County agencies, this facility is specially designed to address the needs of young offenders and young victims of crime. Public areas, interview spaces and waiting rooms were designed to make juveniles feel more comfortable.

The Department has two 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 2003). Several new facilities are planned for the department including a new facility at the Abandoned Vehicle Lot which includes a forensics garage, and a new police substation in downtown Silver Spring.

In 2003, the Department will initiate the Educational Facilities Officer (EFO) program which will ultimately 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 520 correctional officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a variety of detention and community supervision programs. The Department operates several facilities, including the Montgomery County Detention Center and 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, currently houses adult men and women serving sentences up to 18 months or awaiting trial or sentencing. The Montgomery County Correctional Facility (MCCF), located in Clarksburg, is scheduled to open in FY03 and become the primary facility for holding inmates who are booked and processed.

After the MCCF opens, the Detention Center will become a 72-hour holding facility for detainees who are subject to an initial court appearance. In FY03, the local inmate average daily population at the Detention Center is 720, and the average population at the Pre-Release Center is 131. 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 $90 million under its Capital Improvements Program (including State funding) for the construction of the MCCF. The architectural and engineering phase for the renovation and re-use of the Detention Center was initiated in the fall of 2002.

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 landfill site within its borders.

The County continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. The program includes County provided separate curbside collection from 201,000 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 $2.8 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 capacity of 1,800 tons per day, 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

Roads

The Division of Highway Services, in the Department of Public Works and Transportation, has the objective of ensuring full, continuous, and safe use of the County's highway system by performing routine, preventive, and emergency maintenance to roads, bridges, sidewalks, curbs and gutters, and storm drainage systems. The Division has 289 full-time and 12 part-time positions with a FY03 budget of $21.3 million.

During FY02, the County was responsible for maintaining: 2,531 miles of roads and streets; 1,103 miles of sidewalk; 2,073 miles of curbs and gutters; 836 miles of storm drainage; and 257 bridges.

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 83 routes. All of those routes serve one or more of the 11 Metrorail Red Line Stations in the County. In FY02, 22.9 million passenger trips took place on the County system. The entire fleet consists of 243 buses owned and operated by the County, and 93 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 16 garages with a total of 14,695 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 planned to be under construction in Silver Spring in FY03. In Bethesda a 350 space garage is currently under construction and will open in late FY03.

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). A significant renovation of the airport was completed in 1997, including a new Main Terminal and Middle/North Parking garage. In the wake of the terrorist attacks of September 11, 2001, operations at Reagan National were substantially curtailed for many months. In 2001, the airport served approximately 13.3 million passengers on commercial, general aviation and commuter flights, a 16.5 percent reduction from the previous year. 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 10.5 percent in 2001. Dulles served 18.0 million passengers in 2001, with nearly 4.0 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, and rose another 3.9 percent in 2001. Nearly 20.4 million passengers used the airport in 2001. 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. Eleven rapid rail stations, with 12,000 parking spaces and served by 150 Metrobuses, provide service to County residents, workers, and visitors. 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. County residents make approximately 145,000 Metrorail trips each weekday. In response to Metro parking demands, 2,900 additional parking spaces 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 water and sewer system 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 FY03 approved operating budget for WSSC totals $465.8 million; the approved capital budget totals $200.3 million.

The Potomac and Patuxent Rivers are the two major sources of raw water supply. 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. Most of the WSSC sewage flows through a gravity trunk line system 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, scheduled for completion in 2003, will increase treatment capacity from 5 MGD to 20 MGD. This facility, located in southern Germantown, will treat wastewater flows from Gaithersburg, Germantown, and Clarksburg now treated primarily at Blue Plains. WSSC also operates treatment plants in the County which serve the communities of Damascus and Hyattstown.

Maintenance of WSSC property is the function of the Operations Team, which is responsible for systems maintenance, systems reconstruction, electrical/mechanical maintenance, instrumentation/communications, and utilities. WSSC contracts annually for cleaning, removing debris, 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 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 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 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 14.0 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. Rockville initiated a program to upgrade the Cabin John trunk sewer to meet ultimate demand based on the Master Plan. Upgrades will be phased in over a 5 - 10 year period and may include traditional construction techniques such as replacing the trunk sewer or alternative methods that increase capacity while reducing infiltration and inflow.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Groundwater wells supply the raw water for the Town's system, 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. The Town is also seeking State approval for additional wastewater treatment capacity to serve planned growth in the community and facility upgrades to improve the treatment process.

Financial Institutions

Within Montgomery County there are 23 commercial/national banks, operating 265 branch locations, and 6 federal savings and loan associations. These represent 16.5 percent of the total branch locations within the State of Maryland. Chevy Chase Bank, F.S.B., is the largest bank in Montgomery County, with 55 locations and $4.6 billion in deposits (10.6% of total Maryland deposits). Other large banks operating in the County are SunTrust, with 43 locations and deposits of $2.3 billion (5.2% of total Maryland deposits); Bank of America, 31 locations, deposits of $2.5 billion (5.9% of total Maryland deposits); and First Union National Bank, 14 locations, deposits of $2.0 billion (4.6% of total Maryland deposits). These four banks have total deposits within Montgomery County of $11.4 billion, or 26.3 percent of the $43.0 billion in deposits within the State. Also, 12 banks -- with 51 branches, deposits of $5.0 billion, and a 11.7 percent state market share – have their corporate offices located within the County. In addition, the County has 17 federal credit unions with over $1.5 billion in assets and serving more than 296,000 people working and living within Montgomery County. The above data were compiled as of June 30, 2002.

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, $319 million in payroll, and 14,900 jobs in the County during 2000. Average annual employment in tourism that year was 14 percent of the State's total tourism employment. Average local tax receipts in 2000 were in excess of $40 million; state tax receipts generated were over $55 million.

The Conference and Visitors Bureau of Montgomery County is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. 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 Montgomery County Conference Center, an executive-level, state-of-the-art meeting facility to be located adjacent to the White Flint Metro station.

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, CNG 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 2002, 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 work force consists of approximately 7,912 full- and part-time employees. Of this number, 5,685 employees are included in designated bargaining units under the County's collective bargaining laws. The County negotiates with three unions, one of which represents two bargaining units. The County bargains with all three unions over wages, fringe benefits, and working conditions. The table below summarizes the current status of County labor agreements.

Table 2
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades	992	June 30, 2004
Office, Professional & Technical	3,033	June 30, 2004
Police officers	983	June 30, 2003
Firefighters/Rescuers	677	June 30, 2005

The County commenced bargaining with the Fraternal Order of Police (FOP), Lodge 35 for a new agreement to be effective July 1, 2003.

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 20,299 full and part-time employees. This number includes 184 executive and administrative personnel, and 20,115 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 3
Board of Education Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Teachers	11,373	June 30, 2004
Professional/Administrative	573	June 30, 2003
Support Services	8,169	June 30, 2003

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 4 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 4
Statement of Direct and Overlapping Debt
As of June 30, 2002

Direct Debt:		
General Obligation Bonds Outstanding	$1,242,553,054	
Short-Term BANs/Commercial Paper Outstanding	125,000,000	
Long-Term Notes Payable	1,408,951	
Revenue Bonds Outstanding	86,835,000	
Total Direct Debt		$1,455,797,005
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,037,317,366	
Housing Opportunities Commission	641,038,692	
Montgomery County Revenue Authority	43,794,098	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	48,484,454	
Kingsview Village Center Development District	2,410,000	
West Germantown Development District	15,915,000	
Towns, Cities and Villages within Montgomery County	33,833,250	
Total Overlapping Debt		1,822,792,860
Total Direct and Overlapping Debt		3,278,589,865
Less Self-Supporting Debt:		
County Government Revenue Bonds	86,835,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,037,317,366	
Housing Opportunities Commission	641,038,692	
Montgomery County Revenue Authority	43,794,098	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	15,284,454	
Total Self-Supporting Debt		(1,824,269,610)
Net Direct and Overlapping Debt		$1,454,320,255
Ratio of Debt to June 30, 2002 Assessed Valuation of (100% Assessment):		$81,776,292,140
Direct Debt		1.78%
Net Direct Debt *		1.67%
Direct and Overlapping Debt		4.01%
Net Direct and Overlapping Debt		1.78%
Ratio of Debt to June 30, 2002 Market Value of:		$88,430,386,447
Direct Debt		1.65%
Net Direct Debt *		1.55%
Direct and Overlapping Debt		3.71%
Net Direct and Overlapping Debt		1.64%

* Net Direct Debt of $1,368,962,005 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 6 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 5 below.

Table 5
Statement of Legal Debt Margin
As of June 30, 2002

June 30, 2002 Assessed Valuation – Real Property		$77,574,947,550
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 4,654,496,853
June 30, 2002 Assessed Valuation – Personal Property		$4,201,344,590
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 630,201,689
Total Assessed Valuation – Real and Personal Property		$81,776,292,140
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$5,284,698,542
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,242,553,054	
Short-Term BANs/Commercial Paper	125,000,000	
Long Term Notes Payable	1,408,951	
Net Direct Debt		1,368,962,005
Legal Debt Margin		$3,915,736,537
Net Direct Debt as a Percentage of Assessed Valuation		1.67%

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 6 below.

Table 6
General Obligation Bonded Debt Ratios
1993 – 2002

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
1993	1.43%	9.43%	$ 1,229	3.42%	68.06%
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	1,482	2.97	71.83
2002	1.55	8.32	1,535	3.03	71.32

* 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 7. Annual debt service payments for the County's debt is displayed in Table 8. Table 9 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2002.

Table 7
General Obligation Debt of the County
As of June 30, 2002

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2002
GO Bonds	05/01/83	$ 50,000,000	7.00-9.00%	7.8999%	1984-03	$ 2,500,000
GO Bonds	06/01/84	55,000,000	9.00-9.75	9.3989	1985-04	5,500,000
GO Bonds	05/01/85	65,000,000	7.60-8.60	8.2205	1986-05	9,750,000
GO Bonds	04/01/86	50,000,000	5.80-6.30	6.0956	1987-06	10,000,000
GO Bonds	04/01/91	60,000,000	6.30-6.75	6.5230	1992-03	3,000,000
GO Bonds	10/01/91	70,000,000	5.75-6.125	5.9747	1992-02	3,500,000
GO Refunding Bonds	07/01/92	273,038,054	2.75-5.80	5.7431	1993-10	177,708,054
GO Bonds	10/01/92	115,000,000	5.00-5.75	5.4740	1993-03	11,500,000
GO Refunding Bonds	08/15/93	60,005,000	2.50-5.00	4.9908	1994-11	56,210,000
GO Bonds	10/01/93	100,000,000	4.40-4.90	4.6899	1994-13	60,000,000
GO Bonds	10/01/94	100,000,000	5.20-6.125	5.7958	1995-08	35,000,000
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-08	36,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-17	57,500,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	69,510,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	92,000,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	102,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	71,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	133,000,000
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	160,000,000
Total						$1,242,553,054

* True Interest Cost.

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Table 8
Summary of General Obligation Bond
Debt Service Requirements by Fiscal Year
As of June 30, 2002

Fiscal	General Obligation Bonds		
Year	Principal	Interest	Total
2003	$ 107,105,000	$ 61,042,750	$ 168,147,750
2004	102,965,000	55,279,382	158,244,382
2005	101,835,000	49,885,325	151,720,325
2006	98,310,000	44,564,940	142,874,940
2007	95,560,000	39,572,296	135,132,296
2008	95,325,000	34,833,172	130,158,172
2009	75,736,683	42,676,970	118,413,653
2010	72,542,086	35,100,104	107,642,190
2011	69,599,285	26,342,455	95,941,740
2012	65,075,000	20,416,577	85,491,577
2013	61,435,000	17,363,145	78,798,145
2014	55,740,000	14,203,874	69,943,874
2015	50,670,000	11,599,843	62,269,843
2016	45,445,000	9,264,269	54,709,269
2017	39,270,000	7,139,875	46,409,875
2018	33,500,000	5,163,100	38,663,100
2019	27,730,000	3,478,938	31,208,938
2020	21,710,000	2,076,138	23,786,138
2021	15,000,000	1,150,000	16,150,000
2022	8,000,000	400,000	8,400,000
Total	$1,242,553,054	$481,553,153	$1,724,106,207

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Table 9
General Obligation Bonds Authorized – Unissued
As of June 30, 2002

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	19	1998	$113,400,000	$ 27,890,000
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
			260,400,000	174,890,000
Road & Storm Drainage	19	1998	77,000,000	5,410,000
	18	1999	30,000,000	30,000,000
	22	2000	77,600,000	77,600,000
	17	2001	10,630,000	10,630,000
			195,230,000	123,640,000
Public Schools and	22	2000	82,900,000	6,013,000
Community College	17	2001	159,755,000	159,755,000
			242,655,000	165,768,000
Mass Transit	18	1999	400,000	105,000
	22	2000	1,400,000	1,400,000
	17	2001	6,700,000	6,700,000
			8,500,000	8,205,000
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			$725,730,000	$486,203,000

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 seven years, and planned for substitution over the six years beginning FY03, are displayed below.

Table 10
PAYGO Substitutions
(Actual FY96-02, Budgeted FY03-08)

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1996	$ 7,000,000	2003	$ 28,067,000
1997	3,925,000	2004	35,600,000
1998	13,000,000	2005	59,293,000
1999	13,400,000	2006	45,812,000
2000	24,600,000	2007	31,000,000
2001	40,705,000	2008	29,500,000
2002	40,155,000		

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes/commercial paper (BANs) 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, 2001 through June 30, 2002 are presented in Table 11 below.

Table 11
Bond Anticipation Notes Outstanding
As of June 30, 2002

Issue	Balance July 1, 2001	BANs Issued	BANs Retired	Balance June 30, 2002
BAN Series 1995-H	$ 20,000,000	$ --	$ 20,000,000	$ --
BAN Series 1995-I	105,000,000	--	105,000,000	--
BAN Series 1995-J	--	75,000,000	75,000,000	--
BAN Series 1995-K	--	85,000,000	85,000,000	--
BAN Series 2002-A	--	125,000,000	--	125,000,000
Total	$125,000,000	$285,000,000	$285,000,000	$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 12. Annual debt service payments for the County's revenue bond debt are displayed in Table 13. Table 14 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2002.

Table 12
Revenue Bond Debt of the County
As of June 30, 2002

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2002
Solid Waste System Revenue Bonds	03/15/93	$ 50,680,000	3.50%-5.875%	5.7836%	1994-13	$ 34,145,000
Parking Refunding Revenue Bonds (Bethesda PLD)	05/01/02	14,560,000	3.00%-5.00%	3.1941%	2003-09	14,560,000
Parking Refunding Revenue Bonds (Silver Spring PLD)	05/01/02	12,130,000	3.00%-5.00%	3.1398%	2003-09	12,130,000
Parking Revenue Bonds (Bethesda PLD)	06/01/02	26,000,000	3.00%-4.75%	4.4231%	2003-21	26,000,000
Total						$ 86,835,000

* True Interest Cost.

Table 13
Summary of Revenue Bond Debt Service Charges by Fiscal Year
As of June 30, 2002

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2003	$ 7,405,000	$ 4,104,976	$ 11,509,976
2004	7,655,000	3,746,352	11,401,352
2005	8,005,000	3,408,402	11,413,402
2006	8,335,000	3,096,122	11,431,122
2007	8,695,000	2,755,871	11,450,871
2008	6,425,000	2,349,171	8,774,171
2009	6,780,000	2,027,634	8,807,634
2010	4,615,000	1,698,028	6,313,028
2011	4,870,000	1,449,397	6,319,397
2012	5,135,000	1,186,721	6,321,721
2013	5,415,000	909,509	6,324,509
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	$ 86,835,000	$ 29,708,112	$116,543,112

Table 14
Revenue Bonds Authorized - Unissued
As of June 30, 2002

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, commercial paper/bond anticipation notes, 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 land for 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

Two development districts have been created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The West Germantown Development District was created by Council Resolution 13-1135 during FY98 and the Kingsview Village Center Development District was created by Council Resolution 13-1377 in FY99. The creation of the development 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 the Development District Act, 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. The County is authorized to issue $4.5 million in special obligation bonds for the Kingsview Village Center Development District and $20 million in special obligation bonds for the West Germantown Development District. See also "NEW CONSTRUCTION – Development Districts" below.

Bonds for the Kingsview Village Center Development District were issued in December 1999. Bonds for the West Germantown Development District were issued in March 2002, in two series. A Senior Series 2002A was issued in the amount of $11,600,000 and a Junior Series 2002B was issued in the amount of $4,315,000.

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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 $10,849,000 for FY02. Long-term leases with the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY03:

Payee	Location	Use	Total Rent For FY03
Rockville Town Center, LLC	255 Rockville Pike, Rockville	Various Agencies	$2,682,239
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	1,353,114
BP Gude LLC	7300 Calhoun Place, Derwood	Juvenile Assessment Center	1,022,153
ARE – 20/22/1330 Firstfield Quince Orchard LLC	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	726,155
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	637,453
Montgomery County Revenue Authority	Rockville Pike at White Flint Metro	Conference Center (Land)	561,427
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	539,592
Argo Orchard Ridge, LC	101 Orchard Ridge Dr., Gaithersburg	Facilities & Services	529,162
Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	486,103
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	452,501
Harry E. Williamson	12500 Ardennes Avenue, Rockville	Corrections	417,077
The Gudelsky Corp.	8630 Fenton Street, Silver Spring	Health Center	404,999
BRI – The Point Partnership	Various Locations	Radio Towers	339,007
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	274,709
McShea Management, Inc.	9125 Gaither Road, Rockville	Police/S.O.D.	237,354
McShea Management, Inc.	18749 Frederick Road, Gaithersburg	Police/District 6	234,118
WWG 401 North Washington	401 N. Washington Street, Rockville	Commission for Women	229,615
Shady Grove Associates II	9210 Corporate Boulevard, Rockville	Police/S.I.D.	220,203
Parking Management, Inc.	Rockville	Parking Facilities	209,519
Betty B. Casey Trust	8536 Anniversary Circle, Rockville	Records Center	185,264
Rockville Associates	110 N. Washington Street, Rockville	Various Agencies	171,423
Robert Sugar	8435 Georgia Ave., Silver Spring	Regional Services Center	161,534
Corby Construction Corp.	19627 Fisher Avenue, Poolesville	Poolesville Library	157,127
Investment Properties, Inc.	11 N. Washington St., Rockville	Board of Investment Trustees	152,550
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities	149,245
Halcyon Associates	8663 Grovemont Circle, Gaithersburg	Fire & Rescue/Bomb Squad	147,991
Wheaton Knolls Venture	11319 Elkin Street, Wheaton	Gilchrist Cultural Diversity Center	140,500
Betty B. Casey Trust	8516 Anniversary Circle, Rockville	Warehouse	131,711

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 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 Fiscal Year 2002 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, 2002).

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 23, 2002 the County Council approved the FY03 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $2.471 billion. This budgetary level represents an increase of 4.2 percent over the adopted budget for FY02.

The FY03 operating budget provides the greatest share (51.3 percent) of total resources to Montgomery County Public Schools, including funding necessary for an estimated 1,962 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 FY03, as well as compensation improvements.

The approved FY03 budget provided for an undesignated surplus of $58.2 million in the General Fund and $64.5 million across all tax supported funds. For FY03, the estimated effective property tax rate for the County declined to $1.080 per $100 of assessed valuation from the actual effective property tax rate of $1.082 per $100 of assessed valuation in FY02.

Capital Budget/Capital Improvements Program

The County Council approved the FY03 Capital Budget and the FY03-08 Capital Improvements Program for the County government and the required agencies, except for WSSC, aggregating $1.758 billion for FY03-08. This approved program provided for County bond funding aggregating $960.3 million over the six-year period FY03-08. The Council approved a Capital Improvements Program for WSSC totaling $449.4 million for FY03-08.

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 FY03 Capital Budget and the FY03-08 CIP is $10.1 million. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

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 FY02, the General County property tax levies were based on full cash value for all assessable property in the County at the rate of $1.857 per $100 of assessed personal property, and $0.741 per $100 of assessed real property valuation. The levies generated $644.5 million, or approximately 35.1 percent of the total County General Fund operating revenue requirements – down from a 41.5 percent share five years ago.

For FY02, 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 $867.0 million in FY02, or 47.2 percent of the total County General Fund operating revenue requirements – up from a 41.2 percent share five years ago. This increase is due to strong economic growth, employment expansion, and strong equity market returns.

Status of the General Fund

Montgomery County concluded the fiscal year ending June 30, 2002, with an undesignated balance in the General Fund of $72.9 million, an increase of $16.7 million from the balance ending in FY01. Total balance in the General Fund was $219.3 million at the end of FY02. The Revenue Stabilization Fund (RSF), including related investment income, grew to $87.2 million, with the increase attributable to higher than expected tax revenues. The level of funds in the RSF is the maximum allowed for 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 investment income, receipts from the three other revenue sources were higher than expected. The income tax was the primary source for the overall growth in the RSF. Because of the maximum size requirement of the RSF, the mandatory contribution was limited to $7.7 million in FY02. There were no discretionary contributions made to the Revenue Stabilization Fund in FY02, while, pursuant to Section 20-68 of Article XII of the Montgomery County Code, the $2.2 million interest earned in the RSF during FY02 was transferred to the Debt Service Fund.

General Fund Revenues

On a budgetary basis, revenues for the General Fund totaled $1,841.2 million, and were 3.9 percent above the budget estimate for the fiscal year. General Fund revenues grew 6.1 percent from the prior fiscal year. Compared to the budget estimate, the largest variance occurred in the tax category, of which actual collections and receipts exceeded the budget estimate by $79.1 million or 4.9 percent. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax, followed by the transfer tax, and finally, the recordation tax which were $43.0 million, $20.9 million, and $16.5 million, respectively, above the budget estimate. Revenues from the property tax came in on target at $644.5 million. However, the effects of the September 11 terrorist attack had a deleterious effect on the Washington area hospitality industry during FY02. Actual revenue from the County's hotel-motel room tax was 8.2 percent lower than the budget estimate. Other tax revenues also experienced decreases from the budget estimate. The effects of the uneven economic recovery during FY02 contributed to less than expected performance in the fuel and energy, telephone, and admissions and amusement revenues. In total, actual revenues from those taxes and the hotel-motel tax were 5.0 percent below budget estimates. While low interest rates, particularly low mortgage rates, were a boon to the recordation tax receipts, they had a negative effect on revenues from the County's investments. Investment income was $15.3 million below the budget estimate. Except for intergovernmental revenues, which were 5.1 percent above the budget estimate, and miscellaneous sources, which were 28.5 percent above the budget estimate, other non-tax sources of revenue came in below budget estimates. Such sources included licenses and permits (-2.2 percent), charges for services (-17.5 percent), and fines and forfeitures (-19.9 percent).

The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at $867.0 million represented 51.4 percent of total tax revenues for the General Fund and 47.2 percent of total revenues in FY02. Therefore, income tax receipts have become the majority source of tax revenues in the General Fund and a significant source of total revenues, and have surpassed the property tax in size since FY98. The dramatic shift in the reliance of 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. Even with the significant drop in the growth of capital gains in FY02, revenues increased 6.7 percent in FY02 – the same rate as in FY01. There are a number of factors that offset the decline in capital gains. First, total wages increased 5.6 percent during calendar year 2001. Other factors that helped offset the decline in capital gains were additional filings and late filings, which increased $40.7 million over FY01. Fiduciary returns, which increased $1.8 million over FY01, penalties and interest, which increased $1.0 million, and the one-time tax amnesty program, which accounted for $2.2 million in FY02, also contributed to the increase in FY02. However, while collections from prior years were strong, current year receipts coming in the midst of weak economic and financial market conditions reflect a sharp slowdown. For example, total quarterly distributions for withholding and estimated payments increased only 1.1 percent during FY02, compared to 10.6 percent during FY99, 8.0 percent during FY00, and 6.1 percent during FY01.

While wages increased in calendar year 2001, weak employment conditions in the County contributed to the slowdown in the growth rate of returns from withholding and declarations. During the first three quarters of FY02, the total number of payroll jobs averaged approximately 450,000. When compared to the first three quarters of FY01, the number of payroll jobs decreased slightly, by less than 1,000, or 0.2 percent. The decline is attributed to a loss of almost 3,500 jobs in the private sector. However, the decline was slightly offset by a gain in federal and local government employment of almost 2,000. Without the presence of federal and local government employment, and procurement spending by the federal government, the decline in the number of jobs would have been greater than 1,000, or more than 0.2 percent.

With the trends in capital gains and employment, the collections of $867.0 million were 5.2 percent above the budget estimate. However, with the uneven economic recovery and expansion that began in the latter half of FY02, payroll employment in Montgomery County is expected to be slightly higher than the FY01 level. With a modest increase in employment and an increase in real wages, both factors may help to partially offset the decline in the stock market and its effect on capital gains receipts. As a result, growth in income tax receipts will 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 $644.5 million in FY02, which were essentially on target with the budget estimate and 3.3 percent above actual revenues in FY01. Property taxes, excluding penalties and interest, were $641.3 million in FY02 – an increase of 3.6 percent over last year. However, collections from penalties and interest were $3.3 million, a decrease of 30.5 percent compared to FY01, but in line with the recent historical collection trend of approximately $3.0 million annually. The decline in penalties and interest was offset by the stronger than projected growth in both the assessable base for real property – an increase of $45.7 million – and for personal property – $149.1 million. The number of new construction projects in the County for non-residential and residential properties was 4,802 in FY02, an increase of 247 projects from FY01. This is a continuation of a five-year construction cycle in the County that began in FY98. Since then, residential construction increased at an average annual rate of 16.4 percent, from 2,289 projects to 4,413 projects in FY02.

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, and 3.0 percent in FY02. The deceleration in FY02 is attributed to the decline in the public utility sector. Assessments of real property continued their growth with an increase of 4.7 percent in FY02. As a result of continued growth in both real and personal property, the total assessable base grew 4.5 percent in FY02.

The third major category in the County is the combination of real property transfer taxes and recordation taxes. The combined tax receipts from these sources were $132.1 million, 39.5 percent above the budget estimate and 29.0 percent above FY01. Collections from transfer and recordation taxes continue to reach record highs.

Following a four-year period of decline in tax collections from transfer and recordation taxes beginning in FY95, reflecting a weak real estate market in the County, receipts jumped 81.7 percent in FY99 and another 29.0 percent in FY02, following increases of 7.3 percent in FY00 and 2.6 percent in FY01. Collections from recordation taxes exhibited the larger increase in FY02, 37.5 percent, compared to transfer taxes which increased 25.1 percent. The larger increase is attributed to an unprecedented level of home mortgage refinancing, which does not affect the transfer tax.

Nevertheless, revenues from the transfer tax were also exceptionally strong in FY02 with total collections at $80.0 million, an all time record high. Revenues from the residential sector were $69.5 million, an increase of 27.3 percent over FY01, and revenues from the non-residential sector were $10.5 million, an increase of 14.0 percent. Although revenues from the transfer tax were exceptionally strong in FY02, they follow an increase of only 0.1 percent in FY01. The unexpected resurgence of real estate activity in FY02, and therefore the sharp change in the recent slowing trend, was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY02.

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, the growth in residential transfer taxes grew slightly less than 2.0 percent. Because of such exceptional increases, the amount collected in FY02, $69.5 million, was a record. The average transfer tax also increased during this period from $2,254 in FY98 to $2,941 in FY02, representing a 30.5 percent growth rate.

In contrast to the residential sector, the commercial, or non-residential sector, did not have an exceptional performance. While the amount of collections from the commercial sector doubled in FY98, the growth rates declined over the next three fiscal years until FY02. Between FY99 and FY01, the growth in non-residential collections declined 28.9 percent, 1.5 percent, and 9.0 percent, respectively. In FY02, collections of $10.5 million were an increase of 14.0 percent over FY01. 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 461 in FY01. In FY02, the number of transfers declined by 38.8 percent, but unlike FY99 through

FY01, the average tax increased from approximately $20,000 in FY01 to $37,200 in FY02, an increase of 86.3 percent, thereby offsetting the decline in the number of transfers and resulting in a 14.0 percent increase in tax collections.

As the economy continues to expand at an uneven pace and corporate earnings remain weak, the demand for non-residential real estate also will remain weak. This scenario suggests that the number of transfers will not experience the growth rate observed in FY98 since most corporations are unlikely to look for expansion of office space. Also, with the employment situation in the County weak, the number of residential transfers may not experience the exceptional growth recorded during four of the last five fiscal years.

The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $43.7 million, and were $2.3 million below the budget estimate and $3.1 million below actual FY01. The variance between the budget estimate and actual revenues was across the board for all sources. The largest decline was in the telephone tax (-9.9 percent), followed by hotel/motel (-8.2 percent), and the admissions and amusement tax (-6.5 percent). The fuel/energy variance between the budget estimate and actual revenues was -1.5 percent. The September 11 terrorist attack and the subsequent anthrax attack on the Washington area had a significant effect on the hotel/motel industry in Montgomery County. During FY02, occupancy rates averaged 65.0 percent – 7.5 percentage points below the average rate in FY01, while room rates averaged $99.78, or 2.9 percent below the average in FY01. Because of the declines in occupancy rates and room rates during FY02, the hotel/motel industry has suffered a decline of 14.7 percent in business revenues since September 11. Such a dramatic decrease in business revenues affected hotel/motel tax collections, with a $2.1 million decrease, or 15.8 percent reduction from actual FY01.

Investment income fell $8.7 million, or 51.4 percent, from $17.0 million in FY01 to $8.3 million in FY02. In the General Fund, investment income was 64.9 percent below the budget estimate. The dramatic decline in investment income follows a decline in FY01 and is the result of an accommodative Federal Reserve policy during calendar year 2001. During that year, the Federal Reserve's open market operations cut the fed funds rate by 475 basis points from 6.5 percent on January 2, 2001 to 1.75 percent by December 11, 2001. Before the terrorist attacks, the Federal Reserve began its accommodative monetary policy starting January 3, 2001, with the first of eleven rate cuts during the calendar year, reducing the fed funds rate to 3.50 percent. After the terrorist attacks of 9/11, the Federal Reserve reduced the rate on fed funds an additional 175 basis points, to 1.75 percent. Because of this unprecedented series of rate cuts in fed funds, other short-term interest rates declined dramatically during FY02, hence the average yield on cash equity for the County decreased from 6.16 percent in FY01 to 2.61 percent in FY02. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $20.7 million or 58.2 percent below last fiscal year. Total estimated pooled investment income was revised downward during the year. As a result of the revision, actual investment income received came in on target for FY02. The decline in revenues is reflected in the daily portfolio balance, which decreased from $804.0 million in FY01 to $794.2 million in FY02.

General Fund Appropriations and Transfers

FY02 expenditure savings amounted to $10.5 million. Savings occurred in both departmental expenditures ($8.3 million) and non-departmental expenditures ($2.2 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 cost for the Department of Technology Services ($1.9 million), Department of Public Works and Transportation ($1.5 million), Department of Libraries ($1.3 million), and the Department of Health and Human Services ($0.7 million).

Offsetting the increased General Fund revenue and expenditure savings was a mandatory transfer to the Revenue Stabilization Fund of $7.7 million at the close of FY02. Generally, 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. Stronger than projected receipts in all tax categories contributed to this mandatory transfer.

Table 15
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual(1)				Fiscal Year Budget
	1999	2000	2001	2002	2003
Revenues:					
Taxes:					
Property, including interest & penalty	$ 593,103,639	$ 610,403,414	$ 623,819,661	$ 644,523,032	$ 684,923,410
Transfer tax and recordation tax	93,009,575	99,771,486	102,381,412	132,085,074	128,980,000
County income tax	689,203,638	761,148,755	812,352,208	866,996,269	827,330,000
Other taxes	45,183,618	43,312,655	46,768,742	43,704,476	47,950,000
Total Taxes	1,420,500,470	1,514,636,310	1,585,322,023	1,687,308,851	1,689,183,410
Licenses and permits	4,338,599	4,508,738	4,631,314	4,857,707	8,781,150
Intergovernmental revenue	93,255,279	98,051,154	102,932,299	115,791,737	114,608,600
Charges for services	7,337,927	7,904,754	8,961,699	7,262,727	11,248,937
Fines and forfeitures	3,188,275	4,550,638	6,195,417	7,143,920	14,513,150
Investment income	18,155,871	21,831,424	16,998,296	8,270,355	12,075,000
Miscellaneous	8,061,519	8,300,775	9,596,381	10,598,490	9,404,150
Total Revenues	1,554,837,940	1,659,783,793	1,734,637,429	1,841,233,787	1,859,814,397
Expenditures (including encumbrances):					
General County:					
General government(3)	139,868,204	152,711,792	156,635,507	161,204,882	173,522,819
Public safety	149,815,388	163,575,547	172,137,027	188,059,119	205,520,766
Transportation and public works	36,671,572	35,155,518	36,326,517	32,518,389	34,868,441
Health and human services	115,372,553	130,598,688	145,121,009	149,134,783	158,819,778
Culture and recreation	34,407,208	37,032,110	37,985,645	44,090,316	44,359,953
Housing and community development	2,883,758	4,104,510	4,256,355	3,632,055	7,129,595
Environment	3,197,837	3,549,047	4,502,897	4,349,786	4,289,616
Total Expenditures	482,216,520	526,727,212	556,964,957	582,989,330	628,510,968
Operating Transfers In (Out) :					
Operating Transfers In:					
Special Revenue Funds	9,091,019	10,117,342	10,283,760	12,850,550	12,555,270
Enterprise Funds	17,042,960	17,248,580	19,679,903	33,378,200	29,877,080
Internal Service Funds	--	--	--	500,000	--
Component Units	110,000	192,696	644,650	612,754	626,360
Total Operating Transfers In	26,243,979	27,558,618	30,608,313	47,341,504	43,058,710
Operating Transfers Out:					
Special Revenue Funds	(11,590,135)	(15,719,842)	(25,516,861)	(28,275,375)	(22,037,407)
Debt Service Fund	(136,484,729)	(134,767,348)	(143,528,192)	(157,010,129)	(172,550,170)
Capital Projects Fund	(14,189,353)	(38,907,827)	(52,079,521)	(61,368,324)	(56,192,055)
Enterprise Funds	(3,903,074)	(5,988,835)	(4,326,035)	(3,143,120)	(2,981,376)
Internal Service Funds	(1,410,500)	(615,290)	(1,581,897)	(471,622)	(45,332)
Component Units(2,3)	(883,972,417)	(938,162,658)	(1,036,644,903)	(1,117,630,064)	(1,177,232,876)
Total Transfers Out	(1,051,550,208)	(1,134,161,800)	(1,263,677,409)	(1,367,898,634)	(1,431,039,216)
Net Operating Transfers In (Out)	(1,025,306,229)	(1,106,603,182)	(1,233,069,096)	(1,320,557,130)	(1,387,980,506)
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out	47,315,191	26,453,399	(55,396,624)	(62,312,673)	(156,677,077)
Fund Balances, July 1 as previously stated	148,530,451	211,266,962	255,964,974	230,423,758	195,161,927
Adjustment for previous year encumbrances(4)	15,211,912	18,244,613	29,855,408	27,050,842	--
Fund Balances, July 1 restated	163,742,363	229,511,575	285,820,382	257,474,600	195,161,927
Equity transfers in (out)	209,408	--	--	--	--
Budgetary Fund Balance, June 30(2,3)	$ 211,266,962	$ 255,964,974	$ 230,423,758	$ 195,161,927	$ 38,484,850

(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 16
General Fund
Schedule of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above[1,2]	$211,266,962	$255,964,974	$230,423,758	$195,161,927
Plus encumbrances outstanding	20,625,655	33,029,310	29,312,780	25,357,855
Adjustment for prior year encumbrances	(2,492,577)	(2,381,042)	(3,173,902)	(2,262,579)
Unrealized investment gain (loss)	(1,290,016)	1,169,668	142,060	(1,973,055)
Net differences between beginning fund balances	2,147,311	745,760	3,123,811	2,973,976
GAAP Fund Balance as Reported[1,2]	$230,257,335	$288,528,670	$259,828,507	$219,258,124
Elements of GAAP Fund Balance:				
Reservations	$ 22,947,323	$ 36,225,684	$ 32,711,557	$ 29,201,708
Designated for CIP Transfers	31,294,410	36,001,151	54,234,669	55,822,587
Designated for subsequent years expenditures[1,2]	85,527,972	140,856,091	116,684,146	61,325,631
Unreserved / Undesignated[2]	90,487,630	75,445,744	56,198,135	72,908,198
	$230,257,335	$288,528,670	$259,828,507	$219,258,124

(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 higher than estimated income tax and transfer and recordation tax revenues, a mandatory transfer of $7.7 million was made to the Fund at the end of FY02. The income tax was the primary source for the overall growth in the Fund during FY02. This sixth consecutive mandatory transfer is combined with the mandatory contributions in FY97 ($18.7 million), FY98 ($21.4 million), FY99 ($5.5 million), FY00 ($8.4 million), and FY01 ($8.9 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 closing of FY02. Since the Fund reached more than half of its maximum size in FY02, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY02 was $2.2 million; similar transfers were made in FY98 ($1.9 million), FY99 ($3.0 million), FY00 ($3.4 million), and FY01 ($4.8 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, 2002, the investment balance of the County's portion of the consolidated portfolios was $676.6 million. During FY02 the County earned investment income of $18.2 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, and the Bethesda Urban Partnership.

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 FY02 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$18,844
Interest on investments	1,577
Recovered losses	754
Other income	60
Total Revenues	21,235
Expenses:	
Claims expense	23,241
Claims administration, loss control, external insurance, and other administrative expenses	7,898
Total Expenses	31,139
Net income (loss)	(9,904)
Retained earnings, July 1, 2001	6,377
Equity balance, June 30, 2002	($3,527)

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 FY01 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, 2002 was approximately $394.2 million. The total payroll for Montgomery County Government was $451.0 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 FY02 year-end, the defined benefit plan covered approximately 5,989 active participants and 4,542 retirees and inactive participants, with total liabilities amounting to approximately $2.27 billion. At FY02 year-end, the defined contribution plan had 2,909 participants with liabilities totaling $28.8 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 $1.902 billion as of June 30, 2002. 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 previous 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, new legislation in Maryland makes semi-annual payments the standard in FY01, unless taxpayers opt out of the system and remain in the annual payment cycle. Additionally, effective FY01, the second payment is due December 31, instead of January 31, as required under the previous 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 14 percent in the last five years, measured through 2002. 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 15 percent in the last five years, bringing the overall increase in the aggregate property base to 14 percent during this period.

Table 17
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
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
1998	68,186,602,838	3,654,450,970	71,841,053,808	2.19	98.48

Note: During FY01 the taxable assessment method for real property changed from 40 percent to 100 percent of the assessed property value. Fiscal Years 1998 through 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 FY02, 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 $9,003,570,000. Tax-exempt real property constitutes 10.4 percent of the total gross real property base, with 76.7 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 2002) from 223,601 residential properties, the overall average County assessment per improved residential account of $274,535 equates to an estimated market value of $296,860.

Table 18
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
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
1998	606,876,834	599,169,683	98.73	6,006,098	605,175,781	99.72	19,944,748	3.29

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Table 19
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
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
1998	1.962	606,876,834	.091	28,155,852	.210	59,093,497	2.263	694,126,183

Note: Rates are per $100 of assessed value. For FY02, 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 in FY02 was $1.852 for General County, and $.125 for Transit (the State does not tax personal property). For Fiscal Years 98-01, 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 20
FY02 Ten Highest Commercial Property Taxpayers' Assessable Base

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	$ 851,052,270	$ 8,911,000	$ 842,141,270	1.04%
Verizon/Bell Atlantic	674,847,570	27,034,990	647,812,580	0.83
Montgomery Mall	232,522,680	232,217,400	305,280	0.28
Washington Gas Light Co.	185,723,370	--	185,723,370	0.23
Bryant F. Foulger, Trustee	146,146,266	146,146,266	--	0.18
Camalier, Anne D et al, Trustee	130,482,114	130,482,114	--	0.16
Lakeforest Associates	127,095,532	127,095,532	--	0.16
Albert & R. Abramson, et al	126,909,383	126,909,383	--	0.16
Marbeth Partnership	123,962,492	123,962,492	--	0.15
Democracy Associates	123,961,566	123,961,566	--	0.15
Total	$ 2,722,703,243	$1,046,720,743	$1,675,982,500	3.33%
Assessable Base (June 30, 2002)	$81,776,292,140			

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 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. In FY02 impact taxes in the three areas yielded $1.99 million.

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 1990. The Maryland-National Capital Park and Planning Commission (M-NCPPC) revised population estimate shows 975,000 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 21
Number of Households and Population of Montgomery County

	Households	Population	Population Percent Change from Prior Census
2010 (M-NCPPC est.)	370,000	975,000	11.6%
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).

Table 22
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 an increasingly greater reliance on the private sector. For example, the share of federal employment declined from 11 percent to 9 percent during the past decade. The service sector (services, finance, insurance, real estate and retail trade) employs 65 percent of the workforce. The following tables present the County's employment by industrial sector.

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Table 23
Payroll Employment in Montgomery County

	1980	1990	2000	Difference 2000/1990 Number	Difference 2000/1990 Percent
PRIVATE SECTOR EMPLOYMENT:					
Construction	18,117	26,910	26,254	(656)	-2.4
Manufacturing	12,380	17,953	20,214	2,261	12.6
Retail Trade	54,447	72,630	73,212	582	0.8
Wholesale Trade	11,537	14,184	13,532	(652)	-4.6
Finance, Insurance, and Real Estate	17,176	28,020	31,576	3,556	12.7
Services	83,388	132,861	184,426	51,565	38.8
Transportation, Communication, and Public Utilities	5,387	11,132	13,484	2,352	21.1
Other	3,300	3,800	7,380	3,580	94.2
TOTAL PRIVATE SECTOR	205,732	307,490	370,078	62,588	20.4%
PUBLIC SECTOR EMPLOYMENT:					
Federal	40,876	42,713	39,615	(3,098)	-7.3
State	1,310	1,634	1,100	(534)	-32.7
Local	28,774	30,134	36,951	6,817	22.6
TOTAL PUBLIC SECTOR	70,960	74,481	77,666	3,185	4.3%
GRAND TOTAL	276,692	381,971	447,744	65,773	17.2%

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.
Based on prior year data, payroll employment represents approximately 82 percent of at-place employment and 91 percent of all civilian employment.

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

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Table 24
Payroll Employment Shares by Industry in Montgomery County

	1990	2000
PRIVATE SECTOR EMPLOYMENT:		
Construction	7.0%	5.9%
Manufacturing	4.7	4.5
Retail Trade	19.0	16.4
Wholesale Trade	3.7	3.0
Finance, Insurance, and Real Estate	7.3	7.1
Services	34.8	41.2
Transportation, Communication and Public Utilities	2.9	3.0
Other	1.1	1.6
TOTAL PRIVATE SECTOR	80.5	82.7
PUBLIC SECTOR EMPLOYMENT:		
Federal	11.2	8.8
State	0.4	0.2
Local	7.9	8.3
TOTAL PUBLIC SECTOR	19.5	17.3
GRAND TOTAL	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) for the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories. Total payroll employment was 449,853 in the County during 2001, an increase of 0.5 percent from 447,744 in 2000. Most of the gains in employment were in the public sector, which comprised 17.7 percent of total employment, while private sector employment comprised 82.3 percent of total employment.

During 2001 and the first nine months of 2002, the County's unemployment rate averaged 2.3 percent and 3.0 percent, respectively. The following table presents the County's labor force, employment and unemployment for the years 1997 through 2001.

Table 25
Montgomery County's Resident Labor Force
Employment & Unemployment

	Labor Force	Employment	Unemployment	Unemployment Rate
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.

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 (2001 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	3,100
Sodexho Marriott Services	3,000
Holy Cross Health	2,700
Sears Roebuck & Co.	2,100
Discovery Communications, Inc.	1,900
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
CSC Professional Services	1,500
Kaiser Foundation Health Plan	1,430
Suburban Hospital	1,400
National Association of Securities Dealers	1,330
CTA, Inc.	1,250
Mid-Atlantic Medical Services, Inc.	1,200
GE Global Exchange Services	1,100
BAE Systems (Marconi)	1,000
Hangar Orthopedics	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 2002 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 $42 billion in 2000, and is projected to total over $45 billion in 2002. Income in calendar year 2000 experienced strong growth and mirrored the performance of the national and regional economies. By contrast, growth in 2001 is estimated to have moderated to 3.8 percent due to the economic recession during the first three quarters of 2001 and the weak recovery during the fourth quarter. Economic growth is also expected to remain roughly unchanged in 2002 (3.9 percent) due to the effects of the weak economic recovery on payroll employment.

The County, which accounts for just over 16 percent of the State's population, accounts for over 23 percent of the State's total personal income, a share that has remained fairly constant since 1998.

Table 26
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2002 (est.)	$45,200	$193,948	$8,943,724	23.3%
2001 (est.)	43,500	187,302	8,678,255	23.2
2000	41,900	180,353	8,398,796	23.2
1999	38,923	167,246	7,779,511	23.3
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 September 23, 2002 (U.S. and Maryland); and on May 6, 2002 (County).
(2) Estimates for Montgomery County (2001-2002) by Montgomery County Department of Finance.
(3) Estimates for Maryland and United States (2001-2002) by State of Maryland, Bureau of Revenue Estimates.

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Average Household and Per Capita Personal Income

The County's estimated average household income ranks eleventh nationwide in 2002 – and second in the Washington metropolitan area -- measured among similar major suburban counties. The County's estimated 2002 household income of $135,740 ranks first in the State and exceeds the Washington MSA estimated average ($125,250) by 8.4 percent, the Maryland metropolitan average ($108,550) by 25.1 percent, and the U.S. metropolitan average ($96,600) by 40.5 percent.

Table 27
Comparison of Estimated Per Capita and Average Household Income, 2002
Montgomery County and 19 Other Major Affluent Counties

County	Per Capita Income	County	Average Household Income
San Mateo, CA	$66,740	San Mateo, CA	$186,737
Marin, CA	66,312	Fairfield, CT	173,013
Fairfield, CT	63,587	Marin, CA	162,864
Morris, NJ	58,712	Morris, NJ	162,025
Westchester, NY	58,703	Westchester, NY	161,024
Fairfax, VA	56,164	Fairfax, VA	155,100
Bergen, NJ	53,933	Lake, IL	149,898
Arlington, VA	53,194	Nassau, NY	145,004
DuPage, IL	50,718	Bergen, NJ	144,086
Middlesex, MA	50,706	DuPage, IL	140,566
MONTGOMERY, MD	**50,670**	**MONTGOMERY, MD.**	**135,740**
Lake, IL	50,282	Middlesex, MA	131,815
Oakland, MI	49,968	Rockland, NY	130,742
Norfolk, MA	49,636	Norfolk, MA	129,063
Nassau, NY	48,610	Montgomery, PA	126,009
Montgomery, PA	48,200	Oakland, MI	125,841
Johnson, KS	46,710	Hamilton, IN	122,950
Hamilton, IN	44,465	Contra Costa, CA	122,493
Contra Costa, CA	44,244	Johnson, KS	120,478
Waukesha, WI	43,088	Howard, MD	117,157

(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 forward experience during 1992-2000 and the ranking based per capita income for the year 2000.

(3) Estimated average 2002 household income was derived by multiplying the estimated 2002 per capita income by the average number of persons per household.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business" for personal income data; Sales and Marketing Management, "2001 Survey of Buying Power" for household data.

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NEW CONSTRUCTION

Following a low point in FY94, new construction in FY95 improved for the first time in seven years with a modest five percent increase. The trend continued through FY00 reaching a growth rate of close to 10.4 percent in additional real property tax base that year. New construction in FY00 was broad-based in both residential and non-residential sectors. Single and multifamily new residential construction in FY00 jumped to the highest level since FY90, while the combined commercial and industrial sector experienced the most activity since FY92. Data for the subsequent fiscal year show considerable moderation, with growth in additional real property tax base slowing to just 1.1 percent in FY01. In fact, the growth in new construction was the result of higher costs rather than a greater number of projects. Moreover, it is clear that this growth was the result of continued strength in the non-residential sector, with the commercial and industrial sector growing 18 percent in FY01. The aggregate residential sector, on the other hand, fell 2 percent in FY01 due to a drop in multi-family construction.

In FY02, the number of new construction projects for residential and non-residential increased 7.5 percent from FY01. This increase is above the seven-year construction cycle that averaged 2.2 percent per year since FY95. However, new single-family unit residential construction experienced modest growth during this period while new non-residential construction projects doubled during FY02. Because of the construction boom in non-residential property, estimated assessed value for new construction reached $1.5 billion in FY02, an increase of 16 percent over FY01.

Table 28
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Number*	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2002	15,696	$896.1	$19.4	$70.8	$520.7	$1.3	$1,508.4
2001	14,599	878.5	53.7	88.2	276.0	4.4	1,300.9
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	1,152.2
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
1995	13,500	582.8	3.2	23.0	70.0	5.9	684.9
8-Year Summary		$6,221.7	$216.1	$502.8	$2,017.3	$131.1	$9,089.0
Categories as Percent of Total		68.5%	2.4%	5.5%	22.2%	1.4%	100.0%

* 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 development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark. Upon completion, the proposed developments will consist of 5,193 residential units, approximately 100,000 square feet of commercial office space, and approximately 259,000 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, Acterna, 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 a 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 a Red Lobster, Panera Bread, Austin Grill, and Macaroni Grill. Additionally, there will be a new 20 screen megaplex movie theater and a Borders Books.

Corporate announcements and relocation plans spawned other initiatives in the Central Business District. Discovery Communications held a groundbreaking for their new 550,000 square foot, $150 million state-of-the-art corporate headquarters in November 2000. Construction is on schedule for a spring 2003 opening. 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, now operates a small theater at the Kennedy Center in Washington, D.C., but will soon operate and fully program the historic Silver Theater, capping off the County's $21 million investment for restoration and expansion efforts. Construction is fully underway on the AFI Silver Theater, which will include two additional screening rooms. The Round House Theatre will open a "black box" theater adjacent to the AFI Silver Theater, which will serve 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.

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 2001, eight companies received nearly $13 million in development and renovation property tax credits, and 12 companies received income tax credits for adding nearly 200 new employees.

Wheaton

Downtown Wheaton is beginning the transformation 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 numerous sites that will create nearly two million square feet of new development and generate over $280 million in private capital investment. At completion, 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 area.

Westfield Corporation, owners of Westfield Shoppingtown Wheaton, is negotiating with a major national retail chain to locate as a fourth anchor store. When a fourth anchor store is secured, a 580,000 square foot expansion of the existing 850,000 square foot mall is planned. The County tentatively committed to construct a new public parking garage to support this private sector investment estimated at nearly $100 million. Target department store opened in July 2002 as the Mall's third anchor store, replacing a former Ward's store.

There are several major residential projects that will begin construction in 2003. Eakin/Youngentob and Bozzuto Group are scheduled to start construction in early 2003 on a 325 unit residential project adjacent to the Metro station. This project will include 250 luxury rental apartments, 75 market-rate townhouses, and a new parking garage. This project was awarded a $500,000 State of Maryland Smart Growth Grant, and the apartment complex recently was named the Best New Location for a Suburban Maryland Apartment Community for 2002 by the Mid Atlantic Apartment Industry. Pulte Homes is also scheduled to start construction in early 2003 on 42 townhouses, one single family house, and a pocket park on the former Wheaton Lumber site.

Bozutto Group, the development partner for The Washington Metropolitan Area Transit Authority (WMATA), will also be developing in 2003 the residential Metro Air Rights project along Georgia Avenue, which is slated for approximately 175 residential units. Beginning in 2005-06, 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 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 above the current Metro Bus Bay area on the west side of Georgia Avenue. Construction is expected to start on this project in 2004.

Facilitating the Wheaton redevelopment and revitalization initiatives are substantial investments by the Federal, State and County governments. The Federal government provided the County with over $1,000,000 in funding for streetscape improvements and small business computer technology training. The State approved 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, a Clean and Safe Program to enhance the downtown's appearance, and 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 the downtown Bethesda area has seen a number of recent new projects. Most notably, in August 2001, a groundbreaking ceremony was held for a new mixed-used project at the site of the historic Bethesda Theater on Wisconsin Avenue. The project will feature the construction of townhomes, mid- and high-rise residences, a 345-space County parking garage, and the restoration of the theater.

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 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 have signed leases in the building, including Profunds Advisors, GMAC, and Green Park Financial.

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 Sector Plan concentrates new growth in the Metro-served area while preserving the surrounding neighborhoods. The Plan provides opportunities for additional development on the Hecht's, Chevy Chase Land Company, and GEICO sites, totaling over 1.4 million net additional square feet of office and retail space. Additional housing opportunities for an estimated 635 dwelling units are provided on the Hecht's and GEICO sites. One of the first major projects in this plan is Chase Tower, a 240,000 square foot retail and office building that delivered in November 2001. This luxury Class A tower will soon be home to the new corporate headquarters for Ritz Carlton. Other tenants in this building include Capital Trust and Capital Source.

Existing Office/R&D Space

As of October 14, 2002, Montgomery County has just under 84 million square feet of office and flex space (the total of Classes A, B, and C buildings), an increase of four million square feet from October 2000. The weighted vacancy rate for the County has risen slightly during the same period, but is still at a healthy 8.74%.

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 15 million square feet of office space. Discovery Communications' new 550,000 square foot corporate headquarters in downtown Silver Spring will soon be 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 29
Office/Flex Space Availability by Submarket
As of October 14, 2002

Montgomery County Office Market	Total Inventory (Square Feet)	Total Vacant (Square Feet)	Vacancy Rate w/Sublet	Vacancy Rate w/o Sublet
Bethesda CBD/Chevy Chase	11,476,647	1,109,029	15.17%	9.66%
North Bethesda/Potomac	11,603,857	1,190,415	12.23	10.26
Gaithersburg	12,705,567	730,510	6.54	5.75
Germantown	4,930,716	806,813	24.83	16.36
Rockville	11,802,812	679,591	7.15	5.76
North Rockville	16,191,554	1,219,585	10.00	7.53
Silver Spring (CBD)	8,069,967	1,203,771	16.18	14.92
N. Silver Spring/US 29	5,296,422	329,472	7.36	6.22
Kensington/Wheaton	1,878,780	67,528	3.86	3.59
Total County	83,956,322	7,336,714	11.25%	8.74%

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 $350 million to the local economy. Over $196 million comes from the County's thriving equine industry, about $125 million from horticulture, and $29 million from traditional agriculture. There are more than 526 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 54,000 acres of farmland – more acreage than in any other county in the nation – are protected through easements.

Farmers and landowners can choose from six 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)

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

Irvington Center (King Farm)

Office activity continues to be strong in the 430-acre King Farm urban village in Rockville. Three Irvington Center broke ground in August 2000 and delivered in April 2002. The 217,000 square foot building has seen significant leasing activity, most notably a 75,000 square foot lease by Dental Benefit Providers and a 24,000 square foot lease by Hilb, Rogal, and Hamilton Company. Four Irvington Center broke ground in late 2002 and is scheduled for an early 2004 delivery. This building will feature a 120 person conference room. The 165,000 square foot building at Two Irvington Center delivered in December 2000 and features an impressive tenant list including Wolpoff and Abramson, and Avendra. One Irvington Center, the first office building completed on the campus, is almost completely leased to companies such as Aronson, Fetridege, and Weigle, and Artesia Technologies. The entire Irvington Center campus is comprised of over 90 acres and will ultimately include over 3 million square feet of office space.

Redland Tech Center

Located adjacent to King Farm in Rockville, the Redland Tech Center broke ground in April 2002 with a 142,500 square foot office building. This building is scheduled for a May 2003 delivery and is leased to the Department of Health and Human Services. Redland Tech Center will eventually consist of three office buildings totaling over 400,000 square feet.

White Flint Place

The office component of this North Bethesda mixed-use project broke ground in mid-2002. This office building will feature 250,000 square feet of office space and over 16,000 square feet of retail and restaurant space. This project, developed by the Donohoe Companies, will also have 460 apartments and a 40,000 square foot health club. In addition to White Flint Place, the area around the White Flint Metro station is approved for an additional one million square feet of office space, 200,000 square feet of retail space, and 1,400 new apartments. Montgomery County's 100,000 square foot Conference Center will also be constructed in this area.

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. An additional 100,000 square feet of space is schedule for a December 2002 delivery. 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 Metro Plaza/Rockville Center

The first of three Class A office buildings to be built on the 3.6-acre downtown Rockville Metro Plaza site broke ground in February 2001. The 230,000 square foot building delivered in October 2002 and will have software developer SAS Institute, Inc. as the lead tenant. A total of 620,000 square feet of office and retail space is planned for the site, and parking structures totaling over 3,000 spaces will also be constructed. The retail portion of the adjacent Rockville Center continued to thrive in 2002, with both Pot Belly's sandwich shop and Moto Photo opening in the 120,000 square foot retail pavilion. The retail pavilion is anchored by a Regal Cinemas movie theater, and also includes California Tortilla, Tara Asia, and Ben & Jerry's.

Tower Oaks Corporate Park

The 200-acre site prominently located just off I-270 in Rockville had a great deal of activity in 2002. The 180,000 square foot building located at the Preserve at Tower Oaks is now fully leased with the additions of Matthews Media, Anteon, and EDS as tenants. The primary tenant in this building continues to be Legato Systems (formerly OTG Software). The dramatic 260,000 square foot Tower Building located on Wootton Parkway added the U.S. Department of Health and Human Services (86,000 square feet) and Telenor Satellite Holdings (38,000 square feet). The 30,000 square foot Oak Plaza delivered in March 2002 and is fully leased, and includes Sun Control Systems as the lead tenant. 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.

Gateway 270 Business Center

The 100-acre industrial park in upcounty Clarksburg continued to expand in 2002 with the delivery of a new 33,000 square foot flex building in July. Also, leasing activity remained strong in the park with the addition of Allstate

Insurance, which leased 27,000 square feet. Thales Communications, which has already leased an entire 94,000 square foot building in the park, is looking for additional space in Gateway 270. Other prominent tenants in Gateway 270 include Daly Computers and Electronic System Services, Inc. The property will ultimately contain over one million square feet of development.

Washingtonian Center

The newest addition to the 210-acre mixed-use development project in Gaithersburg is the 284,000 square foot building leased to Marriott International, which was delivered in June 2002. Adjacent to this building will be a new 145,000 square foot office building which broke ground in August 2002 and is scheduled for a June 2004 delivery. This building is also being constructed to accommodate Marriott's growth. Washingtonian Center has a "Town Center" feel with a mix of office, retail, restaurant, residential, and entertainment centers, all located within walking distance. Major office tenants include Sodexho Marriott and NASD. The retailers and restaurants include Target, Galyans, Kohl's, Barnes & Noble, The Corner Bakery, Rio Grande, Joe's Crab Shack, and Macaroni Grill. Up to one million square feet of office space is planned for the center, and plans to add new restaurants, retail, and hotel space made significant progress in 2002.

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. Two new 75,000 square foot office buildings, TecHill One and TecHill Two, recently delivered. 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 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

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 2003 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 an expansion project in 2002. A groundbreaking ceremony for its 150,000 square foot corporate headquarters and 75,000 square foot R&D facility was held on June 6, 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 a June 2003 completion. The buildings will be home to over 500 employees.

Qiagen Sciences

Qiagen, a German company that manufactures products used by pharmaceutical and biotechnology companies involved in nucleic acid research, opened their North American headquarters in Germantown on January 11, 2002. The 190,000 square foot research and manufacturing facility is home to over 300 employees. Qiagen, which was also considering locations in Boston and North Carolina, ultimately chose to locate this facility in Montgomery

County because of the proximity to the National Institutes of Health (NIH) campus in Bethesda, along with the fact that many of Qiagen's customers are Montgomery County companies.

Softmed Systems, Inc.

Softmed signed a lease on March 1, 2001 for the entire 72,000 square foot TecHill Two building in the Westech Business Park along Route 29 in north Silver Spring. The company, which develops management and efficiency software for the healthcare industry, held a grand opening ceremony for their new facility on May 22, 2002. Nearly 400 employees are now located in the facility. Softmed's decision to locate in the Westech Business Park was a catalyst for further development and business expansions along the Route 29 corridor, with other organizations such as Children's Hospital and American Bank signing leases in the area in 2002.

Ritz Carlton

The luxury hotelier announced in June 2002 that it will be relocating its Atlanta corporate headquarters to Montgomery County. Ritz Carlton has since signed a lease for 35,000 square feet at the prominent Chase Tower building in Chevy Chase. The relocation is due to Ritz Carlton's desire to be closer to its parent company, Bethesda-based Marriott International, Inc. The move will result in about 150 new jobs in Montgomery County once the company relocates in early 2003.

Allstate Insurance Company

The nation's largest publicly held personal lines insurer consolidated and expanded its regional claims center in Clarksburg on April 1, 2002. The company leased and occupied 27,000 square feet in a new building located in the Gateway 270 Business Center. This claims center employs 150 people.

Smiths Aerospace

Smiths Aerospace (formerly Orbital Sciences and Fairchild Aerospace) expanded into over 150,000 square feet of newly constructed space in the Seneca Meadows business park in Germantown in April 2002. The company provides cutting edge defense communications, video-imaging, and data processing, and employs over 400 individuals in Montgomery County.

APS Healthcare

APS Healthcare, a for-profit managed behavioral health organization, expanded into 70,000 square feet in downtown Silver Spring in 2002. The company, which relocated from Bethesda, employs over 330 people at this location. The relocation of APS is another example of the County's recent efforts to revitalize the downtown Silver Spring area with new businesses, restaurants, retail establishments, and theaters.

Dental Benefit Providers

In late 2002, Dental Benefit Providers expanded into 80,000 square feet in the newly constructed Three Irvington Center on the King Farm in Rockville. The company, which is one of the largest dental benefit companies in the United States, also maintains a presence in downtown Bethesda and employs 250 in Montgomery County.

Advancis Pharmaceuticals

Gaithersburg-based Advancis Pharmaceutical, a developer of products that help prevent infections, will be moving into to a new $15 million facility in the Senceca Meadows office park in Germantown. The 66,875 square foot building, which will be delivered in December 2002, will include office, wet lab, and production space. The company expects to relocate its current staff of 50 by June 2003, with plans to eventually hire about 100 more employees.

Avalon Pharmaceuticals

Avalon Pharmaceuticals, which recently raised over $70 million in financing, continued its rapid expansion in 2002 with the signing of a 56,000 square foot lease at Seneca Meadows in Germantown. This new facility will be home to 150 Avalon employees.

Orchid Cellmark

Orchid Cellmark expanded into 40,000 square feet of office and lab space in 2002. Over 100 employees work in the Germantown facility. Orchid Cellmark, which provides DNA testing services, received worldwide recognition for its role in many high profile criminal investigations.

FEDERAL SPENDING

Federal spending remains an important contributor to the Washington area's economy. In fact, according to a George Washington University study, total Federal spending accounts for over a third of the metropolitan Washington gross regional product. Hence, 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.

While Federal spending is important throughout the nation, its impact is even more significant in this region. For example, while total Federal spending in 2001 amounted to $1,864 billion nationwide, the Washington MSA received $79.4 billion – a 4.3 percent share. This share has not materially changed in at least a dozen years. However, even though the overall share of regional compared to national spending has grown only modestly over time to just over 4 percent, in some categories the region's share is far more significant. For example, the region receives 13 percent of all 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. This category grew 18.5 percent nationwide, measured over the past ten years, but 123 percent in the Washington MSA. As the table below shows, even over the past five years, growth in the region was 46.8 percent, compared to 27.6 percent nationwide. 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 $3.9 billion procurement spending in Montgomery County is estimated to represent approximately 10 percent of the gross county product as the Federal government boosts economic activity through purchases of goods and services with the County's private sector industries.

Table 30
Federal Procurement Trends
1997 - 2001
($ billions)*

Fiscal Year	Montgomery County	Washington MSA	U.S.
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
Percent Change 1997-2001	21.9%	46.8%	27.6%

* Amounts shown in current dollars (not adjusted for inflation).
Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FY 1997-2001.

RETAIL SALES

Reflecting weaker economic conditions, retail sales, measured by sales tax data collected for the first eight months of 2002, show a distinct slowing trend in Maryland and in Montgomery County. Compared to the two prior years, when retail sales in Maryland grew 8.1 percent (1999) and 8.2 percent (2000), sales growth declined to just 3.0 percent in 2001, and declined further to 1.9 percent during the first eight months of 2002 compared to the first eight months of 2001. This slowing trend is similar to the national trend, where retail sales grew only 3.7 percent in the first eight months of 2002, substantially less than the growth rates in 1999 (7.6 percent) and 2000 (6.7 percent), and the same growth rate as in 2001 (3.7 percent). With consumer confidence falling sharply and payroll employment barely growing, retail sales are traditionally one of the first indicators to reflect economic weakness.

Statewide retail sales in 2000 and 2001, measured for some of the largest categories, reflect a distinct change in the growth pattern, particularly in general merchandise (7% and 3%, respectively), automotive (20% and 2%), furniture and appliances (9% and -6%), building and industrial supplies (7% and 3%), and miscellaneous (6% and 1%). However, growth during the first eight months of 2002 rebounded for three of the aforementioned sectors: automotive (6%), building and industrial supplies (4%), and miscellaneous (9%), but continued to decrease for furniture and appliances (-3%).

Total retail sales in Montgomery County reflect a similar overall trend in comparison 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 4 percent in 2001, and 1.4 percent during the first eight months of 2002 compared to the first eight months of 2001. Sales in the County in 2000 and 2001 also reflected a change in the growth pattern for general merchandise (-0.2 % and -0.1%, respectively), automotive (27% and 5%), furniture and appliances (5% and -8%), and miscellaneous (7% and 1%). The County's largest sector – food and beverages – further improved last year (10%), greater than the statewide growth (7%) in 2001. Retail sales through August 2002 moderated with the County's growth rate (1.4%) behind the State's (1.9%), reflecting a much greater drop from the prior years. A closer inspection of the numbers, however, reveals that some sectors are experiencing modest to significant growth during the first eight months of 2002 compared to the same period in 2001. Notably, automotive (4%), building and industrial supplies (11%), and miscellaneous (2%) are experiencing increases in demand.

Table 31
Sales & Use Tax Receipts
By Principal Business Activity

	Montgomery County						Maryland	
	2000		2001		Jan.-Aug. 2002		Jan.-Aug. 2002	
	Growth(1)	Share of Total	Growth(2)	Share of Total	Growth(3)	Share of Total	Growth(3)	Share of Total
Food and Beverages	7.1%	21.6%	10.5%	23.0%	4.0%	24.0%	4.3%	20.7%
Apparel	1.8	7.0	18.2	7.3	-5.2	6.7	4.7	4.7
General Merchandise	-0.2	18.5	-0.1	17.7	0.2	16.1	1.4	16.5
Automotive	26.8	7.9	5.4	8.1	4.4	8.7	5.7	7.9
Furniture & Appliances	5.4	14.6	-7.6	13.0	-4.8	12.4	-2.8	11.6
Building & Industrial Supplies	-1.0	9.0	10.6	9.6	10.8	10.8	3.6	13.9
Utilities & Transportation	17.6	6.0	10.1	6.3	2.6	6.7	-8.3	8.1
Hardware, Machinery & Equipment	30.5	2.2	-18.4	1.7	-6.6	1.7	-2.7	2.7
Miscellaneous	6.5	12.6	0.7	12.3	1.7	12.4	8.6	13.3
Other	40.1	0.6	66..3	1.0	-36.0	0.5	-28.4	0.6
Total Retail Sales Tax	6.6%	100.0%	3.8%	100.0%	1.4%	100.0%	1.9%	100.0%

Notes: (1) Growth between 1999 and 2000.
(2) Growth between 2000 and 2001.
(3) Growth between the period January through August 2002, and the same period in 2001.

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.

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.

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APPENDIX A

BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

KPMG

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, 2002, 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 62% and 92%, 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, 2002, 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.

As discussed in Note I. D. to the basic financial statements, the County adopted Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

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

January 17, 2003

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 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; 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 designed to focus on the current year's activities, resulting changes in the County's financial position, and currently known facts that may have a significant effect on the financial position of the County now and in the foreseeable future. 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 FY02 by $1,665 million. That amount is net of a $314.3 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 $774.8 million at June 30, 2002. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets $460.5 million.

- The County's total government-wide net assets decreased by $7.4 million.

- As of the close of FY02, the County's governmental funds reported combined ending fund balances of $518.8 million, an increase of $7.6 million over the prior year's ending fund balances. Of the total ending fund balances, $192.5 million is available for spending at the County's discretion.

- At the end of FY02, unreserved undesignated fund balance for the General Fund was $72.9 million, or 4.3 percent of total General Fund expenditures.

- The County's government-wide long-term debt increased by $117.7 million during FY02. The key factors in this increase are:
  - The issuance of: $160 million in general obligation (GO) bonds, $146.4 million in GO refunding bonds, $26 million in revenue bonds, $26.7 million in revenue refunding bonds, and $37.9 million in lease revenue bonds.
  - The retirement of: $242.5 million in GO bonds (including $143 million refunded), $31.4 million in revenue bonds (including $25.7 million refunded), and $11.1 million in certificates of participation.

  GO and revenue bonds were refunded in order to save $6.3 million ($4.2 million GO and $2.1 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 Auditor 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	Fund Financial Statements	Component Units
Provides information on governmental and business-type activities of the primary government.	*Provides information on the financial position of specific funds of the primary government.*	*Provides information on the County's component units.*
Pages 22 to 25.	***Pages 26 to 39.***	***Pages 40 to 41.***

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 42 to 102.

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, for the first time, 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:

<u>Governmental Funds</u> – 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 eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 18 nonmajor funds (17 special revenue funds and one permanent fund).

<u>Proprietary Funds</u> – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste 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

As this is the first year the County has included MD&A, only information pertaining to FY02 is presented. In future years, when audited prior year information is available, a comparative analysis of government-wide financial information will be presented.

Statement of Net Assets

The following table presents a summary of the Statement of Net Assets for the County as of June 30, 2002:

Summary of Net Assets *
June 30, 2002

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	$ 1,129,469,059	$ 182,521,905	$ 1,311,990,964
Capital assets, net	2,140,484,901	165,197,141	2,305,682,042
Total Assets	3,269,953,960	347,719,046	3,617,673,006
Liabilities:			
Long-term liabilities outstanding	1,517,636,253	115,275,773	1,632,912,026
Other liabilities	287,255,835	32,505,893	319,761,728
Total Liabilities	1,804,892,088	147,781,666	1,952,673,754
Net assets:			
Invested in capital assets, net of related debt	1,492,551,254	78,523,152	1,571,074,406
Retricted	302,725,910	105,554,109	408,280,019
Unrestricted (deficit)	(330,215,292)	15,860,119	(314,355,173)
Total Net Assets	$ 1,465,061,872	$ 199,937,380	$ 1,664,999,252

* Primary Government

The County's assets exceeded its liabilities at the close of FY02 by $1,665 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 $774.8 million at June

30, 2002. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets $460.5 million.

An additional portion of the County's net assets ($408.3 million or 24%) 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

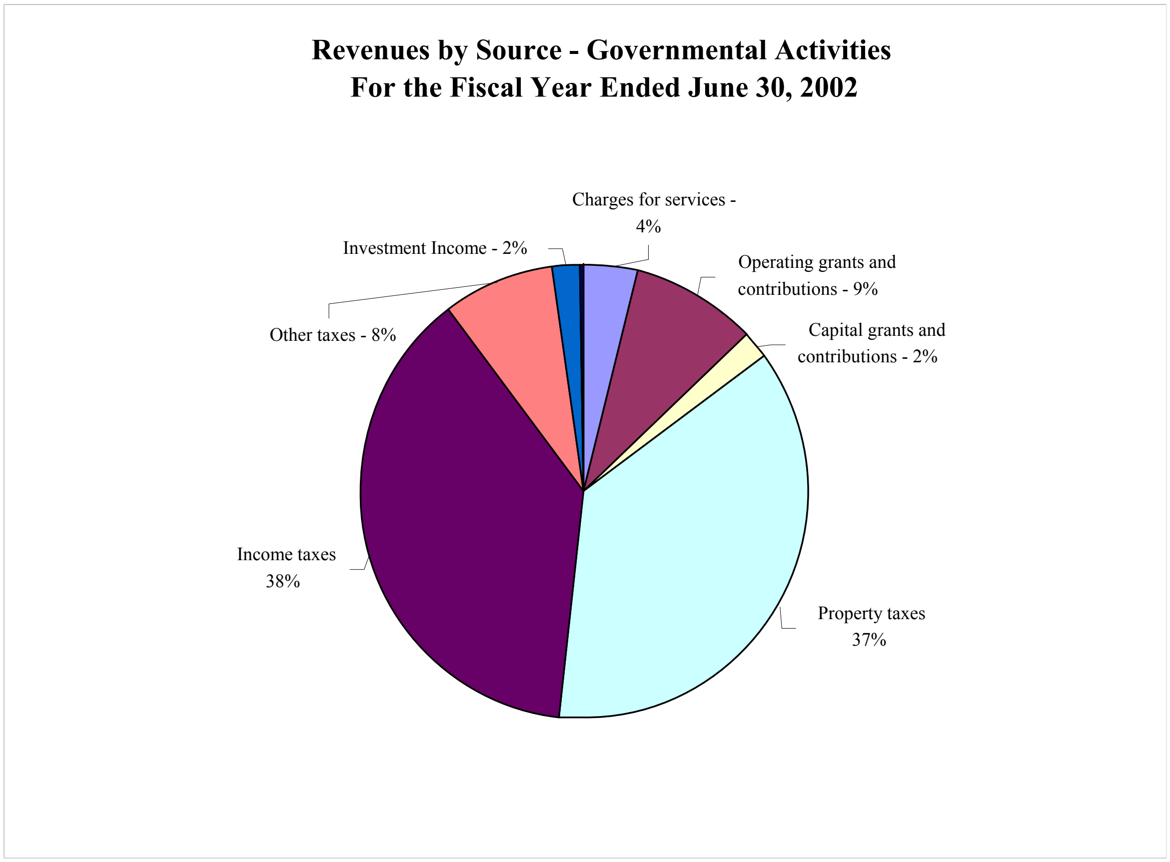
The following table summarizes the County's change in net assets for the year ended June 30, 2002:

Summary of Changes in Net Assets * For the Fiscal Year Ended June 30, 2002	Governmental Activities	Business-type Activities	Total
REVENUES			
Program Revenues:			
Charges for services	$ 84,952,926	$ 277,711,514	$ 362,664,440
Operating grants and contributions	201,490,713	65,680	201,556,393
Capital grants and contributions	48,019,121	-	48,019,121
General revenues:			
Property taxes	811,516,655	7,018,979	818,535,634
Income taxes	837,501,501	-	837,501,501
Other taxes	180,643,185	-	180,643,185
Investment Income	40,816,420	3,889,793	44,706,213
Gain (loss) on sale of capital assets	(4,471,925)	394,162	(4,077,763)
Total Revenues	2,200,468,596	289,080,128	2,489,548,724
EXPENSES			
Governmental Activities:			
General government	192,514,175	-	192,514,175
Public safety	309,564,731	-	309,564,731
Public works and transportation	151,932,007	-	151,932,007
Health and human services	197,263,408	-	197,263,408
Culture and recreation	78,147,724	-	78,147,724
Community development and housing	15,894,054	-	15,894,054
Environment	7,331,145	-	7,331,145
Education	1,219,512,074	-	1,219,512,074
Interest on long-term debt	65,756,461	-	65,756,461
Business-type Activities:			
Liquor control	-	128,793,258	128,793,258
Solid waste disposal and collection	-	89,048,708	89,048,708
Parking lot districts	-	18,488,414	18,488,414
Permitting services	-	17,041,912	17,041,912
Community use of public facilities	-	5,640,334	5,640,334
Total Expenses	2,237,915,779	259,012,626	2,496,928,405
Increase (Decrease) in Net Assets Before Special Item and Transfers	(37,447,183)	30,067,502	(7,379,681)
Special item- settlement of interfund balances	1,966,187	(1,966,187)	-
Transfers	36,515,563	(36,515,563)	-
Increase (Decrease) in Net Assets	1,034,567	(8,414,248)	(7,379,681)
Net Assets as of July 1, 2001	1,464,027,305	208,351,628	1,672,378,933
Net Assets as of June 30, 2002	$ 1,465,061,872	$ 199,937,380	$ 1,664,999,252

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $2,200.5 million for FY02. Sources of revenue are comprised of the following items:

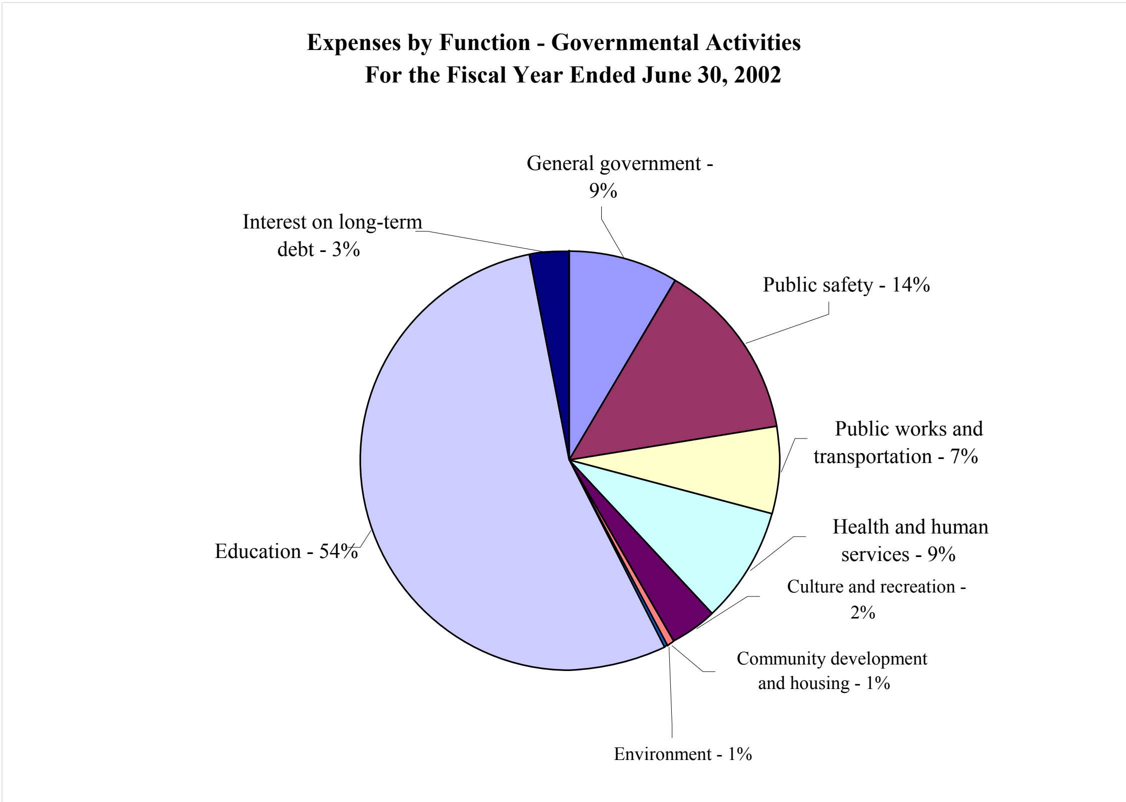


- Taxes constitute the largest source of County revenues, amounting to $1,829.7 million for FY02. Property and local income tax combined comprise 75% of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.92 percent and 2.95 percent of the State taxable income for calendar year 2001 and 2002, respectively. This change was related to the phase-in of State tax relief related to exemptions, and was required in order for the income tax impact on the County to be revenue neutral. 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 ($107.7 million or 53%), public works and transportation ($53.6 million or 27%) and public safety ($22.7 million or 11%).

A more detailed discussion of the County's revenue results for FY02 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 FY02 was $2,237.9 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 $309.6 million, while health and human services, the third largest expense for the County, totaled $197.3 million.



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 Year Ended June 30, 2002

	Expenses	Revenues	Net Cost of Services
Education	$ 1,219,512,074	$ -	$ 1,219,512,074
Public safety	309,564,731	46,804,524	262,760,207
Health and human services	197,263,408	111,130,897	86,132,511
General government	192,514,175	32,646,349	159,867,826
Public works and transportation	151,932,007	90,914,717	61,017,290
Culture and recreation	78,147,724	30,522,140	47,625,584
Other	88,981,660	22,444,133	66,537,527
Total	$ 2,237,915,779	$ 334,462,760	$ 1,903,453,019

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($85 million) and other governments and organizations that subsidized certain programs with grants and contributions ($249.5 million). Of the $1,903.5 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was $1,830 million.

Business-type Activities

Highlights of the County's business-type activities for FY02 are as follows:

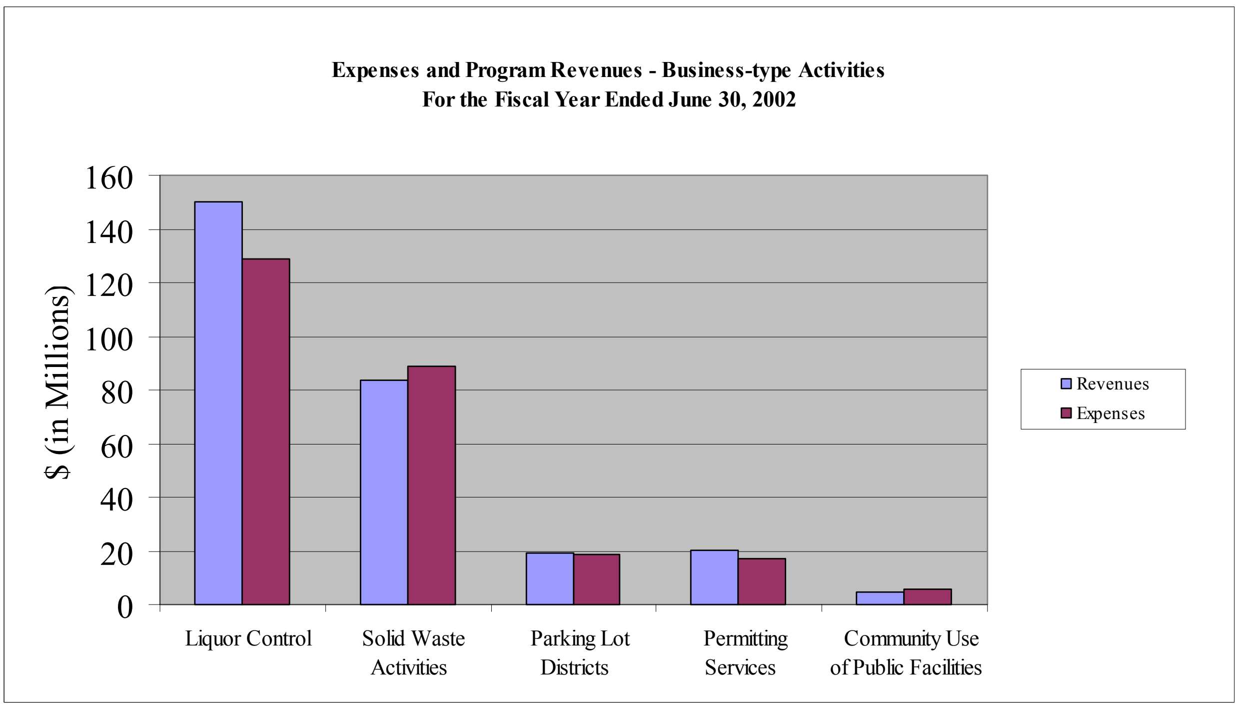
- Business-type activities experienced a loss of $8.4 million for FY02. However, this amount is reported net after total transfers of $36.5 million, $22.3 million of which represents FY02 Liquor Enterprise Fund profits transferred to the General Fund. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

- Charges for services to users comprise 96% of revenues, with $150.1 million (54% of charges for services revenue) attributable to liquor control operations and $83.5 million (30%) 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.

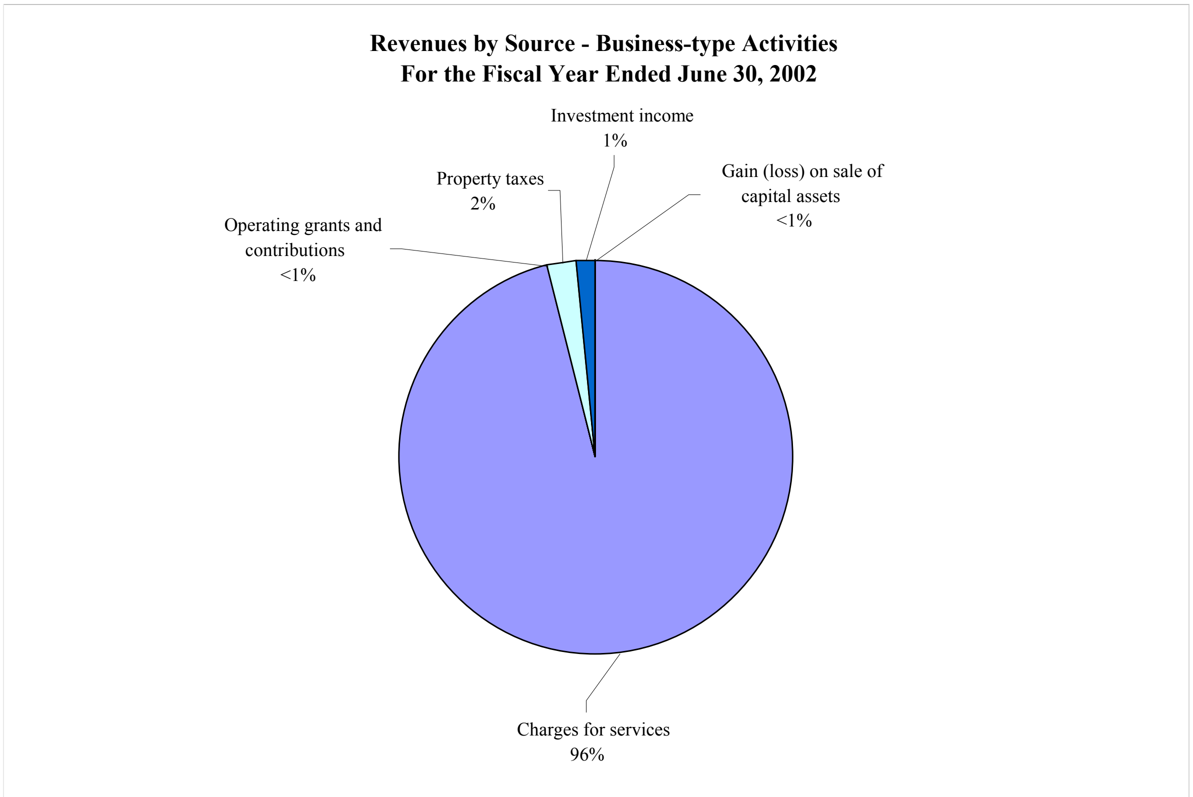
- Parking lot district property taxes of $7 million is the second largest source of revenue at only 2 percent.

- Investment earnings decreased by $5.8 million (60%) 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:



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 FY02, the County's governmental funds reported combined ending fund balances of $518.8 million, an increase of $7.6 million from the end of FY01. Of the total ending fund balances, $192.5 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $326.3 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 FY02, unreserved and undesignated fund balance of the General Fund was $72.9 million, while total fund balance was $219.3 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 3.8 percent of the total General Fund expenditures and transfers out, while total fund balance represents 11.4 percent of the same amount.

The fund balance of the County's General Fund decreased by $41.2 million during FY02, primarily due to:

- Use of beginning fund balance to fund the County's FY02 operating budget; and

- Supplemental and special appropriations approved by the County Council during the fiscal year for both operating and capital projects. Over half of these mid-year appropriation increases were for public safety operating and capital improvements, including the County's Emergency Preparedness Initiative in response to the September 11, 2001, terrorist attacks, as well as to support implementation of the County's new Public Safety Radio and Data System. The remainder related primarily to other public safety information technology improvements, and to provide for the timely opening of the County's new correctional facility in FY03.

The Capital Projects Fund has a total fund balance of $101.3 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 FY02 amounted to $17.4 million, and nonoperating income was $21.5 million. After a subsidy transfer to the General Fund of $22.3 million, the fund ended FY02 with a decrease in net assets of $.8 million.

The Solid Waste Disposal and Collection Fund total net assets amounted to $59.7 million, of which the unrestricted net assets were $14.6 million. Restricted net assets of $43 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to $3.2 million in FY02, resulting in total ending net assets of $108.2 million, Of this amount, $68.8 million (63%) is invested in capital net of related debt; $9.5 million (9%) is restricted for debt service on, and unspent bond proceeds relating to, revenue bonds; and $29.9 million (28%) is unrestricted. During FY02, $3.1 million due to the Silver Spring parking lot district from the General Fund was satisfied by a transfer of governmental capital assets with a net book value of $1.1 million, and a fair value of approximately $3.1 million, resulting in a $2 million loss for accounting purposes in the Parking Lot Districts Fund. This same transaction resulted in a gain of $3.1 million in the General Fund, since the payable was not settled with expendable available resources. However, at the government-wide level, governmental activities incorporate the book value of the capital assets transferred, resulting in a government-wide gain and loss between governmental and business-type activities that are equivalent.

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-like activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget to arrive at the final budget amounted to $12.4 million, the majority of which related to County Council approved supplemental and special appropriations. Major components of the appropriation increases include the following:

- $3.3 million increase in homeland security initiatives, strengthening emergency preparedness in various key agencies. Efforts included the addition of advanced communication equipment in police and other emergency vehicles (PS2000 Initiative), and a new Emergency Operations Center.

- $3.9 million increase for the installation of a new Automated Call Distribution system, to enhance to management of E-911 calls.

- $2.8 million increase in Health and Human Services initiatives, to include outpatient mental health clinics and disability and vocational services.

- $1.7 million increase to the Department of Public Works and Transportation for the lease and buildout of the 255 Rockville Pike property.

Actual revenues exceeded budget amounts by $67.2 million, while actual expenditures and net transfers out were less than final budget by $10.5 million and $56.8 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2002, include the following:

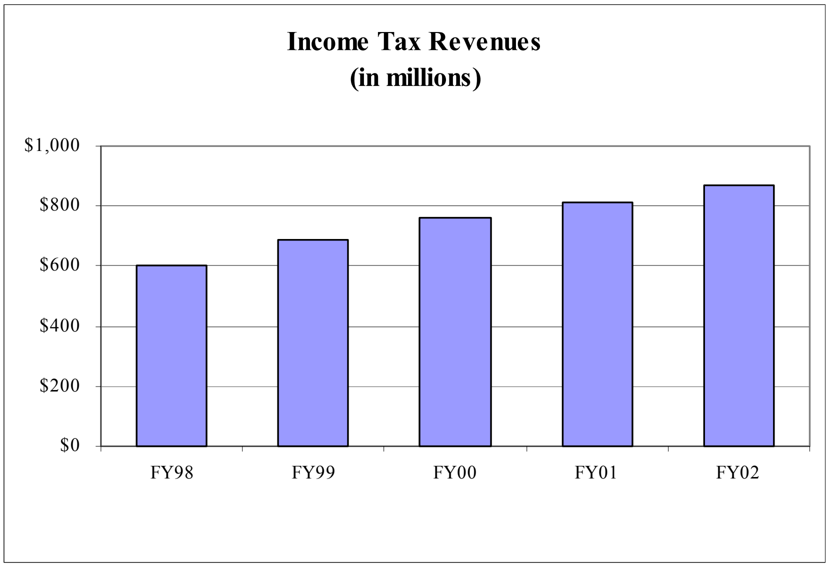
- Actual expenditures of $583 million were $10.5 less than the final budget due primarily to a savings plan instituted in FY02 in anticipation of FY03 revenue shortfalls, in order to conserve resources so they would be carried forward to FY03.

- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $55.7 million. This is due both to the multi-year nature of capital projects, and to time delays encountered for certain projects.

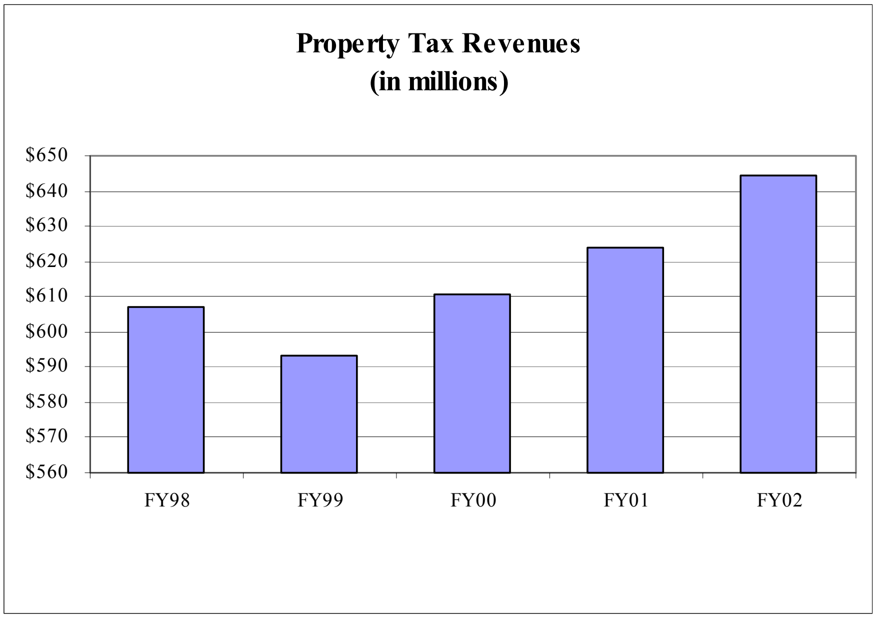
A more detailed comparison of final budget to actual figures for revenues is presented below:

- The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at $867.0 million represented 51.4 percent of total tax revenues for the General Fund and 47.1 percent of total revenues in FY02, and were 5.2 percent above the budget estimate. Therefore, income tax receipts have become the majority source of tax revenues in the General Fund and a significant source of total revenues, and have surpassed the property tax in size since FY98.

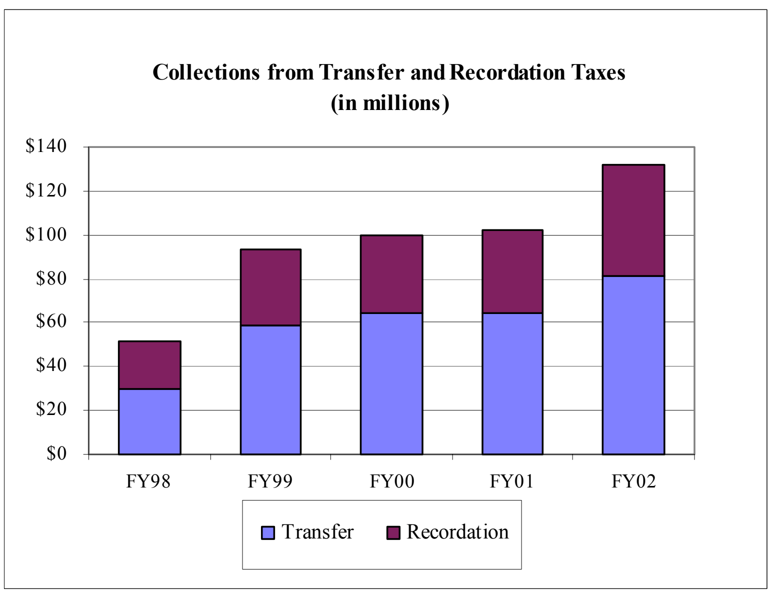
  The shift in the reliance of the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains since FY98. Even with the significant drop in the growth of capital gains in FY02, revenues increased 6.7 percent in FY02 – the same rate as in FY01. There are a number of factors that offset the decline in capital gains. First, total wages increased 5.6 percent during calendar year 2001. Other factors that helped offset the decline in capital gains were additional filings and late filings, which increased $40.7 million over FY01. Fiduciary returns, which increased $1.8 million over FY01, penalties and interest, which increased $1.0 million, the one-time tax amnesty program, which accounted for $2.2 million in FY02 also contributed to the increase in FY02. However, while collections from prior years were strong, current year receipts coming in the midst of weak economic and financial market conditions reflect a sharp slowdown. While wages increased in calendar year 2001, weak employment conditions in the County contributed to the slowdown in the growth rate of returns from withholding and declarations. A decline of almost 3,500 jobs in the private sector was slightly offset by a gain in federal and local government employment of almost 2,000. Without the presence of the federal and local government employment and procurement spending by the federal government, the decline the number of jobs would have been greater than 1,000, or more than 0.2 percent.



- Property tax collections in the General Fund amounted to $644.5 million in FY02 which were essentially on target with the budget estimate and 3.3 percent above actual revenues in FY01. Property taxes, excluding penalty and interest, were $641.2 million in FY02 – an increase of 3.6 percent over last year. However, collections from penalty and interest were $3.3 million, a decrease of 30.5 percent compared to FY01, but in line with the recent historical collection trend of approximately $3.0 million annually. The decline in penalty and interest was offset by the stronger than projected growth in both the assessable base for real property – $45.7 million – and for personal property – $149.1 million. The number of new construction projects in the County for non-residential and residential properties was 4,802 in FY02, an increase of 247 projects from FY01. This is a continuation of a five-year construction cycle in the County that began in FY98. Since then, residential construction increased at an average annual rate of 16.4 percent from 2,289 projects to 4,413 projects in FY02. As a result of continued growth in both real and personal property, the total assessable base grew 4.5 percent in FY02.



- The third major category in the County is the combination of real property transfer taxes and recordation taxes. The combined tax receipts from these sources were $132.1 million, 39.5 percent above the budget estimate and 29.0 percent above FY01. As the accompanying chart illustrates, the amount of collections from transfer and recordation taxes increased $80.9 million since FY98 or one and one-half times.



Following a four-year period of decline in tax collections from transfer and recordation taxes beginning in FY95 reflecting a weak real estate market in the County, receipts jumped 81.7 percent in FY99 and jumped another 29.0 percent in FY02 following increases of 7.3 percent in FY00 and 2.6 percent in FY01. Collections from recordation taxes exhibited the larger increase in FY02, 37.5 percent, compared to transfer taxes which increased 25.1 percent. The larger increase is attributed to an unprecedented level of home mortgage refinancing which does not affect the transfer tax. Nevertheless, revenues from the transfer tax were also exceptionally strong in FY02 with total collections at $80.9 million for an all time record high. The unexpected resurgence of real estate activity in FY02 was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY02.

- The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $43.7 million and were $2.3 million below the budget estimate and $3.1 million below actual FY01. The 9/11 terrorist attack and the subsequent anthrax attack on the Washington area had a significant effect on the hotel/motel industry in Montgomery County. Because of declines in occupancy rates and room rates during FY02, the hotel/motel industry suffered a decline of 14.7 percent in business revenues since 9/11. Such a decrease in business revenues affected hotel/motel tax collections with a $2.1 million decrease or 15.8 percent reduction from actual FY01.

- Investment income fell $8.7 million, or 51.4 percent, from $17.0 million in FY01 to $8.3 million in FY02. In the General Fund, investment income was 64.9 percent below the budget estimate and contributed to 22.7 percent of the total General Fund variability between budget and actual collections. The significant decline in investment income follows a decline in FY01 and is the result of an accommodative Federal Reserve policy during calendar year 2001. During that year, the Federal Reserve's open market operations cut the rate eleven times for a total of 475 basis points from 6.5 percent on January 2, 2001 to 1.75 percent by December 11, 2001. Because of this unprecedented series of rate cuts in federal funds, other short-term interest rates declined dramatically during FY02 hence the average yield on cash equity for the County decreased from 6.16 percent in FY01 to 2.61 percent in FY02. Total estimated pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $20.7 million or 58.2 percent below last fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2002, amounted to $2,305.7 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2002

	Governmental Activities	Business-type Activities	Total FY02	Total FY01
Land	$ 433,202,160	$ 52,833,367	$ 486,035,527	$ 465,844,546
Buildings	206,939,212	78,913,366	285,852,578	285,467,671
Improvements other than buildings	37,904,286	18,690,715	56,595,001	57,307,892
Furniture, fixtures, equipment and machinery	7,722,353	5,471,894	13,194,247	13,541,082
Automobiles and trucks	74,745,572	1,055,400	75,800,972	54,468,771
Infrastructure	966,616,472	-	966,616,472	904,758,195
Other assets	6,700,702	-	6,700,702	7,480,953
Construction in progress	406,654,144	8,232,399	414,886,543	347,174,981
Total	$ 2,140,484,901	$ 165,197,141	$ 2,305,682,042	$ 2,136,044,091

Changes in the County's capital assets for FY02 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2002			
	Governmental Activities	**Business-type Activities**	**Total**
Beginning Balance	$ 1,986,989,844	$ 149,054,247	$ 2,136,044,091
Additions*	216,572,354	26,243,104	242,815,458
Retirements, net*	8,240,015	166,473	8,406,488
Depreciation expense	54,837,282	9,933,737	64,771,019
Ending Balance	$ 2,140,484,901	$ 165,197,141	$ 2,305,682,042

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

Major capital asset events during FY02 included the following:

- The County invested an additional $52.1 million towards the Public Safety 2000 effort for a complete mobile data system, which includes lap-top computers in public safety vehicles, an upgraded computer-aided dispatch system, and a new 800 MHz radio system.

- Roads, including underlying land, valued at $24.5 million were dedicated to the County by developers.

- Construction continued on the new detention facility in Clarksburg with additional costs of $16 million.

- In an effort to relieve congestion on existing roadways that provide east-west transportation within the County, additional costs of $12.1 million were incurred toward the extension of Norbeck Road to a new connection with Spencerville Road at New Hampshire Avenue.

- As part of a multi-project effort by the County to support retail-oriented redevelopment of the Silver Spring Central Business District, the County invested $10.5 million to stabilize and renovate the Silver Theatre.

- In the business-type activities, $18.9 million was invested toward the construction of two garages in the Bethesda parking lot district.

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, 2002:

Long-Term Debt June 30, 2002				
	Governmental Activities	**Business-type Activities**	**Total FY02**	**Total FY01**
General obligation bonds	$ 1,241,920,821	$ 632,233	$ 1,242,553,054	$ 1,178,708,054
Bond anticipation notes	125,000,000	-	125,000,000	125,000,000
Revenue bonds	-	86,835,000	86,835,000	65,505,000
Lease revenue bonds	37,880,000	-	37,880,000	-
Certificates of participation	43,530,000	-	43,530,000	54,660,000
Notes payable	1,408,951	800,000	2,208,951	2,457,165
Capital leases	19,940,589	-	19,940,589	21,267,866
Compensated absences	44,130,412	3,113,884	47,244,296	42,984,945
Claims and judgements	3,150,000	-	3,150,000	500,000
Landfill closure costs	-	24,687,900	24,687,900	24,532,359
Total	$ 1,516,960,773	$116,069,017	$ 1,633,029,790	$ 1,515,615,389

At June 30, 2002, the County had outstanding general obligation (GO) bonds of $1,242.6 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. BANs are typically issued twice a year and are refunded with the County's annual GO issue. Montgomery County also issues BANs and bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Over the last ten fiscal years, the County's annual issues averaged $121.5 million. The County's significant debt activities during FY02 were:

- Under its 1995 Series BAN program, the County issued BANS in the amounts of $75 million in October 2001, and $85 million in April 2002. Proceeds are being used to fund the County's capital program. 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 ($200,000,000) as the 1995 Series.

- In November 2001, the County issued GO refunding bonds in the amount of $146.4 million. Proceeds were used to refund $143 million in GO bonds previously issued at higher interest rates.

- In February 2002, the County issued GO bonds in the amount of $160 million. The proceeds of this bond issue were used to pay off an equal amount of the County's BANs.

- In May 2002, the County issued parking system refunding revenue bonds in the amount of $26.7 million for the Bethesda and Silver Spring Parking Lot Districts. Proceeds were used to refund $25.7 million in revenue bonds previously issued at higher interest rates.

- In June 2002, the County issued revenue bonds in the amount of $26 million for the Bethesda Parking Lot District. Proceeds are being used to fund the design and construction of two parking facilities.

- Also in June, the County issued $37.9 million in lease revenue bonds for construction of two metrorail garages, which have been leased to the Washington Metropolitan Area Transit Authority, a joint venture.

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 rated Aaa by Moody's Investors Service, Inc., AAA by Standard and Poor's, and AAA by Fitch, Inc. The County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Since July 1976 and November 1993, the GO bonds issued by the County have consistently been rated AAA by Standard and Poor's and Fitch, Inc., respectively.

As of June 30, 2002, the County is one of only seven '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.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to Financial Statements, as well as Tables 1 – 3, 6, 7, and 13 – 17.

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 FY03 budget:

- The County's economic projections in the FY03 Budget are based on a soft-landing scenario – i.e., slow economic growth in the initial years of the forecast followed by moderate growth.
- The economy in the County appears to have avoided a recession. This is partly due to a limited presence of manufacturing and high-technology industries, and an expanding Federal government both in terms of employment and procurement spending.
- The forecast assumes resident employment growth in the County ranging between 1.4 percent and 2.0 percent in the initial years of the six-year forecast period, declining to 1.2 percent by 2008 (2.0 percent in FY03).
- In contrast to the surge in energy costs that pushed inflation up 3.3 percent in 2000, subsequent easing in energy prices, combined with decelerating wage growth, and improved productivity, lowered inflation to 2.6 percent in 2001, while the outlook is for inflation to remain in a narrow range between 2.4 percent and 2.7 percent during the six-year forecast period (2.5 percent in FY03).

The Solid Waste Disposal and Collection Enterprise Fund is the only enterprise fund whose rates would be affected by the economy. Such rates had only minor changes in FY03, which were mainly due to minor fluctuations in activity and fund balance.

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).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2002
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 520,419,674	$ 94,205,932	$ 614,625,606	$ 50,746,766
Cash	187,665	33,575	221,240	7,744,429
Cash with fiscal agents	68,770,698	192,176	68,962,874	28,333,043
Investments-cash equivalents	-	-	-	70,199,532
Investments	7,030,362	-	7,030,362	9,026,637
Receivables (net of allowances for uncollectibles):				
Income taxes	252,930,579	-	252,930,579	-
Property taxes	37,449,221	1,280,039	38,729,260	-
Capital leases	37,880,000	-	37,880,000	19,940,589
Accounts	13,188,367	4,832,579	18,020,946	15,752,718
Special assessments	78,030	-	78,030	-
Notes	3,625,600	-	3,625,600	14,095
Parking violations	1,826,648	3,319,609	5,146,257	-
Mortgages	57,188,950	-	57,188,950	312,598,247
Interest	105,227	-	105,227	5,199,029
Other	73,849	-	73,849	5,611,172
Net internal balance	1,769,012	(1,769,012)	-	-
Due from primary government	-	-	-	43,989,797
Due from component units	63,734,270	348,502	64,082,772	-
Due from other governments	54,900,835	314,937	55,215,772	35,219,804
Inventory of supplies	5,389,945	25,122,213	30,512,158	9,663,900
Prepaids	1,751,919	311,308	2,063,227	1,769,995
Deferred charges	1,168,208	1,723,115	2,891,323	276,990
Other assets	-	96,538	96,538	23,261,955
Restricted assets:				
Equity in pooled cash and investments	-	48,185,334	48,185,334	11,376,363
Cash	-	-	-	139,356
Cash with fiscal agents	-	-	-	8,072,429
Investments-cash equivalents	-	-	-	90,140,966
Investments	-	4,325,060	4,325,060	124,121,906
Capital assets:				
Nondepreciable assets	839,856,304	61,065,766	900,922,070	249,571,587
Depreciable assets, net	1,300,628,597	104,131,375	1,404,759,972	1,485,656,261
Total Assets	$ 3,269,953,960	$ 347,719,046	$ 3,617,673,006	$ 2,608,427,566

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2002
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 50,588,643	$ 20,134,531	$ 70,723,174	$ 72,513,720
Interest payable	21,493,350	435,886	21,929,236	15,104,594
Retainage payable	10,922,936	1,739,152	12,662,088	8,815,740
Accrued liabilities	28,806,861	7,630,546	36,437,407	8,216,168
Claims payable	58,322,954	-	58,322,954	24,437,715
Deposits	182,299	55,889	238,188	4,609,715
Due to primary government	-	-	-	64,150,825
Due to component units	43,536,930	452,867	43,989,797	-
Due to other governments	12,430,082	1,560,226	13,990,308	-
Deferred revenue	60,971,780	496,796	61,468,576	21,648,942
Other liabilities	-	-	-	7,706,284
Noncurrent liabilities:				
Due within one year	280,801,189	11,632,264	292,433,453	61,603,258
Due in more than one year	1,236,835,064	103,643,509	1,340,478,573	842,316,984
Total Liabilities	1,804,892,088	147,781,666	1,952,673,754	1,131,123,945
NET ASSETS				
Invested in capital assets, net of related debt	1,492,551,254	78,523,152	1,571,074,406	1,395,703,656
Restricted for:				
Capital projects	101,316,301	-	101,316,301	1,165,782
Nonexpendable permanent fund - housing	7,515,627	-	7,515,627	-
General government	99,786,314	-	99,786,314	-
Public safety	10,558,199	-	10,558,199	-
Public works and transportation	7,899,166	105,554,109	113,453,275	-
Recreation	18,241,320	-	18,241,320	-
Community development and housing	57,408,983	-	57,408,983	-
Debt service	-	-	-	57,452,562
Other purposes	-	-	-	6,353,589
Unrestricted (deficit)	(330,215,292)	15,860,119	(314,355,173)	16,628,032
Total net assets	$ 1,465,061,872	$ 199,937,380	$ 1,664,999,252	$ 1,477,303,621

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 192,514,175	$ 25,301,053	$ 6,993,136	$ 352,160
Public safety	309,564,731	14,450,151	22,723,493	9,630,880
Public works and transportation	151,932,007	17,265,702	53,625,098	20,023,917
Health and human services	197,263,408	3,436,737	107,693,737	423
Culture and recreation	78,147,724	20,543,864	3,796,066	6,182,210
Community development and housing	15,894,054	2,215,655	6,659,183	8,896,301
Environment	7,331,145	1,739,764	-	2,933,230
Education	1,219,512,074	-	-	-
Interest on long-term debt	65,756,461	-	-	-
Total governmental activities	2,237,915,779	84,952,926	201,490,713	48,019,121
Business-type activities:				
Liquor control	128,793,258	150,062,034	-	-
Solid waste disposal and collection	89,048,708	83,462,862	-	-
Parking lot districts	18,488,414	19,338,522	-	-
Permitting services	17,041,912	20,347,649	-	-
Community use of public facilities	5,640,334	4,500,447	65,680	-
Total business-type activities	259,012,626	277,711,514	65,680	-
Total primary government	$ 2,496,928,405	$ 362,664,440	$ 201,556,393	$ 48,019,121
Component units:				
General government (BUPI)	$ 2,411,444	$ 2,391,911	$ -	$ -
Culture and recreation (MCRA)	11,900,551	10,669,101	-	1,557,739
Community development and housing (HOC)	147,671,468	93,389,820	52,549,161	3,883,008
Education:				
Elementary and secondary education (MCPS)	1,484,892,917	29,089,775	105,657,897	41,190,416
Higher education (MCC)	158,623,824	49,446,459	13,264,733	1,610,511
Total component units	$ 1,805,500,204	$ 184,987,066	$ 171,471,791	$ 48,241,674

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 item-gain (loss) on settlement of interfund balance
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
$ (159,867,826)	$ -	$ (159,867,826)	$ -
(262,760,207)	-	(262,760,207)	-
(61,017,290)	-	(61,017,290)	-
(86,132,511)	-	(86,132,511)	-
(47,625,584)	-	(47,625,584)	-
1,877,085	-	1,877,085	-
(2,658,151)	-	(2,658,151)	-
(1,219,512,074)	-	(1,219,512,074)	-
(65,756,461)	-	(65,756,461)	-
(1,903,453,019)	-	(1,903,453,019)	-
-	21,268,776	21,268,776	-
-	(5,585,846)	(5,585,846)	-
-	850,108	850,108	-
-	3,305,737	3,305,737	-
-	(1,074,207)	(1,074,207)	-
-	18,764,568	18,764,568	-
(1,903,453,019)	18,764,568	(1,884,688,451)	-
-	-	-	(19,533)
-	-	-	326,289
-	-	-	
-	-	-	2,150,521
-	-	-	
-	-	-	(1,308,954,829)
-	-	-	(94,302,121)
-	-	-	(1,400,799,673)
811,516,655	7,018,979	818,535,634	-
837,501,501	-	837,501,501	-
80,897,902	-	80,897,902	-
51,187,172	-	51,187,172	-
22,415,629	-	22,415,629	-
11,067,869	-	11,067,869	-
7,174,081	-	7,174,081	-
7,900,532	-	7,900,532	-
-	-	-	1,478,257,782
40,816,420	3,889,793	44,706,213	5,657,392
(4,471,925)	394,162	(4,077,763)	(233,817)
1,966,187	(1,966,187)	-	-
36,515,563	(36,515,563)	-	-
1,904,487,586	(27,178,816)	1,877,308,770	1,483,681,357
1,034,567	(8,414,248)	(7,379,681)	82,881,684
1,464,027,305	208,351,628	1,672,378,933	1,394,421,937
$ 1,465,061,872	$ 199,937,380	$ 1,664,999,252	$ 1,477,303,621

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 198,945,937	$ 3,849,715	$ 95,277,717	$ 148,889,897	$ 446,963,266
Cash with fiscal agents	-	32,548,889	36,221,809	-	68,770,698
Cash	152,615	-	-	34,750	187,365
Investments	-	-	-	7,030,362	7,030,362
Receivables (net of allowances for uncollectibles):					
Income taxes	252,930,579	-	-	-	252,930,579
Capital leases	-	37,880,000	-	-	37,880,000
Property taxes	30,171,248	1,658	-	7,276,315	37,449,221
Accounts	9,709,289	8,118	786,857	2,472,510	12,976,774
Special assessments	-	78,030	-	-	78,030
Notes	-	-	-	3,541,950	3,541,950
Parking violations	1,826,648	-	-	-	1,826,648
Mortgages	219,134	-	-	56,969,816	57,188,950
Interest	-	-	-	105,227	105,227
Other	-	-	10,383	62,705	73,088
Due from other funds	77,036,750	-	-	2,078,380	79,115,130
Due from component units	6,765,146	-	33,668,614	22,599,039	63,032,799
Due from other governments	17,628,808	-	19,188,260	17,861,861	54,678,929
Inventory of supplies	2,717,239	-	1,084,792	-	3,802,031
Prepaids	828,605	-	2,689	559,479	1,390,773
Total Assets	$ 598,931,998	$ 74,366,410	$ 186,241,121	$ 269,482,291	$ 1,129,021,820
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 14,591,672	$ 114,505	$ 18,626,965	$ 11,610,223	$ 44,943,365
Retainage payable	23,353	-	10,899,583	-	10,922,936
Accrued liabilities	18,903,494	-	365,887	4,785,532	24,054,913
Deposits	-	-	-	182,299	182,299
Due to other funds	3,810,973	32,548,889	42,196,790	5,725,485	84,282,137
Due to component units	38,254,486	-	2,519,885	2,706,636	43,481,007
Due to other governments	3,019,421	-	2,110,940	7,124,508	12,254,869
Deferred revenue	301,070,475	41,703,016	8,204,770	39,076,261	390,054,522
Total Liabilities	379,673,874	74,366,410	84,924,820	71,210,944	610,176,048
Fund balances:					
Reserved for:					
Encumbrances	25,357,855	-	168,492,682	6,809,625	200,660,162
Legal debt restrictions	-	-	45,369,337	-	45,369,337
Long-term receivables	-	-	12,529,567	52,252,673	64,782,240
Inventory and prepaids	3,545,844	-	1,087,481	559,150	5,192,475
Fire-Rescue Grant	-	-	-	1,549,257	1,549,257
Donor-specified purposes	-	-	-	973,523	973,523
Other purposes	298,009	-	-	7,515,627	7,813,636
Total Reserved	29,201,708	-	227,479,067	69,659,855	326,340,630
Unreserved:					
Designated for subsequent years' expenditures	61,325,631	-	-	22,219,425	83,545,056
Designated for transfers to Capital Projects Fund	55,822,587	-	-	9,713,407	65,535,994
Undesignated (deficit), reported in:					
General Fund	72,908,198	-	-	-	72,908,198
Capital Projects Fund	-	-	(126,162,766)	-	(126,162,766)
Special Revenue Funds	-	-	-	96,678,660	96,678,660
Total Unreserved	190,056,416	-	(126,162,766)	128,611,492	192,505,142
Total Fund Balances	219,258,124	-	101,316,301	198,271,347	518,845,772
Total Liabilities and Fund Balances	$ 598,931,998	$ 74,366,410	$ 186,241,121	$ 269,482,291	$ 1,129,021,820

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, 2002
Exhibit A-4

Total fund balance - governmental funds		$ 518,845,772
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	$ 433,179,655	
Construction in progress	406,654,144	
Depreciable capital assets:		
Buildings	369,851,731	
Improvements other than buildings	57,137,180	
Furniture, fixtures, equipment and machinery	22,218,821	
Automobiles and trucks	83,509,832	
Infrastructure	1,228,191,707	
Other capital assets	8,747,651	
Total capital assets:	2,609,490,721	
Less accumulated depreciation	(491,803,608)	2,117,687,113
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	(1,241,920,821)	
Bond anticipation notes payable	(125,000,000)	
Lease revenue bonds payable	(37,880,000)	
Certificates of participation	(43,530,000)	
Accrued interest payable	(21,493,350)	
Capital leases payable	(19,940,589)	
Notes payable	(1,408,951)	
Compensated absences	(43,083,172)	
Claims and judgments	(3,150,000)	(1,537,406,883)
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	(11,620,152)	
Deferred amount on refunding	10,944,672	
Deferred issuance costs	1,168,208	492,728
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	78,913,026	
Capital assets	62,864,833	
Less accumulated depreciation	(40,067,045)	
Liabilities	(67,053,916)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,621,685	36,278,583
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	258,655,581	
Property taxes	36,560,127	
Intergovernmental revenue	12,425,252	
Other revenue	21,523,599	329,164,559
Net assets of governmental activities		$ 1,465,061,872

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, 2002
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 1,687,308,851	$ -	$ 1,993,626	$ 162,828,862	$ 1,852,131,339
Licenses and permits	7,792,578	-	-	1,129,505	8,922,083
Intergovernmental	115,791,737	-	46,952,930	111,261,650	274,006,317
Charges for services	8,408,963	14,683	3,566,643	29,527,316	41,517,605
Fines and forfeitures	7,164,425	-	-	1,152,978	8,317,403
Investment income	6,205,991	2,883,033	646,635	4,978,316	14,713,975
Miscellaneous	6,945,248	-	11,340,289	1,639,810	19,925,347
Total Revenues	1,839,617,793	2,897,716	64,500,123	312,518,437	2,219,534,069
EXPENDITURES					
Current:					
General government	150,634,207	-	-	8,731,295	159,365,502
Public safety	190,096,858	-	-	110,986,900	301,083,758
Public works and transportation	31,956,745	-	-	77,620,926	109,577,671
Health and human services	146,910,024	-	-	48,393,506	195,303,530
Culture and recreation	37,704,312	-	-	29,312,202	67,016,514
Community development and housing	7,703,195	-	-	6,831,282	14,534,477
Environment	3,763,873	-	-	439,832	4,203,705
Education	1,112,954,934	-	-	-	1,112,954,934
Debt Service:					
Principal retirement:					
General obligation bonds	-	99,090,151	-	-	99,090,151
Bond anticipation notes	-	160,000,000	-	-	160,000,000
Other notes	-	98,214	-	-	98,214
Interest:					
General obligation bonds	-	58,295,519	-	-	58,295,519
Bond anticipation notes	-	3,159,208	-	-	3,159,208
Other notes	-	45,586	-	-	45,586
Leases and other obligations	-	16,162,918	-	-	16,162,918
Issuing costs	-	1,690,524	-	-	1,690,524
Capital Projects	-	-	314,157,053	-	314,157,053
Total Expenditures	1,681,724,148	338,542,120	314,157,053	282,315,943	2,616,739,264
Excess (Deficiency) of Revenues over (under) Expenditures	157,893,645	(335,644,404)	(249,656,930)	30,202,494	(397,205,195)
OTHER FINANCING SOURCES (USES)					
Transfers in	45,238,660	172,970,954	67,529,531	32,880,217	318,619,362
Transfers (out)	(247,422,190)	(2,183,977)	(846,608)	(31,649,515)	(282,102,290)
Sale of property	-	-	1,856,955	624,621	2,481,576
Payment to refunded bond escrow agent	-	(154,734,082)	-	-	(154,734,082)
Debt Issued:					
General obligation bonds	-	162,756,250	-	-	162,756,250
Bond anticipation notes	-	-	160,000,000	-	160,000,000
Certificates of participation	-	1,079,058	-	-	1,079,058
Lease revenue bonds	-	221,392	37,817,252	-	38,038,644
General obligation refunding bonds	-	155,534,809	-	-	155,534,809
Total Other Financing Sources (Uses)	(202,183,530)	335,644,404	266,357,130	1,855,323	401,673,327
SPECIAL ITEM					
Gain on extinguishment of liability	3,106,570	-	-	-	3,106,570
Net Change in Fund Balances	(41,183,315)	-	16,700,200	32,057,817	7,574,702
Fund Balances - Beginning of Year, as restated	260,441,439	-	84,616,101	166,213,530	511,271,070
Fund Balances - End of Year	$ 219,258,124	$ -	$ 101,316,301	$ 198,271,347	$ 518,845,772

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, 2002
Exhibit A-6

Net change in fund balances - total governmental funds		$ 7,574,702
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	$ 189,986,844	
Depreciation expense	(49,829,246)	140,157,598
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.		(8,093,884)
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.		24,506,590
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	(29,494,768)	
Property taxes	7,008,075	
Intergovernmental revenues	(35,481,740)	
Other revenues	3,186,264	(54,782,169)
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 off activities:		
Debt issued or incurred:		
General obligation bonds	(162,756,250)	
General obligation refunding bonds	(155,534,809)	
Bond anticipation notes	(160,000,000)	
Lease revenue bonds	(38,038,644)	
Certificates of participation	(1,079,058)	
Less issuance costs	1,199,164	
Principal repayments:		
General obligation bonds	99,090,151	
Bond anticipation notes	160,000,000	
Certificates of participation	11,130,000	
Capital leases	1,327,277	
Notes payable	248,214	
Payment to escrow agent for refunding	154,734,082	(89,679,873)
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	(504,387)	
Compensated absences	(4,002,200)	
Claims and judgments	(2,650,000)	
Amortization of issuance costs	(82,625)	(7,239,212)
The current year loss for certain activities of internal service funds is reported with governmental activities.		(11,409,185)
Change in net assets of governmental activities		$ 1,034,567

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, 2002
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Revenues:							
Taxes:							
Property	$ -	$ 641,391,200	$ 641,391,200	$ -	$ 641,391,200	$ 641,219,548	$ (171,652)
Property - penalty and interest	-	2,124,540	2,124,540	-	2,124,540	3,295,829	1,171,289
Other	-	-	-	-	-	7,655	7,655
Total Property Tax	-	643,515,740	643,515,740	-	643,515,740	644,523,032	1,007,292
County income tax	-	823,950,000	823,950,000	-	823,950,000	866,996,269	43,046,269
Other Local Taxes:							
Real property transfer	-	60,030,000	60,030,000	-	60,030,000	80,897,902	20,867,902
Recordation	-	34,650,000	34,650,000	-	34,650,000	51,187,172	16,537,172
Fuel energy	-	22,750,000	22,750,000	-	22,750,000	22,415,629	(334,371)
Hotel - motel	-	12,050,000	12,050,000	-	12,050,000	11,067,869	(982,131)
Telephone	-	7,960,000	7,960,000	-	7,960,000	7,174,081	(785,919)
Other	-	3,260,000	3,260,000	-	3,260,000	3,046,897	(213,103)
Total Other Local Taxes	-	140,700,000	140,700,000	-	140,700,000	175,789,550	35,089,550
Total Taxes	-	1,608,165,740	1,608,165,740	-	1,608,165,740	1,687,308,851	79,143,111
Licenses and Permits:							
Business	-	4,049,730	4,049,730	-	4,049,730	4,178,713	128,983
Non business	-	914,870	914,870	-	914,870	678,994	(235,876)
Total Licenses and Permits	-	4,964,600	4,964,600	-	4,964,600	4,857,707	(106,893)
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	39,784,450	39,784,450	1,094,650	40,879,100	37,573,820	(3,305,280)
Highway user revenue	-	31,480,000	31,480,000	-	31,480,000	32,011,184	531,184
Police protection	-	12,572,500	12,572,500	-	12,572,500	12,451,193	(121,307)
Health and human services programs	-	5,401,800	5,401,800	-	5,401,800	5,931,798	529,998
Public libraries	-	3,326,000	3,326,000	-	3,326,000	3,724,939	398,939
911 Emergency	-	3,610,000	3,610,000	-	3,610,000	3,579,037	(30,963)
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	1,416,000	1,416,000	-	1,416,000	2,981,331	1,565,331
Total State Aid and Reimbursements	-	100,356,750	100,356,750	1,094,650	101,451,400	101,018,855	(432,545)
Federal Reimbursements:							
Federal financial participation	-	7,610,610	7,610,610	-	7,610,610	8,659,290	1,048,680
Other	-	1,301,850	1,301,850	-	1,301,850	2,249,425	947,575
Total Federal Reimbursements	-	8,912,460	8,912,460	-	8,912,460	10,908,715	1,996,255
Other Intergovernmental	-	865,000	865,000	-	865,000	3,864,167	2,999,167
Total Intergovernmental Revenue	-	110,134,210	110,134,210	1,094,650	111,228,860	115,791,737	4,562,877
Charges for Services:							
General government	-	1,508,800	1,508,800	-	1,508,800	1,614,061	105,261
Public safety	-	5,780,555	5,780,555	-	5,780,555	4,138,579	(1,641,976)
Health and human services	-	1,153,240	1,153,240	-	1,153,240	1,162,352	9,112
Culture and recreation	-	119,500	119,500	-	119,500	56,929	(62,571)
Environment	-	100,000	100,000	-	100,000	115,710	15,710
Public works and transportation	-	145,000	145,000	-	145,000	175,096	30,096
Total Charges for Services	-	8,807,095	8,807,095	-	8,807,095	7,262,727	(1,544,368)
Fines and Forfeitures	-	8,914,180	8,914,180	-	8,914,180	7,143,920	(1,770,260)
Investment Income:							
Pooled investment income	-	23,491,000	23,491,000	-	23,491,000	8,219,892	(15,271,108)
Other interest income	-	90,000	90,000	-	90,000	50,463	(39,537)
Total Investment Income	-	23,581,000	23,581,000	-	23,581,000	8,270,355	(15,310,645)
Miscellaneous Revenue:							
Property rentals	-	4,444,000	4,444,000	-	4,444,000	4,430,871	(13,129)
Sundry	-	3,803,110	3,803,110	132,319	3,935,429	6,167,619	2,232,190
Total Miscellaneous Revenues	-	8,247,110	8,247,110	132,319	8,379,429	10,598,490	2,219,061
Total Revenues	-	1,772,813,935	1,772,813,935	1,226,969	1,774,040,904	1,841,233,787	67,192,883

(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, 2002
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Expenditures:							
Departments or Offices:							
County Council:							
Personnel costs	$ -	$ 5,674,170	$ 5,674,170	$ 24,220	$ 5,698,390	$ 5,623,803	$ 74,587
Operating	23,730	699,300	723,030	(2,666)	720,364	556,672	163,692
Totals	23,730	6,373,470	6,397,200	21,554	6,418,754	6,180,475	238,279
Board of Appeals:							
Personnel costs	-	384,460	384,460	800	385,260	385,247	13
Operating	8,589	52,700	61,289	8,701	69,990	69,987	3
Totals	8,589	437,160	445,749	9,501	455,250	455,234	16
Legislative Oversight:							
Personnel costs	-	594,620	594,620	3,260	597,880	558,841	39,039
Operating	25,277	51,510	76,787	(18,513)	58,274	29,649	28,625
Totals	25,277	646,130	671,407	(15,253)	656,154	588,490	67,664
Merit System Protection Board:							
Personnel costs	-	93,440	93,440	-	93,440	93,234	206
Operating	-	14,310	14,310	-	14,310	7,643	6,667
Totals	-	107,750	107,750	-	107,750	100,877	6,873
Zoning and Administrative Hearings:							
Personnel costs	-	157,840	157,840	(2,250)	155,590	155,509	81
Operating	12,000	74,370	86,370	36,350	122,720	108,945	13,775
Totals	12,000	232,210	244,210	34,100	278,310	264,454	13,856
Inspector General:							
Personnel costs	-	375,700	375,700	4,330	380,030	367,654	12,376
Operating	5,878	121,790	127,668	(2,840)	124,828	66,065	58,763
Totals	5,878	497,490	503,368	1,490	504,858	433,719	71,139
People's Counsel:							
Personnel costs	-	170,300	170,300	1,300	171,600	171,531	69
Operating	1,968	30,230	32,198	(1,665)	30,533	10,803	19,730
Totals	1,968	200,530	202,498	(365)	202,133	182,334	19,799
Circuit Court:							
Personnel costs	-	6,121,040	6,121,040	(150,310)	5,970,730	5,659,152	311,578
Operating	530,773	1,386,740	1,917,513	592,565	2,510,078	2,507,466	2,612
Totals	530,773	7,507,780	8,038,553	442,255	8,480,808	8,166,618	314,190
State's Attorney:							
Personnel costs	-	7,215,310	7,215,310	406,100	7,621,410	7,612,853	8,557
Operating	2,163	539,310	541,473	(50,459)	491,014	475,738	15,276
Totals	2,163	7,754,620	7,756,783	355,641	8,112,424	8,088,591	23,833
County Executive:							
Personnel costs	-	3,734,840	3,734,840	(35,482)	3,699,358	3,435,561	263,797
Operating	42,590	271,190	313,780	116,800	430,580	430,578	2
Totals	42,590	4,006,030	4,048,620	81,318	4,129,938	3,866,139	263,799
Commission for Women:							
Personnel costs	-	666,570	666,570	5,140	671,710	668,337	3,373
Operating	4,213	168,430	172,643	(2,094)	170,549	130,230	40,319
Totals	4,213	835,000	839,213	3,046	842,259	798,567	43,692
Regional Service Centers:							
Personnel costs	-	2,197,320	2,197,320	37,710	2,235,030	2,224,552	10,478
Operating	166,212	510,240	676,452	(31,330)	645,122	500,302	144,820
Totals	166,212	2,707,560	2,873,772	6,380	2,880,152	2,724,854	155,298
Ethics Commission:							
Personnel costs	-	145,740	145,740	-	145,740	135,428	10,312
Operating	-	41,680	41,680	-	41,680	24,666	17,014
Totals	-	187,420	187,420	-	187,420	160,094	27,326
Intergovernmental Relations:							
Personnel costs	-	398,750	398,750	45,700	444,450	444,254	196
Operating	10,263	157,030	167,293	(15,986)	151,307	108,438	42,869
Totals	10,263	555,780	566,043	29,714	595,757	552,692	43,065
Board of Liquor License Commissioners:							
Personnel costs	-	654,760	654,760	(1,990)	652,770	632,859	19,911
Operating	724	104,030	104,754	5,776	110,530	110,309	221
Totals	724	758,790	759,514	3,786	763,300	743,168	20,132

(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, 2002
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	Variance Positive (Negative)
Public Information:							
Personnel costs	$ -	$ 927,660	$ 927,660	$ (28,000)	$ 899,660	$ 899,378	$ 282
Operating	30,977	155,290	186,267	84,191	270,458	269,931	527
Totals	30,977	1,082,950	1,113,927	56,191	1,170,118	1,169,309	809
Board of Elections:							
Personnel costs	-	1,364,160	1,364,160	(18,000)	1,346,160	1,345,970	190
Operating	10,394	302,030	312,424	74,582	387,006	386,996	10
Totals	10,394	1,666,190	1,676,584	56,582	1,733,166	1,732,966	200
County Attorney:							
Personnel costs	-	3,684,230	3,684,230	160,520	3,844,750	3,780,582	64,168
Operating	122,170	489,960	612,130	(48,066)	564,064	563,950	114
Totals	122,170	4,174,190	4,296,360	112,454	4,408,814	4,344,532	64,282
Management and Budget:							
Personnel costs	-	2,987,650	2,987,650	24,230	3,011,880	2,988,274	23,606
Operating	100,030	195,500	295,530	(42,992)	252,538	165,915	86,623
Totals	100,030	3,183,150	3,283,180	(18,762)	3,264,418	3,154,189	110,229
Finance:							
Personnel costs	-	6,493,010	6,493,010	25,800	6,518,810	6,381,867	136,943
Operating	487,285	1,504,390	1,991,675	(13,383)	1,978,292	1,829,316	148,976
Totals	487,285	7,997,400	8,484,685	12,417	8,497,102	8,211,183	285,919
Human Resources:							
Personnel costs	-	3,833,050	3,833,050	11,910	3,844,960	3,793,508	51,452
Operating	149,405	2,372,600	2,522,005	(43,026)	2,478,979	2,213,615	265,364
Capital outlay	-	-	-	18,141	18,141	18,141	-
Totals	149,405	6,205,650	6,355,055	(12,975)	6,342,080	6,025,264	316,816
Technology Services:							
Personnel costs	-	11,086,250	11,086,250	(389,660)	10,696,590	9,976,943	719,647
Operating	1,724,865	9,016,200	10,741,065	4,328,142	15,069,207	13,900,936	1,168,271
Capital outlay	20,041	80,300	100,341	247,528	347,869	341,169	6,700
Totals	1,744,906	20,182,750	21,927,656	4,186,010	26,113,666	24,219,048	1,894,618
Procurement:							
Personnel costs	-	1,889,270	1,889,270	23,740	1,913,010	1,912,952	58
Operating	38,488	288,120	326,608	(37,562)	289,046	258,681	30,365
Totals	38,488	2,177,390	2,215,878	(13,822)	2,202,056	2,171,633	30,423
Corrections and Rehabilitation:							
Personnel costs	-	31,048,990	31,048,990	(1,899,160)	29,149,830	29,104,069	45,761
Operating	120,813	6,891,310	7,012,123	933,567	7,945,690	7,939,662	6,028
Totals	120,813	37,940,300	38,061,113	(965,593)	37,095,520	37,043,731	51,789
Human Relations Commission:							
Personnel costs	-	1,466,030	1,466,030	5,140	1,471,170	1,443,947	27,223
Operating	4,363	142,030	146,393	(421)	145,972	86,840	59,132
Totals	4,363	1,608,060	1,612,423	4,719	1,617,142	1,530,787	86,355
Police:							
Personnel costs	-	111,130,360	111,130,360	3,139,030	114,269,390	114,269,235	155
Operating	1,244,637	19,235,360	20,479,997	(396,380)	20,083,617	20,083,616	1
Totals	1,244,637	130,365,720	131,610,357	2,742,650	134,353,007	134,352,851	156
Sheriff:							
Personnel costs	-	9,418,710	9,418,710	(57,792)	9,360,918	9,246,940	113,978
Operating	172,527	1,263,190	1,435,717	52,305	1,488,022	1,464,233	23,789
Totals	172,527	10,681,900	10,854,427	(5,487)	10,848,940	10,711,173	137,767
Public Works and Transportation:							
Personnel costs	-	27,326,120	27,326,120	134,270	27,460,390	26,294,329	1,166,061
Operating	6,953,058	26,188,720	33,141,778	3,786,204	36,927,982	36,598,092	329,890
Capital outlay	91,394	-	91,394	5,708	97,102	97,102	-
Totals	7,044,452	53,514,840	60,559,292	3,926,182	64,485,474	62,989,523	1,495,951
Health and Human Services:							
Personnel costs	-	77,195,920	77,195,920	1,642,320	78,838,240	78,833,077	5,163
Operating	5,119,621	62,104,280	67,223,901	(458,543)	66,765,358	66,044,396	720,962
Totals	5,119,621	139,300,200	144,419,821	1,183,777	145,603,598	144,877,473	726,125
Libraries:							
Personnel costs	-	22,107,360	22,107,360	22,210	22,129,570	22,128,683	887
Operating	2,887,131	8,165,230	11,052,361	(166,240)	10,886,121	9,629,826	1,256,295
Totals	2,887,131	30,272,590	33,159,721	(144,030)	33,015,691	31,758,509	1,257,182
Housing and Community Affairs:							
Personnel costs	-	2,797,520	2,797,520	6,340	2,803,860	2,661,229	142,631
Operating	649,195	350,820	1,000,015	(8,175)	991,840	970,826	21,014
Totals	649,195	3,148,340	3,797,535	(1,835)	3,795,700	3,632,055	163,645

(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, 2002
Exhibit A-7

	Budget: Prior Year Carryover Encumbrances	Budget: Current Year	Budget: Total Original	Budget: Revisions	Budget: Final	Actual	Variance Positive (Negative)
Economic Development:							
Personnel costs	$ -	$ 2,296,460	$ 2,296,460	$ 156,840	$ 2,453,300	$ 2,424,555	$ 28,745
Operating	691,018	3,184,870	3,875,888	(158,159)	3,717,729	3,559,283	158,446
Totals	691,018	5,481,330	6,172,348	(1,319)	6,171,029	5,983,838	187,191
Environmental Protection:							
Personnel costs	-	2,701,720	2,701,720	4,410	2,706,130	2,613,910	92,220
Operating	773,596	1,107,420	1,881,016	(21,116)	1,859,900	1,809,745	50,155
Capital outlay	-	-	-	7,400	7,400	7,368	32
Totals	773,596	3,809,140	4,582,736	(9,306)	4,573,430	4,431,023	142,407
Total Departments	22,225,388	495,599,810	517,825,198	12,081,020	529,906,218	521,645,393	8,260,825
Nondepartmental:							
State retirement contribution - operating	-	665,520	665,520	-	665,520	665,515	5
Retirees group insurance - operating	-	13,481,000	13,481,000	-	13,481,000	13,481,000	-
State positions supplement - personnel	-	218,920	218,920	-	218,920	214,259	4,661
Judges special pension contribution - personnel	-	38,860	38,860	-	38,860	36,066	2,794
Compensation adjustment - personnel	-	677,210	677,210	(477,040)	200,170	32,050	168,120
Compensation adjustment - operating	-	89,660	89,660	-	89,660	60,823	28,837
Municipal tax duplication - operating	-	4,483,060	4,483,060	-	4,483,060	4,483,060	-
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	388,860	388,860	11,300	400,160	400,128	32
Rebate - Takoma Park library - operating	-	86,140	86,140	-	86,140	81,812	4,328
Homeowners' association roadways - operating	-	304,210	304,210	-	304,210	304,210	-
Contribution to risk management - operating	-	4,466,840	4,466,840	-	4,466,840	4,122,346	344,494
Support for the arts - operating	3,450,522	2,836,900	6,287,422	(5)	6,287,417	6,286,353	1,064
Historical activities - operating	-	333,820	333,820	-	333,820	333,820	-
Conference and Visitors Bureau - operating	49,302	421,750	471,052	118,370	589,422	589,422	-
Arts Council - operating	26,029	1,180,920	1,206,949	(4)	1,206,945	1,194,007	12,938
Community grants - operating	57,124	4,605,490	4,662,614	(180,624)	4,481,990	4,477,571	4,419
Youth development programs - operating	-	45,000	45,000	-	45,000	40,054	4,946
County associations - operating	-	53,210	53,210	-	53,210	51,823	1,387
Metropolitan Washington C O G - operating	-	591,710	591,710	1,800	593,510	593,421	89
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	6,260	250,000	256,260	66,740	323,000	323,000	-
Prisoner medical services - operating	-	27,130	27,130	-	27,130	5,616	21,514
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	4,426	574
Charter Review Commission - operating	-	1,500	1,500	500	2,000	1,984	16
Closing costs assistance - operating	-	230,020	230,020	-	230,020	218,520	11,500
Telecommunications master planning - operating	39,133	-	39,133	(13,536)	25,597	25,597	-
Child and adolescent information system - operating	26,418	-	26,418	-	26,418	26,418	-
Working families income supplement - operating	-	4,511,000	4,511,000	-	4,511,000	3,962,984	548,016
Information technology initiatives - operating	-	913,250	913,250	809,200	1,722,450	1,709,603	12,847
Desktop computer modernization - operating	3,149,289	4,180,200	7,329,489	(39)	7,329,450	7,110,071	219,379
Utilities - operating	283,315	11,048,060	11,331,375	(40,001)	11,291,374	10,452,466	838,908
Total - Nondepartmental	7,087,392	56,190,760	63,278,152	296,661	63,574,813	61,343,937	2,230,876
Total Expenditures	29,312,780	551,790,570	581,103,350	12,377,681	593,481,031	582,989,330	10,491,701
Excess of Revenues over (under) Expenditures	(29,312,780)	1,221,023,365	1,191,710,585	(11,150,712)	1,180,559,873	1,258,244,457	77,684,584
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Consolidated Fire Tax Districts	-	161,000	161,000	-	161,000	161,000	-
Recreation	-	3,732,840	3,732,840	-	3,732,840	3,732,840	-
Mass Transit	-	5,129,330	5,129,330	-	5,129,330	5,129,330	-
Urban Districts	-	154,510	154,510	-	154,510	154,510	-
Housing Activities	-	523,200	523,200	-	523,200	523,200	-
Cable TV	-	3,149,670	3,149,670	-	3,149,670	3,149,670	-
Total Special Revenue Funds	-	12,850,550	12,850,550	-	12,850,550	12,850,550	-
Enterprise Funds:							
Liquor	-	19,410,070	19,410,070	(11,040)	19,399,030	22,334,790	2,935,760
Parking Lot Districts	-	559,780	559,780	-	559,780	559,780	-
Solid Waste Activities	-	1,585,660	1,585,660	-	1,585,660	1,585,660	-
Community Use of Public Facilities	-	284,990	284,990	-	284,990	284,990	-
Permitting Services	-	8,612,980	8,612,980	-	8,612,980	8,612,980	-
Total Enterprise Funds	-	30,453,480	30,453,480	(11,040)	30,442,440	33,378,200	2,935,760
Internal Service Funds:							
Central Duplicating	-	500,000	500,000	-	500,000	500,000	-
Total Internal Service Funds	-	500,000	500,000	-	500,000	500,000	-
Total Transfers In	-	43,804,030	43,804,030	(11,040)	43,792,990	46,728,750	2,935,760

(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, 2002
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Component Units:							
Montgomery County Public Schools	$ -	$ -	$ -	$ -	$ -	$ 509,004	$ 509,004
Montgomery College	-	-	-	-	-	-	-
Housing Opportunities Commission	-	103,750	103,750	-	103,750	103,750	-
Total Transfers In - Component Units	-	103,750	103,750	-	103,750	612,754	509,004
Transfers (Out):							
Special Revenue Fund:							
Recreation	-	(1,032,050)	(1,032,050)	-	(1,032,050)	(1,032,050)	-
Urban Districts	-	(1,253,160)	(1,253,160)	-	(1,253,160)	(1,253,160)	-
Mass Transit	-	(658,770)	(658,770)	(897,510)	(1,556,280)	(1,556,280)	-
Revenue Stabilization	-	-	-	-	-	(7,673,354)	(7,673,354)
Consolidated Fire Tax District	-	-	-	(791,000)	(791,000)	(791,000)	-
Housing Activities	-	(13,000,000)	(13,000,000)	-	(13,000,000)	(13,000,000)	-
Economic Development	-	(336,640)	(336,640)	(1,600,000)	(1,936,640)	(1,936,640)	-
Water Quality Protection	-	-	-	(458,260)	(458,260)	(458,260)	-
Grants	-	-	-	(681,727)	(681,727)	(574,631)	107,096
Total Special Revenue Funds	-	(16,280,620)	(16,280,620)	(4,428,497)	(20,709,117)	(28,275,375)	(7,566,258)
Internal Service Fund:							
Motor Pool	-	(449,860)	(449,860)	(51,450)	(501,310)	(471,622)	29,688
Total Internal Service Funds	-	(449,860)	(449,860)	(51,450)	(501,310)	(471,622)	29,688
Enterprise Funds:							
Community Use of Public Facilities	-	(5,000)	(5,000)	-	(5,000)	(5,000)	-
Parking Lot Districts	(612,596)	(750,000)	(1,362,596)	-	(1,362,596)	(750,000)	612,596
Solid Waste Activities	-	(1,377,550)	(1,377,550)	-	(1,377,550)	(1,377,550)	-
Permitting Services	-	(1,010,570)	(1,010,570)	-	(1,010,570)	(1,010,570)	-
Total Enterprise Funds	(612,596)	(3,143,120)	(3,755,716)	-	(3,755,716)	(3,143,120)	612,596
Debt Service Fund	-	(164,804,300)	(164,804,300)	3,520,656	(161,283,644)	(157,010,129)	4,273,515
Capital Projects Fund	(53,422,073)	(61,601,800)	(115,023,873)	14,403,641	(100,620,232)	(61,368,324)	39,251,908
Total Transfers (Out)	(54,034,669)	(246,279,700)	(300,314,369)	13,444,350	(286,870,019)	(250,268,570)	36,601,449
Transfers (Out) - Component Units / Joint Ventures:							
Montgomery County Public Schools - Operating	-	(1,031,007,651)	(1,031,007,651)	-	(1,031,007,651)	(1,031,003,934)	3,717
Montgomery County Public Schools - Capital	(17,089,423)	(7,868,000)	(24,957,423)	(4,372,000)	(29,329,423)	(17,355,874)	11,973,549
Total Montgomery County Public Schools	(17,089,423)	(1,038,875,651)	(1,055,965,074)	(4,372,000)	(1,060,337,074)	(1,048,359,808)	11,977,266
Montgomery Community College - Operating	-	(57,818,000)	(57,818,000)	-	(57,818,000)	(57,818,000)	-
Montgomery Community College - Capital	(3,975,155)	(7,071,000)	(11,046,155)	141,765	(10,904,390)	(6,777,126)	4,127,264
Total Montgomery Community College	(3,975,155)	(64,889,000)	(68,864,155)	141,765	(68,722,390)	(64,595,126)	4,127,264
Housing Opportunity Commission - Operating	-	(4,352,000)	(4,352,000)	-	(4,352,000)	(4,134,400)	217,600
Housing Opportunity Commission - Capital	(587,000)	(250,000)	(837,000)	-	(837,000)	(540,730)	296,270
Total Housing Opportunity Commission	(587,000)	(4,602,000)	(5,189,000)	-	(5,189,000)	(4,675,130)	513,870
Maryland National Capital Park and Planning Commission - Operating	-	-	-	(150,000)	(150,000)	-	150,000
Total Transfers (Out) - Component Units/ Joint Ventures	(21,651,578)	(1,108,366,651)	(1,130,018,229)	(4,380,235)	(1,134,398,464)	(1,117,630,064)	16,768,400
Total Other Financing Sources (Uses)	(75,686,247)	(1,310,738,571)	(1,386,424,818)	9,053,075	(1,377,371,743)	(1,320,557,130)	56,814,613
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(104,999,027)	(89,715,206)	(194,714,233)	(2,097,637)	(196,811,870)	(62,312,673)	134,499,197
Fund Balance - Beginning of Year, as restated	104,999,027	154,737,511	259,736,538	(2,261,938)	257,474,600	257,474,600	-
Fund Balance - End of Year	$ -	$ 65,022,305	$ 65,022,305	$ (4,359,575)	$ 60,662,730	$ 195,161,927	$ 134,499,197

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2002
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Disposal and Collection	Parking Lot Districts	Other Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 5,417,314	$ 43,044,044	$ 28,373,781	$ 17,370,793	$ 94,205,932	$ 73,456,408
Cash	32,375	1,000	150	50	33,575	300
Cash with fiscal agent	-	-	192,176	-	192,176	-
Property taxes receivable	-	-	1,280,039	-	1,280,039	-
Accounts receivable	1,909,307	2,923,093	179	-	4,832,579	211,593
Parking violations receivable	-	-	3,319,609	-	3,319,609	-
Notes receivable	-	-	-	-	-	83,650
Due from other funds	-	-	-	-	-	2,288,638
Due from component units	-	62,679	285,823	-	348,502	701,471
Due from other governments	-	109,905	205,032	-	314,937	221,906
Inventory of supplies	25,122,213	-	-	-	25,122,213	1,587,914
Prepaids	288,502	6,500	14,904	1,402	311,308	361,146
Other assets	96,538	-	-	-	96,538	-
Total Current Assets	32,866,249	46,147,221	33,671,693	17,372,245	130,057,408	78,913,026
Noncurrent Assets:						
Restricted equity in pooled cash and investments	-	38,669,556	9,515,778	-	48,185,334	-
Restricted investments	-	4,325,060	-	-	4,325,060	-
Restricted Assets	-	42,994,616	9,515,778	-	52,510,394	-
Unamortized bond costs	-	944,653	778,462	-	1,723,115	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,517,182	-	52,833,367	22,505
Improvements other than buildings	-	72,008,913	31,699,402	-	103,708,315	-
Buildings	7,388,354	23,407,304	105,864,791	-	136,660,449	584,297
Furniture, fixtures, equipment, and machinery	5,474,600	7,341,979	117,227	4,091,887	17,025,693	3,753,808
Automobiles and trucks	2,732,287	510,713	-	-	3,243,000	58,504,223
Construction in progress	-	-	8,232,399	-	8,232,399	-
Subtotal	16,076,671	121,103,664	180,431,001	4,091,887	321,703,223	62,864,833
Less: Accumulated depreciation	8,971,996	84,757,591	59,192,987	3,583,508	156,506,082	40,067,045
Total Capital Assets (net of accumulated depreciation)	7,104,675	36,346,073	121,238,014	508,379	165,197,141	22,797,788
Total Noncurrent Assets	7,104,675	80,285,342	131,532,254	508,379	219,430,650	22,797,788
Total Assets	39,970,924	126,432,563	165,203,947	17,880,624	349,488,058	101,710,814
LIABILITIES						
Current Liabilities:						
Accounts payable	13,110,687	4,750,619	2,114,297	158,928	20,134,531	5,645,278
Interest payable	-	180,156	255,730	-	435,886	-
Retainage payable	-	56,334	1,682,818	-	1,739,152	-
Deposits	-	-	55,889	-	55,889	-
Claims payable	-	-	-	-	-	58,322,954
Accrued liabilities	1,619,844	702,301	291,436	7,233,817	9,847,398	2,418,154
Due to other funds	102,815	36,422	14,413	112,238	265,888	92,767
Due to component units	-	-	-	452,867	452,867	55,923
Due to other governments	360,946	1,166,636	30,730	1,914	1,560,226	175,213
Deferred revenue	-	-	29,086	467,710	496,796	81,817
General obligation bonds payable	-	89,851	350,000	-	439,851	-
Revenue bonds payable	-	2,297,917	4,947,848	-	7,245,765	-
Landfill closure costs	-	1,452,000	-	-	1,452,000	-
Total Current Liabilities	15,194,292	10,732,236	9,772,247	8,427,474	44,126,249	66,792,106
Noncurrent Liabilities:						
Notes payable	-	800,000	-	-	800,000	-
General obligation bonds payable	-	192,382	-	-	192,382	-
Revenue bonds payable	-	31,606,010	47,189,981	-	78,795,991	-
Landfill closure costs	-	23,235,900	-	-	23,235,900	-
Compensated absences	273,354	124,656	61,694	318,767	778,471	261,810
Total Noncurrent Liabilities	273,354	55,958,948	47,251,675	318,767	103,802,744	261,810
Total Liabilities	15,467,646	66,691,184	57,023,922	8,746,241	147,928,993	67,053,916
NET ASSETS						
Invested in capital, net of related debt	7,104,675	2,159,913	68,750,185	508,379	78,523,152	22,797,788
Restricted for debt service	-	42,994,616	9,515,778	-	52,510,394	-
Unrestricted	17,398,603	14,586,850	29,914,062	8,626,004	70,525,519	11,859,110
Total net assets	$ 24,503,278	$ 59,741,379	$ 108,180,025	$ 9,134,383	201,559,065	$ 34,656,898
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,621,685)	
Net assets of business-type activities					$ 199,937,380	

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, 2002
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	$ 150,039,921	$ -	$ -	$ -	$ 150,039,921	$ -
Charges for services	-	83,084,444	12,445,606	6,222,325	101,752,375	126,863,593
Licenses and permits	11,850	7,660	-	18,528,832	18,548,342	-
Fines and penalties	-	65,424	5,951,350	67,465	6,084,239	-
Claim recoveries	-	-	-	-	-	1,888,932
Total Operating Revenues	150,051,771	83,157,528	18,396,956	24,818,622	276,424,877	128,752,525
OPERATING EXPENSES						
Cost of goods sold	107,618,768	-	-	-	107,618,768	-
Personnel costs	14,163,024	8,253,892	2,672,579	14,433,389	39,522,884	13,392,259
Postage	44,757	101,058	10,524	-	156,339	1,462,987
Self-insurance incurred and estimated claims	-	-	-	-	-	71,628,026
Insurance	300,890	44,540	40,490	5,554	391,474	28,015,311
Supplies and materials	353,973	192,951	305,440	338,641	1,191,005	10,655,230
Contractual services	872,897	73,089,722	3,290,052	4,070,135	81,322,806	8,536,040
Communications	98,142	274,860	149,120	354,821	876,943	168,810
Transportation	279,846	240,162	131,814	370,071	1,021,893	35,495
Public utility service	335,998	87,895	725,439	434,570	1,583,902	472,587
Rentals	3,087,720	16,845	1,211,422	1,213,819	5,529,806	442,670
Maintenance	339,111	357,212	2,334,096	531,152	3,561,571	7,356,699
Depreciation and amortization	700,327	2,861,302	5,811,479	723,647	10,096,755	5,008,036
Landfill closure expense	-	1,029,541	-	-	1,029,541	-
Other	366,441	288,124	96,262	130,080	880,907	490,913
Total Operating Expenses	128,561,894	86,838,104	16,778,717	22,605,879	254,784,594	147,665,063
Operating Income (Loss)	21,489,877	(3,680,576)	1,618,239	2,212,743	21,640,283	(18,912,538)
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	7,018,979	-	7,018,979	-
Intergovernmental	-	-	-	65,680	65,680	604,521
Gain (loss) on disposal of capital assets	4,554	46,080	343,528	-	394,162	190,225
Investment income	-	2,735,647	581,205	572,941	3,889,793	2,296,959
Interest expense	-	(2,150,065)	(1,657,241)	(21,642)	(3,828,948)	(46,120)
Other revenue	10,263	305,334	941,566	29,474	1,286,637	60,013
Total Nonoperating Revenues (Expenses)	14,817	936,996	7,228,037	646,453	8,826,303	3,105,598
Nonoperating Income (Loss)	21,504,694	(2,743,580)	8,846,276	2,859,196	30,466,586	(15,806,940)
Extraordinary and Special Items:						
Premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Insurance demutualization distribution	-	-	-	-	-	641,871
Loss from settlement of interfund receivable	-	-	(1,966,187)	-	(1,966,187)	-
Total Extraordinary and Special Items	-	-	(1,966,187)	-	(1,966,187)	4,000,180
Income (Loss) before Transfers	21,504,694	(2,743,580)	6,880,089	2,859,196	28,500,399	(11,806,760)
Transfers In (Out):						
Transfers in	-	-	750,000	5,000	755,000	498,491
Transfers out	(22,334,790)	(1,590,660)	(4,447,143)	(8,897,970)	(37,270,563)	(500,000)
Total Transfers In (Out)	(22,334,790)	(1,590,660)	(3,697,143)	(8,892,970)	(36,515,563)	(1,509)
Change in Net Assets	(830,096)	(4,334,240)	3,182,946	(6,033,774)	(8,015,164)	(11,808,269)
Total Net Assets - Beginning of Year	25,333,374	64,075,619	104,997,079	15,168,157		46,465,167
Total Net Assets - End of Year	$ 24,503,278	$ 59,741,379	$ 108,180,025	$ 9,134,383		$ 34,656,898

Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds	(399,084)
Change in net assets of business-type activities	$ (8,414,248)

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, 2002
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	$ 152,828,450	$ 91,444,498	$ 17,734,641	$ 23,808,051	$ 285,815,640	$ 131,094,103
Payments to suppliers	(114,004,638)	(75,441,626)	(7,558,826)	(7,446,446)	(204,451,536)	(60,252,025)
Payments to employees	(14,003,283)	(9,004,051)	(2,624,931)	(14,356,768)	(39,989,033)	(13,276,289)
Internal activity - payments from other funds	-	-	-	1,010,570	1,010,570	-
Claims paid	-	-	-	-	-	(63,852,180)
Other revenue	10,263	259,792	655,743	214,398	1,140,196	-
Proceeds from premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Net Cash Provided (Used) by Operating Activities	24,830,792	7,258,613	8,206,627	3,229,805	43,525,837	(2,928,082)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	6,852,585	-	6,852,585	-
Operating subsidies and transfers from other funds	-	-	750,000	5,000	755,000	-
Operating subsidies and transfers to other funds	(22,334,790)	(1,590,660)	(4,447,143)	(8,897,970)	(37,270,563)	(500,000)
Intergovernmental revenue	-	-	-	65,680	65,680	604,521
Interest paid	-	-	-	-	-	(46,120)
Net Cash Provided (Used) by Noncapital Financing Activities	(22,334,790)	(1,590,660)	3,155,442	(8,827,290)	(29,597,298)	58,401
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	25,546,342	-	25,546,342	-
Refunding of debt service	-	-	863,504	-	863,504	-
Proceeds from sale of capital assets	4,554	46,080	-	-	50,634	336,355
Purchases of capital assets	(147,300)	(2,360,458)	(21,771,185)	(63,654)	(24,342,597)	(10,296,595)
Principal paid on capital debt	-	(2,294,849)	(3,785,000)	(1,515,464)	(7,595,313)	-
Interest paid on capital debt	-	(2,160,047)	(1,834,066)	(31,984)	(4,026,097)	-
Proceeds from notes receivable	-	-	-	-	-	28,889
Internal activity - payments from other funds	-	-	-	-	-	498,491
Net Cash Provided (Used) by Capital and Related Financing Activities	(142,746)	(6,769,274)	(980,405)	(1,611,102)	(9,503,527)	(9,432,860)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from insurance demutualization	-	-	-	-	-	641,871
Proceeds from sales and maturities of investments	-	-	-	-	-	72,000
Investment income from pooled investments	-	2,440,526	581,205	572,941	3,594,672	2,292,019
Investment income from nonpooled investments	-	397,753	-	-	397,753	13,339
Net Cash Provide (Used) by Investing Activities	-	2,838,279	581,205	572,941	3,992,425	3,019,229
Net Increase (Decrease) in Cash and Cash Equivalents	2,353,256	1,736,958	10,962,869	(6,635,646)	8,417,437	(9,283,312)
Balances - Beginning of Year	3,096,433	79,977,642	27,119,016	24,006,489	134,199,580	82,740,020
Balances - End of Year	$ 5,449,689	$ 81,714,600	$ 38,081,885	$ 17,370,843	$ 142,617,017	$ 73,456,708
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 21,489,877	$ (3,680,576)	$ 1,618,239	$ 2,212,743	$ 21,640,283	$ (18,912,538)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	700,327	2,861,302	5,811,479	723,647	10,096,755	5,008,036
Other revenue	10,263	259,792	941,566	-	1,211,621	60,013
Proceeds from premium stabilization reserve distribution	-	-	-	-	-	3,358,309
Changes in assets and liabilities:						
Receivables, net	(482,366)	8,286,970	(949,395)	-	6,855,209	2,341,578
Inventories, prepaids and other assets	(1,183,938)	(178)	1,257	4,300	(1,178,559)	(144,317)
Accounts payable and other liabilities	4,075,912	282,011	735,833	(30,982)	5,062,774	5,158,545
Accrued expenses	220,717	(750,708)	47,648	320,097	(162,246)	202,292
Net Cash Provided (Used) by Operating Activities	$ 24,830,792	$ 7,258,613	$ 8,206,627	$ 3,229,805	$ 43,525,837	$ (2,928,082)
Noncash investing, capital and financing activities:						
Donation of capital assets	$ -	$ -	$ -	$ 29,475	$ 29,475	$ -
Decrease in fair value of investments that are not cash and cash equivalents	-	-	-	-	-	8,399
Capital asset disposals	164,955	-	166,472	-	331,427	49,818
Asset acquired through exchange	-	-	510,000	-	510,000	-

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2002
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	$ 2,404,485	$ 24,114,322	$ 2,153,880	$ 39,405,818
Cash	-	-	-	65,249
Investments	2,113,070,910	-	-	-
Receivables:				
Property taxes	-	-	-	7,552,763
Accounts	3,176	-	-	13,083
Other	109,737	-	-	894,492
Due from other funds	3,237,944	-	-	-
Due from component units	68,053	-	-	-
Due from other governments	29,044	-	-	-
Prepaids	1,205	-	100,000	-
Total Current Assets	2,118,924,554	24,114,322	2,253,880	47,931,405
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	2,118,924,554	24,114,322	2,253,880	$ 47,931,405
LIABILITIES				
Current Liabilities:				
Accounts payable	227,270,031	-	1,203	5,321
Accrued liabilities	144,198	-	-	-
Deposits	-	-	-	637,673
Due to other funds	920	-	-	-
Due to other governments	-	-	-	7,482,756
Undistributed taxes	-	-	-	4,713,609
Deferred revenue	186,183	-	-	-
Property tax refunds due	-	-	-	9,566,982
Tax sale surplus and redemptions payable	-	-	-	4,397,405
Other liabilities	-	-	-	21,127,659
Total Current Liabilities	227,601,332	-	1,203	47,931,405
Noncurrent Liabilities:				
Compensated absences	37,140	-	-	-
Total Liabilities	227,638,472	-	1,203	$ 47,931,405
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	$ 1,891,286,082	$ 24,114,322	$ 2,252,677	

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, 2002
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 44,959,870	$ -	$ -
Members	36,337,081	-	397,735
Share purchases	-	11,312,331	-
Total Contributions	81,296,951	11,312,331	397,735
Investment income (loss)	(143,895,772)	592,220	43,159
Less: investment expenses	9,260,767	-	-
Net Investment Income (Loss)	(153,156,539)	592,220	43,159
Other income - forfeitures	282,481	-	-
Total Additions (Deductions), net	(71,577,107)	11,904,551	440,894
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	64,030,235	-	-
Survivors	4,041,521	-	-
Disability	17,250,631	-	-
Total Benefits	85,322,387	-	-
Share redemptions	-	12,955,000	-
Member refunds	11,524,203	-	-
Administrative expenses	2,228,545	-	127,538
Total Deductions	99,075,135	12,955,000	127,538
Net Increase (Decrease)	(170,652,242)	(1,050,449)	313,356
Net Assets - Beginning of Year, as restated	2,061,938,324	25,164,771	1,939,321
Net Assets - End of Year	$ 1,891,286,082	$ 24,114,322	$ 2,252,677

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2002
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 17,442,696	$ 6,654,263	$ 26,649,807	$ 50,746,766
Cash with fiscal agents	138,042	28,195,001	-	28,333,043
Cash	4,929,986	17,260	2,797,183	7,744,429
Investments - cash equivalents	27,360,538	17,431,262	25,407,732	70,199,532
Investments	9,026,637	-	-	9,026,637
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	19,940,589	19,940,589
Accounts	5,614,721	5,285,084	4,852,913	15,752,718
Notes	-	14,095	-	14,095
Mortgages	-	312,598,247	-	312,598,247
Interest	-	5,199,029	-	5,199,029
Other	1,470,678	3,432,763	707,731	5,611,172
Due from primary government	40,413,201	1,223,805	2,352,791	43,989,797
Due from other governments	33,116,361	1,234,488	868,955	35,219,804
Inventory of supplies	7,974,069	245,980	1,443,851	9,663,900
Prepaids	85,149	1,531,565	153,281	1,769,995
Deferred charges	-	-	276,990	276,990
Other assets	-	23,067,731	194,224	23,261,955
Restricted Assets:				
Equity in pooled cash and investments	-	11,376,363	-	11,376,363
Cash with fiscal agents	-	8,072,429	-	8,072,429
Cash	-	-	139,356	139,356
Investments - cash equivalents	-	85,737,679	4,403,287	90,140,966
Investments	-	124,121,906	-	124,121,906
Capital assets:				
Nondepreciable assets	133,564,851	75,095,686	40,911,050	249,571,587
Depreciable assets, net	1,080,999,046	270,897,160	133,760,055	1,485,656,261
Total Assets	1,362,135,975	981,431,796	264,859,795	2,608,427,566
LIABILITIES				
Accounts payable	51,783,876	13,811,522	6,918,322	72,513,720
Interest payable	36,446	14,431,026	637,122	15,104,594
Retainage payable	8,664,254	-	151,486	8,815,740
Accrued liabilities	-	7,844,506	371,662	8,216,168
Claims payable	24,437,715	-	-	24,437,715
Deposits	-	4,561,549	48,166	4,609,715
Due to primary government	23,697,868	37,666,181	2,786,776	64,150,825
Deferred revenue	6,343,523	11,626,282	3,679,137	21,648,942
Other liabilities	-	7,706,284	-	7,706,284
Noncurrent liabilities:				
Due within one year	13,775,074	44,921,103	2,907,081	61,603,258
Due in more than one year	94,187,135	679,837,302	68,292,547	842,316,984
Total Liabilities	222,925,891	822,405,755	85,792,299	1,131,123,945
NET ASSETS				
Invested in capital assets, net of related debt	1,187,517,535	57,991,488	150,194,633	1,395,703,656
Restricted for:				
Capital projects	-	-	1,165,782	1,165,782
Debt Service	-	54,115,369	3,337,193	57,452,562
Other purposes	145,874	4,221,610	1,986,105	6,353,589
Unrestricted (deficit)	(48,453,325)	42,697,574	22,383,783	16,628,032
Total net assets	$ 1,139,210,084	$ 159,026,041	$ 179,067,496	$ 1,477,303,621

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, 2002
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 (BUPI)	$ 2,411,444	$ 2,391,911	$ -	$ -	$ -	$ -	$ (19,533)	$ (19,533)
Culture and recreation (MCRA)	11,900,551	10,669,101	-	1,557,739	-	-	326,289	326,289
Community development and housing (HOC)	147,671,468	93,389,820	52,549,161	3,883,008	-	2,150,521	-	2,150,521
Education:								
Elementary and secondary education (MCPS)	1,484,892,917	29,089,775	105,657,897	41,190,416	(1,308,954,829)	-	-	(1,308,954,829)
Higher education (MCC)	158,623,824	49,446,459	13,264,733	1,610,511	-	-	(94,302,121)	(94,302,121)
Total component units	$ 1,805,500,204	$ 184,987,066	$ 171,471,791	$ 48,241,674	(1,308,954,829)	2,150,521	(93,995,365)	(1,400,799,673)

	MCPS	HOC	Nonmajor Component Units	Total
General revenues:				
Grants and contributions not restricted to specific programs	1,373,106,816	-	105,150,966	1,478,257,782
Investment income	694,496	2,639,232	2,323,664	5,657,392
Gain (loss) on sale of capital assets	(86,633)	-	(147,184)	(233,817)
Total general revenues	1,373,714,679	2,639,232	107,327,446	1,483,681,357
Change in net assets	64,759,850	4,789,753	13,332,081	82,881,684
Net assets - beginning	1,074,450,234	154,236,288	165,735,415	1,394,421,937
Net assets - ending	$ 1,139,210,084	$ 159,026,041	$ 179,067,496	$ 1,477,303,621

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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 10400 Detrick Avenue Kensington, MD 20895	Bethesda Urban Partnership, Inc. 7906 Woodmont Avenue 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 - Governmental fund and agency fund 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 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.

Licenses and permits, charges for services, 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. Fines and forfeitures, primarily parking violations, are recorded as receivables and deferred revenue at the time the underlying event takes place. Revenue is recognized as cash is received during the year, or if received within the County's 30 day availability period at year-end.

The County does not operate any utilities. Water and sewer services are provided by WSSC through a joint venture relationship (see Note IV-D). Other common utilities are provided by regulated private industry.

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) Implementation of New Accounting Standards

Effective July 1, 2001, the County has adopted the provisions of the following new accounting standards:

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* – These statements affect the manner in which the County records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare the private-sector financial reports.

GASB34, as amended by GASB37, established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Significant impacts of GASB34 on the County's financial statements are:

- Inclusion of government-wide financial statements. (See Notes I-B and I-C)
- Elimination, creation, and modification of certain fund types. (See Note III-H)
- Inclusion of a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in its annual reports.

GASB Statement No. 38*, Certain Financial Statement Note Disclosures* – This statement modifies, establishes, and rescinds certain financial statement disclosure requirements.

In addition, effective July 1, 2001, MCC adopted the provisions of GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.*

E) 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 nonparticipating investment contract and is therefore stated at cost plus accrued interest, which approximates 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 defined benefit pension plan pension fund 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 FY02, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The pension fund 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 defined benefit pension plan pension fund 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," "Restricted Equity in pooled cash and investments," and "Restricted 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, Prepaids, and Other Assets

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.

Other Assets – Property liens acquired at tax sale includes costs, such as delinquent taxes, interest, penalties, and advertising costs, paid at public auction which place the County in a position of primary lien-holder against the related property.

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 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, 2002, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to $774,849,011. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $444,633,719.

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 FY02. 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 FY02.

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, and the Liability and Property Coverage 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 FY02, the County Council increased the operating budget through supplemental and special appropriations by $37.4 million. In addition, supplemental appropriations increased the CIP budget by $25.7 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	$ 1,841,233,787	$ 582,989,330	$ (1,320,557,130)	$ (62,312,673)
Reconciling items:				
Cancellation of prior year encumbrances	(2,261,938)	-	-	(2,261,938)
Elimination of encumbrances outstanding	-	(25,357,214)	-	25,357,214
Unrealized gains (losses)	(2,115,115)	-	-	(2,115,115)
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	979,040	-	(979,040)	-
Public agency permits	-	1,010,570	1,010,570	-
Solid Waste tipping fees	-	1,377,550	1,377,550	-
Water Quality Protection loan	-	-	458,260	458,260
Activities not included in General Fund budget: *				
Auction Proceeds	1,075,753	1,075,753	-	-
Landord Tenant Affairs	3,031,105	2,851,324	(479,090)	(299,309)
Common Ownership Community	168,977	146,771	(31,960)	(9,754)
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	612,754	-	(612,754)	-
Component Units - Transfer out	-	1,117,630,064	1,117,630,064	-
As reported - GAAP basis **	$ 1,842,724,363	$ 1,681,724,148	$ (202,183,530)	$ (41,183,315)

* As a result of implementation of GASB34, these activities are accounted for in the General Fund for GAAP purposes beginning in FY02. The FY02 legally adopted General Fund budget did not include these activities; they are included in the General Fund budget beginning in FY03.

** Revenues includes special item.

B) Deficit Fund Equity

Nonmajor Governmental Funds:

The $2,435,000 deficit in the Grants Special Revenue Fund results from expenditures made against an annual State grant for bus purchases, originally obligated by the State during FY02. Subsequent to the expenditures being incurred by the County, the State de-obligated the funds and reprogrammed them to FY03. Since the State has appropriated and recognized this obligation during FY03, the County expects to receive full reimbursement under the grant in FY03, which will eliminate the fund deficit.

The $405,253 deficit in the Water Quality Protection Special Revenue Fund results from a start-up loan from the General Fund in FY02, used to pay certain expenditures. The loan will be repaid in FY03 from fees to be charged to users.

Internal Service Fund – The $3,527,528 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, 2002, totaled $3,324,466,567, of which $2,924,565,140 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	$ 682,704,111	$ 50,746,766	$ 733,450,877
Cash	286,489	7,744,429	8,030,918
Cash with fiscal agents	68,962,874	28,333,043	97,295,917
Investments - cash equivalents	-	70,199,532	70,199,532
Investments	2,120,101,272	9,026,637	2,129,127,909
Restricted equity in pooled cash and investments	48,185,334	11,376,363	59,561,697
Restricted cash	-	139,356	139,356
Restricted cash with fiscal agents	-	8,072,429	8,072,429
Restricted investments - cash equivalents	-	90,140,966	90,140,966
Restricted investments	4,325,060	124,121,906	128,446,966
Total	$ 2,924,565,140	$ 399,901,427	$3,324,466,567
Deposit and Investment Summary:			
Deposits	$ 27,127,341	$ 16,732,031	$ 43,859,372
Investments	2,828,188,436	261,805,513	3,089,993,949
Cash on hand, fiscal agents, safe deposit escrow	69,249,363	121,363,883	190,613,246
Total	$ 2,924,565,140	$ 399,901,427	$3,324,466,567

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

Government-wide	$ 743,350,476
Fiduciary funds	2,181,214,664
Total	$ 2,924,565,140

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. 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 FY02 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	$ 682,704,111	$ 10,255,028	$ 692,959,139
Restricted equity in pooled cash and investments	48,185,334	-	48,185,334
Total	$ 730,889,445	$ 10,255,028	$ 741,144,473
Deposit and Investment Summary:			
Deposits	$ 27,127,341	$ -	$ 27,127,341
Investments	703,762,104	10,255,028	714,017,132
Total	$ 730,889,445	$ 10,255,028	$ 741,144,473

A summary of investments is as follows:

Investment Type:	Fair Value	Principal	Maturity Range	Interest Rate Range
Repurchase agreements	$ 134,903,803	$135,000,000	07/02	1.77 - 1.98%
U.S. Government securities	260,674,517	261,344,568	07/02 - 01/04	1.75 - 3.77%
Commercial paper	29,948,700	29,901,997	07/02 - 08/02	1.87 - 1.99%
Bankers' acceptances	190,997,176	190,107,969	07/02 - 10/02	1.77 - 2.15%
Money market funds	95,997,616	95,997,616	N/A	1.65 - 1.78%
Maryland Local Government Investment Pool	1,495,320	1,495,320	N/A	1.85%
Total	$ 714,017,132	$713,847,470		

During FY02, the County's external investment pool participated in the Maryland Local Government Investment Pool. The County's pension trust securities lending transactions, as described below, also participated in an external investment pool.

Securities Lending Transactions – 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 FY02, 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 FY02 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 FY02. Moreover, there were no losses during FY02 resulting from default of the borrowers or Northern. During FY02, 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, 2002, was 30 days and the average weighted maturity was 118 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, 2002, 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, 2002, were $236,777,984 and $229,872,139, respectively. Cash collateral held, amounting to $225,451,924, 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 Maryland Local Government Investment Pool, 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 *	$ 27,127,341	$ 43,512,726	$ 43,512,726
Component Units:			
MCPS	6,627,155	18,472,083	18,472,083
MCC	1,147,954	2,452,001	2,452,001
MCRA	1,699,494	1,860,376	1,860,376
HOC	7,213,599	7,213,599	7,213,599
BUPI	43,829	280,847	280,847
Total Component Units	16,732,031	30,278,906	30,278,906
Total Reporting Entity	$ 43,859,372	$ 73,791,632	$ 73,791,632

* 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, $21,406,015 was insured or collateralized with securities held by the component units' agents in the component units' names, and $8,872,891 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names.

Investments by Category of Risk:

Primary Government:	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Pension Investments:					
Short-term investments	$ 45,970,757	$ -	$ -	$ 45,970,757	$ 45,970,757
U.S. Government securities	109,307,510	-	-	109,307,510	109,307,510
Asset-backed securities	19,125,586	-	-	19,125,586	19,125,586
Corporate bonds	154,286,566	-	-	154,286,566	154,286,566
Common and preferred stock:					
Not on securities loan	667,738,246	-	-	667,738,246	667,738,246
On securities loan for securities collateral	1,685,818	-	-	1,685,818	1,685,818
Subtotal	998,114,483	-	-	998,114,483	998,114,483
Other Investments:					
U.S. Government securities	7,030,362	-	-	7,030,362	7,030,362
Investment agreement	4,325,060	-	-	4,325,060	4,325,060
	$ 1,009,469,905	$ -	$ -	1,009,469,905	1,009,469,905
Pooled investments held in:					
Montgomery County external investment pool *				703,762,104	703,762,104
Pension investments:					
Mutual and commingled funds				661,412,920	661,412,920
Securities lending short-term collateral investment pool				225,451,924	225,451,924
Investments held by broker dealers under securities loans with cash collateral:					
Common and preferred stock				119,191,165	119,191,165
Corporate bonds				31,151,382	31,151,382
Government obligations				68,542,575	68,542,575
Real estate				9,206,461	9,206,461
Subtotal Pension Investments				1,114,956,427	1,114,956,427
Total Investments				$ 2,828,188,436	$ 2,828,188,436

Component Units:	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase agreements	$ 12,561,648	$ 135,043	$ 567,937	$ 13,264,628	$ 13,264,628
U.S. Government securities	137,912,053	6,459,856	5,220,369	149,592,278	149,593,551
Bankers' acceptances	-	17,443,856	-	17,443,856	17,474,017
Corporate stocks and bonds	-	209,811	-	209,811	209,811
	$ 150,473,701	$ 24,248,566	$ 5,788,306	180,510,573	180,542,007
Pooled investments held in:					
Montgomery County external investment pool *				10,255,028	10,255,028
Maryland local government investment pool				37,846,158	37,846,158
Mutual funds				33,193,754	33,193,754
Total Investments				$ 261,805,513	$ 261,836,947

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	$ 134,903,803	$ -	$ -	$ 134,903,803	$ 134,903,803
U.S. Government securities	260,674,517	-	-	260,674,517	260,674,517
Commercial paper	29,948,700	-	-	29,948,700	29,948,700
Bankers' acceptances	190,997,176	-	-	190,997,176	190,997,176
	$ 616,524,196	$ -	$ -	616,524,196	616,524,196
Pooled investments held in:					
Maryland local government investment pool				1,495,320	1,495,320
Money market funds				95,997,616	95,997,616
Total Investments				$ 714,017,132	$ 714,017,132

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	$ 68,962,874	$ 121,298,819	$ 190,261,693
Petty cash/safe deposit escrow	286,489	65,064	351,553
	$ 69,249,363	$ 121,363,883	$ 190,613,246

Primary Government cash with fiscal agents of $32,548,889 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 $36,413,985 is held in money market funds. Component units cash with fiscal agents of $121,160,777 is held in money market mutual funds, while $138,042 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, 2002, are as follows:

Statement of Net Assets
June 30, 2002

Assets:		
Investment in securities, at fair value		$ 714,017,132
Cash		27,127,341
Total assets and net assets		$ 741,144,473
Net assets consist of:		
Internal participants' units outstanding ($1.00 par)		$ 717,030,151
External participants' units outstanding ($1.00 par)		24,114,322
Net assets		$ 741,144,473
Participants net asset value, offering price and redemption price per share ($741,144,473 / 743,217,303 units)		$ 1.00

Statement of Changes in Net Assets
Year Ended June 30, 2002

Investment Income *		$ 18,485,143
Distributions to participants:		
Distributions paid and payable		(18,485,143)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$ 7,691,122,137	
Redemption of units	(7,688,147,146)	
Net increase in net assets and shares resulting from share transactions		2,974,991
Total increase in net assets		2,974,991
Net assets, July 1, 2001		738,169,482
Net assets, June 30, 2002		$ 741,144,473

* The pool has no expenses.

B) Receivables

1) Accounts Receivable

The total allowance for doubtful accounts at June 30, 2002, amounted to:

Enterprise Funds:	
Liquor	$ 204,529
Solid Waste Disposal and Collection Activities	57,281
Parking Lot Districts	1,124,260
	$ 1,386,070

2) Due from/to Component Units

The balances at June 30, 2002, were:

Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 2,493,193	$ 2,250,000	$ 405,235	$ 1,616,718	$ -	$ 6,765,146
Capital Projects	21,139,047	-	-	12,529,567	-	33,668,614
Solid Waste Disposal and Collection Activities Enterprise	60,289	308	-	309	1,773	62,679
Parking Lot Districts Enterprise	-	-	-	285,823	-	285,823
Nonmajor governmental	-	-	-	22,599,039	-	22,599,039
Internal Service	5,339	4,852	103,800	578,016	9,464	701,471
Fiduciary	-	-	11,344	56,709	-	68,053
Total Due to Primary Government	$ 23,697,868	$ 2,255,160	$ 520,379	$ 37,666,181	$ 11,237	$ 64,150,825

Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 37,628,046	$ 53,076	$ -	$ 573,364	$ -	$ 38,254,486
Capital Projects	-	2,222,981	-	296,904	-	2,519,885
Nonmajor governmental	2,276,365	12,807	-	353,537	63,927	2,706,636
Nonmajor Enterprise	452,867	-	-	-	-	452,867
Internal Service	55,923	-	-	-	-	55,923
Total Due from Primary Government	$ 40,413,201	$ 2,288,864	$ -	$ 1,223,805	$ 63,927	$ 43,989,797

In the nonmajor governmental funds, $17,252,466 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) **Due From Other Governments**

The total amount due from other governments at June 30, 2002, was comprised of the following:

	General	Capital Projects	Solid Waste Disposal and Collection	Parking Lot Districts	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ 43,920	$ -	$ 2,412	$ -	$ 11,308,162	$ -	$ -	$ 11,354,494
State of Maryland	16,375,132	18,721,463	8,337	-	6,345,010	202,425	26,346	41,678,713
Other	1,209,756	466,797	99,156	205,032	208,689	19,481	2,698	2,211,609
Total	$ 17,628,808	$ 19,188,260	$ 109,905	$ 205,032	$ 17,861,861	$ 221,906	$ 29,044	$ 55,244,816

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C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001 *	Increases	Decreases	Balance June 30, 2002
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 412,844,706	$ 20,461,294	$ 103,840	$ 433,202,160
Construction in progress	342,303,527	151,107,601	86,756,984	406,654,144
Total Nondepreciable Capital Assets	755,148,233	171,568,895	86,860,824	839,856,304
Depreciable Capital Assets:				
Buildings	381,421,553	7,276,574	18,530,664	370,167,463
Improvements other than buildings	57,336,282	174,649	105,186	57,405,745
Furniture, fixtures, equipment and machinery	25,042,208	1,461,965	531,544	25,972,629
Automobiles and trucks	116,612,242	31,370,498	5,968,685	142,014,055
Infrastructure	1,136,804,461	91,387,246	-	1,228,191,707
Other assets	8,658,140	89,511	-	8,747,651
Total Capital Assets Being Depreciated	1,725,874,886	131,760,443	25,136,079	1,832,499,250
Less Accumulated Depreciation For:				
Buildings	163,320,743	10,748,436	10,840,928	163,228,251
Improvements other than buildings	17,444,149	2,095,550	38,240	19,501,459
Furniture, fixtures, equipment and machinery	16,783,310	1,988,984	522,018	18,250,276
Automobiles and trucks	63,261,620	9,605,581	5,598,718	67,268,483
Infrastructure	232,046,266	29,528,969	-	261,575,235
Other assets	1,177,187	869,762	-	2,046,949
Total Accumulated Depreciation	494,033,275	54,837,282	16,999,904	531,870,653
Total Depreciable Assets, Net	1,231,841,611	76,923,161	8,136,175	1,300,628,597
Governmental Activities Capital Assets, Net	$ 1,986,989,844	$ 248,492,056	$ 94,996,999	$ 2,140,484,901
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,999,840	$ -	$ 166,473	$ 52,833,367
Construction in progress	4,871,454	10,683,774	7,322,829	8,232,399
Total Nondepreciable Capital Assets	57,871,294	10,683,774	7,489,302	61,065,766
Depreciable Capital Assets:				
Buildings	120,765,358	15,911,439	16,348	136,660,449
Improvements other than buildings	98,656,096	5,052,219	-	103,708,315
Furniture, fixtures, equipment and machinery	17,172,265	1,832,434	1,979,006	17,025,693
Automobiles and trucks	3,156,933	86,067	-	3,243,000
Total Capital Assets Being Depreciated	239,750,652	22,882,159	1,995,354	260,637,457
Less Accumulated Depreciation For:				
Buildings	53,398,497	4,364,934	16,348	57,747,083
Improvements other than buildings	81,436,892	3,580,708	-	85,017,600
Furniture, fixtures, equipment and machinery	11,693,526	1,839,279	1,979,006	11,553,799
Automobiles and trucks	2,038,784	148,816	-	2,187,600
Total Accumulated Depreciation	148,567,699	9,933,737	1,995,354	156,506,082
Total Depreciable Assets, Net	91,182,953	12,948,422	-	104,131,375
Business-Type Activities Capital Assets, Net	$ 149,054,247	$ 23,632,196	$ 7,489,302	$ 165,197,141

* As restated or reclassified

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

Governmental activities:	
General government	$ 7,428,412
Public safety	6,160,892
Public works and transportation	35,076,685
Health and human services	3,666,955
Culture and recreation	985,891
Community development and housing	1,320,147
Environment	198,300
Total depreciation expense-governmental activities	$ 54,837,282
Business-type activities:	
Liquor	$ 700,327
Solid waste disposal and collection	2,774,767
Parking lot districts	5,734,996
Permitting services	659,904
Community use of public facilities	63,743
Total depreciation expense-business-type activities	$ 9,933,737

	Construction Commitments
General Government	$ 22,079,631
Public Safey	23,303,761
Public Works and Transportaion	31,298,912
Health and Human Services	42,117
Culture and Recreation	78,999,793
Community Development and Housing	11,309,460
Environment	1,459,008
Total	$ 168,492,682

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,214,563,897 at June 30, 2002, are significant in relation to the total component unit capital assets.

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 56,426,166	$ 8,871,118	$ 76,872	$ 65,220,412
Construction in progress	131,278,866	149,121,738	212,056,165	68,344,439
Total nondepreciable capital assets	187,705,032	157,992,856	212,133,037	133,564,851
Depriciable capital assets:				
Buildings and improvements	1,294,939,001	151,970,275	71,670,801	1,375,238,475
Land improvements	90,135,420	12,744,562	-	102,879,982
Machinery and equipment	103,189,605	12,021,196	5,667,564	109,543,237
Total depreciable capital assets	1,488,264,026	176,736,033	77,338,365	1,587,661,694
Less accumulated depreciation for:				-
Buildings and improvements	484,239,120	30,305,970	70,719,953	443,825,137
Land improvements	14,907,652	2,340,140	-	17,247,792
Machinery and equipment	48,325,217	9,240,739	5,606,430	51,959,526
Total accumulated depreciation	547,471,989	41,886,849	76,326,383	513,032,455
Total depreciable capital assets, net	940,792,037	134,849,184	1,011,982	1,074,629,239
Government activities capital assets, net	$1,128,497,069	$292,842,040	$213,145,019	$ 1,208,194,090

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	$ 17,831
Machinery and equipment	16,249,891	1,108,560	243,191	17,115,260
Total depreciable capital assets	16,267,722	1,108,560	243,191	17,133,091
Less accumulated depreciation for:				
Buildings	2,675	1,783	-	4,458
Machinery and equipment	9,702,581	1,095,492	39,247	10,758,826
Total accumulated depreciation	9,705,256	1,097,275	39,247	10,763,284
Business-type activities capital assets, net	$ 6,562,466	$ 11,285	$ 203,944	$ 6,369,807
Total MCPS government-wide capital assets				$ 1,214,563,897

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

Governmental activities:	
Regular instruction	$ 33,796,909
Special education	182,880
School administration	44,135
Student transportation	6,011,486
Operation of plant	161,030
Maintenance of plant	414,241
Administration	1,276,168
Total depreciation expense -governmental activities	$ 41,886,849
Business-type activities:	
Food services	$ 1,092,277
Real estate management	4,998
Total depreciation expense - business type activities	$ 1,097,275

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

The composition of interfund receivables and payables as of June 30, 2002, is as follows:

	Due From Fund				
Due To Fund	General	Non-major Governmental	Internal Service	Fiduciary	Total
General	$ -	$ -	$ 1,462,035	$ 2,348,938	$ 3,810,973
Debt Service	31,245,591	1,303,298	-	-	32,548,889
Capital Projects	41,361,899	775,082	34,016	25,793	42,196,790
Liquor	-	-	60,550	42,265	102,815
Solid Waste Activities	-	-	19,919	16,503	36,422
Parking Lot Districts	-	-	7,556	6,857	14,413
Non-major Governmental	4,429,260	-	589,876	706,349	5,725,485
Non-major Enterprise	-	-	59,302	52,936	112,238
Internal Service	-	-	54,623	38,144	92,767
Fiduciary	-	-	761	159	920
Total	$ 77,036,750	$ 2,078,380	$ 2,288,638	$ 3,237,944	$ 84,641,712

Included in the amounts presented above are the following short-term loans from the General Fund, that were or will be repaid during FY03:

- $3.9 million to the Grants Special Revenue Funds to cover vendor payments prior to revenues being received from other government agencies;
- $41.4 million to the Capital Projects Fund to cover construction payments, due to the delayed issuance of debt; and
- $31.2 million to the Debt Service Fund relating to a FY03 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, 2002, consisted of the following:

	Transfers In Fund							
	General	Debt Service	Capital Projects	Parking Lot Districts	Non-major Governmental	Non-major Enterprise	Internal Service	Total
Transfers Out Fund								
General	$ -	$ 157,010,129	$ 61,368,324	$ 750,000	$ 27,817,115	$ 5,000	$ 471,622	$ 247,422,190
Debt Service	-	-	2,183,977	-	-	-	-	2,183,977
Capital Projects	-	25,254	-	-	821,354	-	-	846,608
Liquor	22,334,790	-	-	-	-	-	-	22,334,790
Solid Waste Activities	1,585,660	-	5,000	-	-	-	-	1,590,660
Parking Lot Districts	559,780	-	-	-	3,887,363	-	-	4,447,143
Non-major Governmental	11,360,460	15,935,571	3,972,230	-	354,385	-	26,869	31,649,515
Non-major Enterprise	8,897,970	-	-	-	-	-	-	8,897,970
Internal Service	500,000	-	-	-	-	-	-	500,000
Total	$ 45,238,660	$ 172,970,954	$ 67,529,531	$ 750,000	$ 32,880,217	$ 5,000	$ 498,491	$ 319,872,853

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 $13,000,000 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

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 $10,849,000 for FY02. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2003	$ 9,297,000
2004	8,300,000
2005	7,012,000
2006	5,890,000
2007	5,264,000
2008 - 2012	22,427,000
2013 - 2016	5,116,000
Total	$ 63,306,000

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 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.

The composition of capital leases receivable at June 30, 2002, is as follows:

Minimum lease payments receivable	$ 62,376,001
Unearned lease income	(24,496,001)
Net investment in direct financing leases	$ 37,880,000

At June 30, 2002, the minimum future lease payments due under the direct financing capital lease are as follows:

Fiscal Year Ending June 30	
2003	$ 1,682,005
2004	1,682,005
2005	2,882,005
2006	2,948,005
2007	2,948,961
Later years	50,233,020
Total minimum lease payments	$ 62,376,001

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	16,059,541
Buildings	10,253,614
Furniture, fixtures, equipment and machinery	276,223
Subtotal	40,038,411
Less accumulated depreciation	(10,830,863)
Total asset value under capital leases	$ 29,207,548

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002, are as follows:

Fiscal Year Ending June 30	
2003	$ 2,541,492
2004	2,514,900
2005	2,834,659
2006	2,799,872
2007	2,769,420
2008-2012	11,550,618
2013-2017	3,695,528
Total minimum lease payments	$ 28,706,489
Less: amount representing interest	(8,765,900)
Present value of minimum lease payments	$ 19,940,589

F) <u>Long-Term Debt</u>

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 other financing uses, 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 20, 2001, Montgomery County Government issued $146,375,000 in general obligation refunding bonds dated November 15, 2001. These bonds were issued with a true interest cost of 4.51%, to advance refund $143,000,000 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	10/1/91	1992-11	5.9747	$ 70,000,000	2003	$ 3,500,000
GO Bonds	10/1/92	1993-12	5.4740	115,000,000	2004-06	17,250,000
GO Bonds	3/15/96	1997-16	5.2946	120,000,000	2009-16	48,000,000
GO Bonds	4/15/97	1998-17	5.3226	115,000,000	2011-15	28,750,000
GO Bonds	1/1/00	2001-20	5.4850	130,000,000	2014-20	45,500,000
Total				$ 550,000,000		$ 143,000,000

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 $11,734,082. 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 (Economic Gain)
2002	$ 3,949,031	$ 2,115,573	$ 1,833,458
2003	7,898,062	7,540,655	357,407
2004	11,294,812	9,348,755	1,946,057
2005	13,286,312	13,283,155	3,157
2006	12,972,937	12,972,205	732
2007	12,656,687	12,653,330	3,357
2008	6,748,563	6,744,815	3,748
2009	12,748,563	12,746,300	2,263
2010	12,433,563	12,430,088	3,475
2011	17,865,563	17,865,512	51
2012	17,226,500	17,225,537	963
2013	16,587,438	16,585,562	1,876
2014	22,448,375	22,445,369	3,006
2015	21,451,813	21,450,087	1,726
2016	14,705,250	14,700,206	5,044
2017	8,011,250	8,007,687	3,563
2018	7,637,500	7,632,788	4,712
2019	7,263,750	7,258,938	4,812
2020	6,890,000	6,886,138	3,862
Total	$ 234,075,969	$ 229,892,700	$ 4,183,269

The present value of the above debt service savings (or economic gain) is $2,831,159.

In January 1998, $64,500,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were effected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2002, $64,500,000 in general obligation bonds referred to above is considered to be defeased.

General obligation bond issues outstanding as of June 30, 2002, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2002	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2002
05/01/83	1984-03	7.0 - 9.0	$ 50,000,000	$ 2,500,000	$ -	$ -	$ 2,500,000
06/01/84	1985-04	9.0 - 9.75	55,000,000	5,500,000	-	-	5,500,000
05/01/85	1986-05	7.6 - 8.6	65,000,000	9,750,000	-	-	9,750,000
04/01/86	1987-06	5.8 - 6.3	50,000,000	10,000,000	-	-	10,000,000
04/01/91	1992-11	6.3 - 6.75	60,000,000	3,000,000	-	-	3,000,000
10/01/91	1992-11	5.75 - 6.125	70,000,000	3,500,000	-	-	3,500,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	177,708,054	-	-	177,708,054
10/01/92	1993-06	5.0 - 5.75	115,000,000	11,500,000	-	-	11,500,000
08/15/93 *	1994-11	2.5 - 5.0	60,005,000	56,210,000	-	-	56,210,000
10/01/93	1994-13	4.4 - 4.9	100,000,000	60,000,000	-	-	60,000,000
10/01/94	1995-08	5.2 - 6.125	100,000,000	35,000,000	-	-	35,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	36,000,000	-	-	36,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	57,500,000	-	-	57,500,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	69,510,000	-	-	69,510,000
04/01/98	1999-18	4.875	115,000,000	92,000,000	-	-	92,000,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	102,000,000	-	-	102,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	71,500,000	-	-	71,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	133,000,000	-	-	133,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	146,375,000	8,543,583	(10,944,672)	143,973,911
02/01/02	2003-22	3.0 - 5.0	160,000,000	160,000,000	2,918,876	-	162,918,876
Total			$ 2,113,928,054	$ 1,242,553,054	$ 11,462,459	$ (10,944,672)	$ 1,243,070,841

* Issue represents refunding bonds.

** GASB34 requires 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 FY02 are as follows:

	Balance July 1, 2001	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2002
Governmental Activities:					
General County	$ 155,352,722	$ 59,756,660	$ 12,909,032	$ 23,202,500	$ 178,997,850
Roads and Storm Drainage	319,067,804	78,698,135	28,745,609	44,055,000	324,965,330
Parks	34,412,782	10,874,288	3,361,490	4,767,500	37,158,080
Public Schools	597,427,551	137,667,788	47,068,629	60,240,000	627,786,710
Community College	32,658,577	10,279,491	2,343,847	6,140,000	34,454,221
Consolidated Fire Tax District	13,940,599	6,429,822	1,131,846	2,380,000	16,858,575
Mass Transit	22,923,529	2,668,816	3,276,663	2,215,000	20,100,682
Public Housing	1,852,408	-	253,035	-	1,599,373
	1,177,635,972	306,375,000	99,090,151	143,000,000	1,241,920,821
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	372,082	-	89,849	-	282,233
Parking Lot Districts:					
Bethesda Parking Lot District	500,000	-	250,000	-	250,000
Silver Spring Parking Lot District	200,000	-	100,000	-	100,000
	1,072,082	-	439,849	-	632,233
Total	$ 1,178,708,054	$ 306,375,000	$ 99,530,000	$ 143,000,000	$ 1,242,553,054

For the general obligation bonds carried in the enterprise funds, a total of $439,851 is classified as current liabilities. This total is comprised of $89,851 in the Solid Waste Disposal and Collection Activities Fund, and $350,000 in the Parking Lot Districts Fund ($250,000 in Bethesda, and $100,000 in Silver Spring).

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

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2003	$ 107,105,000	$ 61,042,750	$ 168,147,750
2004	102,965,000	55,279,382	158,244,382
2005	101,835,000	49,885,325	151,720,325
2006	98,310,000	44,564,940	142,874,940
2007	95,560,000	39,572,296	135,132,296
2008-2012	378,278,054	159,369,278	537,647,332
2013-2017	252,560,000	59,571,006	312,131,006
2018-2022	105,940,000	12,268,176	118,208,176
Total	$ 1,242,553,054	$481,553,153	$ 1,724,106,207

Article 25A, Section 5(P), of the Annotated Code of Maryland, amended June 1, 2001, 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, 2002, is $3,915,736,537.

General obligation bonds authorized and unissued as of June 30, 2002, are as follows:

	Authority			Amount
Purpose	Chapter	Act	Amount	Unissued
General County, Parks, and	19	1998	$ 113,400,000	$ 27,890,000
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
			260,400,000	174,890,000
Roads and Storm Drainage	19	1998	77,000,000	5,410,000
	18	1999	30,000,000	30,000,000
	22	2000	77,600,000	77,600,000
	17	2001	10,630,000	10,630,000
			195,230,000	123,640,000
Public Schools and	22	2000	82,900,000	6,013,000
Community College	17	2001	159,755,000	159,755,000
			242,655,000	165,768,000
Mass Transit	18	1999	400,000	105,000
	22	2000	1,400,000	1,400,000
	17	2001	6,700,000	6,700,000
			8,500,000	8,205,000
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			$ 725,730,000	$ 486,203,000

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 May 1, 2002, Montgomery County Government issued $26,690,000 of revenue refunding bonds consisting of $14,560,000 of Parking Revenue Refunding Bonds (Bethesda Parking Lot District), Series 2002 and $12,130,000 of Parking Revenue Refunding Bonds (Silver Spring Parking Lot District), Series 2002. The Bonds were issued with a true interest cost of 3.1941% for the Bethesda district and 3.1398% for the Silver Spring district, for a current refunding of $14,010,000 of Parking Revenue Refunding Bonds (Bethesda Parking Lot District) 1992 Series A Bonds and $11,710,000 of Parking Revenue Refunding Bonds (Silver Spring Parking Lot District) 1992 Series A Bonds.

The reacquisition price exceeded the net carrying value of the old debt by $645,203 and $535,046 for the Bethesda and Silver Spring refundings, respectively. This amount is being netted against the new debt and amortized over the new debt's life.

Bethesda Parking Lot District

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
2002	$ 431,296	$ (40,651)	471,947
2003	2,757,592	2,691,204	66,388
2004	2,773,893	2,663,900	109,993
2005	2,782,393	2,675,700	106,693
2006	2,800,938	2,691,550	109,388
2007	2,806,875	2,698,875	108,000
2008	1,728,437	1,622,250	106,187
2009	1,747,812	1,638,000	109,812
Total	$ 17,829,236	$ 16,640,828	$ 1,188,408

The present value of the above debt service savings (or economic gain) is $1,108,238.

Silver Spring Parking Lot District

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
2002	$ 359,904	$ (34,758)	394,662
2003	2,479,807	2,434,128	45,679
2004	2,484,208	2,408,388	75,820
2005	2,497,008	2,417,588	79,420
2006	2,500,313	2,424,288	76,025
2007	2,517,812	2,438,437	79,375
2008	920,937	840,187	80,750
2009	935,000	855,937	79,063
Total	$ 14,694,989	$ 13,784,195	$ 910,794

The present value of the above debt service savings (or economic gain) is $853,910.

On June 1, 2002, Montgomery County Government issued $26,000,000 of Parking Revenue Bonds (Bethesda Parking Lot District) Series 2002A. The bonds were issued with a true interest cost of 4.4231%.

Revenue bond issues outstanding as of June 30, 2002, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2002	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2002
Solid Waste System 1993 Series A	03/15/93	1994-13	3.5 - 5.875%	50,680,000	34,145,000	$ (241,073)	$ -	33,903,927
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	14,560,000	14,560,000	297,929	(616,901)	14,241,028
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	12,130,000	303,918	(509,784)	11,924,134
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	26,000,000	(27,333)	-	25,972,667
Total				$ 103,370,000	$ 86,835,000	$ 333,441	$ (1,126,685)	$ 86,041,756

Changes in revenue bond principal during FY02 are as follows:

	Balance July 1, 2001	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2002
Bethesda Parking Lot District	$ 15,795,000	$ 40,560,000	$ 1,785,000	$ 14,010,000	$ 40,560,000
Silver Spring Parking Lot District	13,360,000	12,130,000	1,650,000	11,710,000	12,130,000
Solid Waste Disposal	36,350,000	-	2,205,000	-	34,145,000
Total	$ 65,505,000	$ 52,690,000	$ 5,640,000	$ 25,720,000	$ 86,835,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2003	$ 3,135,000	$ 1,646,882	$ 1,950,000	$ 484,128
2004	3,190,000	1,509,278	2,020,000	388,388
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
2008-2012	9,080,000	4,292,889	1,605,000	91,124
2013-2017	7,470,000	2,752,643	-	-
2018-2021	7,390,000	894,563	-	-
Total	$40,560,000	$ 14,932,989	$ 12,130,000	$ 1,688,953

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2003	2,320,000	1,973,966	7,405,000	4,104,976	11,509,976
2004	2,445,000	1,848,686	7,655,000	3,746,352	11,401,352
2005	2,580,000	1,714,211	8,005,000	3,408,402	11,413,402
2006	2,725,000	1,569,731	8,335,000	3,096,122	11,431,122
2007	2,880,000	1,414,406	8,695,000	2,755,871	11,450,871
2008-2012	17,140,000	4,326,938	27,825,000	8,710,951	36,535,951
2013-2017	4,055,000	238,232	11,525,000	2,990,875	14,515,875
2018-2022	-	-	7,390,000	894,563	8,284,563
Total	$34,145,000	$ 13,086,170	$ 86,835,000	$29,708,112	$ 116,543,112

Revenue bonds authorized and unissued as of June 30, 2002, 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	$ 728,302	$ 962,939	$ -
Debt Service Account - Used to pay debt service on bonds	424,411	214,864	2,972
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	-	-	4,325,060
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,158,127
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	20,840,057
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	15,668,400
Total	$ 2,652,713	$ 2,677,803	$ 42,994,616

The remaining balance of Parking Lot District Activities restricted assets of $4,185,262 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 FY02 are as follows:

	Balance July 1, 2001	BANs Issued	BANs Retired	BANs Refinanced	Balance June 30, 2002
BAN Series 1995 -H	$ 20,000,000	$ -	$ 20,000,000	$ -	$ -
BAN Series 1995 - I	105,000,000	-	105,000,000	-	-
BAN Series 1995 - J	-	75,000,000	35,000,000	40,000,000	-
BAN Series 1995 - K	-	85,000,000	-	85,000,000	-
BAN Series 2002	-	125,000,000	-	-	125,000,000
Total	$ 125,000,000	$ 285,000,000	$ 160,000,000	$ 125,000,000	$ 125,000,000

BAN Notes, Series 1995-H, totaling $20,000,000; BAN Notes, Series 1995-I, totaling $105,000,000; and a portion of BAN Notes, Series 1995-J, totaling $35,000,000; were retired on March 6 and March 8, 2002, in the amounts of $137,000,000 and $23,000,000, respectively, with proceeds from general obligation bonds dated February 1, 2002. The remaining portion of BAN Notes, Series 1995-J, totaling $40,000,000 and Series 1995-K, totaling $85,000,000 were refinanced on June 26, 2002, with the proceeds of Commercial Paper Bond Anticipation Notes, 2002 Series.

The interest rate changes based on market conditions. During FY02, the rate of interest varied from 1 to 2.75 percent. Interest earned on BAN proceeds totaled $1,354,805 during FY02, which was accounted for in the Debt Service Fund.

BANs amounting to $125 million were issued during FY02 at varying maturities to a maximum of 270 days, under a program which originally matured on November 2, 1998, was extended, and expired on June 26, 2002, due to the issuance of the County's Commercial Paper Bond Anticipation Notes, 2002. BANs outstanding at July 1, 2001, in the amount of $125 million under the County's Consolidated Commercial Paper Bond Anticipations Notes, 1995 Series, were refinanced with the new issuance, authority for which was adopted on June 11, 2002. The County has reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County intends to issue long-term general obligation bonds in FY03, and intends to use the proceeds first to replace a portion of the $125 million in BANs outstanding at June 30, 2002. 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 have been borrowed against this line of credit. Because the County has 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, the amount of BANs authorized and unissued as of June 30, 2002, is $89,795,000.

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
2003	11,960,000	1,813,688	13,773,688
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	$ 43,530,000	$ 4,430,162	$ 47,960,162

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, 2002, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2002	Unamortized Premium	Carrying Value June 30, 2002
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 37,880,000	$ 157,693	$ 38,037,693

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

Fiscal Year Ending June 30	Lease Revenue Bonds Requirements		
	Principal	Interest	Total
2003	$ -	$ 1,682,005	$ 1,682,005
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
2008-2012	7,550,000	7,192,778	14,742,778
2013-2017	9,330,000	5,474,972	14,804,972
2018-2022	11,800,000	3,142,270	14,942,270
2023-2024	5,345,000	398,000	5,743,000
Total	$ 37,880,000	$ 24,496,001	$ 62,376,001

6) State MICRF Loan

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, 2002, for this loan is $1,408,951.

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7) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2002, was as follows:

	7/1/01 Balance	Additions	Reductions	6/30/02 Balance	Due within FY03
Governmental Activities					
Bonds and notes payable:					
General obligation bonds	$ 1,177,635,972	$ 306,375,000	$ (242,090,151)	$ 1,241,920,821	$ 106,665,149
Bond anticipation notes	125,000,000	285,000,000	(285,000,000)	125,000,000	125,000,000
Equipment notes payable	31,925	-	(31,925)	-	-
Lease revenue bonds	-	37,880,000	-	37,880,000	-
State MICRF loan	1,625,240	-	(216,289)	1,408,951	68,231
Subtotal	1,304,293,137	629,255,000	(527,338,365)	1,406,209,772	231,733,380
Add remaining original issue premium	-	12,357,893	(737,741)	11,620,152	-
Less deferred amount on refundings	-	(11,734,082)	789,410	(10,944,672)	-
Total Bonds and Notes Payable	1,304,293,137	629,878,811	(527,286,696)	1,406,885,252	231,733,380
Other Liabilities:					
Certificates of participation	54,660,000	-	(11,130,000)	43,530,000	11,960,000
Compensated absences	40,062,436	34,180,810	(30,112,834)	44,130,412	33,097,809
Capital leases	21,267,866	-	(1,327,277)	19,940,589	1,360,000
Claims and judgments	500,000	2,650,000	-	3,150,000	2,650,000
Total Other Liabilities	116,490,302	36,830,810	(42,570,111)	110,751,001	49,067,809
Governmental Activities Long-Term Liabilities	$ 1,420,783,439	$ 666,709,621	$ (569,856,807)	$ 1,517,636,253	$ 280,801,189
Business-Type Activities					
General Obligation Bonds:					
Bethesda PLD Enterprise Fund	$ 500,000	$ -	$ (250,000)	$ 250,000	$ 250,000
Silver Spring PLD Enterprise Fund	200,000	-	(100,000)	100,000	100,000
Solid Waste Disposal Enterprise Fund	372,082	-	(89,849)	282,233	89,851
Revenue Bonds:					
Parking revenue refunding bonds - 1992	29,155,000	-	(29,155,000)	-	-
Parking revenue refunding bonds - 2002	-	26,690,000	-	26,690,000	4,075,000
Parking revenue bonds - 2002	-	26,000,000	-	26,000,000	1,010,000
Solid waste disposal revenue bonds	36,350,000	-	(2,205,000)	34,145,000	2,320,000
Subtotal	66,577,082	52,690,000	(31,799,849)	87,467,233	7,844,851
Add remaining original issue premium	-	630,575	(28,728)	601,847	-
Less remaining original issue discount	(384,652)	(27,537)	143,783	(268,406)	-
Less deferred amount on refundings	-	(1,180,249)	53,564	(1,126,685)	-
Total Bonds and Notes Payable	66,192,430	52,112,789	(31,631,230)	86,673,989	7,844,851
Other Liabilities:					
Compensated absences	2,922,509	191,375	-	3,113,884	2,335,413
Notes payable	800,000	-	-	800,000	-
Landfill closure costs	24,532,359	155,541	-	24,687,900	1,452,000
Total Other Liabilities	28,254,868	346,916	-	28,601,784	3,787,413
Business-Type Activities Long-Term Liabilities	$ 94,447,298	$ 52,459,705	$ (31,631,230)	$ 115,275,773	$ 11,632,264

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, $1,047,240 ($785,430 due within one year, and $261,810 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.

In the proprietary fund financial statements, the current portion of unamortized premiums, discounts, and deferred amount on refundings has been netted against the current portion of the related debt for reporting purposes. Such amounts have been reclassified to noncurrent liabilities due in more than one year in the government-wide financial statements.

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, 2002, there were 40 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 32 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2002, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$225,177,000. The principal amount payable at June 30, 2002, for bonds issued after July 1, 1996, totaled \$114,068,333.

9) Special Taxing Districts

Prior to FY02, two development districts had been created in the County. 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. During FY02, the County was petitioned by property owners to form three new development districts in the Clarksburg area.

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.

COMPONENT UNITS

At June 30, 2002, HOC's noncurrent liabilities are comprised of the following:

Revenue bonds payable	$ 612,475,353
Capital leases payable	19,982,486
Notes payable	92,300,566
Total	$ 724,758,405

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	$ 314,736,124
Single Family Mortgage Purchase Program Fund	297,739,229
Total	$ 612,475,353

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 5.2 to 11.25 percent and 4.99 to 8.875 percent, respectively, as of June 30, 2002.

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
2003	$ 340,000	$ 1,281,014	$ 1,621,014
2004	560,000	1,253,600	1,813,600
2005	595,000	1,218,884	1,813,884
2006	625,000	1,186,649	1,811,649
2007	660,000	1,152,304	1,812,304
2008-2012	3,945,000	5,098,352	9,043,352
2013-2017	4,020,000	3,820,104	7,840,104
2018-2022	5,935,000	2,290,810	8,225,810
2023-2027	795,000	1,441,970	2,236,970
2028-2029	5,430,000	274,213	5,704,213
Total	$ 22,905,000	$ 19,017,900	$ 41,922,900

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
2003	$ 41,442,793	$ 30,443,579	$ 71,886,372
2004	11,639,589	31,065,719	42,705,308
2005	29,728,962	30,344,077	60,073,039
2006	23,293,260	29,565,117	52,858,377
2007	13,527,483	29,902,215	43,429,698
2008-2012	74,172,191	135,298,219	209,470,410
2013-2017	71,548,720	117,907,571	189,456,291
2018-2022	78,635,993	89,960,811	168,596,804
2023-2027	73,914,657	91,748,797	165,663,454
2028-2032	150,779,895	45,286,995	196,066,890
2033-2037	33,130,000	12,751,218	45,881,218
2038-2042	4,625,000	4,098,021	8,723,021
2043-2047	11,705,000	1,062,285	12,767,285
Unamortized Bond Discount	(5,668,190)	-	(5,668,190)
Total	$612,475,353	$649,434,624	$1,261,909,977

Changes in the HOC revenue bonds during FY02 are as follows:

Purpose	Balance July 1, 2001	Bonds Issued *	Bonds Retired	Balance June 30, 2002
Multi-Family Mortgage Purchase Program Fund	$ 316,742,590	$ 5,728,534	$ 7,735,000	$ 314,736,124
Single Family Mortgage Purchase Program Fund	321,134,602	21,284,925	44,680,288	297,739,239
Total	$ 637,877,192	$ 27,013,459	$ 52,415,288	$ 612,475,363

* Includes accretions and bond discounts. Amount also includes multi-family refunding bonds of $24,315,000 and is presented net of bonds refunded amounting to $23,905,000.

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, 2001	$ 377,377,661
Redemptions during the year	(102,408,376)
New issuances during the year	65,000,000
Bonds outstanding, June 30, 2002	$ 339,969,285

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, 2002, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 44,824,423	$ 6,116,227	$ 21,177,521
Due from component units	62,679	-	285,823
Other assets	43,939,269	2,816,946	7,477,294
Capital assets	36,327,611	42,873,630	71,324,667
Total Assets	125,153,982	51,806,803	100,265,305
LIABILITIES			
Current liabilities	10,179,600	2,901,016	6,770,717
Due to other funds	33,419	7,642	5,616
Long-term liabilities	55,923,914	10,054,334	37,193,100
Total Liabilities	66,136,933	12,962,992	43,969,433
NET ASSETS			
Invested in capital assets, net of related debt	2,141,451	30,849,497	30,860,971
Restricted for debt service	42,994,616	2,677,803	6,837,975
Unrestricted	13,880,982	5,316,511	18,596,926
Total Net Assets	$ 59,017,049	$ 38,843,811	$ 56,295,872

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	$ 77,924,839	$ 4,491,618	$ 7,448,902
Licenses and permits	7,660	-	-
Fines and penalties	-	1,543,488	3,977,908
Total Operating Revenues (pledged against bonds)	77,932,499	6,035,106	11,426,810
Depreciation and amortization expense	2,856,032	2,473,151	3,041,449
Other operating expenses	78,748,230	5,752,439	4,436,394
Operating Income (Loss)	(3,671,763)	(2,190,484)	3,948,967
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	3,055,911	3,562,543
Gain on disposal of capital assets	46,080	-	343,528
Investment income	2,693,124	195,125	216,891
Interest expense	(2,150,065)	(821,855)	(835,386)
Other revenue	305,334	45,354	896,212
SPECIAL ITEM - loss from settlement of interfund receivable	-	(1,966,187)	-
TRANSFERS:			
Transfers in	-	750,000	-
Transfers out	(1,436,490)	(613,350)	(2,956,010)
Change in Net Assets	(4,213,780)	(1,545,486)	5,176,745
Beginning Net Assets	63,230,829	40,389,297	51,119,127
Ending Net Assets	$ 59,017,049	$ 38,843,811	$ 56,295,872

Condensed Statements of Cash Flows

	Solid Waste Disposal	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 7,174,332	$ (116,212)	$ 8,482,683
Noncapital financing activities	(1,436,490)	3,001,028	635,996
Capital and related financing activities	(6,769,274)	(4,702,196)	3,742,584
Investing activities	2,795,756	195,125	216,891
Net Increase (Decrease)	1,764,324	(1,622,255)	13,078,154
Beginning Cash and Cash Equivalents	78,667,191	8,101,580	13,070,422
Ending Cash and Cash Equivalents	$ 80,431,515	$ 6,479,325	$ 26,148,576

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 $3,279,766 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.

2) Restatement of Beginning Fund Equities

As described in Note I-D, effective July 1, 2001, the County implemented GASB34, as amended by GASB37. As a result of this implementation, beginning fund equities have been restated as follows:

	Major fund	Non-major governmental			Fiduciary		
	General	Special Revenue	Permanent	Total	POEB ** Trust	Private Purpose Trust	Agency
Net assets/fund balance at June 30, 2001	$ 264,045,500	$ 153,706,781	$ -	$ 153,706,781	$ 1,861,590,460	$ -	$ -
Fund reclassifications from:							
Special Revenue	612,932	(612,932)	-	(612,932)	-	-	-
Expendable Trust	-	5,743,594	-	5,743,594	199,623,317	2,189,321	276,766
Non-expendable Trust	-	-	7,345,050	7,345,050	-	-	-
Subtotal	612,932	5,130,662	7,345,050	12,475,712	199,623,317	2,189,321	276,766
Resulting change in basis of accounting	(1,110,423)	(52,801)	83,838	31,037	724,547	-	(276,766)
Liability reclassifications *	(3,106,570)	-	-	-	-	(250,000)	-
Subtotal	(4,216,993)	(52,801)	83,838	31,037	724,547	(250,000)	(276,766)
Net assets/fund balance at July 1, 2001, as restated	$ 260,441,439	$ 158,784,642	$ 7,428,888	$ 166,213,530	$ 2,061,938,324	$ 1,939,321	$ -

* Amounts represent interfund payables which were previously reported in the General Long-Term Debt Account Group.

** Pension and Other Employee Benefits

In addition to fund reclassifications that impacted beginning net assets, the following types of fund reclassifications were also made:

- Certain agency funds were merged into the General Fund, Capital Projects Fund, and Internal Service funds, and
- Certain funds with similar activities, previously reported individually, have been combined for external reporting purposes - Enterprise funds (Solid Waste and Parking Lot Districts), Special Revenue funds (Urban Districts, Noise Abatement Districts), and certain miscellaneous Agency funds.

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, 2002:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,031,003,934	$ 17,355,874	$1,048,359,808	$ 99,572,575	$1,147,932,383
MCC	57,818,000	6,777,126	64,595,126	6,984,565	71,579,691
HOC	4,134,400	540,730	4,675,130	-	4,675,130
Total	$1,092,956,334	$ 24,673,730	$1,117,630,064	$ 106,557,140	$1,224,187,204

* 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 $2,131,050 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) Extraordinary Gains and Losses and Special Items

1) Extraordinary Items - Internal Service Funds

Premium Stabilization Reserve Distribution – During FY02, the County terminated its relationship with the administrator of its long-term disability plan. As a result of that termination, the administrator refunded to the County $3,358,309, which had been accumulated by the administrator as a premium stabilization reserve.

Insurance Demutualization Distribution – During FY02, the County's administrator for its life insurance program changed its corporate structure and the County was entitled to a stock distribution. The County could not legally take receipt of the stock, so it was held and immediately sold by a trustee. Proceeds from the sale amounted to $641,871.

2) Special Item – Extinguishment of Interfund Liability

On June 25, 1999, the County disposed of land owned by the Silver Spring Parking Lot District Enterprise Fund, through a lease with a third party, whose plans for this Urban Renewal Area (URA) met the County's specific development objectives, and the specific objectives of the URA. As a result of this lease, and pursuant to Section 60-2 of the Montgomery County Code, at the date of the transfer the County incurred an obligation to reimburse the Silver Spring Parking Lot District Enterprise Fund for the estimated fair market value of the property, which was valued at $3,106,570. The obligation was satisfied during FY02 by a transfer of governmental capital assets with a net book value of $1,140,383, and a fair value of approximately $3.1 million. In the General Fund, a gain of $3,106,570 was recognized since the payable was not settled with expendable available resources. In the Silver Spring Parking Lot District Enterprise Fund, a loss of $1,966,187 was recognized since the receivable was settled by transfer of an asset with a net book value of less than the receivable balance.

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., and the Village of Drummond. 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 FY02 and FY01 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2000	$ 41,210,000	$ 4,975,119
Claims and changes in estimates	18,442,892	63,465,536
Claim payments *	(15,634,892)	(61,748,144)
Balance June 30, 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

* Includes non-monetary settlements.

** Includes incurred but not reported claims of $19,443,000 and $8,297,954, 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 $52,747,000, which has been fully accrued through June 30, 2002. Of the total amount accrued, $27,185,100 in actual costs has been paid out in prior years, and $874,000 was paid in FY02, resulting in a net liability of $24,687,900 at June 30, 2002. The current and non-current portions of the adjusted liability at year-end are estimated at $1,452,000 and $23,235,900 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 $16,150,000. In accordance with GAAP, $3,150,000 of this amount has been reflected as a liability in the accompanying 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, 2002, 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, 2002, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 206,424	$ -	$ 6,191,670	$ 6,398,094
Solid Waste Disposal and Collection:				
Disposal operations	5,200,853	1,046,485	-	6,247,338
Collection operations	1,440	-	-	1,440
Parking Lot Districts:				
Silver Spring	63,444	1,384,426	-	1,447,870
Bethesda	204,191	2,283,301	-	2,487,492
Wheaton	15,934	366,468	-	382,402
Montgomery Hills	16,813	-	-	16,813
Subtotal	5,709,099	5,080,680	6,191,670	16,981,449
Nonmajor Funds:				
Permitting Services	86,703	-	-	86,703
Community Use of Public Facilities	11,160	-	-	11,160
Subtotal	97,863	-	-	97,863
Total Enterprise Funds	5,806,962	5,080,680	6,191,670	17,079,312
Internal Service Funds:				
Motor Pool	2,429,509	-	6,074,179	8,503,688
Central Duplicating	49,039	-	-	49,039
Liability and Property Coverage Self-Insurance	313,179	-	-	313,179
Employee Health Benefits Self-Insurance	128,724	-	-	128,724
Total Internal Service Funds	2,920,451	-	6,074,179	8,994,630
Total Proprietary Funds	$ 8,727,413	$5,080,680	$ 12,265,849	$ 26,073,942

As of June 30, 2002, the County has $1.1 million 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 June 25, 2002, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional $145,900,000, effective October 29, 2002.

On September 30, 2002, the Maryland Economic Development Corporation (MEDCO) issued $26,540,000 in lease revenue bonds, the proceeds of which will fund construction of the Town Square Parking Garage Project in Silver Spring. The County will make lease payments to MEDCO, subject to appropriation, sufficient to pay the annual debt service on the lease revenue bonds. On November 7, 2002, in a similar transaction, MEDCO issued an additional $32,560,000 in lease revenue bonds, the proceeds of which will primarily fund construction of the Wayne Avenue Parking Garage Project in Silver Spring. These series of 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.

Commercial paper bond anticipation notes (BANs) amounting to $75,000,000 were issued on December 9, 2002.

The County issued $93,595,000 in general obligation refunding bonds on November 15, 2002, the proceeds of which, along with premium and accrued interest, will refund $95,750,000 in outstanding general obligation bonds. After adjustments, the true interest cost to the County was 3.26 percent and savings of almost $4.4 million will be realized, primarily in fiscal years 2003 – 2006.

On December 17, 2002, the County issued $42,885,000 in variable rate Economic Development Revenue Bonds (conduit debt obligations) on behalf of the Institute of Genomic Research (TIGR). The bonds are secured by the facilities financed and are payable from the revenues of 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.

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, 2002, M-NCPPC had outstanding notes payable and bonds payable in the amount of $172,669,454, of which $17,049,454 was self-supporting. Of the total amount payable, $33,111,826 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, 2002, is $33,200,000, 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, 2002, WSSC had outstanding notes payable and bonds payable in the amount of $1,579,668,897, of which $1,570,978,897 was self-supporting. Of the total amount payable, $179,636,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland (1997 Replacement Volume and 1998 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 has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2002, 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 $56,284 to WSTC during FY02. The FY02 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 FY02, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 26,285,717
Rail operating subsidy	25,207,828
ADA Service	9,612,760
Metrobus and Metrorail capital replacement	7,668,428
Debt service on WMATA revenue bonds	4,867,452
Local bus program	21,991,976
Total	$ 95,634,161

At June 30, 2002, WMATA had outstanding debt of $231,388,000, of which $15,415,000 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 FY02 membership dues amounting to $593,421.

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 to fund the construction of the Montgomery County Resource Recovery Project (Project). At June 30, 2002, NEMWDA had outstanding bonds payable in the amount of $305,145,000, of which $13,145,000 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 FY02 amounted to $43,524,068.

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, 2002, totaling 4,840,502 hours approximates $147,279,879 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) <u>Group Insurance Benefits</u>

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY02, the County and its employees contributed $40,666,442 and 11,152,561, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $161,084, $2,094,976, and $46,707 for these component units, respectively, for FY02.

4) <u>Postemployment Benefits</u>

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 benefit. Currently, 3,685 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 $13,481,000 for FY02; retired employee contributions were $5,340,339.

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

PRIMARY GOVERNMENT

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

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

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, MD, 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, 1994, 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.

Normal retirement benefits are 2 percent of the final 12 months' regular basic earnings for members enrolled prior to July 1, 1978, or 2 percent of the final 36-month average for members enrolled after June 30, 1978, multiplied by years of credited service (maximum 36 years) adjusted for cost of living. Benefit provisions are established under Section 33-42 of the Montgomery County Code of 1994, as amended. For most members, normal retirement is age 60 with five years of service or various combinations of age and years of service based on participation 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 1994, 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 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. During FY02, total disbursements under these DROP Plans amounted to $386,198.

Derivatives - At June 30, 2002, 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 1994, 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 1994, 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 FY02 were based on an actuarial valuation as of June 30, 2000, 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 FY02 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2000	$ 44,347,078	100 %	$ -
2001	43,345,296	100	-
2002	39,168,622	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 (not in bargaining unit) employees 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.

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. 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 FY02 were $5,791,248 and $3,307,782, respectively.

3) <u>Other</u>

The County contributed $665,515 during FY02 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.